Southern Gas Corridor
Closed Joint-Stock Company

Consolidated financial statements

31 December 2017

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Independent auditor's report

To the Management and Supervisory Board of the
Southern Gas Corridor Closed Joint-Stock Company

Opinion

We have audited the consolidated financial statements of the Southern Gas Corridor Closed Joint Stock Company (the "Company") and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

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We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of non-current assets	
At the end of each reporting period management assesses whether there is any indication that assets may be impaired. We considered this matter to be one of most significance in our audit due to the significance of the balances of non-current assets (including oil and gas properties, construction in progress and development assets, long-term prepayments) to the financial statements and high level of subjectivity in management's assessment of any indication of potential impairment. Management performed analysis of impairment indicators and did not identify any external or internal factors triggering impairment of non-current assets as of 31 December 2017. Information regarding analysis of indication of impairment of non-current assets is disclosed in Note 3 to the consolidated financial statements.	We analysed management's assessment of whether there was any indication of potential impairment. We compared actual capital expenditures incurred by the Group for construction and development projects during 2017 to projected data used in the impairment testing in previous periods. We compared crude oil prices used in the calculation of recoverable amounts in previous periods to available market forecasts. We compared the Group's current weighted average cost of capital to discount rate used in the calculation of recoverable amounts in previous periods.

Responsibilities of management and the Supervisory board for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory board is responsible for overseeing the Group's financial reporting process.

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Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Supervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Nargiz Karimova.

Ernst & Young Holdings (CIS) B.V.

Ernst & Young Holdings (CIS) B.V.
Branch in the Republic of Azerbaijan

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14 June 2018

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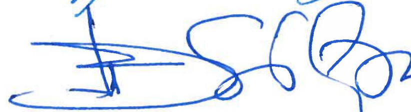
Consolidated statement of financial position

(Amounts presented are in thousands of US dollars)

	Note	31 December 2017	31 December 2016
Assets			
Non-current assets			
Oil and gas properties	6	399,911	449,091
Construction in progress and development costs	7	7,180,692	5,036,901
Advance payments	8	2,490,027	1,841,943
Investment in associate	9	175,561	90,378
Loan receivables	10	645,363	355,559
Deferred tax assets		3,331	–
Other non-current assets		2,015	2,012
Total non-current assets		**10,896,900**	**7,775,884**
Current assets			
Cash and cash equivalents	11	146,785	400,384
Accounts receivable	12	12,452	9,477
Inventories	13	8,849	10,159
Accrued revenue	19	–	1,996
Other current assets	14	22,783	29,410
Total current assets		**190,869**	**451,426**
Total assets		**11,087,769**	**8,227,310**
Equity and liabilities			
Equity			
Share capital	15	2,415,800	1,740,800
Additional paid in capital	15	31,481	631,768
Other reserves	15	(45,176)	(45,176)
Cumulative translation differences		20,652	(35,506)
Accumulated losses		(133,235)	(30,635)
Equity attributable to the Group's equity holders		**2,289,522**	**2,261,251**
Non-controlling interests	15	1,031,116	683,961
Total equity		**3,320,638**	**2,945,212**
Non-current liabilities			
Long-term borrowings	16	6,527,678	3,773,228
Government grant	16	648,166	667,116
Decommissioning liabilities	17	108,259	82,709
Deferred revenue	19	2,054	2,321
Deferred tax liability	21	13,563	7,759
Other non-current liabilities		21,212	11,914
Total non-current liabilities		**7,320,932**	**4,545,047**
Current liabilities			
Trade and other payables	18	125,896	231,475
Short-term and current portion of long-term borrowings	16	33,673	195,231
Accrued liabilities	18	281,406	308,849
Income tax payable		5,224	1,496
Total current liabilities		**446,199**	**737,051**
Total equity and liabilities		**11,087,769**	**8,227,310**

Signed and authorized on behalf of the Group

Afgan Isayev, General Director 14 June 2018

Adil Pashayev, Finance Director  14 June 2018

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

(Amounts presented are in thousands of US dollars)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Revenue	19	126,703	111,489
Cost of sales	20	(74,985)	(69,950)
Gross profit		**51,718**	**41,539**
General and administrative expenses		(15,834)	(10,802)
Transportation tariffs		(3,636)	(3,388)
Other income		20,593	17,495
Operating profit		**52,841**	**44,844**
Interest income		19,504	7,252
Finance costs	10, 16, 17	(156,416)	(80,757)
Share of result of associate	9	(4,349)	(4,022)
Foreign exchange loss, net		(5,924)	(26,811)
Loss before income tax		**(94,344)**	**(59,494)**
Income tax expenses	21	(8,441)	(1,629)
Loss for the year		**(102,785)**	**(61,123)**
Other comprehensive income/(loss)			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent period			
Exchange differences on translation of foreign operations		43,248	(9,997)
Exchange differences on translation of foreign associate	9	12,910	(1,993)
Other comprehensive income/(loss) for the year		**56,158**	**(11,990)**
Total comprehensive loss for the year		**(46,627)**	**(73,113)**
(Loss)/profit attributable to:			
Equity holders of the Group		(102,600)	(62,338)
Non-controlling interests		(185)	1,215
		(102,785)	**(61,123)**
Total comprehensive (loss)/income attributable to:			
Equity holders of the Group		(46,442)	(74,328)
Non-controlling interests		(185)	1,215
		(46,627)	**(73,113)**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

(Amounts presented are in thousands of US dollars)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
Operating activities			
Loss before income tax		(94,344)	(59,494)
Non-cash adjustments to reconcile loss before tax to net cash flows			
Finance costs	10, 16, 17	156,416	80,757
Depreciation and depletion	20	63,618	60,591
Share of result of associate	9	4,349	4,022
Other income		(20,593)	(17,495)
Interest income		(19,504)	(7,252)
Foreign exchange loss		–	27,342
Working capital adjustments			
Accounts receivable		(2,975)	9,527
Inventories		1,310	(824)
Accrued revenue		1,996	1,123
Other assets		3,293	8,505
Deferred revenue		(267)	(2,962)
Trade and other payables		6,388	5,511
Accrued liabilities		6,916	(2,996)
Cash generated from operations		**106,603**	**106,355**
Income tax paid		(1,959)	(1,525)
Interest received		6,589	4,519
Net cash flows from operating activities		**111,233**	**109,349**
Investing activities			
Financing provided to third party	10	(82,700)	(93,950)
Financing provided to associate	10	(172,930)	(147,000)
Advance payments for acquisition of shares	8	(761,637)	(290,988)
Investments in oil and gas properties		(13,907)	(18,174)
Additions to construction in progress and development costs		(1,941,189)	(2,194,932)
Investment in associate	9	(75,450)	(38,900)
Net cash used in investing activities		**(3,047,813)**	**(2,783,944)**
Financing activities			
Contribution from shareholders	15	–	295,900
Increase in additional paid-in capital	15	74,713	631,768
Contribution in subsidiary by non-controlling shareholders	15	347,340	342,751
Proceeds from borrowings	16	2,547,770	1,611,186
Repayment of borrowings	16	(176,000)	–
Interest paid	16	(110,842)	(34,375)
Net cash flows from financing activities		**2,682,981**	**2,847,230**
Net foreign exchange translation differences		–	(26,811)
Net (decrease)/increase in cash and cash equivalents		**(253,599)**	**145,824**
Cash and cash equivalents at the beginning of the year	11	400,384	254,560
Cash and cash equivalents at the end of the year	11	**146,785**	**400,384**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

(Amounts presented are in thousands of US dollars)

	Attributable to the equity holders of the parent							
	Share capital	**Additional paid-in capital**	**Other reserves**	**Cumulative translation differences**	**Retained earnings / (accumulated losses)**	**Total**	**Non-controlling interests**	**Total equity**
At 31 December 2015	**1,444,900**	**–**	**(45,176)**	**(23,516)**	**31,703**	**1,407,911**	**339,995**	**1,747,906**
(Loss)/profit for the year	–	–	–	–	(62,338)	**(62,338)**	1,215	**(61,123)**
Other comprehensive loss	–	–	–	(11,990)	–	**(11,990)**	–	**(11,990)**
Total comprehensive (loss)/income	**–**	**–**	**–**	**(11,990)**	**(62,338)**	**(74,328)**	**1,215**	**(73,113)**
Increase in additional paid-in capital (Note 15)	–	631,768	–	–	–	**631,768**	–	**631,768**
Increase in charter capital (Note 15)	295,900	–	–	–	–	**295,900**	–	**295,900**
Contribution by non-controlling shareholders (Note 15)	–	–	–	–	–	**–**	342,751	**342,751**
At 31 December 2016	**1,740,800**	**631,768**	**(45,176)**	**(35,506)**	**(30,635)**	**2,261,251**	**683,961**	**2,945,212**
Loss for the year	–	–	–	–	(102,600)	**(102,600)**	(185)	**(102,785)**
Other comprehensive income	–	–	–	56,158	–	**56,158**	–	**56,158**
Total comprehensive income/(loss)	**–**	**–**	**–**	**56,158**	**(102,600)**	**(46,442)**	**(185)**	**(46,627)**
Increase in additional paid-in capital (Note 15)	–	74,713	–	–	–	**74,713**	–	**74,713**
Transfer to charter capital (Note 15)	675,000	(675,000)	–	–	–	**–**	–	**–**
Contribution by non-controlling shareholders (Note 15)	–	–	–	–	–	**–**	347,340	**347,340**
At 31 December 2017	**2,415,800**	**31,481**	**(45,176)**	**20,652**	**(133,235)**	**2,289,522**	**1,031,116**	**3,320,638**

The accompanying notes are an integral part of these consolidated financial statements.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

1. Corporate information

Southern Gas Corridor Closed Joint-Stock Company (the "Company" or "SGC CJSC") was established by the Presidential Decree No. 287 dated 25 February 2014. It was incorporated on 31 March 2014 in accordance with Azerbaijani legislation. 51% of the Company is owned by the Republic of Azerbaijan (the "State"), which is represented by the Ministry of Economy of the Republic of Azerbaijan ("ME"), whereas 49% belongs to the State Oil Company of Azerbaijan Republic ("SOCAR"). The Company is domiciled in the Republic of Azerbaijan. The registered address is located at 73 Neftchilar Avenue, Baku, AZ 1000, the Republic of Azerbaijan.

The Company was established for consolidating, managing and financing the State's interests in the full-field development of the Shah Deniz gas-condensate field, the expansion of the South Caucasus Pipeline ("SCP"), implementation of Trans-Anatolian Natural Gas Pipeline ("TANAP") and Trans Adriatic Pipeline ("TAP") projects (together the "Projects").

The Company has the following subsidiaries:

Name	Country of incorporation	% equity interest 31 December 2017	31 December 2016
SGC Upstream LLC	Azerbaijan	100%	100%
SGC Midstream LLC	Azerbaijan	100%	100%
TANAP Doğalgaz Iletim A.Ş. ("TANAP A.Ş.")	Turkey	58%	58%
AzTAP GmbH	Switzerland	100%	100%

The Company holds 20% share in Trans Adriatic Pipeline AG ("TAP AG"), through AzTAP GmbH.

2. Significant accounting policies

Basis of preparation

These consolidated financial statements of the Company and its subsidiaries (collectively referred to as "the Group") for the year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

Going concern

The going concern basis assumes that the Group will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. As at 31 December 2017 the Group had net current liabilities in the amount of US dollars 255,330. In addition, as at 31 December 2017, the Group had certain commitments which would require significant cash outflows in foreseeable future (Note 24).

The Group's ability to continue as a going concern depends on the ability to generate sufficient cash inflows from financing provided by third parties and its shareholders.

The Group's management expects to receive sufficient amount of proceeds from hydrocarbons sales under current Shah Deniz Production Sharing Agreement, contributions from State Oil Fund of the Republic of Azerbaijan ("SOFAZ") and capital injections by the shareholders as well as through funds raised by external debt. The Group management believes that the funds obtained from the above sources will be sufficient for meeting its financial commitments and the Group will be able to continue as a going concern for the foreseeable future.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

2. Significant accounting policies (continued)

Basis for consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2017.

Subsidiaries are all entities (including structured entities) over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated but considered as an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Transactions with non-controlling interest

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Group.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

2. Significant accounting policies (continued)

Business combinations (continued)

Business combinations with entities under common control

The Group applies pooling of interest method of accounting for business combinations with entities under the common control from the date when the combination took place.

The pooling of interests method includes the following:

- The assets and liabilities of the combining entities are reflected at their carrying amounts. No adjustments are made to reflect fair values, or recognise any new assets or liabilities, at the date of the combination. The only adjustments that are made are to align accounting policies;
- No "new" goodwill is recognised as a result of the combination. The only goodwill that is recognised is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid/transferred and the net assets acquired is reflected within equity;
- Total comprehensive income reflects the results of the combining entities from the period when the combination took place.

Acquisition of an entity that is not a business

When the Group acquires an entity that is not a business, it allocates the cost of acquisition between the individual identifiable assets and liabilities of the acquired entity as following:

- For any identifiable asset or liability initially measured at an amount other than cost, an entity initially measures that asset or liability at the amount specified in the applicable IFRS;
- The Group deducts from the transaction price of the group the amounts allocated to the assets and liabilities initially measured at an amount other than cost, and then allocates the residual transaction price to the remaining identifiable assets and liabilities based on their relative fair values at the date of the acquisition.

Investment in associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in other comprehensive income ("OCI") of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

2. Significant accounting policies (continued)

Investment in associate (continued)

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss redeem “Share of profit of an associate” in the statement of comprehensive income.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Investments in SD PSA, SCP and AGSC

According to the terms of SD PSA, the Group owns the portion of project’s assets and is liable for its portion of project’s liabilities. At the same time the Group is entitled to its portion of expenses incurred and revenues earned by the whole project. Therefore, the Group accounts for its investment in SD PSA by recognizing its interest portion of underlying assets, liabilities, expenses incurred and income earned by the project.

Participating interest of the Group in the SCP Project is treated by the Group as undivided interest related to the investment in South Caucasus Pipeline Company Limited (“SCPC”) and accounted by recognizing its portion of underlying assets, liabilities, expenses incurred and income earned by the project.

The Group holds an interest in the Azerbaijan Gas Supply Company Limited (“AGSC”), a company established together with the other Contractor Parties of the Shah Deniz Project and the Ministry of Energy of the Republic of Azerbaijan. AGSC is special structured entity established for marketing, accounting, billing, payment and reporting of other administrative activities related to the sales of Shah Deniz gas and operates on a no gain, no loss basis.

Foreign currency translation

The consolidated financial statements are presented in US dollars (“USD”) and all values are rounded to the nearest thousands, except when otherwise indicated.

The functional currency of the Company, subsidiaries and associate are the following:

SGC CJSC	USD
SGC Upstream LLC	USD
SGC Midstream LLC	USD
TANAP A.Ş.	USD
AzTAP GmbH	EUR
TAP AG	EUR

The transactions executed in foreign currencies are initially recorded in the functional currencies of respective Group entities by applying the appropriate rates of exchanges prevailing at the date of transaction.

Monetary assets and liabilities not already measured in the functional currency of respective Group entity are translated into the functional currency of that entity at the appropriate exchange rates prevailing at the reporting date.

Foreign exchange gains and losses resulting from the re-measurement into the functional currencies of respective Group’s entities are recognized in profit or loss.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

2. Significant accounting policies (continued)

Foreign currency translation (continued)

The results and financial position of the Group entities which functional currency differ from the presentation currency of the Group are translated into the presentation currency of the Group as follows:

(i) Assets and liabilities for each statement of financial position are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) All resulting exchange differences are recognized as a separate component of equity – currency translation difference.

At 31 December 2017 the principal rate of exchange used for translating foreign currency balances was USD 1.1945 per EUR 1 (31 December 2016: 1.0529).

Financial instruments – key measurement terms

Depending on their classification financial instruments are carried at fair value, cost or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

2. Significant accounting policies (continued)

Financial instruments – key measurement terms (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest rate method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest rate method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss and has no held-to-maturity investments, available-for-sale financial assets, or as derivatives.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification:

Loan receivables

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate method.

The effective interest rate method amortization is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognized in the profit or loss in consolidated statement of comprehensive income.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

2. Significant accounting policies (continued)

Financial assets (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less.

Accounts receivable

Accounts receivables which generally have 30-90 days' terms are recognized and carried at original invoice amount less an allowance for any uncollectible amounts.

Derecognition

A financial asset (or, where applicable a part of a financial asset) is derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

2. Significant accounting policies (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group has not designated any financial liabilities upon initial recognition as financial liabilities at fair value through profit or loss, or as derivatives designated as hedging instruments in an effective hedge.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

This category is most relevant to the Group. After initial recognition, interest bearing loans and borrowings which have a fixed contractual repayment schedule are measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate method. The effective interest rate method amortization is included in finance cost in the consolidated statement of comprehensive income.

Borrowings with no pre-defined contractual repayment schedules are measured in accordance with actual contractual terms.

Trade and other payables

Trade and other payables are accrued when the counterparty performed its obligations under the contract. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the profit or loss in the consolidated statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

2. Significant accounting policies (continued)

Oil and gas properties

Oil and gas properties are stated at cost, less accumulated depreciation and provision for impairment, where required. Such cost includes the cost of replacing part of the oil and gas properties and borrowing costs for long-term construction projects if the recognition criteria are met.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of oil and gas properties items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of oil and gas properties. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there are indicators that impairment loss may no longer exist or may have decreased.

Gains and losses on disposals are determined by comparing proceeds from disposal with the carrying amount and are recognised in profit or loss for the year.

Construction in progress

All costs directly or indirectly attributable to the projects to construction and expansion the capacity of the pipeline systems are capitalized as a construction in progress. The construction in progress is stated at a cost and not depreciated but tested for impairment if indicators exist. The construction in progress is transferred to the property, plant and equipment upon completion.

Depreciation, depletion and amortization

Depreciation, depletion and amortization of capitalized costs of oil and gas properties is calculated using the units-of-production method based on proved reserves for the cost of property acquisitions and proved developed reserves for exploration and development costs.

The cost of an off-shore production platform, terminal and other development costs incurred in connection with a planned group of development wells is reduced for the portion of development costs related to wells which have not been drilled yet in determining the asset base subject to the unit-of-production amortization rate until the additional development wells are drilled. Similarly, in computing the depletion rate, those proved reserves that will be produced only after significant additional development costs are incurred are excluded from proved developed reserves.

Depreciation, depletion and amortization of capitalized costs of the pipeline systems are calculated using the straight line method for the period of useful life of pipelines. The estimated useful life of the SCP pipeline is thirty years from 25 November 2006 when the pipeline was officially ready and put in use. The estimated useful life of the TANAP pipeline system will be the period from the date when the pipeline is officially put in use till the year 2061.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Oil and natural gas development expenditure

The Group follows the successful efforts method of accounting for oil and natural gas development activities. Costs to acquire mineral interests, to determine the technical feasibility, assess commercial viability of an identified resource and to drill and equip exploratory wells that find proved reserves are capitalized within exploration and evaluation assets. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs, and costs of carrying and retaining unproved properties are expensed.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

2. Significant accounting policies (continued)

Oil and natural gas development expenditure (continued)

When proved reserves of oil and natural gas are identified and development is sanctioned by management, the relevant capitalized expenditure is first assessed for impairment and (if required) any impairment loss is recognized, then the remaining balance is transferred to oil and gas properties. No amortization is charged during the exploration and evaluation phase.

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, the drilling and equipment of development wells, including unsuccessful development or delineation wells, is capitalized within oil and gas properties. Oil and gas properties are stated at cost less accumulated depreciation and accumulated impairment losses.

Advance payments

Advance payments are recognized and carried at the original amount of payment less provision for any amount at risk of non-performance by the counterparty. Advance payments made for non-current assets as well as payments which will be settled during more than one-year period are non-current advance payments.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Impairment of oil and gas properties, construction in progress, development costs and other non-financial assets

The Group assesses at each statement of financial position date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations, including impairment of inventories, are recognized in the consolidated statement of comprehensive income in expense categories consistent with the function of the impaired asset. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of producing crude oil is accounted on weighted average basis. This cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. The cost of crude oil is the production cost, the appropriate proportion of depletion and depreciation charges and overheads. Net realizable value of crude oil is based on estimated selling price in the ordinary course of business less any costs expected to be incurred to completion and disposal.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

2. Significant accounting policies (continued)

Decommissioning liabilities

Under the provisions of the SD PSA, the Contractor Parties to the SD PSA are obligated to finance the ultimate abandonment of oil and gas production properties employed in petroleum operations within the contract area. The maximum amounts of abandonment funds cannot exceed 10% of the capital costs in accordance with the SD PSA. The Group estimates its share of total decommissioning liabilities based on SD PSA provisions by applying the 10% limit to all capital costs incurred in petroleum operations in the contract area as at the year-end. The present value of the decommissioning liabilities is recorded by the Group as a liability at the time the assets are installed or placed in service. The amount of liability equals the present value of the future decommissioning liabilities discounted at pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability, which equals 5.66% at 31 December 2017 (31 December 2016: 5.59%). A corresponding tangible fixed asset of an amount equivalent to the liability is also created and included in the cost of oil and gas production properties. This amount is subsequently depreciated as part of the oil and gas production properties and charged against income using the unit-of-production method based on proved reserves. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to oil and gas production properties. The unwinding of the discount on the decommissioning provision is included as a finance cost.

According to the Host Government Agreement ("HGA") signed with the Georgian and Azerbaijan Governments, no later than 30 days after the termination of the HGA, SCPC must submit a decommissioning plan to these Governments addressing its obligations to retire the pipeline. The amount of asset retirement obligation is capitalized by shareholders of SCPC.

In accordance with HGA signed with the Government of Turkey, the Group shall comply with all its decommissioning obligations following the expiry of HGA (2061). The Group started construction works in March 2015. At the date of the consolidated financial statements, the Group had performed works related to backfilling activities, placement of compressors and SCADAs, which require decommissioning works. The Group recognized decommissioning liability, which represents the management's best estimate of the expenditures required to settle the present obligation at the reporting date.

Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant related to an asset, it is recognized as income over the expected useful life of the related asset on a basis consistent with the depreciation policy.

The benefit of a governmental bond at a below market rate of interest is treated as a government grant. Such benefit is measured as the difference between the initial fair value of the issued bond and the proceeds received.

Income taxes

Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year unless it relates to transactions that are recognised, in the same or a different period, in other comprehensive income or directly in equity.

The Group is liable for financing of its 6.67% share in the tax liabilities of SCPC, namely Azerbaijani income tax, Georgian income tax and Georgian minimum tax liabilities.

According to the provisions of SD PSA, contractor parties are liable for profit taxes. However, according to the SD PSA, respective government entity of the Republic of Azerbaijan is liable for payment of profit taxes of each contractor party from the proceeds from sales of crude oil and natural gas. Accordingly, the Group recognizes profit taxes and related revenue in the consolidated statement of comprehensive income.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

2. Significant accounting policies (continued)

Income taxes (continued)

In accordance with HGA signed with the Government of Turkey and the Government of Azerbaijan, the Group will be subject to income tax in respect of TANAP project after the pipeline will be put in use. Accordingly, the Group is not subject to income tax during the construction phase.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liability is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income taxes are provided in full on temporary differences arising on recognition and subsequent measurement of provision for asset retirement obligation and related adjustments to cost of property, plant and equipment.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, or receivable, taking into account contractually defined terms of payment net of discounts, returns, value added taxes and other taxes or duty.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

2. Significant accounting policies (continued)

Revenue recognition (continued)

Revenues associated with sales of crude oil (condensate) and gas are recorded by the Grroup at the point when the significant risks and rewards of ownership are transferred, which is when title to the extracted oil and gas passes to the customer based on the terms of the SD PSA and based on the proportion of its share in total crude oil and gas entitlement. The actual volume of oil received by the Group may differ from the entitled volume resulting in an over/under lifting.

Underlift is recognized as a sale of crude oil at the point of lifting by the underlifter to the overlifter. Overlift is recognized as a purchase of oil by the overlifter from the underlifter. The extent of underlift is reflected by the Group as an asset in the statement of financial position, and the extent of overlift is reflected as a liability. The initial measurement of the overlift liability or underlift asset is at the market price of crude oil at the date of lifting. Subsequent measurement of overlift/underlift liabilities and assets depends on the settlement terms of the related operating agreements. If such terms allow for a cash settlement of the overlift/underlift balances between the parties, the balances are remeasured at fair value at reporting dates subsequent to initial recognition. The overlift/underlift balances that are settled through delivery of physical quantities of crude oil are measured at the lower of carrying amount and fair value at reporting dates subsequent to initial recognition.

BP Exploration (Shah Deniz) Limited, the Operator of the SD PSA (the “SD Operator”), provides the Contractor Parties of SD PSA on a quarterly basis with the Shah Deniz Petroleum Entitlement Report, that contains, inter alia, the final net back price figure which is applied when determining the final petroleum volume that each SD PSA party is entitled to receive. When the actual Shah Deniz Petroleum Entitlement Report is not available, the Group recognizes the revenue based on a provisional Shah Deniz Petroleum Entitlement Report issued by the SD Operator. The revenue recognized may be further revised in the event that actual net back price differs from the provisional net back price used for revenue calculation. The Group treats such revision of revenue, if any, as a change in estimate and reflects in the current year statement of comprehensive income.

Employee benefits

Wages, salaries, contributions to the Social Protection Fund of the Republic of Azerbaijan, paid annual leave and sick leave, bonuses, and non-monetary benefits (e.g. health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees to the Group.

Transactions with related parties

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. It is the nature of transactions with related parties that they cannot be presumed to be carried out on an arm’s length basis.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

2. Significant accounting policies (continued)

New and amended standards and interpretations (continued)

Although these new standards and amendments applied for the first time in 2017, they did not have a material impact on the consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The Group has provided the information for both the current and the comparative period in Note 16.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealised losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Group applied amendments retrospectively. However, their application has no effect on the *Group*'s financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments

Annual improvements 2014-2016 cycle

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The amendments do not have any impact on the Group.

3. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of commitments, guarantees and contingent liabilities, at the end of the reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

On an on-going basis, management evaluates their estimates, including those related to revenue recognition and contingencies. Management bases their estimates on various market-specific assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making assumptions about the carrying values of assets that are not readily apparent from other sources. Actual results may differ significantly from these estimates using different assumptions or conditions.

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of consolidated financial statements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

3. Significant accounting judgments, estimates and assumptions (continued)

Reserve estimates

Estimates of recoverable quantities of proven and probable reserves reported include judgmental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quantity of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period; changes in reported reserves can impact provision of decommissioning liabilities due to changes in expected future cash flows. Reserves are integral to the amount of depreciation, depletion and amortization charges to the consolidated statement of comprehensive income.

Natural gas and condensate reserves depend on price fluctuations as a result of change in production entitlement split between the State and contractor parties. Natural gas prices are calculated based on the long-term sales contracts provisions and depend on crude oil prices and other inputs. The current long-term Brent FOB oil price assumption used in the estimation of reserves is sixty seven dollars fifty seven cents per barrel (US dollars 67.57) as at the consolidated statement of financial position date.

The level of estimated commercial reserves is also a key determinant in assessing whether the carrying value of any of the Group's development and production assets has been impaired.

Decommissioning liabilities

As discussed in Note 2, under the terms of the SD PSA the Group will have to make contributions to the abandonment fund when seventy percent (70%) of petroleum reserves of the Shah Deniz field are recovered. Decommissioning liabilities are stated in the amount of expected contributions related to the currently employed assets discounted at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. This valuation requires the Group to make estimates about timing of expected future cash flows and adjustment to the discount rate, and hence they are subject to uncertainty. The estimation of the decommissioning liabilities is based on the assumption that contributions to the abandonment fund will start in 2027 (Note 17).

If the estimated discount rate used in the calculation had been 1% higher/lower than management's estimate, the carrying amount of the provision would have been US dollar 9,997 lower / US dollars 11,598 higher, respectively.

Deferred and accrued revenue

In the valuation of the Group's overlift and underlift position under the Shah Deniz PSA as at the year-end the Group uses sixty five dollars per barrel (US dollars 65.00) market price for crude oil as at 31 December 2017 (US dollars 54.94 as at 31 December 2016).

Recoverability of oil and gas assets

The Group assesses each CGU every reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term oil prices, discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

The recoverable amount used in performing the impairment test described below is value-in-use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Group generally estimates value-in-use using a discounted cash flow model from financial budgets approved by management.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

3. Significant accounting judgments, estimates and assumptions (continued)

Key assumptions used in value-in-use calculations

The calculation of value-in-use for oil fields is most sensitive to the following assumptions:

Identification of CGU

CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets of group of assets. The management assesses that SCP, TANAP and TAP projects are being constructed with the ultimate goal of the delivering Shah Deniz field natural gas to the Georgian, Turkish and European markets. Therefore, all these projects have been considered as one CGU and impairment test is performed on the level of the whole Group.

Capital expenditures

Capital expenditures necessary to maintain estimated production volumes are based on long-term development plans for particular field.

Commitments under Deferred Sale and Purchase Agreement ("DSPA")

As disclosed in Note 24, the Group is committed to make progress payments under the terms of the DSPA.

Crude oil price

Commodity prices used in the forecasts are publicly available.

If the forecasted prices used in the calculation had been five dollars (US dollars 5.0) lower than management's estimate, this would not result in any impairment loss.

Discount rate

The post-tax discount rate applied to the cash flow projections of CGU was 6%. The discount rate calculation is based on the specific circumstances of the Group and derived from its incremental borrowing rate adjusted to the specific risks associated with the asset's estimated cash flows. If the estimated discount rate used in the calculation had been 1% higher than management's estimate, this would not result in impairment loss.

The last impairment test was performed by the Group as of 30 June 2016 and did not result in any impairment loss. Management did not identify impairment indicators as of 31 December 2017.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

4. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

4. Standards issued but not yet effective (continued)

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group has performed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018 when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9.

(a) Classification and measurement

The Group does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the Group expects that these will continue to be measured at amortized cost under IFRS 9. However, the Group will analyze the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortized cost measurement under IFRS 9.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The Group expects a significant impact on its equity due to unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Group plans to adopt the new standard on the required effective date using modified retrospective method. During 2016, the Group performed a preliminary assessment of IFRS 15, which was continued with a more detailed analysis completed in 2017.

To date, the Group has identified the following issues that require consideration:

(a) Recording of revenue under the entitlement method

Revenue from the production of oil and gas, in which the Group has an interest with other producers, is recognised based on the Group’s working interest and the terms of the relevant PSAs. Differences between oil lifted and sold and the Group’s share of production have historically been significant. The Group’s accounting policy will be reviewed to assess whether the current practice of recording revenue based on entitlement rather than based on actual invoiced sales is in accordance with the requirements of IFRS 15.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

4. Standards issued but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

(b) Recording of revenue from PSAs

The Group's entitlement to revenue from oil fields subject to PSA terms is governed by the PSA. As IFRS 15 only applies to revenue from contracts with customers, the Group will consider whether the PSAs are within the scope of IFRS 15.

(c) Other presentation and disclosure requirements

IFRS 15 contains other presentation and disclosure requirements which are more detailed than current IFRS. The presentation requirements represent a significant change from current practice and will increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in IFRS 15 are completely new. In 2017 the Group continued to consider the new systems, internal controls, policies and procedures necessary to collect and disclose the required information.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively.

These amendments are not expected to have any impact on the Group.

IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

The IASB issued amendments to IFRS 2 *Share-based Payment* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction change its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018.

These amendments are not expected to have any impact on the Group.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

4. Standards issued but not yet effective (continued)

IFRS 16 Leases (continued)

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Group will continue to assess the potential effect of IFRS 16 on its financial statements. The Group plans to adopt the new standard on the required effective date

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 *Insurance Contracts* (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach);
- A simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

Transfers of Investment Property – Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if it is possible without the use of hindsight. Effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed. The Group will apply amendments when they become effective. However, since Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

4. Standards issued but not yet effective (continued)

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(a) The beginning of the reporting period in which the entity first applies the interpretation; or

(b) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Group will apply interpretation from its effective date. Since the Group operates in a complex multinational tax environment, applying the Interpretation may affect its consolidated financial statements and the required disclosures. In addition, the Group may need to establish processes and procedures to obtain information that is necessary to apply the Interpretation on a timely basis.

Long-term interests in associates and joint ventures – Amendments to IAS 28

The amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The Board also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*. The amendments are effective for annual periods beginning on or after 1 January 2019. The Group does not expect any effect of this amendment on its consolidated financial statements.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

4. Standards issued but not yet effective (continued)

Prepayment Features with Negative Compensation – Amendments to IFRS 9

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The basis for conclusions to the amendments clarified that the early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract. The amendments are effective for annual periods beginning on or after 1 January 2019. The Group does not expect any effect of this amendment on its consolidated financial statements.

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendment specifies how companies determine pension expenses when changes to a defined benefit pension plan occur. IAS 19 *Employee Benefits* specifies how a company accounts for a defined benefit plan. When a change to a plan – an amendment, curtailment or settlement – takes place, IAS 19 requires a company to remeasure its net defined benefit liability or asset. The amendments require a company to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Until now, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The amendments are effective for annual periods beginning on or after 1 January 2019.

Annual improvements 2015-2017 cycle

Annual improvements are part of the Board's process for maintaining IFRS Standards and contain Interpretations that are minor or narrow in scope. The amendments made during the 2015-2017 cycle are:

IFRS 3 Business Combinations – Previously held Interests in a joint operation

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Early application is permitted.

IFRS 11 Joint Arrangements – Previously held Interests in a joint operation

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Early application is permitted.

IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

4. Standards issued but not yet effective (continued)

IAS 23 Borrowing Costs – Borrowing costs eligible for capitalization

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Early application is permitted.

5. Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the management of the Group and for which discrete financial information is available.

The Group is organized into business units based on their products and services and has two reportable segments as follows:

- Oil and gas – representing extraction of natural gas and gas condensate;
- Distribution – representing transportation of natural gas and gas condensate.

No operating segments have been aggregated to form the above reportable operating segments.

The Group's segments are strategic business units that focus on different customers. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Transfer prices between operating segments are either on an arm's length basis or non-arm's length basis.

Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 31 December 2017 is set out below:

	Oil and gas	Distribution	Unallocated (*)	Eliminations and adjustments (**)	Total
Revenues					
External customers	126,703	–	–	–	**126,703**
Inter-segment	–	23,369	–	(23,369)	**–**
Total revenue	**126,703**	**23,369**	**–**	**(23,369)**	**126,703**
Depreciation and depletion	(60,189)	(3,429)	–	–	**(63,618)**
Other costs	(9,419)	(769)	–	(1,179)	**(11,367)**
Transportation tariffs	(27,005)	–	–	23,369	**(3,636)**
General and administrative expenses	(9,077)	(3,412)	(3,345)	–	**(15,834)**
Other income	1,169	322	19,102	–	**20,593**
Interest income	–	8,648	191,640	(180,784)	**19,504**
Finance costs	(64,902)	(30,863)	(153,106)	92,455	**(156,416)**
Share of result of associates	–	(4,349)	–	–	**(4,349)**
Foreign exchange loss, net	–	53,218	1,486	(60,628)	**(5,924)**
Income tax expense	–	(8,441)	–	–	**(8,441)**
Net profit/(loss) for the year	**(42,720)**	**34,294**	**55,777**	**(150,136)**	**(102,785)**

(*) These numbers include unallocated transactions managed and recognized at the group level.

(**) Inter-segment revenues and expenses are eliminated on consolidation. Amounts shown as eliminations include intercompany transactions.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

5. Segment information (continued)

Information about reportable segment profit or loss, assets and liabilities (continued)

	Oil and gas	Distribution	Unallocated (*)	Eliminations and adjustments (**)	Total
Investment in associates	–	175,561	–	–	**175,561**
Other reportable segment assets	3,488,893	6,890,591	7,106,429	(6,573,705)	**10,912,208**
Total reportable segment assets	**3,488,893**	**7,066,152**	**7,106,429**	**(6,573,705)**	**11,087,769**
Other reportable segment liabilities	(3,486,196)	(4,616,537)	(6,089,872)	6,425,474	**(7,767,131)**
Total reportable segment liabilities	**(3,486,196)**	**(4,616,537)**	**(6,089,872)**	**6,425,474**	**(7,767,131)**
Capital expenditure (***)					
Additions	251,526	1,994,302	–	(87,599)	**2,158,229**
Additions – investment in associate	–	75,450	–	–	**75,450**
Advance payments for acquisition of shares	705,360	56,277	–	–	**761,637**
Advance payments related to construction works	(3,080)	(110,473)	–	–	**(113,553)**
Total capital expenditures	**953,806**	**2,015,556**	**–**	**(87,599)**	**2,881,763**

(*) These numbers include unallocated assets and liabilities managed and recognized at the group level.

(**) Inter-segment balances are eliminated on consolidation. Amounts shown as eliminations include intercompany balances.

(***) Capital expenditure represents additions to non-current assets other than financial instruments and deferred tax assets.

Segment information for the reportable segments for the year ended 31 December 2016 is set out below:

	Oil and gas	Distribution	Unallocated (*)	Eliminations and adjustments (**)	Total
Revenues					
External customers	111,489	–	–	–	**111,489**
Inter-segment	–	22,496	–	(22,496)	**–**
Total revenue	**111,489**	**22,496**	**–**	**(22,496)**	**111,489**
Depreciation and depletion	(57,173)	(3,418)	–	–	**(60,591)**
Other costs	(7,596)	(2,867)	–	1,104	**(9,359)**
Transportation tariffs	(25,884)	–	–	22,496	**(3,388)**
General and administrative expenses	(6,937)	(662)	(3,203)	–	**(10,802)**
Other income	1,323	7	16,165	–	**17,495**
Interest income	–	1,087	105,511	(99,346)	**7,252**
Finance costs	(41,853)	(17,713)	(77,652)	56,461	**(80,757)**
Share of result of associates	–	(4,022)	–	–	**(4,022)**
Foreign exchange loss, net	(25)	(13,103)	(28,471)	14,788	**(26,811)**
Income tax expense	–	(1,629)	–	–	**(1,629)**
Net profit/(loss) for the year	**(26,656)**	**(19,824)**	**12,350**	**(26,993)**	**(61,123)**

(*) These numbers include unallocated transactions managed and recognized at the group level.

(**) Inter-segment revenues and expenses are eliminated on consolidation. Amounts shown as eliminations include intercompany transactions.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

5. Segment information (continued)

Information about reportable segment profit or loss, assets and liabilities (continued)

	Oil and gas	Distribution	Unallocated (*)	Eliminations and adjustments (**)	Total
Investment in associates	–	90,378	–	–	**90,378**
Other reportable segment assets	2,646,217	4,856,224	5,289,398	(4,654,907)	**8,136,932**
Total reportable segment assets	**2,646,217**	**4,946,602**	**5,289,398**	**(4,654,907)**	**8,227,310**
Other reportable segment liabilities	(2,602,131)	(3,351,386)	(3,923,669)	4,595,088	**(5,282,098)**
Total reportable segment liabilities	**(2,602,131)**	**(3,351,386)**	**(3,923,669)**	**4,595,088**	**(5,282,098)**
Capital expenditure (***)					
Additions	289,672	2,245,070	–	(42,885)	**2,491,857**
Additions – investment in associate	–	38,900	–	–	**38,900**
Advance payments for acquisition of shares	226,599	64,389	–	–	**290,988**
Advance payments related to construction works	(4,494)	(81,042)	–	–	**(85,536)**
Total capital expenditures	**511,777**	**2,267,317**	**–**	**(42,885)**	**2,736,209**

(*) These numbers include unallocated assets and liabilities managed and recognized at the group level.

(**) Inter-segment balances are eliminated on consolidation. Amounts shown as eliminations include intercompany balances.

(***) Capital expenditure represents additions to non-current assets other than financial instruments and deferred tax assets.

Geographical information

All revenue is generated from sales of natural gas and crude oil produced in Azerbaijan. Revenue from two customers amounted to US dollars 107,117 (2016: US dollars 89,004 from three customers), arising from sale of natural gas and crude oil in the oil and gas segment.

Non-current assets other than financial instruments and deferred tax assets for each individual country for which it is material is reported separately as follows:

	2017	2016
Azerbaijan	4,268,010	3,218,770
Turkey	5,364,692	3,729,780
Georgia	439,943	381,397
Switzerland	175,561	90,378
Total	**10,248,206**	**7,420,325**

The analysis is based on location of assets.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

6. Oil and gas properties

Movements in the carrying amount of oil and gas properties consisted of the following:

	Oil and gas production properties	Pipeline assets	Decommis-sioning costs	Total
Cost				
At 31 December 2015	**472,556**	**75,318**	**17,450**	**565,324**
Additions	17,460	714	1,175	**19,349**
At 31 December 2016	**490,016**	**76,032**	**18,625**	**584,673**
Additions	12,554	879	1,005	**14,438**
At 31 December 2017	**502,570**	**76,911**	**19,630**	**599,111**
Accumulated depletion and depreciation				
At 31 December 2015	**(68,408)**	**(4,800)**	**(1,783)**	**(74,991)**
Charge for the year	(55,279)	(3,418)	(1,894)	**(60,591)**
At 31 December 2016	**(123,687)**	**(8,218)**	**(3,677)**	**(135,582)**
Charge for the year	(57,081)	(3,429)	(3,108)	**(63,618)**
At 31 December 2017	**(180,768)**	**(11,647)**	**(6,785)**	**(199,200)**
Net book value				
At 31 December 2017	**321,802**	**65,264**	**12,845**	**399,911**
At 31 December 2016	**366,329**	**67,814**	**14,948**	**449,091**

Oil and gas production properties

Oil and gas production properties are represented by the Group's 6.67% share in oil and gas production properties of Shah Deniz ("SD") project.

Pipeline assets

The pipeline cost represents the Group's 6.67% share in cost of construction on SCP pipeline.

Decommissioning costs

The capitalized decommissioning costs are represented by the Group's 6.67% share in costs related to decommissioning of assets employed for the purposes of SD and SCP projects. Refer to Note 17 for details.

7. Construction in progress and development costs

Movements in the carrying amount of oil and gas properties consisted of the following:

	Development costs	Construction in progress	Decommis-sioning costs	Total
At 31 December 2015	**867,636**	**1,664,249**	**32,508**	**2,564,393**
Additions	256,149	2,190,675	25,684	**2,472,508**
At 31 December 2016	**1,123,785**	**3,854,924**	**58,192**	**5,036,901**
Additions	230,659	1,892,631	20,501	**2,143,791**
At 31 December 2017	**1,354,444**	**5,747,555**	**78,693**	**7,180,692**
Net book value				
At 31 December 2017	**1,354,444**	**5,747,555**	**78,693**	**7,180,692**
At 31 December 2016	**1,123,785**	**3,854,924**	**58,192**	**5,036,901**

(Amounts presented are in thousands of US dollars, unless otherwise stated)

7. Construction in progress and development costs (continued)

Development costs

Development costs are represented by costs incurred in respect of Shah Deniz Stage 2 Development project.

Construction in progress

As at 31 December 2017 this amount includes cost directly related to the construction of TANAP and expansion of SCP pipeline system in the amount of US dollars 5,449,475 (31 December 2016: US dollars 3,612,708) and US dollars 298,080 (31 December 2016: US dollars 242,216), respectively. The amount related to construction of TANAP includes costs for project management services, pipeline cost, land acquisition costs, personnel expenses and other costs directly attributable to the construction of pipeline.

Capitalized borrowing cost

As at 31 December 2017 the Group capitalized borrowing cost in the amount of US dollars 403,251 as part of construction in progress and development costs (31 December 2016: 195,937). Refer to Note 16 for details.

8. Advance payments

Advance payments consisted of the following at 31 December:

	2017	2016
Advance payments for acquisition of shares	2,397,507	1,635,870
Other payments related to construction works	92,520	206,073
	2,490,027	**1,841,943**

Advance payments for acquisition of shares

Advance payments for acquisition of shares represents advances paid in the amount of US dollars 1,819 million (31 December 2016: US dollars 1,114 million) to Azerbaijan (Shah Deniz) Limited ("AzSD") and US dollars 578 million (31 December 2016: US dollars 522 million) to Azerbaijan (South Caucasus Pipeline) Limited ("AzSCP") for acquisition of their 10% interests in the SD PSA and SCP projects, respectively, and treated as non-financial assets. Refer to Note 24 for further details.

9. Investment in associate

At 31 December 2017 the Group held twenty percent (20%) interest in TAP AG. TAP AG is responsible for the development and operation of the gas transportation infrastructure from the Greece/Turkey border to Southern Italy in order to deliver Shah Deniz natural gas to European countries. The Group exercises significant influence over the entity by participating in its financial and operating decisions.

The Group acquired investment in TAP AG through acquisition of 100% shares of AzTAP GmbH in 2014 (Note 23).

The table below summarizes the movements in the carrying amount of the Group's investment in TAP AG:

	2017	2016
Opening carrying amount	**90,378**	**60,740**
Additions to investment in associate	75,450	38,900
Share of after tax results of associate	(4,349)	(4,022)
Other	1,172	(3,247)
Exchange differences	12,910	(1,993)
Closing carrying amount	**175,561**	**90,378**

(Amounts presented are in thousands of US dollars, unless otherwise stated)

9. Investment in associate (continued)

The following table illustrates summarized financial information of the Group's investment in TAP AG at 31 December:

	2017	2016
Current assets	126,858	86,935
Non-current assets	3,346,836	1,718,253
Current liabilities	(330,471)	(284,292)
Non-current liabilities	(2,355,361)	(1,142,058)
Net assets	**787,862**	**378,838**
Group's interest in net assets	**157,572**	**75,768**
Goodwill recognized upon acquisition	18,872	18,872
Exchange differences on translation of goodwill	1,192	(1,015)
Other	(2,075)	(3,247)
Carrying value	**175,561**	**90,378**

Share of associate's results for the period ended 31 December:

	2017	2016
Revenue	–	–
Operating expenses	(31,054)	(26,444)
Other income	5,687	2,694
Loss before tax	**(25,367)**	**(23,750)**
Income tax benefit	3,622	3,638
Net loss for the year since acquisition of associate	**(21,745)**	**(20,112)**
Group's share of net loss	**(4,349)**	**(4,022)**

10. Loan receivables

Loan receivables consisted of receivable from TAP AG in the amount of US dollars 445,102 (31 December 2016: US dollars 224,696) and receivables from BOTAS in the amount of US dollars 200,261 (31 December 2016: US dollars 130,863). The loan to TAP bears interest at the rate of EUR rate for cross border shareholders loans as published by the Swiss federal tax authorities plus 1% margin and was equal to 2% in 2017 (2016: 2%). The loan matures in July 2043. Interest income earned during the year ended 31 December 2017 was US dollars 5,922 (2016: US dollars 2,946).

Receivables from BOTAS represent deferred consideration in the amount of US dollars 31,052 (31 December 2016: US dollars 30,002) and loan receivable in the amount of US dollars 169,209 (31 December 2016: US dollars 100,861). As discussed in Note 15, on 13 April 2015 the Group sold its 30% shares in TANAP A.Ş. to BOTAS for cash consideration of US dollars 168,226 and deferred consideration of US dollars 33,645. The deferred consideration does not bear interest and is expected to be repaid during 2020-2021. At initial recognition fair value of the deferred consideration was calculated as the present value using the market borrowing rate for similar financial instruments (3.5%) in the amount of US dollars 28,006. Income earned in respect of the deferred consideration from BOTAS during the year ended 31 December 2017 was US dollars 1,050 (2016: US dollars 1,015) and was recognized within interest income.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

10. Loan receivables (continued)

As discussed in Note 24, according to the Funding Agreement, following the sale of 30% shares of TANAP A.Ş., the Group financed cash call requirements of BOTAS equivalent to 5% shares in TANAP A.Ş. in the amount of US dollars 82,700 (2016: US dollars 93,950). The loan does not bear interest and is expected to be repaid in 2021-2023. At initial recognition of each debt obligation in respect of financing of cash call requirements of BOTAS, the present value was calculated using 4.4% market borrowing rate for similar financial instruments (2016: 4%) in the amount of US dollars 61,934 (2016: US dollars 74,139) and the difference between the fair value and carrying amount of loan in the amount of US dollars 20,766 (2016: US dollars 19,811) was recognized in profit and loss. Interest income earned in respect of the loan receivable from BOTAS during the year ended 31 December 2017 was US dollars 6,414 (2016: US dollars 3,189).

As of 31 December 2017 and 2016 the Group's loan receivables were neither past due nor impaired.

11. Cash and cash equivalents, deposits

Cash and cash equivalents consisted of the following at 31 December:

	2017	2016
Cash at bank, USD	146,403	184,251
Cash at bank, AZN	124	216,056
Cash at bank, EUR	71	26
Cash at bank, other	187	51
Total cash and cash equivalents	**146,785**	**400,384**

Cash at bank includes time deposits in the amount of US dollars 722 (31 December 2016: US dollars 544) with maturity of up to one month and bearing effective interest rate of 3.7% (31 December 2016: 0.1%).

12. Accounts receivable

Accounts receivable consisted of the following at 31 December:

	2017	2016
Receivable from AGSC	176	4,061
Receivable from the SD Operator	5,929	–
Receivable from SOCAR MO	6,347	4,792
Other receivables	–	624
Total accounts receivable	**12,452**	**9,477**

Receivables from the SD Operator represent the inception-to-date excess of cash calls paid by the Group to the SD Operator over the actual expenditures reported by the SD Operator.

According to the crude oil sales agency agreement, the Group appointed SOCAR MO, a subsidiary of SOCAR, as its trading and marketing agent in respect of Shah Deniz PSA petroleum. SOCAR MO charges the Group commission fees for agency and marketing services at 0.5% (value added tax ("VAT") inclusive) of the value of crude oil sold. Receivables from SOCAR MO represent a petroleum sold to a third party, for which no consideration was transferred to the Group as at 31 December 2017.

As of 31 December 2017 and 2016 the Group's receivables were neither past due nor impaired.

13. Inventories

As at 31 December 2017 and 2016 inventories are represented by the Group's share of inventories reported by the SD Operator.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

14. Other current assets

Other current assets represent the following at 31 December:

	2017	2016
VAT receivable	11,915	23,752
Other assets	10,868	5,658
Total other current assets	**22,783**	**29,410**

15. Share capital, additional paid-in capital, other reserves and non-controlling interest

Share capital

During the year ended 31 December 2017 the Company registered contributions in the amount of US dollars 675,000 (2016: US dollars 295,900) in the charter capital. As at 31 December 2017 and 31 December 2016 the Company had authorized, issued and fully paid 100 ordinary shares at par US dollars 24,158 and US dollars 17,408, respectively. Each share entitles one vote to the shareholder.

Additional paid-in capital

During the year ended 31 December 2017 the Group received additional contribution in the amount of US dollars 74,713 from SOCAR (2016: total contributions in the amount of US dollars 631,768 from SOCAR and ME). During the year ended 31 December 2017, US dollars 675,000 were registered in the charter capital. The rest contributions in the amount of US dollars 31,481 remained within additional paid-in capital.

Other reserves

On 13 April 2015 the Group sold its 30% interest in its subsidiary – TANAP A.Ş. to BOTAS. Total consideration comprised of cash consideration paid by BOTAS in the amount of US dollars 168,226 and fair value of deferred consideration in the amount of US dollars 28,006. On 16 April 2015 the Group sold 12% interest in its subsidiary – TANAP A.Ş. to BP for cash consideration of US dollars 97,423. The difference between the net book value of interest in net assets sold (US dollars 338,831) and the fair value of considerations received from BOTAS and BP was recognized as loss on sale of share in subsidiary in other reserves in the amount of US dollars 45,176.

Additional contribution to TANAP

During 2017 and 2016 the Group, BOTAS and BP made cash contributions to the charter capital of TANAP in proportion of their ownership interest. The contribution made by BOTAS and BP in the total amount of US dollars 347,340 was recognized as an increase in the non-controlling interests (2016: 342,751).

16. Borrowings and Government grant

As at 31 December 2017 and 2016 interest-bearing borrowings were comprised of the following:

Facility	31 December 2017	31 December 2016
Bonds	4,297,240	3,077,033
Loans from non-controlling shareholders	1,126,201	715,426
Loans from financial institutions	1,137,910	176,000
Total borrowings	**6,561,351**	**3,968,459**

(Amounts presented are in thousands of US dollars, unless otherwise stated)

16. Borrowings and Government grant (continued)

Original currency and maturities of the borrowings as at 31 December 2017 are presented below:

Facility	Original currency	Maturity date	31 December 2017 Non-current portion	31 December 2017 Current portion
Bonds issued to SOFAZ	USD	May-November 2024	2,202,057	–
Eurobond 1	USD	March 2026	988,758	20,083
Eurobond 2	USD	March 2026	1,072,752	13,590
Loan from BOTAS	USD	2020-2021	803,055	–
Loan from BP	USD	2020-2021	323,146	–
Loan from IBRD	USD	December 2046	399,340	–
Loan from AIIB	USD	December 2046	590,476	–
Loan from EBRD	USD	October 2035	148,094	–
Total borrowings			**6,527,678**	**33,673**

Original currency and maturities of the borrowings as at 31 December 2016 are presented below:

Facility	Original currency	Maturity date	31 December 2016 Non-current portion	31 December 2016 Current portion
Bonds issued to SOFAZ	USD	May-November 2024	2,069,044	–
Eurobond 1	USD	March 2026	988,758	19,231
Loan from BOTAS	USD	2020-2021	509,644	–
Loan from BP	USD	2020-2021	205,782	–
Loan from IBA	USD	February 2017	–	176,000
Total borrowings			**3,773,228**	**195,231**

Government grant

In accordance with the Presidential Decree dated 25 February 2014 SOFAZ, a governmental fund established for funding of important socio-economic projects, was assigned to finance the Group's acquisitions of interests in the projects described in Note 1. Following this Decree, in 2014 the Group issued bonds to SOFAZ in the aggregate amount of US dollars 2,516,996 with maturity period of 10 years. At initial recognition, the Group calculated the fair value of the bond using market rate for similar financial instruments (4.5% + 6 months LIBOR) and recognized US dollars 704,270 of difference between fair value and nominal amount of the bond as government grant in its consolidated statements of financial position.

During the year ended 31 December 2017 the Group recognized income from government grant in the amount of US dollars 18,950 which was recognized within other income (2016: US dollars 16,165).

Changes in liabilities arising from financing activities

	1 January 2017	Cash flows	Finance cost	31 December 2017
Long-term borrowings	3,773,228	2,547,770	206,680	6,527,678
Short-term and current portion of long-term borrowings	195,231	(286,842)	125,284	33,673
Total liabilities from financing activities	**3,968,459**	**2,260,928**	**331,964**	**6,561,351**

	1 January 2016	Cash flows	Finance cost	31 December 2016
Long-term borrowings	2,191,873	1,435,186	146,169	3,773,228
Short-term and current portion of long-term borrowings	–	141,625	53,606	195,231
Total liabilities from financing activities	**2,191,873**	**1,576,811**	**199,775**	**3,968,459**

(Amounts presented are in thousands of US dollars, unless otherwise stated)

17. Decommissioning liabilities

The Group has a legal and constructive obligation with respect to decommissioning of oil and gas production and pipeline assets. Movements in provisions for the related asset retirement obligations are as follows:

	31 December 2017	31 December 2016
Opening carrying amount	**82,709**	**52,066**
Additional liability during the year	22,262	20,249
Unwinding of present value discount	4,044	3,105
Effect of discount rate revision	(756)	7,289
Closing carrying amount	**108,259**	**82,709**

Under the provisions of the SD PSA, SCP and TANAP Host Government Agreements (“HGA”) all Contractor Parties will have to make contributions to an abandonment fund, which will be used to finance the decommissioning and dismantling of constructed assets after the maturity of the SD PSA, SCP and TANAP.

The maximum amount of decommissioning fund cannot exceed 10% of the capital costs in accordance with SD PSA. Decommissioning liability is estimated based on capital expenditures incurred in respect of assets already employed as at the end of each financial year. The Group share of the estimated undiscounted cost to abandon the production facilities employed in SD PSA was US dollar 178,058 as at 31 December 2017 (31 December 2016: US dollars 157,481).

The Group’s share of expected undiscounted cost to decommission the SCP pipeline facilities at 31 December 2017 was US dollars 26,450 (31 December 2016: US dollars 19,826). The Group used a 2.5% (31 December 2016: 2.5%) inflation rate in its estimate of the retirement obligation upon termination of HGA and used a pre-tax rate that reflects current market assessments of the time value of money to discount the obligation.

The Group’s share of expected undiscounted cost to decommission the TANAP pipeline facilities at 31 December 2017 was US dollars 131,632 (31 December 2016: US dollars 39,229). The Group used a 2.1% inflation rate in its estimate of the retirement obligation upon termination of HGA and used a pre-tax rate that reflects current market assessments of the time value of money to discount the obligation.

18. Trade and other payables, accrued liabilities

Trade and other payables and accrued liabilities mainly consist of payables related to Shah Deniz Stage 2 development, expansion of SCP and construction of TANAP pipeline systems as at 31 December 2017 and 31 December 2016.

19. Revenue, accrued revenue and deferred revenue

The Group’s revenue consisted of the following for the year ended 31 December:

	2017	2016
Revenue from sale of gas	69,309	62,497
Revenue from sale of crude oil	57,394	48,992
	126,703	**111,489**

According to the provisions of the SD PSA the profit oil and gas is shared between the Government and the Contractor Parties depending on cumulative after-tax real rate of return achieved as at the end of each calendar quarter by the Contractor Parties. During four quarters of 2017 and 2016 the profit oil and gas was shared at a ratio of 55% to 45% in favor of the Contractor Parties.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

19. Revenue, accrued revenue and deferred revenue (continued)

Accrued revenue

Accrued revenue balance of US dollars 1,996 at 31 December 2016 represents the Group's underlift of crude oil resulted from a difference between the volumes lifted and entitled at Ceyhan terminal.

Deferred revenue

Deferred revenue balance of US dollars 2,054 at 31 December 2017 represents the Group's overlift of crude oil resulted from a difference between the volumes lifted and entitled at Ceyhan terminal.

Deferred revenue balance of US dollars 2,321 at 31 December 2016 represents the Group's overlift of crude oil resulted from a difference between the volumes lifted and entitled at Baku-Tbilisi-Ceyhan route ("BTC").

20. Cost of sales

The Group's cost of sales consisted of the following for the year ended 31 December:

	Note	2017	2016
Depreciation and depletion	6	63,618	60,591
Other costs		11,367	9,359
		74,985	**69,950**

21. Taxation

The Group's income tax expense consisted of the following:

	2017	2016
Current tax charge	5,968	1,930
Deferred tax charge/(benefit)	2,473	(301)
	8,441	**1,629**

The Group does not file a consolidated tax return. In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

In accordance with Azerbaijani tax legislation, tax losses arising in one period can be carried forward for five years. SGC CJSC has accumulated losses in the amount of US dollars 187,908 in 2017 statutory books (2016: US dollars 95,030), which are not expected to be utilized within five years. The Group did not recognize deferred tax assets on these losses.

Taxation under the Shah Deniz Project

According to the provisions of SD PSA, the contractor parties are liable to pay income taxes related to the operations under the SD Project. According to the same provisions the respective state body of the Republic of Azerbaijan remits to the State Budget income taxes of each contractor party and reimburses the respective amount from condensate and natural gas attributable to the State. Accordingly, as a contractor party to SD PSA, the Group is liable for Azerbaijani income taxes and at the same time is entitled to additional profit petroleum. During the year ended 31 December 2017 and 2016 the Group had no income taxes from the activities in SD PSA.

The Group is exempt from certain ordinary operational taxes including Azerbaijani value added taxes in accordance with provision of SD PSA.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

21. Taxation (continued)

Taxation under the SCP project

SGC Midstream LLC elected SCPC to represent it in all tax issues before the tax authorities, so that the Group is a non-tax electing shareholder in accordance with the terms of Azerbaijani HGA. SCPC is liable for Azerbaijani income tax and Georgian minimum tax with respect to the income and deductions of, and natural gas transported by, SCPC, which are allocable to non-tax electing shareholders, including the Group.

The following taxes have been enacted:

- Azerbaijani income tax at a fixed rate of 27%;
- Georgian income tax at a fixed rate of 25%;
- Georgian minimum tax (the "GMT") at a fixed rate of US dollars 2.50 per thousand of cubic meters of gas delivered to Georgian-Turkey border.

Georgian income tax and minimum tax

According to Georgian HGA, SCPC is liable for the income tax at a fixed rate of 25% for income generated from operations in Georgia. In case SCPC does not generate taxable income during a fiscal year, it shall be liable for GMT. The GMT for the preceding periods can be carried forward without limitation and credited against future income tax liability of SCPC in Georgia. The Group estimates that the GMT will exceed the income tax under Georgian HGA.

The provision for income taxes mainly comprised of the Group's share in Azerbaijan income tax expense, Georgian minimum tax expense and deferred tax expense of SCPC for the year ended 31 December 2017.

Deferred tax liabilities of SCPC are calculated on the temporary differences arising from the differences in accounting under IFRS and HGA (accrual versus cash basis). As at 31 December 2017, the Group's portion in the deferred tax liabilities of SCPC equaled to US dollars 13,563 (31 December 2016: US dollars 7,759).

Taxation under TANAP project

As per HGA signed between the Government of Turkey and the Government of Azerbaijan, it was determined that the corporate income taxation of TANAP will only be based on the amount of natural gas transmitted from the pipeline after the pipeline will be put in use. Therefore, the Group is not subject to corporate income tax during construction phase. There is no temporary difference between statutory and IFRS books of TANAP that are subject to deferred tax.

22. Transactions with related parties

Transactions with related parties consisted of the following:

	As at 31 December 2017			**For the year ended 31 December 2017**	
Related party	**Long-term borrowings**	**Advance payments**	**Accounts receivable**	**Receipts from related parties**	**Settlements with related parties**
SOFAZ (Note 16)	2,202,057	–	–	–	–
AzSD	–	1,819,231	–	–	713,594
AzSCP	–	578,276	–	–	56,277
SOCAR MO	–	–	6,347	–	224
AGSC	–	–	176	72,373	–
Total	**2,202,057**	**2,397,507**	**6,523**	**72,373**	**770,095**
Total category	**6,527,678**	**2,490,027**	**12,452**		

(Amounts presented are in thousands of US dollars, unless otherwise stated)

22. Transactions with related parties (continued)

	As at 31 December 2016			For the year ended 31 December 2016	
Related party	**Long-term borrowings**	**Advance payments**	**Accounts receivable**	**Receipts from related parties**	**Settlements with related parties**
SOFAZ (Note 16)	2,069,044	–	–	–	–
AzSD	–	1,113,871	–	–	226,599
AzSCP	–	521,999	–	–	64,389
SOCAR MO	–	–	4,792	–	197
AGSC	–	–	4,061	65,099	–
Total	**2,069,044**	**1,635,870**	**8,853**	**65,099**	**291,185**
Total category	**3,773,228**	**1,841,943**	**9,477**		

AzSD

Settlements with AzSD (a subsidiary of SOCAR) during the year ended 31 December 2017 are mainly represented by US dollars 705,360 advances paid for acquisition of 10% share in SD PSA and 8% share in AGSC under the DSPA (31 December 2016: US dollars 226,599). Refer to Note 24.

AzSCP

Settlements with AzSCP (a subsidiary of SOCAR) during the year ended 31 December 2017 are represented by US dollars 56,277 advances paid for acquisition of 10% shares in SCPC under the DSPA (31 December 2016: US dollars 64,389). Refer to Note 24.

AGSC

AGSC is a company established by the contractor parties of the SD PSA for marketing, accounting, billing, payment and reporting of other administrative activities related to the sales of Shah Deniz gas. Receipts from AGSC represent cash received in the amount of US dollars 72,373 (31 December 2016: US dollars 65,099) from sale of gas to AGSC.

SOCAR and ME

During the year ended 31 December 2017 SOCAR made additional cash contribution to the Group in the amount of US dollars 74,713 (2016: US dollars 432,509 (SOCAR) and US dollars 495,159 (ME)). As at 31 December 2017, total cash contribution by SOCAR and ME were amounted to US dollars 1,215,223 (31 December 2016: US dollars 1,140,510) and US dollars 1,232,058 (31 December 2016: US dollars 1,232,058), respectively.

SOCAR Marketing and Operations Department (“SOCAR MO”)

SOCAR MO (a subsidiary of SOCAR) performs sale of crude oil on behalf of the Group. Amounts outstanding from SOCAR MO represent receivables for the sale of crude oil.

TAP AG

As discussed in Note 10, as at 31 December 2017 the Group had loan receivables from its associate – TAP AG in the amount of US dollars 445,102 (31 December 2016: US dollars 224,696).

(Amounts presented are in thousands of US dollars, unless otherwise stated)

22. Transactions with related parties (continued)

Key management personnel

The senior management group consisted of the Group's General Director, Deputy General Director and three department directors as at 31 December 2017 (31 December 2016: General Director, Deputy General Director and three department directors). The aggregate remuneration of members of the senior management group and the number of managers determined on a full-time equivalent basis receiving remuneration within this category was:

	31 December 2017	31 December 2016
Aggregate remuneration	156	160
Number of persons	5	5

The Group also incurred expenses for management services provided by SOCAR Upstream Management International LLC and SOCAR Midstream Operations LLC in the total amount of US dollars 1,056 during the year ended 31 December 2017 (31 December 2016: US dollars 1,473) under the Operator Services Agreement signed in December 2014.

23. Financial risk management objectives and policies

Financial risk factors

In the ordinary course of business, the Group is exposed to credit, liquidity and market risks. Market risks arise from fluctuating currency exchange rates and interest rates. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. To effectively manage the variety of exposures that may impact financial results, the Group's overriding strategy is to maintain a strong financial position. Although there are no structured formal risk management procedures, management of the Group identifies and evaluates financial risks with reference to the current market position.

(i) Interest rate risk

The Group holds significant interest bearing assets and liabilities as described in Note 10 and Note 16. Interest rates on existing borrowings are implicit in respective agreements and, except Eurobonds and loan from IBA, depend on fluctuations in LIBOR and/or EUR rate for cross border shareholders loans published by the Swiss federal tax authorities (ESTV).

The table below summarizes effect on profit before tax of the following shift in LIBOR and EUR rate per ESTV as at 31 December 2017 and 31 December 2016:

	Change in floating variable		Effect on profit before tax	
2017	**Increase**	**Decrease**	**After increase**	**After decrease**
LIBOR	+0.7	-0.08	(8,564)	697
EUR rate per ESTV	+0.5	-0.5	1,479	(1,479)

	Change in floating variable		Effect on profit before tax	
2016	**Increase**	**Decrease**	**After increase**	**After decrease**
LIBOR	+0.6	-0.08	(5,848)	806
EUR rate per ESTV	+0.5	-0.5	656	(656)

(Amounts presented are in thousands of US dollars, unless otherwise stated)

23. Financial risk management objectives and policies (continued)

Financial risk factors (continued)

(ii) Credit risk

Financial instruments involve, to varying degrees, credit risks. The Group is subject to credit risk from its portfolio of loan receivable, cash and cash equivalents, deposits and accounts receivable and would be exposed to losses in the event of non-performance by counterparties.

The Group's exposure to credit risks arises from default of the counterparty, with a maximum exposure of US dollars 804,600 and US dollars 765,420 as at 31 December 2017 and 31 December 2016, respectively.

The Group places its cash with high credit quality financial institutions. The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade for condensate on credit terms are subject to credit verification procedures. Gas sales are made through AGSC to entities with strong financial position.

(iii) Liquidity risk

The Group monitors its risk to a shortage of funds by reviewing its net financial debt indicator on a regular basis. The net financial debt represents the difference between total financial liabilities and cash and cash equivalents. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of loans.

The tables below summarize the maturity profile of the Group's financial liabilities at 31 December 2017 and 31 December 2016 based on contractual undiscounted payments:

2017	On demand	3 to 12 months	1 to 5 years	>5 years	Total
Trade and other payables	–	125,896	–	–	**125,896**
Accrued liabilities	–	281,406	–	–	**281,406**
Short-term and current portion of long-term borrowings	–	161,333	–	–	**161,333**
Long-term borrowings	–	–	2,732,194	6,575,962	**9,308,156**
	–	**568,635**	**2,732,194**	**6,575,962**	**9,876,791**

2016	On demand	3 to 12 months	1 to 5 years	>5 years	Total
Trade and other payables	–	231,475	–	–	**231,475**
Accrued liabilities	–	308,849	–	–	**308,849**
Short-term and current portion of long-term borrowings	–	263,981	–	–	**263,981**
Long-term borrowings	–	–	1,515,054	3,988,699	**5,503,753**
	–	**804,305**	**1,515,054**	**3,988,699**	**6,308,058**

(iv) Capital management

The primary objective of the Group's capital management policy is to ensure a strong capital base to fund and sustain its business operations through prudent investment decisions and to maintain shareholders and creditor confidence to support its business activities.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

23. Financial risk management objectives and policies (continued)

Financial risk factors (continued)

The Group considers total capital under management to be as follows:

	31 December 2017	31 December 2016
Long-term borrowings (Note 16)	6,527,678	3,773,228
Short-term and current portion of long-term borrowings (Note 16)	33,673	195,231
Less: cash and cash equivalents (Note 11)	(146,785)	(400,384)
Net debt	**6,414,566**	**3,568,075**
Equity	2,289,522	2,261,251
Capital and net debt	**8,704,088**	**5,829,326**
Gearing ratio	**74%**	**61%**

The target of the Group's capital management is to maintain the debt to equity ratio within 75-80%.

(v) Fair value of financial instruments

The fair value of the financial assets and liabilities is included in the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the consolidated financial statements:

	31 December 2017	
	Carrying amounts	Fair values
Cash and cash equivalents (Note 11)	146,785	146,785
Accounts receivables (Note 12)	12,452	12,452
Loan receivables (Note 10)	645,363	636,508
Total financial assets	**804,600**	**795,745**
Trade and other payables (Note 18)	(125,896)	(125,896)
Accrued liabilities (Note 18)	(281,406)	(281,406)
Short-term and current portion of long-term borrowings (Note 16)	(33,673)	(33,673)
Long-term borrowings (Note 16)	(6,527,678)	(6,767,214)
Total financial liabilities	**(6,968,653)**	**(7,208,189)**

	31 December 2016	
	Carrying amounts	Fair values
Cash and cash equivalents (Note 11)	400,384	400,384
Accounts receivables (Note 12)	9,477	9,477
Loan receivables (Note 10)	355,559	351,448
Total financial assets	**765,420**	**761,309**
Trade and other payables (Note 18)	(231,475)	(231,475)
Accrued liabilities (Note 18)	(308,849)	(308,849)
Short-term and current portion of long-term borrowings (Note 16)	(195,231)	(195,231)
Long-term borrowings (Note 16)	(3,773,228)	(3,859,170)
Total financial liabilities	**(4,508,783)**	**(4,594,725)**

(Amounts presented are in thousands of US dollars, unless otherwise stated)

23. Financial risk management objectives and policies (continued)

Financial risk factors (continued)

The following methods and assumptions were used to estimate the fair values:

(i) Current financial assets and liabilities approximate their carrying amounts largely due to the current maturities of these instruments;

(ii) Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group using Level 3 inputs based on parameters such as interest rates, specific country risk factors, and individual creditworthiness of customers and the risk characteristics of the financed project. Eurobonds are evaluated using Level 1 inputs based on quoted market prices.

The fair values of the Group's interest-bearing borrowings and loans receivable are determined by using the discounted cash flow ("DCF") method using discount rate that reflects the market borrowing rate as at the end of the reporting period.

24. Commitments and contingencies

Commitments related to participating interest in Shah Deniz PSA

On 17 December 2013 Shah Deniz consortium announced the final investment decision for Stage 2 development of Shah Deniz gas field in the Azerbaijan Sector of the Caspian Sea and signed Sixth, Seventh and Eighth Addendums to Shah Deniz PSA. The Group is committed to finance expenditures related to Shah Deniz project based on its share of interest.

As of 31 December 2017 the Shah Deniz PSA operator has entered into a number of capital commitments and operating leases. The Group estimated its 6.67% share of these capital commitments and operating leases in the amount of US dollars 383,984 and US dollars 20,565, respectively (31 December 2016: US dollars 689,881 and US dollars 33,251, respectively). The total of future minimum lease payments under non-cancellable operating leases for each of the following periods is as follows:

Operating leases	31 December 2017	31 December 2016
Not later than one year	8,897	13,679
Later than one year and not later than five years	11,668	19,572
Later than five years	–	–
	20,565	**33,251**

Commitment related to SCP Expansion

Shah Deniz PSA Contractor Parties announced the final investment decision on SCP Expansion project on 17 December 2013. SCP Expansion project objective is to expand the existing SCP system capacity. Due to SCP Expansion additional facilities are constructed in Georgia for the purposes of interconnection with TANAP. The Group has the commitment to fund the SCP Expansion project equivalent to its 6.67% shares throughout the construction and initial operational phase. As at 31 December 2017 the Group's share in the remaining budget for SCP Expansion is estimated in the amount of US dollars 51,728 (31 December 2016: US dollars 107,201).

Commitment related to TANAP

Construction of TANAP

At the financial statement date, the Group has capital commitment to fund the construction of TANAP system. The remaining budget for construction of TANAP system is estimated in the amount of US dollars 2,796,897 (31 December 2016: US dollars 5,028,058).

(Amounts presented are in thousands of US dollars, unless otherwise stated)

24. Commitments and contingencies (continued)

Commitment related to TAP

Construction of TAP

The Group has the commitment to fund construction of TAP system. As of 31 December 2017, the Group's share of the remaining budget for construction of the TAP system is estimated in amount of US dollars 493,738 (31 December 2016: US dollars 624,233).

Commitments related to participating interest in AGSC, TANAP, TAP and SCPC

BOTAS gas contract

AGSC is obliged under the gas contract signed with BOTAS to make available a maximum of approximately 6.6 bcm of gas annually until the expiry of the contract at a price calculated based on a formula established by the gas contract.

Stage 2 SPA

On 25 October 2011 SOCAR and BOTAS executed a gas sale and purchase Agreement ("Stage 2 SPA") with respect to the sale by SOCAR to BOTAS of certain volumes of Shah Deniz Stage 2 Gas (6 bcm plateau period). In December 2012, SOCAR transferred and assigned the rights and obligations under the Stage 2 SPA to AGSC. The anticipated commencement of the first gas delivery under Stage 2 SPA will be during the year 2018.

BOTAS contract for BTC fuel gas

AGSC is obliged under the agreement with BOTAS to make available 0.15 bcm of gas annually until the expiry of the contract at a price, which is calculated based on the formula established in the contract.

Azerbaijan gas obligation

AGSC is obliged under the agreement signed with SOCAR to make available a minimum of approximately 1.5 bcm of gas annually in 2018 and onwards at a price calculated based on the formula established in the agreement.

Georgian gas obligation

AGSC is obliged under the agreement signed with Georgian Oil and Gas Corporation ("GOGC") and the government of Georgia to make available 0.5 bcm of gas annually in 2018 and onwards, at a price which is calculated based on the formula established in the contract.

Sale and purchase agreement with South Caucasus Pipeline Option Gas Company Limited ("OptionCo", a wholly owned subsidiary of SCPC)

AGSC is obliged under the agreement signed with OptionCo to make available during each contract year a maximum of five percent of the volumes transported in the previous calendar year by AGSC via SCP through territory of Georgia, at a price, which is calculated based on a formula established in the contract.

Shah Deniz Stage 2 EU Long term Gas Sales Agreements ("GSAs")

In September 2013, ten EU GSAs were signed by SOCAR with nine EU Buyers (DEPA, Bulgargaz Shell, Uniper, Axpo, ENGIE, Gas Natural Fenosa, Enel, Hera) and in December 2013 the GSAs were assigned to AGSC until Shah Deniz PSA expiry with re-assignment to SOCAR as Shah Deniz Production declines. The commencement date will be firmed up through funneling mechanism as defined in the GSAs.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

24. Commitments and contingencies (continued)

Commitments related to participating interest in AGSC, TANAP, TAP and SCPC (continued)

Trans Anatolian Pipeline Gas Transportation Agreement (TANAP GTA)

AGSC is a party to TANAP GTA with annual reserved capacity as defined in the contract. The start date will be set through a funnelling mechanism.

Trans Adriatic Pipeline GTA (TAP GTA)

AGSC is a party to TAP GTA with annual capacity as defined in the contract. The planned commencement date is between 1 January 2020 – 31 December 2020.

AGSC – SOCAR Gas Sales Agreement

AGSC is obliged under the agreement signed with SOCAR to make available maximum annual quantity of gas during the period 1 May 2019 – 31 December 2020 (with earlier termination or possible extension of the agreement in accordance with provisions of the agreement) at a price which is stipulated in the contract.

Sale and purchase agreement with Baku-Tbilisi-Ceyhan Pipeline Company ("BTC Co")

AGSC is obliged under an agreement signed with BTC Co to make available 0.16 bcm in 2018 and during the following years until the termination of the contract subject to the right of BTC Co to reduce annual off-take, at a price which is calculated based on the formula established in the contract.

Debottlenecking SPA

AGSC is obliged under the agreement signed with SOCAR to make available agreed quantity of gas during the period 1 January 2018 – 30 June 2018 at a price which is stipulated in the contract.

BOTAS Gas Transportation Agreement (BOTAS GTA)

TANAP is a party to BOTAS GTA and with annual reserved capacity during the build-up period, as defined in the contract, of 1.9 bcm (12 month period commencing on start date), 3.8 bcm (next 12 month period) and plateau of 5.7 bcm 24 months after the start date. The start date will be within the period from and including 1 May 2018 to and including 30 June 2018.

SOCAR Gas Transportation Agreement (SOCAR GTA)

Based on this GTA, from and including the start date (06 March 2036) SOCAR shall pay to TAP AG the amount of actual monthly charge in relation of each booking of reserved capacity at each entry point and exit point at a price which is calculated based on the formula established in the contract. TAP AG shall make available to SOCAR for transportation of natural gas at the applicable entry point and exit point(s) as described below, a reserved capacity equal to the following maximum flow rates expressed in kilowatt-hours (kWh) per gas day: Entry point at Kipoi – 287,318,605 kWh per gas day; Exit point at SRG tie in – 242,999,147 kWh per gas day; Exit point at Komotini – 44,319,458 kWh per gas day.

Framework agreement

A fully-termed Framework Agreement related to the novation of long-term GSAs and transfer of GTA capacity from AGSC to SOCAR after 2036 was executed on 19 October 2015.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

24. Commitments and contingencies (continued)

Commitment under the DSPA

In July 2014 the Group signed the DSPA for the acquisition of 10% participating interest in Shah Deniz project and 8% shares in AGSC from AzSD and 10% shares in SCPC from AzSCP. The agreement was subsequently amended by the 1st Addendum to the DSPA dated 20 December 2017. According to the terms of this agreement the Group shall make advance payments for these acquisitions to AzSD and AzSCP, while control will pass to the Group in March 2023, provided that certain conditions precedent are satisfied. As of 31 December 2017, the Group had no commitments for payments (31 December 2016: US dollars 535,032) to AzSD other than SD Progress Payments (as defined in the 1st Addendum to the DSPA) to be made till 31 December 2020. In addition, the Group had a commitment for payment in the amount of US dollars 94,920 to AzSCP and has to make SCP Progress Payments (as defined in the 1st Addendum to the DSPA) to be made till 31 December 2020.

Commitment under the funding agreement with BOTAS (the "Funding Agreement")

On 26 May 2014 SOCAR and BOTAS signed Funding Agreement for financing BOTAS's 5% shares in TANAP A.Ş., upon acquisition of shares in TANAP A.Ş. by BOTAS. On 13 March 2015, the Group signed novation agreement with SOCAR and BOTAS, where all rights and obligations under the Funding Agreement were transferred from SOCAR to the Group. According to agreement with BOTAS, the Group has commitment for providing interest free loan to BOTAS for financing its 5% share in TANAP A.Ş.'s future cash call requirements till TANAP becomes operational.

25. Current business environment

Azerbaijan economy

The Group's operations are mainly conducted in the Republic of Azerbaijan and the Republic of Turkey. As an emerging market, at the present time the Republic of Azerbaijan is developing business and regulatory infrastructure that would generally exist in a more mature market economy.

Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Azerbaijan economy is largely dependent upon these reforms and the effectiveness of economic, financial and monetary measures undertaken by the government as well as crude oil prices and stability of Azerbaijani manat.

The Azerbaijan economy has been negatively impacted by decline of oil prices and devaluation of Azerbaijani manat during 2015. This resulted in reduced access to capital, a higher cost of capital, inflation and uncertainty regarding economic growth.

In response to these challenges, Azerbaijani government announced plans to accelerate reforms and support financial system. On 6 December 2016 President of the Republic of Azerbaijan approved "Strategic road maps for the national economy and main economic sectors of Azerbaijan". The road maps cover 2016-2020 development strategy, long-term outlook up to 2025 and vision beyond.

Furthermore, during 2017 the government continued tight monetary policy as well as allocated foreign currency resources which stabilized Azerbaijani manat. This policy is expected to continue in 2018 with the aim of maintaining macroeconomic stability.

The Group's management is monitoring economic developments in the current environment and taking precautionary measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

25. Current business environment (continued)

Turkish economy

The strong performance of the Turkish economy, as clearly demonstrated in economic indicators of previous years, was impacted to some degree by the sluggish European markets that Turkey is most dependent on. The Turkish government began to implement new policies and measures to revive domestic demand in order to compensate for the slowdown in foreign markets.

While management believes it is taking appropriate measures to support the sustainability of Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

These consolidated financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the period when they become known and estimable.

26. Material partly-owned subsidiary

As at 31 December 2017 and 2016 42% of equity interest of TANAP Doğalgaz Iletim A.Ş. was held by non-controlling shareholders. Accumulated balance of non-controlling interests ("NCIs") as at 31 December 2017 totalled to US dollars 1,031,116 (31 December 2016: US dollars 683,961).

The summarised financial information of TANAP Doğalgaz Iletim A.Ş. is provided below. This information is based on amounts before inter-company eliminations.

Summarized statement of comprehensive income

	2017	2016
Revenue	–	–
Cost of sales	–	–
Gross profit	**–**	**–**
General and administrative expenses	(2,044)	(111)
Other income	322	7
Interest income	1,549	1,072
Foreign exchange loss, net	(273)	(108)
(Loss)/profit before income tax	**(446)**	**860**
Income tax expense	–	–
(Loss)/profit for the year	**(446)**	**860**
Other comprehensive income	–	–
Total comprehensive (loss)/income	**(446)**	**860**
Total comprehensive (loss)/income relevant to NCIs	**(187)**	**361**
Adjustments	2	854
Total comprehensive (loss)/income attributable to NCIs	**(185)**	**1,215**

(Amounts presented are in thousands of US dollars, unless otherwise stated)

26. Material partly-owned subsidiary (continued)

Summarized statement of financial position as at 31 December

	2017	2016
Current assets	**17,575**	**29,700**
including:		
Cash and cash equivalents	722	544
Trade and other receivables	129	149
Other current assets	16,724	29,007
Non-current assets	**5,499,812**	**3,777,301**
including:		
Construction in progress	5,411,748	3,575,392
Other non-current assets	88,064	201,909
Current liabilities	**351,746**	**461,078**
including:		
Trade and other payables and accrued liabilities	351,746	461,078
Non-current liabilities	**2,712,630**	**1,719,466**
including:		
Long-term borrowings	2,681,909	1,703,873
Decommissioning liabilities	24,071	10,866
Other non-current liabilities	6,650	4,727
Total equity	**2,453,011**	**1,626,457**
Equity relevant to NCIs	**1,030,265**	**683,112**
Adjustments	851	849
Equity attributable to NCIs	**1,031,116**	**683,961**

Summarised cash flow information

	2017	2016
Operating	24,391	135,686
Investing	(1,683,634)	(2,020,640)
Financing	1,659,421	1,884,963
Net increase in cash and cash equivalents	**178**	**9**

27. Events after the reporting date

Sale of 7% interest in TANAP

On 9 February 2018, the Company and SOCAR Turkey Energy A.S. (“STEAS”) signed the sale and purchase agreement in relation to the sale by the Company to STEAS of 7% interest in TANAP A.Ş. The transfer of shares was completed in March 2018.