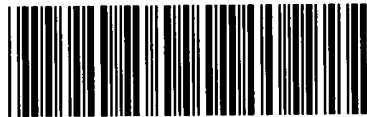


**SOCAR TRADING (UK) LIMITED**  
(Registered Number: 09430392)

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**for the year ended 31<sup>st</sup> December 2016**

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**SOCAR TRADING (UK) LIMITED**  
**STRATEGIC REPORT**  
For the year ended 31<sup>st</sup> December 2016

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**Principal Activities, Business Environment, Strategy and Future Outlook**

The Company was incorporated on 9<sup>th</sup> February 2015 and is a wholly-owned subsidiary of SOCAR Trading SA, a company incorporated in Switzerland. The parent company and ultimate controlling party is the State Oil Company of the Azerbaijan Republic.

During the year the Company's principal activity and business objective continued to be that of trading energy-related derivatives and physical crude oil in the international energy markets, principally the European crude oil markets.

The activities of the Company's subsidiary are set out in note 9 to the financial statements.

The profit after tax for the year was \$5,184,000 (2015: \$496,000).

Based on the Board's and Management's assessment of the Company's financial position and the principal risks and uncertainties set out in this report below, the Directors are satisfied that the Company has adequate resources and support from the immediate parent company to meet its future obligations.

**Principal Risks and Uncertainties**

Risks are reviewed by Management and the Board and appropriate processes are put in place to monitor and mitigate them. The management and operation of the business were subject to a number of risks which are set out below.

The Company entered into a variety of commodity-related contractual commitments with varying terms and durations, principally forward purchase and sale agreements in the normal course of business. These transactions generally required future settlement.

The Company records all commodity-related contractual commitments at market value. The use of contractual commitments with off-balance sheet risk may expose the Company to both market risk and credit risk in excess of amounts recorded in the financial statements. These risks are discussed in more detail below and in the notes to these financial statements.

*Market Risk*

Market risk is the potential loss the Company may incur as a result of changes in the market value of a financial instrument or portfolio of financial instruments. The Company's exposure to market risk is determined by a number of factors, including the size, duration, composition and diversification of positions held as well as market volatility and liquidity. Risk exposures are managed through diversification, by controlling position sizes and by entering into offsetting positions in accordance with the controls and governance of its risk control policy.

*Credit Risk*

The Company regularly transacts business with a broad range of entities including independent and government-owned commodity producers, a wide variety of end-users, trading companies and financial institutions. The Company has established controls to monitor the creditworthiness of counterparties, as well as the quality of credit support, and uses netting and credit support agreements whenever possible to mitigate its exposure to counterparty credit risk.

*Concentrations of Credit Risk*

Concentrations of credit risk from financial instruments including contractual commitments exist when groups of issuers or counterparties have similar business characteristics or are engaged in like activities that would cause their ability to meet their contractual commitments to be adversely affected, in a similar manner, by changes in the economy or other market conditions. The Company, in conjunction with its parent company, monitors counterparty and counterparty group credit risk concentrations on both a standalone and a group-wide basis.

*Operational Risk*

Operational risk is the risk of loss resulting from inadequate or failed internal processes or systems. It includes the reputation and franchise risk associated with business practices or market conduct that the Company undertakes.

**SOCAR TRADING (UK) LIMITED**  
**STRATEGIC REPORT**  
For the year ended 31<sup>st</sup> December 2016

Operational risk is inherent in the Company's business activities and is managed through a framework of internal controls that are subject to both regular internal testing and independent review by Risk Control.

*Liquidity Risk Management*

Liquidity management within the SOCAR Trading SA group has two principal purposes. Firstly, to ensure that sufficient funds are available to meet all contractual commitments as they fall due and, secondly, to ensure there is sufficient funding to withstand stressed market conditions arising from an extreme event.

The Company maintains adequate funding lines with its parent company and banks to ensure sufficient liquidity to meet all financial requirements on a timely basis.

*Regulation*

Changes in the regulatory and legislative environment could increase the cost of compliance, affect the Company's financial resources and limit its access to new business opportunities.

*Ethical misconduct and non-compliance*

Ethical misconduct or breaches of applicable laws by the Company's businesses or its employees could be damaging to its reputation.

**Key Performance Indicators**

The key financial and performance indicators during the year (2015 for the period from 9 February 2015) were as follows:

	<b>2016</b>	<b>2015</b>
	<b><u>US\$000</u></b>	<b><u>US\$000</u></b>
Net Trading Gain	23,933	9,712
Operating Profit	7,924	1,187
Profit for the year/period	5,184	496
Shareholder's equity	5,838	654
Quick ratio*	60.7%	99.8%
Return on assets **	0.4%	0.3%

\* Quick ratio is defined as current assets, excluding stock and debtors receivable after one year, expressed as a percentage of current liabilities.

\*\* Return on assets is defined as net profit divided by total balance sheet (total assets).

BY ORDER OF THE BOARD



**Arzu Azimov**  
2 St James's Market  
London  
SW1Y 4AH

5<sup>th</sup> September 2017

**SOCAR TRADING (UK) LIMITED**  
**DIRECTORS' REPORT**  
For the year ended 31<sup>st</sup> December 2016

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The Directors present their report and the financial statements for the year ended 31<sup>st</sup> December 2016.

**Results and Dividends**

The net profit for the year was \$5,184,000 (2015: \$496,000).

The Company has not declared any dividends during the year. The directors do not propose the payment of a dividend.

**Directors**

The directors who held office during the year and subsequent to the year ended 31<sup>st</sup> December 2016 were as follows:

Arzu Azimov  
Emil Bayramli  
Gary Middleditch (appointed 10<sup>th</sup> October 2016)  
Vincent Mohy  
Roger Plaisted (appointed 10<sup>th</sup> October 2016)

**Directors' indemnity**

The Company's parent company has purchased insurance cover for the directors against certain liabilities in relation to the Company to the extent allowed under section 232 of the Companies Act 2006.

**Financial instruments**

In accordance with section 414C of the Companies Act 2006 the directors have included information regarding financial instruments as required by Schedule 7 (Part 1.6) of the Large and Medium Companies and Group Regulations 2008 in the Strategic Report under Principal Risks and Uncertainties.

**Future developments**

The directors intend to maintain management policies designed to ensure the Company remains financially stable and is able to take advantage of any opportunities for strategic development of the Company's business which may arise in the future.

It is the intention of the directors that the business of the Company will continue for the foreseeable future.

**Disclosure of information to auditor**

In preparing these financial statements, each of the directors in office at the date of approval confirms the following:

- So far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware;
- Each director has taken all the steps that they ought to have taken as director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

**Statement of Directors' Responsibilities in respect of the Strategic Report, Directors' Report and the financial statements**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss for that period.

**SOCAR TRADING (UK) LIMITED**  
**DIRECTORS' REPORT**  
For the year ended 31<sup>st</sup> December 2016

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**Directors' Report (continued)**

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with these requirements and, having a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis in preparing the financial statements.

BY ORDER OF THE BOARD



**Arzu Azimov**  
2 St James's Market  
London  
SW1Y 4AH

5<sup>th</sup> September 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOCAR TRADING (UK) LIMITED  
For the year ended 31<sup>st</sup> December 2016

We have audited the financial statements of SOCAR Trading (UK) Limited for the year ended 31 December 2016 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice) including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities set out on pages 3 and 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

**Matters on which we are required to report by exception**

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

*Ernst & Young LLP*

Natalia Moolman (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

*11 September 2017*

**SOCAR TRADING (UK) LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
with  
**STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 31<sup>st</sup> December 2016

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**PROFIT AND LOSS ACCOUNT**

The profit of \$5,184,000 for the year ending 31 December 2016 was derived in its entirety from continuing operations.

		<u>2016</u>	<u>Period to 31st December 2015</u>
	<u>Note</u>	<u>US\$000</u>	<u>US\$000</u>
<b>Net Trading Gain</b>	3	23,933	9,712
Administrative expenses		(16,009)	(8,525)
<b>Operating Profit</b>		<u>7,924</u>	<u>1,187</u>
Interest payable and similar charges	5	(1,351)	(637)
<b>Profit on ordinary activities before taxation</b>		<u>6,573</u>	<u>550</u>
Taxation	6	(1,389)	(54)
<b>Profit for the period</b>		<u><u>5,184</u></u>	<u><u>496</u></u>

**STATEMENT OF COMPREHENSIVE INCOME**

There is no comprehensive income attributable to the shareholders of the Company other than the profit for the year.

**SOCAR TRADING (UK) LIMITED**  
BALANCE SHEET  
As at 31<sup>st</sup> December 2016

	Note	2016 <u>US\$000</u>	2015 <u>US\$000</u>
<b>Non-Current Assets</b>			
Property, plant and equipment	8	731	885
Investment in Subsidiary	9	10	-
Total Non-Current Assets		<u>741</u>	<u>885</u>
<b>Current assets</b>			
Inventories	10	455,411	-
Receivables: amounts falling due within one year	11	387,043	125,168
Derivatives and other financial instruments due within one year	16	70,422	24,644
Cash and cash equivalents	12	946	2,673
		<u>913,823</u>	<u>152,485</u>
<b>Current liabilities</b>			
Bank loans and overdrafts due within one year	13	251,587	52,607
Payables: amounts falling due within one year	14	483,152	82,400
Derivatives and other financial instruments due within one year	16	173,987	17,709
		<u>908,726</u>	<u>152,716</u>
<b>Net Current Assets/(Liabilities)</b>		<u>5,097</u>	<u>(231)</u>
<b>Net Assets</b>		<u><u>5,838</u></u>	<u><u>654</u></u>
<b>SHAREHOLDERS' FUNDS</b>			
<b>Capital and reserves</b>			
Called up share capital	17	158	158
Profit and loss account		5,680	496
		<u><u>5,838</u></u>	<u><u>654</u></u>

**SIGNED ON BEHALF OF THE BOARD**



Arzu Azimov  
Director



Vincent Mohy  
Director

Registered Number: 09430392  
5<sup>th</sup> September 2017



**SOCAR TRADING (UK) LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
For the year ended 31<sup>st</sup> December 2016

	Called up share Capital (Note 17) <u>US\$000</u>	Profit and Loss Account (Note 18) <u>US\$000</u>	Total  <u>US\$000</u>
Balance at 9 <sup>th</sup> February 2015	-	-	-
Issue of share capital	158	-	158
Profit for the period, representing total comprehensive income	-	496	496
Balance at 31 <sup>st</sup> December 2015	<u>158</u>	<u>496</u>	<u>654</u>
Profit for 2016, representing total comprehensive income	-	5,184	5,184
Balance at 31 <sup>st</sup> December 2016	<u><u>158</u></u>	<u><u>5,680</u></u>	<u><u>5,838</u></u>

**SOCAR TRADING (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31<sup>st</sup> December 2016

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**1. Compliance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101)**

The financial statements of SOCAR Trading (UK) Limited for the year ended 31 December 2016 were approved by the board of directors on 5<sup>th</sup> September 2017 and the balance sheet was signed on the board's behalf by Arzu Azimov and Emil Bayramli.

SOCAR Trading (UK) Limited is a limited company incorporated in England and Wales. The Company meets the definition of a qualifying entity under Financial Reporting Standard 101 (FRS 101) issued by the Financial Reporting Council. These financial statements were prepared in accordance with FRS 101 and the provisions of the Companies Act 2006.

**2. Significant accounting policies, judgements, estimates and assumptions**

The significant accounting policies and critical accounting judgements, estimates and assumptions of the Company are set out below.

**Basis of preparation**

These financial statements have been prepared in accordance with FRS 101. The financial statements have been prepared under the historical cost convention, modified to include the revaluation of financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

The accounting policies set out below have been consistently applied to throughout the year.

The financial statements have been prepared in US Dollars, which is the functional currency of the Company and all values are rounded to the nearest thousand dollars, unless otherwise stated.

- (a) As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to the requirements of paragraphs 10(d), 10(f) and 39(c) of IAS 1 Presentation of Financial Statements;
- (b) the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present Comparative information in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1;
- (c) the requirements of IAS 7 Statement of Cash Flows;
- (d) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in relation to standards not yet effective;
- (e) the requirements of paragraph 17 and 18(a) of IAS 24 Related Party Disclosures; and
- (f) the requirements of IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

**Critical accounting policies: use of judgements, estimates and assumptions**

Inherent in the application of many of the accounting policies used in preparing the financial statements is the need for management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual outcomes could differ from the estimates and assumptions used. The critical judgements and estimates that could have a significant impact on the results of the Company are set out below and should be read in conjunction with the information provided in the Notes to the financial statements:

**SOCAR TRADING (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31<sup>st</sup> December 2016

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**2. Significant accounting policies, judgements, estimates and assumptions (continued)**

*Fair value of financial instruments*

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

*Fair value of inventory and physical contracts*

Certain inventory and contracts for purchase and sale of physical inventory are valued at fair value. The value of such items is generally derived from active markets.

*Trade receivables*

Any allowance for doubtful receivables is established to adjust the value of trade receivables to their net recoverable amount. In determining this amount, management considers counterparty financial condition, availability of collateral, and the impact of specific market events on counterparties.

**Going concern**

The directors have a reasonable expectation that, given the continuing support of its parent, the Company has adequate resources to continue in operational existence for the foreseeable future and the financial statements have therefore been prepared under the going concern basis.

**Foreign currency translation**

The financial statements are presented in United States Dollars, which is the Company's functional and reporting currency. Functional currency is the currency of the primary economic environment in which the Company operates.

**Translation rules**

- Transactions effected in foreign currencies and initially recorded in a currency other than the functional currency, are translated at the functional currency spot exchange rate at the date of the transaction.
- At the end of each reporting period, monetary items measured in a foreign currency are translated at the functional currency exchange rate ruling at the reporting date. All differences arising on the settlement or translation of monetary items are taken to profit or loss in the period in which they arise.
- At the end of each reporting period, non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the functional currency exchange rate at the date of the initial transaction or, if measured at fair value, at the date when fair value was determined.

**Financial assets**

*Initial recognition and measurement*

Financial assets within the scope of IAS 39 are classified 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. The Company determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular-way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset. The Company's financial assets include cash and short-term deposits, trade and other receivables, loans and derivative financial instruments.

**SOCAR TRADING (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31<sup>st</sup> December 2016

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**2. Significant accounting policies, judgements, estimates and assumptions (continued)**

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. The Company has not designated any financial assets upon initial recognition as at fair value through profit or loss.

*Loans and receivables*

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 subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method. The gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

**Impairment of financial assets**

The Company assesses at each reporting 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 has occurred after the initial recognition of the asset and that such impairment 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 a debtor or 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 reorganisation 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 amortised cost*

For financial assets carried at amortised cost, the Company 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 Company 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, recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been 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. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Assets together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company.

**SOCAR TRADING (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31<sup>st</sup> December 2016

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**2. Significant accounting policies, judgements, estimates and assumptions (continued)**

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

**Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short term deposits with banks and similar institutions, with an original maturity of three months or less.

**Accrued income**

Revenues associated with the sale of crude oil are recorded when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer.

When revenues are subject to a floating price formula as of the reporting date, the amount of accrued income is recorded based on the best estimate based on available market prices of the selling price as per the agreement between the Company and the buyer.

**Inventories**

*Inventories held at fair value*

Inventories relating to crude oil which are to be held for a short period after delivery for the purpose of generating a profit from short term fluctuations in price and that are readily convertible to cash are valued at fair value.

Fair value is determined with reference to market based information. Gains or losses resulting from variations in market prices are recorded in the profit and loss account.

**Trade receivable and other receivables**

Trade receivables include amounts of invoiced revenue, receivable from related and third parties. Trade receivables, which generally are due 30 days after the bill of lading date, are stated at cost less a provision for impairment losses, if necessary.

Other receivables mainly include VAT recoverable and rental deposits.

**Financial liabilities**

*Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified 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. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs. The Company's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings and derivative financial instruments.

*Subsequent measurement*

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

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

**SOCAR TRADING (UK) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31<sup>st</sup> December 2016

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**2. Significant accounting policies, judgements, estimates and assumptions (continued)**

*Interest-bearing loans and borrowings*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate method.

**Trade payables**

Trade payables, which are generally settled 30 days after the bill of lading date, are stated at cost.

**Other payables**

Other payables include non-trade counterparty balances.

Wages, salaries, bonuses, social security contributions, paid annual leave and sick leave are accrued in the period in which the associated services are rendered by employees of the Company.

**Derivative financial instruments and hedging activities**

The Company uses derivative financial instruments to manage certain exposures to fluctuations in foreign currency exchange rates, interest rates and commodity prices as well as for trading purposes.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial assets or financial liabilities at fair value through profit or loss includes financial assets or financial liabilities held for trading that do not meet the hedge accounting criteria as defined by IAS 39 "Financial Instruments: Recognition and Measurement" and derivatives designated as hedging instruments in an effective hedge within the scope of IAS 39.

Financial instruments are classified as either being quoted in an active market or having no active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. If there is no active market, fair value is established using valuation techniques, including recent transaction prices, current fair value of similar instruments, discounted cash flow analysis and pricing models.

Current market conditions, credit and liquidity risk are also considered by the Company in the determination of fair value.

**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 recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Where a firm commitment has not been designated as a hedged item, if the commitment does not fall under IAS39 "Financial Instruments: Recognition and Measurement", the Company will only recognise unrealised losses. To the extent that the commitment does meet the requirement of IAS39 "Financial Instruments: Recognition and Measurement" then unrealised gains or losses are determined with reference to market rates and recognised.

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**2. Significant accounting policies, judgements, estimates and assumptions (continued)**

**Revenue recognition**

Revenues associated with the physical sale of crude oil are recorded when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. For the transfer to occur, the Company should neither retain continuing involvement to the degree usually associated with ownership, nor have effective control over the goods sold.

Revenue is booked only when it can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable. The amount of revenue arising on a commodity trade transaction is determined by agreement between the Company and the buyer, which is based on fixed or floating price formula.

Where a trade transaction includes a floating price formula, the amount of accrued revenue is determined based on the agreement pricing conditions and the best estimation by management of the market price as of the reporting date.

Revenue associated with the provision of freight services is recorded as the service is provided. For voyages that are incomplete as at the period-end date, revenue is recognised on a pro-rata basis to the extent that the voyage has been completed.

**Cost of sales**

Cost of sales includes direct costs of trade transactions, which are determined at historical costs. Direct costs of a transaction comprise the related purchase amount and all incidental costs such as freight, insurance, storage costs, inspection, analysis, letters of credit, supervision of loading and discharge, commissions, etc. Valuation adjustments on inventories and open trading positions, as well as the results of incoming and outgoing demurrage claims, are also accounted for under cost of sales.

**Net trading Gain**

Net trading gain arises from realised and unrealised sales and purchases of commodity contracts that have been determined to be for trading purposes and other financial instruments held for trading. They are shown at their net value to reflect the substance of the transactions.

Net trading gain also include all incidental costs associated with physical transactions with the crude oil such as freight, insurance, storage costs, inspection, analysis, letters of credit, supervision of loading and discharge, commissions, etc.

**Interest income**

Interest income is recognised as the interest accrues.

**Finance costs**

Finance costs are expensed in the period they occur. Finance costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds and granting of letters of credit.

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**2. Significant accounting policies, judgements, estimates and assumptions (continued)**

**Property, plant and equipment**

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses, if any.

The initial cost of an asset comprises its purchase price or construction cost and any costs directly attributable to bringing the asset into operation; such costs are recognised only if future economic benefits are probable and can be reliably measured. Start-up costs, general administrative and overhead costs or regular maintenance are excluded.

Property, plant and equipment are depreciated on a straight-line basis over the useful life of the asset as follows:

Leasehold improvements, Furniture and fittings	3 years
Office equipment and hardware	3 years

The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The carrying value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

**3. Net trading gain**

Net trading gain, which is stated net of value added tax, represents amounts invoiced to and from third parties and group companies and comprises.

	2016 <u>US\$000</u>	2015 <u>US\$000</u>
Gain arising on crude oil	28,080	2,048
Gain / (loss) from derivatives	(2,875)	6,935
Finance and late payment interest	(1,272)	729
	<u>23,933</u>	<u>9,712</u>

The Company's principal activities and operations are global and constitute one business. Therefore no meaningful geographical region and business segment data can be determined.

**4. Auditor's remuneration**

	2016 <u>US\$000</u>	2015 <u>US\$000</u>
Auditor's remuneration		
- audit of these financial statements	<u>125</u>	<u>70</u>

Fees paid to the Company's auditor, Ernst & Young LLP, and its associates for services other than the statutory audit of the Company are not disclosed in these financial statements since the consolidated financial statements of the Company's ultimate parent, State Oil Company of the Azerbaijan Republic, are required to disclose non-audit fees on a consolidated basis.



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**5. Interest payable and similar charges**

	2016 <u>US\$000</u>	2015 <u>US\$000</u>
Interest payable and similar charges comprises:		
Interest payable to SOCAR Trading group undertakings	138	260
Other interest payable	892	284
Foreign exchange losses	321	93
	<u>1,351</u>	<u>637</u>

**6. Taxation**

	2016 <u>US\$000</u>	2015 <u>US\$000</u>
(a) Analysis of tax on ordinary activities		
<i>Current tax</i>		
Total current tax charge on ordinary activities	1,301	54
Adjustment in respect of prior years	88	-
Corporation tax charge	<u>1,389</u>	<u>54</u>

The tax charge for the year is lower than the standard rate of Corporation Tax in the UK of 20%.

	2016 <u>US\$000</u>	2015 <u>US\$000</u>
(b) Total tax reconciliation		
Profit on ordinary activities before taxation	<u>6,573</u>	<u>550</u>
Expected tax charge on ordinary activities at standard rate	1,315	110
Effects of:		
Disallowable expenses	97	78
Movements in deferred tax not recognised	42	(134)
Exchange rate movements	(153)	-
Adjustment in respect of prior years	88	-
	<u>1,389</u>	<u>54</u>

Deferred tax assets are recognised to the extent that they satisfy the recognition criteria for deferred tax assets in line with FRS 101 'Reduced Disclosure Framework'. At 31 December 2016 the UK tax rates that had been substantively enacted were 19% (effective from 1 April 2017) and 17% (effective from 1 April 2020). Due to uncertainty around when the timing differences will be recovered, the tax rate used for the deferred tax asset calculations at the balance sheet date is 17%. As at 31 December 2016, there are \$208,977 (2015: \$578 gross liability) of accelerated capital allowances for which no deferred tax asset is recognised in the balance sheet due to the uncertainty as to when it will be recovered.

**7. Directors and employees**

(a) None of the Directors received remuneration in respect of their services.

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**7. Directors and employees (continued)**

- (b) The Company had 30 employees at 31<sup>st</sup> December 2016 (2015: 17). During the year, the Company incurred staff costs of \$ 12,817,000 (2015: \$6,566,000). The cost is recorded as part of administrative expenses.

	2016 <u>US\$000</u>	2015 <u>US\$000</u>
Staff costs include:		
Wages and salaries	10,840	5,538
Social security costs	1,567	929
Pension costs	207	72
Other staff costs	203	27
	<u>12,817</u>	<u>6,566</u>

**8. Property, plant and equipment**

	Computer Equipment <u>US\$000</u>	Fixtures & Fittings <u>US\$000</u>	Leasehold Improvement <u>US\$000</u>	Total <u>US\$000</u>
Cost				
At 1 <sup>st</sup> January 2016	376	225	406	1,007
Disposals	-	-	-	-
Additions	107	18	99	224
At 31st December 2016	<u>483</u>	<u>243</u>	<u>505</u>	<u>1,231</u>
Depreciation				
At 1 <sup>st</sup> January 2016	(44)	(32)	(46)	(122)
Disposals	-	-	-	-
Charge in the year0	(141)	(69)	(168)	(378)
At 31st December 2016	<u>(185)</u>	<u>(101)</u>	<u>(214)</u>	<u>(499)</u>
Net book value				
At 31st December 2016	<u>298</u>	<u>142</u>	<u>291</u>	<u>731</u>
At 31st December 2015	<u>332</u>	<u>193</u>	<u>360</u>	<u>885</u>

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**9. Investment in Subsidiary**

The investment in subsidiary represents an investment in the following entity:

	Country of Incorporation	Percentage of Equity Interest held		Investment	
		<u>2016</u>	<u>2015</u>	<u>2016</u> <u>US\$000</u>	<u>2015</u> <u>US\$000</u>
SOCAR Trading (North America) LLC	USA	100%	-	10	-
				<u>10</u>	<u>-</u>

SOCAR Trading (North America) LLC was formed on 28<sup>th</sup> January 2016. Its principal activity is the trading of energy-related products in the US and international energy markets.

**10. Inventories**

	<u>2016</u> <u>US\$000</u>	<u>2015</u> <u>US\$000</u>
As of 31 December, inventories related to the Company's crude oil operations:		
Trading inventories at fair value less cost to sell	455,411	-
	<u>455,411</u>	<u>-</u>

**11. Receivables**

	<u>2016</u> <u>US\$000</u>	<u>2015</u> <u>US\$000</u>
Amounts falling due within one year:		
Trade receivables	217,254	86,361
Accrued trading income	165,638	2,913
Amounts owed from other SOCAR Trading group undertakings	3,440	34,719
Other receivables	711	805
Income tax recoverable	-	370
	<u>387,043</u>	<u>125,168</u>

**12. Cash and cash equivalents**

Cash and cash equivalents represents cash available at banks and earns interest at floating rates based on bank daily deposit rates.

	<u>2016</u> <u>US\$000</u>	<u>2015</u> <u>US\$000</u>
Cash available on bank accounts	946	2,673
	<u>946</u>	<u>2,673</u>

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**13. Bank loans and overdrafts due within one year**

The Company obtains short-term loans from credit organisations in order to finance its trading operations. Such loans are obtained under existing trade finance credit facilities with the Company's banks at pre-agreed rates as follows:

	Average Interest Rate %	Tenor	2016 US\$000	2015 US\$000
Short term fixed term bank loans	Libor +1.22	6 days	251,587	52,607
			<u>251,587</u>	<u>52,607</u>

**14. Payables**

	2016 US\$000	2015 US\$000
Amounts falling due within one year:		
Accruals	325,118	28,232
Trade payables	86,034	12,840
Accrued trading loss	3,963	37
Amounts owed to other SOCAR Trading group undertakings	61,965	37,547
Other payables	5,752	3,744
Income Tax payable	320	-
	<u>483,152</u>	<u>82,400</u>

**15. Financial instruments and financial risk factors**

The accounting classification of each category of financial instruments, and their carrying amounts, are set out below.

At 31 December 2016

	Note	Loans and receivables	At fair value through profit or loss	Financial liabilities measured at cost	Total
		US\$000	US\$000	US\$000	US\$000
Financial assets					
Trade and other receivables	11	387,043	-	-	387,043
Financial instruments	15				
Derivatives		-	7,694	-	7,694
Physical positions		-	62,728	-	62,728
Financial liabilities					
Trade and other payables	14	-	-	(483,152)	(483,152)
Derivative financial instruments	15				
Derivatives		-	(119,716)	-	(119,716)
Physical positions		-	(54,271)	-	(54,271)
Bank loans and overdrafts	13	-	-	(251,587)	(251,587)
		<u>387,043</u>	<u>(103,564)</u>	<u>(734,739)</u>	<u>(451,260)</u>

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**15. Financial instruments and financial risk factors (continued)**

At 31 December 2015					
	Note	Loans and receivables	At fair value through profit or loss	Financial liabilities measured at cost	Total
		<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>
<b>Financial assets</b>					
Trade and other receivables	11	125,168	-	-	125,168
Financial instruments	15				
Derivatives		-	23,086	-	23,086
Physical positions		-	1,558	-	1,558
<b>Financial liabilities</b>					
Trade and other payables	14	-	-	(82,400)	(82,400)
Derivative financial instruments	15				
Derivatives		-	(4,103)	-	(4,103)
Physical positions		-	(13,606)	-	(13,606)
Bank loans and overdrafts	13	-	-	(52,607)	(52,607)
		<u>125,168</u>	<u>6,935</u>	<u>(135,007)</u>	<u>(2,904)</u>

For all financial instruments, the carrying amount is either the fair value, or approximates the fair value.

*Financial risk factors*

The management of financial risks is performed at SOCAR Trading group level. The main risk factors applicable to the Company are market risk (comprising commodity price risk) and credit risk. Further details on these financial risks are included within Note 6 of the consolidated financial statements of the State Oil Company of the Azerbaijan Republic for the year ended 31 December 2016.

*Market risk*

The Company, as part of the SOCAR Trading group, measures market risk exposure arising from its trading positions in liquid periods using value-at-risk techniques. These techniques make a statistical assessment of the market risk arising from possible future changes in market prices over a one-day holding period. The value-at-risk measure is supplemented by stress testing. Trading activity occurring in liquid periods is subject to value-at-risk limits for each trading activity and for trading activities in total. The SOCAR Trading group board has delegated a limit of \$8.5 million (2015: \$7.5million) value at risk in support of the Company's overall trading activity. Alternative measures are used to monitor exposures which are outside liquid periods and which cannot be actively risk-managed.

*Credit risk*

The maximum credit exposure associated with financial assets is equal to the carrying amount. The Company does not aim to remove credit risk entirely but expects to experience a certain level of credit losses.

Trade and other receivables at 31 December:	2016	2015
	<u>US\$000</u>	<u>US\$000</u>
Neither impaired nor past due	387,027	124,876
Impaired (net of provision)	-	-
Not impaired and past due in the following periods:		
within 30 days	9	292
31 to 60 days	-	-
61 to 90 days	-	-
over 90 days	7	-
	<u>387,043</u>	<u>125,168</u>

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**15. Financial instruments and financial risk factors (continued)**

*Liquidity risk*

The Company manages liquidity risk associated with financial liabilities based on the expected maturity of both financial assets and liabilities to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. Management does not currently anticipate any cash flows that could be of a significantly different amount, or could occur earlier than the expected maturity analysis provided.

<b>At 31 December 2016</b>	1 year or less	1-2 years	2-5 years	Greater than 5 years	Total
	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>
<b>Financial liabilities</b>					
Trade and other payables	483,152	-	-	-	483,152
Derivative financial instruments	173,987	-	-	-	173,987
	<u>657,139</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>657,139</u>
<b>At 31 December 2015</b>	1 year or less	1-2 years	2-5 years	Greater than 5 years	Total
	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>
<b>Financial liabilities</b>					
Trade and other payables	82,400	-	-	-	82,400
Derivative financial instruments	17,709	-	-	-	17,709
	<u>100,109</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,109</u>

*Financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements*

The table below shows the gross amounts of recognised financial assets and liabilities (i.e. before offsetting) and the amounts offset in the balance sheet.

Amounts which cannot be offset under IFRS, but which could be settled net under the terms of master netting agreements if certain conditions arise, and collateral received or pledged, are also shown in the table to show the total net exposure of the Company.

<b>At 31 December 2016</b>	Gross amounts of recognised financial assets / (liabilities)	Amounts set-off	Net amounts presented on the balance sheet	Related amounts not set-off in the balance sheet		
				Master netting agreements	Cash collateral received	Net amount
	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>
<b>Financial assets</b>						
Trade and other receivables	585,161	(198,118)	387,043	-	-	387,043
Financial instruments:						
Derivatives	10,829	(3,135)	7,694	-	-	7,694
Physical positions	102,650	(39,922)	62,728	-	-	62,728
<b>Financial liabilities</b>						
Trade and other payables	(681,270)	198,118	(483,152)	-	-	(483,152)
Financial instruments:						
Derivatives	(122,851)	3,135	(119,716)	-	-	(119,716)
Physical positions	(94,193)	39,922	(54,271)	-	-	(54,271)
	<u>(199,673)</u>	<u>-</u>	<u>(199,674)</u>	<u>-</u>	<u>-</u>	<u>(199,674)</u>

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**15. Financial instruments and financial risk factors (continued)**

At 31 December 2015	Gross amounts of recognised financial assets / (liabilities)	Amounts set-off	Net amounts presented on the balance sheet	Related amounts not set-off in the balance sheet		
				Master netting agreements	Cash collateral received	Net amount
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
<b>Financial assets</b>						
Trade and other receivables	125,168	-	125,168	-	-	125,168
Financial instruments:						
Derivatives	23,086	-	23,086	-	-	23,086
Physical positions	1,558	-	1,558	-	-	1,558
<b>Financial liabilities</b>						
Trade and other payables	(82,400)	-	(82,400)	-	-	(82,400)
Financial instruments:						
Derivatives	(4,103)	-	(4,103)	-	-	(4,103)
Physical positions	(13,606)	-	(13,606)	-	-	(13,606)
	<u>49,703</u>	<u>-</u>	<u>49,703</u>	<u>-</u>	<u>-</u>	<u>49,703</u>

**16. Derivatives and other financial instruments**

In the normal course of business the Company enters into derivative financial instruments to manage its normal business exposures in relation to commodity prices, consistent with risk management policies and objectives. An outline of the Company's financial risks and the objectives and policies pursued in relation to those risks is set out in Note 15. Additionally, the Company has a well-established entrepreneurial trading operation that is undertaken in conjunction with these activities using a similar range of contracts.

For information on significant estimates and judgements made in relation to the valuation of derivatives see Derivative financial instruments and hedging activities in Note 2

Exchange traded derivatives are valued using closing prices provided by the exchange as at the balance sheet date. These derivatives are categorised within level 1 of the fair value hierarchy. Over-the-counter (OTC) financial swaps and physical commodity sale and purchase contracts are generally valued using readily available information in the public markets and quotations provided by brokers and price index developers. These quotes are corroborated with market data and are categorised within level 2 of the fair value hierarchy.

In certain less liquid markets, or for longer-term contracts, forward prices are not as readily available. In these circumstances, OTC financial swaps and physical commodity sale and purchase contracts are valued using internally developed methodologies that consider historical relationships between various commodities, and that result in management's best estimate of fair value. These contracts are categorised within level 3 of the fair value hierarchy.

Financial OTC swaps and physical commodity options are valued using industry standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and contractual prices for the underlying instruments, as well as other relevant economic factors. The degree to which these inputs are observable in the forward markets determines whether the option is categorised within level 2 or level 3 of the fair value hierarchy.

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**16. Derivatives and other financial instruments (continued)**

The fair values of derivative financial instruments at 31 December are set out below.

	2016 Fair Value Asset <u>\$000</u>	2015 Fair Value Asset <u>\$000</u>	2016 Fair Value Liability <u>\$000</u>	2015 Fair Value Liability <u>\$000</u>
Financial Instruments held for trading				
Derivatives	7,694	23,086	(119,716)	(4,103)
Physical positions	62,728	1,558	(54,271)	(13,606)
	<u>70,422</u>	<u>24,644</u>	<u>(173,987)</u>	<u>(17,709)</u>
Of which:				
current	70,422	24,644	(173,987)	(17,709)
non-current	-	-	-	-
	<u>70,422</u>	<u>24,644</u>	<u>(173,987)</u>	<u>(17,709)</u>

*Derivatives held for trading*

The Company maintains active trading positions in a variety of derivatives. The contracts may be entered into for risk management purposes, to satisfy supply requirements or for entrepreneurial trading. Certain contracts are classified as held for trading, regardless of their original business objective, and are recognised at fair value with changes in fair value recognised in the profit and loss account. Trading activities are undertaken by using a range of contract types in combination to create incremental gains by arbitraging prices between markets, locations and time period. The net of these exposures is monitored using market value-at-risk techniques.

The following table shows the fair value of derivative assets and derivative liabilities held for trading, analysed by maturity period and by methodology of fair value estimation.

Fair value of financial instruments held for trading:	Level 1 <u>US\$000</u>	Level 2 <u>US\$000</u>	Level 3 <u>US\$000</u>	Net amount <u>US\$000</u>
<b>At 31 December 2016</b>				
Financial assets				
Derivatives	-	7,694	-	7,694
Physical positions	-	62,728	-	62,278
Financial liabilities				
Derivatives	(119,682)	(34)	-	(119,716)
Physical positions	-	(54,271)	-	(54,271)
	<u>(119,682)</u>	<u>16,117</u>	<u>-</u>	<u>(103,565)</u>



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**16. Derivatives and other financial instruments (continued)**

Fair value of financial instruments held for trading:	Level 1	Level 2	Level 3	Net amount
	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>
<b>At 31 December 2015</b>				
Financial assets				
Derivatives	23,086	-	-	23,086
Physical positions	-	1,558	-	1,558
Financial liabilities				
Derivatives	-	(4,103)	-	(4,103)
Physical positions	-	(13,606)	-	(13,606)
	<u>23,086</u>	<u>(16,151)</u>	<u>-</u>	<u>6,935</u>

*Derivative gains and losses*

Gains and losses on derivative contracts and physical positions are included within "Net Trading Gain" in the profit and loss account (Note 3).

**17. Called-up Share Capital**

	2016	2015
	<u>US\$000</u>	<u>US\$000</u>
<b>Authorised:</b>		
100,000 ordinary shares of £1	<u>158</u>	<u>158</u>
<b>Allotted, called-up and fully paid:</b>		
100,000 ordinary shares of £1 for total of nominal value of £100,000	<u>158</u>	<u>158</u>

**18. Reserves**

*Called up share capital*

Called up share capital includes the total net proceeds on the issue of the Company's equity share capital.

*Profit and loss account*

The balance held on this reserve is the accumulated retained profits of the Company.

**19. Related party transactions**

The Company has taken advantage of the exemption contained within paragraphs 8(k) and (j) of FRS 101 and has not disclosed transactions entered into with wholly-owned group companies or key management personnel. There were no other related party transactions during the year.

**20. Immediate and ultimate controlling parent undertaking**

The immediate parent undertaking is SOCAR Trading SA, a company registered in Switzerland. The ultimate controlling parent undertaking is the State Oil Company of the Azerbaijan Republic, a company registered in Azerbaijan, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the consolidated financial statements of State Oil Company of the Azerbaijan Republic can be obtained from <http://www.socar.az/socar/en/economics-and-statistics/economics-and-statistics/socar-reports>.