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

ANNUAL REPORT AND FINANCIAL STATEMENTS
for the year ended 31st December 2019

SOCAR

CONTENTS

STRATEGIC REPORT

Principal Activities, Business Environment, Strategy and Future Outlook

The Company was incorporated on 9th 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 11 to the financial statements.

The loss after tax for the year was ($86,186,526) (2018: profit $1,493,676).

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.

STRATEGIC REPORT (CONTINUED)

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.

The Company's and its parent liquidity risks is hieghten due to Covid-19. Our operations, cash flows and financial condition could be negatively affected due to the following:

- if employees are quarantined as the result of exposure to COVID 19, this could result in disruption of operations, supply chain delays, trade restrictions and impact on economic activity;
- similarly, travel restrictions or operational issues resulting from the rapid spread of COVID-19 in a part of the world in which we have significant operations may have a material adverse effect on our business and results of operations.
- continued decline in oil prices could have an impact, including reduced government spending, In the primary economy in which we operate in.

As of the date of signing of this financial statement there has been no adverse effect of Covid-19 on the liquidy of the Company or its parent.

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 were as follows:

	2019 US$000	2018 US$000
Net Trading Gain (Loss)	9,273	23,987
Operating Profit (Loss)	(82,483)	6,908
Profit (Loss) for the year	(86,186)	1,494
Shareholder's equity	(25,621)	(13,935)
Quick ratio*	91%	48.9%
Return on assets **	(31.1%)	0.4%

* 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

2 St James's Market
London
SW1Y 4AH

7th August 2020

DIRECTOR'S REPORT

The Directors present their report and the financial statements for the year ended 31st December 2019.

Results and Dividends

The net loss for the year was ($86,186,526) (2018: profit $1,493,676).

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 31st December 2019 were as follows:

Mariam Almaszade Prensilevich
Emil Bayramli (resigned 31st October 2019)
Samuel David Lighting (appointed 4th March 2019)
Vincent Mohy

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.

Going concern

The Directors are required to consider the availability of resources to meet the Company's liabilities for a period of at least twelve months from the date of approval of these financial statements.

The Directors have carefully considered the potential impact of Covid-19. The Directors are of the view that there will be no material impact on the Company's operation.
The Company trades on liquid exchanges, via direct market access arrangements and a number of reputable counterparties. The directors are of the view that their counterparty risk is therefore limited. There is significant volatility in the financial markets at present. As a trading operations, the Company can use its access to the financial markets to take advantage of this volatility. The Directors will be actively monitoring liquidity and counterparty risk given these current volatile market conditions. From an operational perspective, the Company has implemented an effective working from home strategy for all employees and consequently the Company is able to continue trading.

The Company has the financial support of the parent, Socar Trading SA, which has sufficient cash and liquidity to fund the Company's operations if necessary. Group has performed stress testing on the combined Group financial statements which indicates that there is no material risk that Group will be unable to provide financial support to the Company for a period of at least 12 months from the issuance date of these financial statements. As part of the stress testing, Group ran a simulation of a worse-case scenario which assumed significant impairment of its current assets, a suspension of trading operations

DIRECTOR'S REPORT (CONTINUED)

and immediate payment of its realised current liabilities. This worse-case scenario still demonstrated that Group would be in a position to provide financial support to the Company to enable it to meet its liabilities as they fall due.

The directors have a reasonable expectation that, given the continuing support of its parent and the letter of support provided by Socar Trading SA, 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.

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.

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

2 St James's Market
London
SW1Y 4AH

7th August 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOCAR TRADING (UK) LIMITED FOR THE YEAR ENDED 31ST DECEMBER 2019

Opinion

We have audited the financial statements of SOCAR Trading (UK) Limited for the year ended 31st December 2019 which comprise the Profit and Loss Account, the Statement of comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes1 to 28, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice)
In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31st December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter- Effects of Covid 19

We draw attention to Notes 2.4 and 28 of the financial statements, which describes the economic and social consequences the company is facing as a result of COVID-19. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.
Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.We have nothing to report in this regard.

Opinions on other matters 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; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.
We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, the directors are responsible for assessing the company'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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 (UK) 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 financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.

Ernst & Young LLP

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

7 August 2020

SOCAR TRADING (UK) LIMITED
PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2019

in US$000	Notes	2019	2018
Net Trading Gain	3	**9,273**	**23,987**
Impairment expense	11	(78,700)	-
Salaries and social security costs	4	(10,016)	(11,066)
General and administrative expenses	5	(3,040)	(6,013)
Operating Profit (Loss)		**(82,483)**	**6,908**
Interest payable and similar charges	6	(3,504)	(5,414)
Interest expense on lease liability	10	(199)	-
Profit (Loss) before tax		**(86,186)**	**1,494**
Income tax credit (expense)	7	-	-
Profit (Loss) for the year		**(86,186)**	**1,494**

The accounting policies and explanatory notes on pages 11 to 33 form an integral part of the Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

There is 74.5M USD (2018: nil) of gain on forgiveness of the loan from the related party attributable to the shareholders of the Company other than the profit for the year. Refer to note 11.

SOCAR TRADING (UK) LIMITED
BALANCE SHEET
For the year ended 31 December 2019

in US$000	Notes	2019	2018
ASSETS			
Non-current assets			
Property, plant and equipment	8	436	648
Intangible assets	9	-	43
Right-of-use assets	10	2,516	-
Other non current financial assets	10	479	-
Investment in subsidiary	11	-	20,000
Total Non-current assets		**3,431**	**20,691**
Current assets			
Inventories	12	-	154,359
Trade Receivables – amounts falling due: within one year	13	190,579	111,856
Other current financial assets	14	80,912	64,373
Cash and cash equivalents	15	2,372	4,395
Total current assets		273,863	334,983
TOTAL ASSETS		**277,294**	**355,674**
Non-current liabilities			
Other provisions	16	256	255
Long-term leases obligations	10	1,763	-
Total Non-current liabilities		**2,019**	**255**
Current liabilities			
Interest-bearing loans and borrowings	17	14,681	201,141
Short-term leases obligations	10	1,334	-
Payables	18	198,784	136,396
Other current financial liabilities	19	86,097	31,817
Total current liabilities		**300,896**	**369,354**
TOTAL LIABILITIES		**302,915**	**369,609**
Net Current Assets/(Liabilities)		**(27,033)**	**(34,371)**
Net Assets/(Liabilities)		**(25,621)**	**(13,935)**
SHAREHOLDERS' FUNDS			
Capital and reserves			
Called up share capital	24	158	158
Other components of equity	11	74,500	-
Profit and loss account	25	(100,279)	(14,093)
Equity attributable to the owners of the Company		**(25,621)**	**(13,935)**

The accounting policies and explanatory notes on pages 11 to 33 form an integral part of the Financial Statements

SIGNED ON BEHALF OF THE BOARD

Director

Registered Number: 09430392
7th August 2020

SOCAR TRADING (UK) LIMITED
STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

in US$000	Notes	Issued share capital	Retained earnings	Other components of equity	Total equity
As at 1 January 2019		**158**	**(14,093)**	**-**	**(13,935)**
Loss for the year		-	(86,186)	-	(86,186)
Other comprehensive income	11	-	-	74,500	74,500
At 31 December 2019		**158**	**(100,279)**	**74,500**	**(25,621)**

For the year ended 31 December 2018

in US$000	Issued share capital	Retained earnings	Other components of equity	Total equity
As at 1 January 2018	**158**	**(15,587)**	**-**	**(15,429)**
Profit for the year	-	1,494	-	1,494
At 31 December 2018	**158**	**(14,093)**	**-**	**(13,935)**

The accounting policies and explanatory notes on pages 11 to 33 form an integral part of the Financial Statements.

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

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 2019 were approved by the board of directors on 7th August and the balance sheet was signed on the board's behalf by Mariam Almaszade.

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**

2.1 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 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.

2.2 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRS standards and interpretations as of 1 January 2019:

- IFRS 16 Leases
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment
- Amendments to IFRS 9 Prepayments Features with Negative Compensation
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28 Long-term interests in associates and joint ventures
- Annual improvements 2015 - 2017 Cycle

The adoption of these new or amended standards and interpretations did not have a material impact on the financial position or performance of the Company, except for the following:

- IFRS 16 Leases

IFRS 16 supersedes 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.. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the statement of financial position.

The Company adopted IFRS 16 using a modified retrospective method of adoption, with the date of initial application of 1 January 2019.

The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. For all leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities at 1 January 2019, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

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

The Company also applied the available practical expedients wherein it:

- Applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.
- Relied on its assessment of whether leases are onerous immediately before the date of initial application.
- Elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

The comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

The effect of adopting IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

in US$000	**As at 1 January 2019**
Right-of-use assets	4,157
Total assets	**4,157**
Long-term leases obligations	(2,955)
Short-term leases obligations	(1,202)
Total liabilities	**(4,157)**

The Company has entered into commercial leases on business premises. Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 2.5 for the accounting policy prior to 1 January 2019.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

in US$'000

Operating lease commitments as at 31 December 2018	**4,737**
Add / (Less)	
Recognition exemption for leases with less than 12 months of lease term	**(59)**
Operating lease commitments adjusted as at 1 January 2019	**4,679**
Incremental borrowing rate (%)	**5.72%**
Lease liabilities as at 1 January 2019	**4,157**

For the impact of IFRS 16 at 31 December 2019, please refer to Note 10 For the details of accounting policies under IFRS 16 and IAS 17, see Notes 2.3 and 2.5.

Up to the date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective for the current reporting period and have not been adopted early. None of them are expected to have any material impact on the accounting policies, financial position or performance of the Company:

- IFRS 17 Insurance Contracts (effective date for financial years beginning on or after 1 January 2021).
- Amendments to IFRS 3: Definition of a Business (1 January 2020).
- Amendments to IAS 1 and IAS 8: Definition of Material (effective date will be announced later).

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

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

(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.

2.3 Significant accounting judgements, estimates and assumptions

Estimates and assumptions

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgements are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Judgements

In the process of applying the Company's accounting policies, the directors have made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the financial statements:

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.

Leases - Estimating the incremental borrowing rate
The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.
The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources.

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

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

2.4 Going concern

The Directors are required to consider the availability of resources to meet the Company's liabilities for a period of at least twelve months from the date of approval of these financial statements.

The Directors have carefully considered the potential impact of Covid-19. The Directors are of the view that there will be no material impact on the Company's operation.
The Company trades on liquid exchanges, via direct market access arrangements and a number of reputable counterparties. The directors are of the view that their counterparty risk is therefore limited. There is significant volatility in the financial markets at present. As a trading operations, the Company can use its access to the financial markets to take advantage of this volatility. The Directors will be actively monitoring liquidity and counterparty risk given these current volatile market conditions. From an operational perspective, the Company has implemented an effective working from home strategy for all employees and consequently the Company is able to continue trading.

The Company has the financial support of the parent, Socar Trading SA, which has sufficient cash and liquidity to fund the Company's operations if necessary. Group has performed stress testing on the combined Group financial statements which indicates that there is no material risk that Group will be unable to provide financial support to the Company for a period of at least 12 months from the issuance date of these financial statements. As part of the stress testing, Group ran a simulation of a worse-case scenario which assumed significant impairment of its current assets, a suspension of trading operations and immediate payment of its realised current liabilities. This worse-case scenario still demonstrated that Group would be in a position to provide financial support to the Company to enable it to meet its liabilities as they fall due.

The directors have a reasonable expectation that, given the continuing support of its parent and the letter of support provided by Socar Trading SA, 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.

2.5 Summary of significant accounting policies

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 STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

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

Financial assets

Measurement

Financial assets are classified as either financial assets at amortised cost, at fair value through profit or loss (FVTPL) or at fair value through other comprehensive income (FVTOCI) depending upon the business model for managing the financial assets and the nature of the contractual cash flow characteristics of the financial asset. Financial assets are initially recognised at fair value on the trade date, including, in the case of instruments not recorded at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

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

Financial assets at amortised cost

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost include trade receivables, margin calls and other receivables which are carried at amortised cost adjusted for any loss allowance.

Loans and receivables 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.

Financial assets at fair value through profit and loss

The Company measures financial assets at fair value through profit and loss if both of the following conditions are met:

- The financial assets do not meet the amortised cost criteria
- The financial asset is designated at initial recognition

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value.

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, discounted trade receivables and listed equity investment are also classified as held for trading.
Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Financial assets at fair value through OCI

The Company measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held with the objective of both holding to collect contractual cash flows and selling, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

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

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. As of 31 December 2019, the fair value change to recognise in OCI are not material to the financial statements and as such are not disclosed in OCI.

Impairment of financial assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss at the end of each reporting period. ECLs are based on the difference between the cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The model uses a dual measurement approach, under which the loss allowance is measured as either:
- 12-month expected credit losses (ECL); or
- Lifetime expected credit losses (ECL).

For trade receivables, the Company applies a simplified approach in calculating ECLs. The Company uses formula which corresponds to the cash shortfalls that would occur in case of default, multiplied by the appropriate probability of default. In case there has been a significant increase in credit risk, the ECL will be recognized using lifetime probability of default.

For loans, the Company uses the 12-month expected credit losses model which is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date.

Corresponding expenses linked to ECL are booked into profit and loss within impairment of other receivables.

The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

Derecognition of financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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.

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

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

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, which is based on the mark-to-market available as of the reporting date.

Inventories

Inventories of trading oil and oil products are commodities purchased and held for sale in the ordinary course of business, which comprise trading goods in storage and in transit. Inventories are valued at the lower of cost and net realisable value unless the Company buys and sells the inventory for the purpose of benefiting from short term fluctuations in market prices in which case the inventory is valued at fair value.

Inventories held at the lower of cost and net realisable value

Inventories acquired as part of business with related parties are carried at the lower of cost or net realizable value.

Cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

The net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Estimates of the net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount at which the inventories are expected to be realised. An estimate of net realisable value is done item by item for each commodity and determined by reference to market prices existing at the reporting date.

Inventories held at fair value

Inventories relating to third party business of trading oil and oil products to be held for a short period after delivery for the purpose of generating a profit from the 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 priced are recorded in the statement of comprehensive income.

Financial liabilities

Measurement

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

Subsequent measurement

The subsequent 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 at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

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

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.
Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

Financial liabilities at amortised cost
Loans and borrowings
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR 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 EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.
Trade payables and other payables
Trade payables include amounts, which are normally settled 30 days after the date of bill of lading, and other payables are stated at cost.

Derecognition of financial liabilities
The Company derecognises financial liabilities when the Company's obligations are discharged, cancelled or have expired. On derecognition of a financial asset/financial liability in its entirety, the difference between the carrying amount of the financial asset/financial liability and the sum of the consideration received and receivable/paid and payable is recognised in profit and loss.
On derecognition of equity investments designated and measured at FVTOCI, the cumulative gain or loss recognised in other comprehensive income is reclassified directly to retained earnings.

Derivatives financial instruments
The Company utilises derivative financial instruments (shown separately in the consolidated statement of financial position under other financial assets and other financial liabilities) to economically hedge its primary market risk exposures, primarily risks related to commodity price movements, and to a lesser extent, related to exposure to foreign currency exchange and interest rate movements.
Derivatives, including separated embedded derivatives, are classified as held for trading at fair values and related gains and losses are recorded in net in profit or loss within cost of sales unless they are designated as effective hedging instruments as defined by IFRS 9. The Company does not generally apply hedge accounting as defined by IFRS 9.
Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations. If no active market, fair value has to be established using valuation techniques, including:

- recent transaction prices;
- the current fair value of similar instruments;
- discounted cash flow analysis; and
- option pricing models (e.g. Black & Scholes model).

Current market conditions, credit and liquidity risk are also considered by the Company in the determination of fair value.
Current versus non-current classification
Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (e.g. the underlying contracted cash flows).

- Where the Company will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

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

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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.

Revenue recognition

Revenues associated with sale of goods (crude oil, petroleum and chemicals products) are recorded when the control of the goods has been transferred, which is when title passes to the customer. For the transfer to occur, the Company should retain neither continuing involvement to the degree usually associated with ownership, nor effective control over the goods sold. Revenue is booked only when it can be reliably measured 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. In case of the trade transaction being subject of 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 incomplete as at balance date, revenue is recognised on a pro-rata basis to the extent that the voyage has been completed.

The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in most of its revenue arrangements.

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.

Finance expense

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.

Property, plant and equipment

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

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

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

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.

Intangible assets

Intangible assets include computer software and are measured on initial recognition at cost, less accumulated amortisation and accumulated impairment losses. Intangible assets acquired separately are measured on initial recognition at cost.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the useful lives, and any accumulated impairment losses, as follows:

Computer software	3 years

The expected useful lives of finite lives intangible assets are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Leases from 1 January 2019 (IFRS 16)

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee
The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets
The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Offices	5-6 years

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

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

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities
At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.
Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.
The Company's lease liabilities are disclosed in Note 10.

Short-term leases and leases of low-value assets
The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

Company as a lessor
When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.
To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease.
The Company recognises lease payments received under operating leases as income on a straightline basis over the lease term as part of 'other income'.

Leases until 31 December 2018

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

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

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the statement of income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the statement of income on a straight line basis over the lease term.

Impairment of non-financial assets

The Company assesses at each reporting 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 Company estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's 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 Companys of assets. Where the carrying amount of an asset or cash generating unit's exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate evaluation model is used.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

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.

in US$000	**2019**	2018
Gain arising on crude oil and oil products	68,077	48,616
Loss from derivatives	(57,723)	(19,876)
Finance and late payment interest	(1,081)	(4,753)
Total net trading gain / (loss)	9,273	23,987

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.

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

4. Salaries and social security costs

in US$000	**2019**	2018
Wages and salaries	8,107	8,910
Social security costs	1,517	1,427
Pensions costs	267	414
Other staff costs	125	315
Total Salary and social security costs	**10,016**	**11,066**

The directors of Socar Trading UK received $98k for their services as directors of the Company this was included in the salary and social security costs.

in US$000	**2019**	2018
Wages and salaries	84	-
Social security costs	11	-
Pensions costs	3	-
Total directors remuneration	**98**	-

5. General & Administratives Expenses

Included with 'general and administrative expenses' are the following:

in US$000	**2019**	2018
Consultancy and legal fees	307	167
Travel	273	685
Operating lease rental*	-	1,512
Communication expenses	98	161
IT expenses	549	2,517
Depreciation and amortisation costs	462	762
Amortization of right-of-use assets	1,110	-
Other expenses	241	200
Total General & Administratives Expenses	**3,040**	**6,013**

*With the adoption of the accounting standards IFRS 16 in 2019, the Group has recognized a right-of-use asset related to office lease as a disclosed in Notes 2.2, 2.5 and 10.

Included with 'other expenses' are the following:

in US$'000	**2019**	2018
Auditors' remuneration	79	88

The average monthly number of employees during the year was 27 (2018 : 39)

6. Finance expenses

Financial expenses represent mainly banking costs for trading operations and net foreign exchange losses.

7. Income tax (credit) expense

The tax charge for the year is the same than the standard rate of Corporation Tax in the UK of 19% (2018: 19%)

Total tax Reconciliation	**2019**	2018
(Loss)/Profit on ordinary activities before taxation	(86,186)	1,494
Expected tax charge on ordinary activities at standard rate of 19% (2018: 19%)	(16,375)	284
Effects of:		
Disallowable expenses	(47)	29
Movement in deferred tax not recognised	1,470	115
Exceptional expense	14,952	-
Utilisation of brought forward tax losses	-	(428)
Income tax expense reported in profit or loss	-	-

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

7. Income tax (credit) expense (continued)

At 31 December 2019 the UK tax rates that had been substantively enacted were 19% (effective from 1 April 2017) and 17% (effective from 1 April 2020).
A potential deferred tax asset of $15,054k in respect of tax losses has not been recognised at the balance sheet date, on the basis that the availability of suitable profits arising in the future against which the timing difference could reverse is not considered probably.

8. Property, Plant & Equipment

Property, plant and equipment comprise vehicles, hardware equipment, renovation and furniture costs.

in US$000	Renovation & Office Equipment	**Total Tangible assets**
Cost		
Opening balance at 1 January 2019	2,139	2,139
Additions for the year	207	207
Closing balance at 31 December 2019	**2,346**	**2,346**
Depreciation		
Opening balance at 1 January 2019	(1,491)	(1,491)
Charge for the year	(419)	(419)
Closing balance at 31 December 2019	**(1,910)**	**(1,910)**
Net book value at 31 December 2019	**436**	**436**

in US$000	Renovation & Office Equipment	**Total Tangible assets**
Cost		
Opening balance at 1 January 2018	1,853	1,853
Additions for the year	286	286
Closing balance at 31 December 2018	**2,139**	**2,139**
Depreciation		
Opening balance at 1 January 2018	(773)	(773)
Charge for the year	(718)	(718)
Closing balance at 31 December 2018	**(1,491)**	**(1,491)**
Net book value at 31 December 2018	**648**	**648**

9. Intangible Assets

Intangible assets represents licenses costs.

in US$000	Software development costs	**Total intangible assets**
Cost		
Opening balance at 1 January 2019	129	129
Closing balance at 31 December 2019	129	129
Depreciation		
Opening balance at 1 January 2019	(86)	(86)
Charge for the year	(43)	(43)
Closing balance at 31 December 2019	(129)	(129)
Net book value at 31 December 2019	-	-

in US$000	Software development costs	**Total intangible assets**
Cost		
Opening balance at 1 January 2018	-	-
Additions for the year	129	129
Closing balance at 31 December 2018	**129**	**129**
Depreciation		
Opening balance at 1 January 2018	(43)	(43)
Charge for the year	(43)	(43)
Closing balance at 31 December 2018	**(86)**	(86)
Net book value at 31 December 2018	**43**	**43**

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

10. Leases

A. Leases as lessee

The Company has a lease contract for its office. The Company's obligations under its lease are secured by the lessor's title to the leased assets.

The Company also has certain leases with lease terms of 12 months or less and leases of office equipment with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

in US$'000	Office	**Total right-of-use assets**
Cost		
Opening balance at 1 January 2019	4,157	4,157
Net investment in the lease	(735)	(735)
Effect of movements in exchange rates	189	189
Other	15	15
Closing balance at 31 December 2019	**3,626**	**3,626**
Depreciation		
Opening balance at 1 January 2019	-	-
Charge for the year	(1,110)	(1,110)
Closing balance at 31 December 2019	**(1,110)**	**(1,110)**
Net book value at 31 December 2019	**2,516**	**2,516**

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

in US$'000	**2019**
Balance at 1 January	**4,157**
Accretion of interests	**240**
Payments	**(1,504)**
Effect of movements in exchange rates	**132**
Other	**72**
Closing balance at 31 December	**3,097**

Lease obligations are presented in the statement of financial position as follows:

in US$'000	**2019**
Short-term lease obligations	**1,334**
Long-term lease obligations	**1,763**
Between one and five years	*1,763*
More than five years	-
Closing balance at 31 December	**3,097**

The following are the amounts recognised in profit or loss:

in US$'000	**2019**
Depreciation expense of right-of-use assets (included in General and administrative expenses)	**(1,110)**
Interest expense on lease liabilities	**(240)**
Closing balance at 31 December	**(1,350)**

The future cash outflows relating to leases that are not within IFRS 16 scope are disclosed in Note 23.

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

10. Leases (continued)

B. *Leases as lessor*

During 2019, the Company has sub-leased part of its office that has been presented within right-of-use asset. The following table sets out a maturity analysis of lease receivables, showing the undiscounted lease payments to be received after the reporting date.

in US$'000	**2019**
Less than one year	340
Between one and five years	508
Total undiscounted lease receivable	**848**
Unearned finance income	72
Net investment in the lease	**776**

Net investment in the lease is presented in the consolidated statement of financial position as follows:

in US$'000	**2019**
Other financial assets non-current	479
Other financial assets current	297
Closing balance at 31 December	**776**

11. Investment in subsidiary

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

	Country of incorporation	**Percentage of equity interest held**		**Investment**	
SOCAR Trading (North America LLC)	USA	**2019**	2018	**2019**	2018
				$ 000	$ 000
		100 %	100 %	-	20,000
				-	20,000

SOCAR Trading (North America) LLC was formed on 28th January 2016. Its principal activity is the trading of energy-related products in the US and international energy markets. Socar Trading UK has taken exemption under the Companies Act 2006 not to prepare group accounts .
Considering the situation of SOCAR Trading North America, the subsidiary of the Company, the full value of its investment in the subsidiary as well as a portion of its loan receivable were impaired for respectively 20 MUSD and 58.7 MUSD. The loss amounting to 78.7 MUSD was recognised in Impairment of financial assets.
As part of the larger restructuring of the financing of SOCAR Trading Group in 2019, SOCAR Trading SA, the shareholder of the Company, novated to SOCAR Trading Middle East the loan receivable due by the Company. Considering the impact of the impairments made in the Company as described above, SOCAR Trading UK Ltd benefited from a debt forgiveness amounting to 74.5 MUSD. The gain was recognised in other comprehensive income.

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

12. Inventories

As of 31 December, inventories related both to crude oil and to oil product operations of the Group were as follows:

in US$000	2019	2018
Crude oil stocks	-	38,171
Oil product stocks	-	116,188
Closing balance at 31 December	**-**	**154,359**

13. Trade Receivables

Amounts falling due within one year:	2019	2018
in US$000		
Financial assets at amortised cost		
Trade receivables	130,295	12,552
Accrued receivables	2,131	-
Amount owed from other SOCAR Trading group undertaking	57,400	97,317
Other receivables	753	699
Income tax receivable	-	1,288
Closing balance at 31 December	**190,579**	**111,856**

The movement in allowance for doubtful accounts is detailed below:

in US$'000	2019	2018
Balance at 1 January	(241)	-
Charged during the year recognised in net trading gain (i)	(47)	(35)
Charged during the year recognised in financial expense (ii)	115	(206)
Closing balance at 31 December	**(173)**	**(241)**

(i) Includes additional provision of USD 47k (2018 : USD 35k) to reflect expected credit losses, in accordance with IFRS 9.
(ii) Includes a reduction in provision of USD 115k (2018 : USD 206k) to reflect expected credit losses in financial expense, in accordance with IFRS 9.

14. Other Current Financial Assets

As of 31 December, other current financial assets are as follows:

in US$000	2019	2018
Financial assets at amortised cost		
Net investment in the lease	297	-
Financial assets at fair value through profit and loss		
Unrealised gains on paper positions	67,041	53,495
Unrealised gains on physical positions	13,574	10,878
Closing balance at 31 December	**80,912**	**64,373**

15. Cash and cash equivalents

As of 31 December, the amount represents cash available and deposits at the banks, as follows:

in US$000	2019	2018
Cash available on bank accounts	2,372	4,395
Closing balance at 31 December	**2,372**	**4,395**

Cash available on bank accounts earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

16. Other provisions

in US$000	2019	2018
Opening balance at 1 January	255	-
New or increased provisions	1	255
Closing balance at 31 December	**256**	**255**

In addition, a provision of USD 255,609 was made for the dilapidation cost that is expected to be incurred at the end of the lease agreement for Socar Trading (UK) Ltd offices. The dilapidation provision has been capitalised and is being amortised over the duration of the lease up to the break clause on 19th March 2022.

17. Interest-bearing loans and borrowings

in US$000	2019	2018
Overdraft	-	26,843
Loans with external banks	-	138,798
Loans with other SOCAR Trading group undertaking	14,681	35,500
Closing balance at 31 December	**14,681**	**201,141**

18. Payables

Amounts falling due within one year: in US$000	2019	2018
Financial liabilities at amortised cost		
Accruals	62,560	52,440
Trade payables	84,102	1,661
Accrued trading loss	-	18,965
Amount owed to other SOCAR Trading group undertaking	47,084	63,087
Other payables	5,038	243
Income tax payable	-	-
Closing balance at 31 December	**198,784**	**136,396**

19. Other Current Financial Liabilities

As of 31 December, other current financial liabilities are as follows:

in US$'000	2019	2018
Financial liabilities at fair value through profit and loss		
Unrealised losses on paper positions (Note 20)	-	64
Unrealised losses on physical positions (Note 20)	86,097	31,753
Closing balance at 31 December	**86,097**	**31,817**

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

20. Fair values of other financial assets and financial liabilities

The accounting classification of each category of financial instruments, and their carrying amounts, are set out below. The fair value of all financial assets and liabilities approximate their carrying amount.

At 31 December 2019

	Note	As amortised cost	At fair value through profit or loss	Financial liabilities at amortised cost	Total
		US$000	US$000	US$000	US$000
Financial assets					
Trade and other receivables	13	190,579	-	-	190,579
Financial instruments	14				
Derivatives		-	67,041	-	67,041
Physical positions		-	13,574	-	13,574
Financial liabilities					
Trade and other payables	18	-	-	(198,784)	(198,784)
Derivative financial instruments	19				
Derivatives		-	-	-	-
Physical positions		-	(86,097)	-	(86,097)
Interest-bearing loans and borrowings	17	-	-	(14,681)	(14,681)
		190,579	(5,482)	(213,465)	(28,368)

At 31 December 2018

	Note	At amortised costs	At fair value through profit or loss	Financial liabilities at amortised cost	Total
		US$000	US$000	US$000	US$000
Financial assets					
Trade and other receivables	13	111,856	-	-	111,856
Financial instruments	14				
Derivatives		-	53,495	-	53,495
Physical positions		-	10,878	-	10,878
Financial liabilities					
Trade and other payables	18	-	-	(136,396)	(136,396)
Derivative financial instruments	19				
Derivatives		-	(64)	-	(64)
Physical positions		-	(31,753)	-	(31,753)
Interest-bearing loans and borrowings	17	-	-	(201,141)	(201,141)
		111,856	32,556	(337,537)	(193,125)

21. Financial instruments and financial risk factors

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 2019.

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. Alternative measures are used to monitor exposures which are outside liquid periods and which cannot be actively risk-managed.

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

21. Financial instruments and financial risk factors (continued)

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 In US$000	2019 US$000	2018 US$000
Neither impaired nor past due	188,994	110,642
Impaired (net of provision)	-	-
Past due in the following periods:		
Within 30 days	576	489
31 to 60 days	288	256
61 to 90 days	1	209
Over 90 days	720	260
	190,579	111,856

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.

At 31 December 2019	1 year or less	1-2 years	2-5 years	Greater than 5 years	Total
	US$000	US$000	US$000	US$000	US$000
Financial liabilities					
Trade and other payables	198,784				198,784
Derivatives financial instruments	86,097				86,097
	284,881				284,881
At 31 December 2018					
Financial Liabilities					
Trade and other payables	136,396				136,396
Derivatives financial instruments	31,817				31,817
	168,213				168,213

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.

				Related amounts not set-off in the balance sheet		
At 31 December 2019	Gross amount of recognised financial assets / (liabilities)	Amounts set-off	Net amounts presented on the balance sheet	Master netting agreements	Cash collateral received	Net amount
	US$000	US$000	US$000	US$000	US$000	US$000
Financial assets						
Trade and other receivables	190,579	-	190,579			190,579
Financial instruments:						
Derivatives	174,483	(107,441)	67,041	-	-	67,041
Physical positions	13,574	-	13,574	-	-	13,574
Financial liabilities						
Trade and other payables	(198,784)	-	(198,784)	-	-	(198,784)
Financial instruments:				-	-	
Derivatives	(107,441)	107,441	-	-	-	-
Physical positions	(86,097)	-	(86,097)	-	-	(86,097)
	(13,686)	-	(13,686)	-	-	(13,686)

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

21. Financial instruments and financial risk factors (continued)

At 31 December 2018	Gross amount 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	Related amounts not set-off in the balance sheet: Cash collateral received	Net amount
	US$000	US$000	US$000	US$000	US$000	US$000
Financial assets						
Trade and other receivables	111,856	-	111,856			111,856
Financial instruments:						
Derivatives	96,690	(43,195)	53,495	-	-	53,495
Physical positions	10,878	-	10,878	-	-	10,878
Financial liabilities						
Trade and other payables	(136,396)	-	(136,396)	-	-	(136,396)
Financial instruments:						
Derivatives	(43,259)	43,195	(64)	-	-	(64)
Physical positions	(31,753)	-	(31,753)	-	-	(31,753)
	8,016	-	8,016	-	-	8,016

22. Derivatives and 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 2. 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.

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

22. Derivatives and financial instruments (continued)

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

	2019 Fair value Asset	2018 Fair value Asset	2019 Fair value liability	2018 Fair value liability
	US$000	US$000	US$000	US$000
Financial Instruments held for trading				
Derivatives	67,041	53,495	-	(64)
Physical positions	13,574	10,878	(86,097)	(31,753)
	80,615	64,373	(86,097)	(31,817)
Of which:				
Current	80,615	64,373	(86,097)	(31,817)
Non- Current	-	-	-	-
	80,615	64,373	(86,097)	(31,817)

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	Level 2	Level 3	Net amount
	US$000	US$000	US$000	US$000
At 31 December 2019				
Financial assets				
Derivatives	3,508	63,533	-	67,041
Physical positions	-	13,574	-	13,574
Financial liabilities				
Derivatives	-	-	-	-
Physical positions	-	(86,097)	-	(86,097)
	3,508	(8,990)	-	(5,482)

Fair value of financial instruments held for trading:	Level 1	Level 2	Level 3	Net amount
	US$000	US$000	US$000	US$000
At 31 December 2018				
Financial assets				
Derivatives	28,258	25,237	-	53,495
Physical positions	-	10,878	-	10,878
Financial liabilities				
Derivatives	-	(64)	-	(64)
Physical positions	-	(31,753)	-	(31,753)
	28,258	4,298	-	32,556

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).

FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS

23. Other financial commitments

Operating lease commitments

Future minimum rentals payable under non-cancellable operating contracts at 31 December were as follows:

2018 – Operating leases under IAS 17:

In US$'000	Business premises
Within one year	1,458
After one year but not more than five years	3,281
More than five years	-
	4,739

24. Issued Capital

Authorised, issued and fully paid up	2019	2018
100,000 ordinary shares of £1 for total of nominal value of £100,000	158	158

25. 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.

26. Related Party Disclosures

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.

27. 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.

28. Subsequent events disclosure

The outbreak of Novel Coronavirus (COVID 19) continues to progress and evolve. Therefore, it is challenging now, to predict the full extent and duration of its business and economic impact. In January 2020, oil prices fell as a result of the outbreak of Covid-19 and its impact on demand for petroleum products. More recently, oil prices suffered a steep fall following the failure of OPEC and OPEC+ to reach an agreement in respect of production cuts. There is significant volatility in the financial markets at present. As a trading operations, the Company can use its access to the financial markets to take advantage of this volatility.

The extent and duration of such impacts remain uncertain and dependent on future developments that cannot be accurately predicted at this time, such as the transmission rate of the coronavirus and the extent and effectiveness of containment actions taken. Given the ongoing economic uncertainty, a reliable estimate of the impact cannot be made at the date of authorisation of these separate financial statements. The Directors will be actively monitoring liquidity and counterparty risk given these current volatile market conditions. Refer to Note 2 Going concern for further analysis.