# “BAKU BUS” LIMITED LIABILITY COMPANY

**The International Financial Reporting Standards Financial Statements and Independent Auditors’ Report**
For the Year Ended December 31, 2016

# "BAKU BUS" LIMITED LIABILITY COMPANY

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## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016

The following statement is made with a view to distinguish respective responsibilities of the management and those of the independent auditors in relation to the International Financial Reporting Standards ("IFRS") financial statements of "Baku Bus" Limited Liability Company ("Company").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Company as at December 31, 2016, the results of its operations, cash flows and changes in equity for the year ended , in accordance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls throughout the Company;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with the applicable legislation and accounting standards;
- Taking steps reasonably available to them to safeguard the assets of the Company; and
- Detecting and preventing fraud, errors and other irregularities.

The financial statements of the Company for the year ended December 31, 2016 were authorized for issue on August 18, 2017 by the Management of the Company.

**On behalf of the Management:**

| | |
|---|---|
| **Najaf Malikov** | **Irada Aliyeva** |
| **General Director** | **Finance Director** |
| August 18, 2017 | August 18, 2017 |
| Baku, the Republic of Azerbaijan | Baku, the Republic of Azerbaijan |

## INDEPENDENT AUDITORS' REPORT

To the Shareholder and Management of "Baku Bus" Limited Liability Company:

***Qualified Opinion***

We have audited the financial statements of "Baku Bus" Limited Liability Company (the "Company"), which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, except for the effect of the matter described in the Basis for Qualified Opinion paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

***Basis for Qualified Opinion***

According to the accounting policy of the Company the management of the Company reviews the carrying amounts of its property and equipment at the end of each reporting period to determine whether there is any indication that those assets have suffered an impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. The management of the Company has not performed such review as at December 31, 2016 since the future cash flow projections of the Company have not yet been finalized as at the date of this report and therefore, the financial statements do not include any potential adjustment that could have derived from this assessment. As a result of this matter, we were unable to determine whether any adjustments might have been found necessary in respect of carrying amounts of property and equipment stated at AZN 212,624,488 as at December 31, 2016 and the respective elements included in the statement of comprehensive income, statements of changes in equity and cash flows.

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

### *Emphasis of Matter – Material Uncertainty Related to Going Concern*

We draw attention to Note 3 to the financial statements, which disclose the premise upon which the Company has prepared its financial statements by applying going concern assumption, notwithstanding that the Company incurred recurring operating losses during the years ended December 31, 2016 and 2015 and current liabilities of the Company exceeded current assets in the amount of AZN 26,741,215 and AZN 16,347,090, respectively. On a regular basis, the government of the Republic of Azerbaijan ("Government") makes transfers from the state budget for the construction and maintenance of the infrastructure and operational costs and repayment of debt obligations of the Company. The Company continues to remain dependent on its ability to obtain funds from the state budget for the financing of infrastructure projects and sustain operations. The management believes that the Government will continue investing in order to sustain the operations of the Company along with the current investment projects and repayment of debt obligations. Our opinion is not qualified in regard to this matter.

### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

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

In preparing the financial statements, management is 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 management either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### *Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

August 18, 2017
Baku, the Republic of Azerbaijan

# "BAKU BUS" LIMITED LIABILITY COMPANY

## STATEMENT OF FINANCIAL POSITION
## AS AT DECEMBER 31, 2016
*(In Azerbaijani Manats )*

| | Notes | December 31, 2016 | December 31, 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets:** | | | |
| Property and equipment | 7 | 212,624,488 | 221,860,877 |
| Taxes receivable | | 524,958 | 45,536 |
| **Total non-current assets** | | **213,149,446** | **221,906,413** |
| **Current assets:** | | | |
| Prepayments | 8 | 49,867 | 57,067 |
| Inventories | 9 | 2,457,191 | 2,465,573 |
| Trade receivables | 10 | 314,296 | 421,401 |
| Cash and cash equivalents | 11 | 10,038,579 | 19,839,647 |
| Other assets | | 133,784 | 385,903 |
| **Total current assets** | | **12,993,717** | **23,169,591** |
| **TOTAL ASSETS** | | **226,143,163** | **245,076,004** |
| **LIABILITIES AND EQUITY** | | | |
| **LIABILITIES:** | | | |
| **Non-current liabilities:** | | | |
| Borrowings | 12 | 138,231,706 | 157,787,715 |
| **Total non-current liabilities** | | **138,231,706** | **157,787,715** |
| **Current liabilities:** | | | |
| Borrowings | 12 | 39,274,444 | 36,685,853 |
| Trade payables | 13 | 460,488 | 2,486,062 |
| Taxes payable | | - | 344,766 |
| **Total current liabilities** | | **39,734,932** | **39,516,681** |
| **Total liabilities** | | **177,966,638** | **197,304,396** |
| EQUITY: | | | |
| Share capital | 14 | 18,049,357 | 30,000,000 |
| Government investments | 15 | 181,697,106 | 114,703,927 |
| Accumulated deficit | | (151,569,938) | (96,932,319) |
| **Total equity** | | **48,176,525** | **47,771,608** |
| **TOTAL LIABILITIES AND EQUITY** | | **226,143,163** | **245,076,004** |

**On behalf of the Management:**

**Najaf Malikov**
**General Director**

August 18, 2017
Baku, the Republic of Azerbaijan

**Irada Aliyeva**
**Finance Director**

August 18, 2017
Baku, the Republic of Azerbaijan

The notes on pages 10-46 form an integral part of these financial statements.

# “BAKU BUS” LIMITED LAIBILITY COMPANY

## STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED DECEMBER 31, 2016

*(In Azerbaijani Manats)*

| | Notes | Year ended December 31, 2016 | Year ended December 31, 2015 |
|---|---|---|---|
| Operating revenue | 16 | 12,629,019 | 4,325,062 |
| Operating costs | 17 | (28,389,799) | (15,590,268) |
| **Operating loss** | | **(15,760,780)** | **(11,265,206)** |
| Administrative expenses | 18, 6 | (4,484,342) | (2,721,189) |
| Loss on disposal of property and equipment | 19 | - | (6,555,749) |
| Foreign exchange translation loss, net | 20 | (31,862,365) | (70,783,084) |
| Finance expenses | | (2,490,355) | (3,935,577) |
| **Total other expenses** | | **(38,837,062)** | **(83,995,599)** |
| **Net loss before income tax** | | **(54,597,842)** | **(95,260,805)** |
| Income tax expense | 21 | (39,777) | - |
| **Net loss for the year** | | **(54,637,619)** | **(95,260,805)** |
| **TOTAL COMPREHENSIVE LOSS FOR THE YEAR** | | **(54,637,619)** | **(95,260,805)** |

**On behalf of the Management:**

**Najaf Malikov**
**General Director**

August 18, 2017
Baku, the Republic of Azerbaijan

**Irada Aliyeva**
**Finance Director**

August 18, 2017
Baku, the Republic of Azerbaijan

The notes on pages 10-46 form an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED DECEMBER 31, 2016
*(In Azerbaijani Manats )*

| | Share capital | Government investments | Accumulated deficit | Total |
|---|---|---|---|---|
| **January 1, 2015** | **30,000,000** | **69,235,560** | **(1,671,514)** | **97,564,046** |
| Net increase in government investments | - | 45,468,367 | - | 45,468,367 |
| Total comprehensive loss for the year | - | - | (95,260,805) | (95,260,805) |
| **December 31, 2015** | **30,000,000** | **114,703,927** | **(96,932,319)** | **47,771,608** |
| Decrease in share capital | (11,950,643) | - | - | (11,950,643) |
| Net increase in government investments | - | 66,993,179 | - | 66,993,179 |
| Total comprehensive loss for the year | - | - | (54,637,619) | (54,637,619) |
| **December 31, 2016** | **18,049,357** | **181,697,106** | **(151,569,938)** | **48,176,525** |

**On behalf of the Management:**

**Najaf Malikov**
**General Director**

August 18, 2017
Baku, the Republic of Azerbaijan

**Irada Aliyeva**
**Finance Director**

August 18, 2017
Baku, the Republic of Azerbaijan

The notes on pages 10-46 form an integral part of these financial statements.

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED DECEMBER 31, 2016
*(In Azerbaijani Manats)*

| | Notes | Year ended December 31, 2016 | Year ended December 31, 2015 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | | |
| Net loss for the year | | (54,637,619) | (95,260,805) |
| Adjustments to reconcile net loss to net cash used for operations: | | | |
| Depreciation expense | 7 | 17,946,496 | 11,789,710 |
| Foreign exchange translation loss , net | 20 | 31,862,365 | 70,783,084 |
| Finance expenses | | 2,490,355 | 3,935,577 |
| Loss on disposal of property and equipment | 19 | - | 6,555,749 |
| Provision for other assets | | - | 14,878 |
| Cash flows from operating activities before changes in operating assets and liabilities | | (2,338,403) | (2,181,807) |
| Change in operating assets and liabilities | | | |
| Change in trade receivables | | 107,133 | (421,401) |
| Change in inventories | | (314,066) | (2,465,573) |
| Change in taxes receivable | | (824,188) | - |
| Change in other assets | | 252,119 | (131,342) |
| Change in trade payables | | 24,850 | 159,030 |
| Change in taxes payable | | - | 249,786 |
| **Net cash outflow from operating activities** | | **(3,092,555)** | **(4,791,307)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | | |
| Payments for property and equipment | | (10,707,491) | (40,763,663) |
| **Net cash outflow from investing activities** | | **(10,707,491)** | **(40,763,663)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Proceeds from government investments | | 15,411,070 | 38,968,430 |
| Interest paid | | - | (140,931) |
| Repayment of borrowings | | - | (4,216,994) |
| Decrease of share capital | | (11,950,643) | - |
| **Net cash inflow from financing activities** | | **3,460,427** | **34,610,505** |

| | Notes | Year ended December 31, 2016 | Year ended December 31, 2015 |
|---|---|---|---|
| Effect of foreign exchange rate changes on cash and cash equivalents | | 538,551 | 20,274 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | (9,801,068) | (10,924,191) |
| CASH AND CASH EQUIVALENTS, *at the beginning of the year* | 11 | 19,839,647 | 30,763,838 |
| CASH AND CASH EQUIVALENTS, *at the end of the year* | 11 | 10,038,579 | 19,839,647 |

***Non-cash transactions***

The principal non-cash financing transactions during the year ended December 31, 2016 included direct repayment of principal and interest in the amount of AZN 28,761,729 by the Ministry of Finance on behalf of the Company to Societe Generale S.A. under the "HERMES" loan agreement.

The principal non-cash financing transactions during the year ended December 31, 2016 included direct repayment of principal and interest in the amount of AZN 12,882,166 by the Ministry of Finance on behalf of the Company to Societe Generale S.A. under the "ECA" loan agreement.

The principal non-cash financing transactions during the year ended December 31, 2016 included direct repayment of principal and interest in the amount of AZN 9,938,214 by the Ministry of Finance on behalf of the Company to Societe Generale S.A. under the "EGAP" loan agreement.

The principal non-cash financing transactions during the year ended December 31, 2015 included direct repayment of principal and interest in the amount of AZN 5,447,567 by the Ministry of Finance on behalf of the Company to Societe Generale S.A. under the "HERMES" loan agreement.

**On behalf of the Management:**

**Najaf Malikov**
**General Director**

August 18, 2017
Baku, the Republic of Azerbaijan

**Irada Aliyeva**
**Finance Director**

August 18, 2017
Baku, the Republic of Azerbaijan

The notes on pages 10-46 form an integral part of these financial statements.

## 1. THE COMPANY AND ITS OPERATIONS

“Baku Bus” Limited Liability Company (the “Company”) was established on April 3, 2014 pursuant to the decree of Cabinet of Ministers of the Republic of Azerbaijan No. 92 on Foundation of “Baku Bus” Limited Liability Company in connection with the development of public transport system, meeting the increasing requirement of population and economy for transportation.

The registered legal address of the Company is Sabail, Istiglaliyyet Str. Apt. #4, Baku, the Republic of Azerbaijan.

The principal address of the Company is Zig-Hovsan Highway Baku, Republic of Azerbaijan.

These financial statements of the Company for the year ended December 31, 2016 were authorized for issue by the management of the Company on August 18, 2017.

The Company operates a government regulated transportation system providing public transportation, within Baku city, capital of the Republic of Azerbaijan.

Main activities of the Company are focused on ensuring secure transportation of passengers in Baku city. The main purpose of the Company is to improve the quality of public transportation in Baku, to organize a service to passengers in a bus transportation segment according to international standards in Baku city, to supply the city with the modern vehicles, to ensure the technical and environmental safety during the implementation of the passenger transportation.

The tariffs for the passenger transportation services is regulated by the Resolution #178, dated September 28, 2005, of the Cabinet of Ministers of the Republic of Azerbaijan. According to the Tariff Council of the Republic of Azerbaijan upper limit of tariffs for passenger transportation by city routes has been appointed AZN 0.20 per person for a single ride, regardless of the distance within city limits.

The Government controls the structure of the Company and establishes the long-term structure of the operations in Baku city.

As at December 31, 2016 the Company had 2 Mercedes Sprinters, 200 Neoplan Cityliners, 2 Neoplan Starliners, 151 Iveco Crealis CNG and 151 Iveco Urbanways in its bus auto park (December 31, 2015: 2 Mercedes Sprinters, 200 Neoplan Cityliners, 2 Neoplan Starliners, 151 Iveco Crealis CNG and 151 Iveco Urbanways).

### Shareholder of the Company

As at December 31, 2016, the Company had one shareholder:

| **Shareholder** | **December 31, 2016, %** | **December 31, 2015, %** |
|---|---|---|
| State Committee on Property Issues of the Republic of Azerbaijan | 100.00 | 100.00 |
| **Total** | **100.00** | **100.00** |

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

These financial statements have been prepared in accordance with IFRS issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

### Going concern

These financial statements have been prepared on the assumption that the Company will be able to continue its operation on a going concern basis for the foreseeable future. Management views the Company as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations of the Republic of Azerbaijan.

Accordingly, assets and liabilities are recorded on the basis that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the Company’s ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern.

Management’s assessment of the going concern assumption involves making a judgment, at a particular point in time, about the future outcome of events or conditions which are inherently uncertain.

On a regular basis, the government makes transfers from the state budget for financing the investment programs and sustain the operations of the Company. The Company does not yet generate enough revenues to finance its operational costs, thus continues to remain dependent on its ability to obtain funds from the state budget for the financing of capital investment projects and operations. The management believes that the government of the Republic of Azerbaijan will continue investing to sustain the operations of the Company along with the current investment projects. In making this judgment the management considered current and future plans of the Company, access to financial resources and analyzed the impact of recent financial crisis on future operations of the Company. Accordingly, the management prepared these financial statements on a going concern basis.

### Other basis of presentation criteria

These financial statements are presented in Azerbaijani Manats (“AZN”), unless otherwise indicated. These financial statements have been prepared under the historical cost convention.

### Property and equipment

Property and equipment are carried at historical cost less accumulated depreciation and amortization and any recognized impairment loss.

Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

Depreciation is charged on the carrying value of property and equipment and is designed to write off assets over their useful economic lives. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis at the following useful lives (years):

| | |
|---|---|
| Building | 30 years |
| Road passenger vehicles | 12 years |
| Car washing equipment’s | 10 years |
| Intangible assets | 6 years |
| Other assets | 5 years |

Expenditures related to repairs and renewals are charged when incurred and included in operating expenses unless they qualify for capitalization.

The estimated useful life and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

At the end of each reporting period, the Company reviews the carrying amounts of its property and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives.

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit and loss accounts, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit and loss accounts, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit and loss accounts.

**Prepayments**

Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition.

Prepayments to acquire assets are transferred to the carrying amount of the asset once the Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments are written off to profit and loss accounts when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognized in profit and loss accounts.

Property construction-in-progress is stated at cost less any provision for impairment, where required. The property would be transferred to property and equipment upon completion. Construction in progress is not subject to depreciation.

***Inventories***

Inventories are stated at the lower of cost and net realizable value. Cost of inventory is determined by the First-In First-Out (FIFO) method and comprises the direct purchase costs, cost of production, transportation and handling costs. The balance of inventories are valued at cost to the Company or net realizable value, whichever is the lower. If the net realizable value is less than cost of inventory, the cost is reduced to the net realizable value and the excess amount is immediately charged to the statement of comprehensive income.

**Financial instruments**

The Company recognizes financial assets and liabilities in its statement of financial position when it becomes a party to the contractual obligations of the instrument. Regular way purchases and sales of financial assets and liabilities are recognized using settlement date accounting.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit and loss accounts.

***Financial assets***

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held-to-maturity" investments, "loans and receivables" and "available-for-sale" (AFS) financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

***Financial assets at FVTPL***

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Derivatives are also classified as held for trading unless they are designated and effective hedging instruments. Gains or losses on financial assets held for trading are recognized in the profit and loss accounts.

***Held-to-maturity investments***

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity.

Held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as trading securities or designated as investment securities available-for-sale. Such assets are carried at amortized cost using the effective interest method.

Gains and losses are recognized in profit and loss accounts when the loans and receivables are derecognized or impaired, as well as through the amortization process.

***Available-for-sale financial assets***

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for sale financial assets are measured at fair value with gains or losses being recognized in other comprehensive income until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in other comprehensive income is reclassified to profit and loss accounts. However, interest calculated using the effective interest method is recognized in profit and loss accounts.

**Fair value measurement**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Company establishes fair value using a valuation technique. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

**Cash and cash equivalents**

Cash and cash equivalents include cash at bank, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortized cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement.

**VAT deposit account**

The Value Added Tax ("VAT") deposit account system is introduced in 2008 by the Ministry of Taxes of the Republic of Azerbaijan which aims prevention of VAT misuse. From January 1, 2008 on the basis of amendments to the Tax Code, the amount of VAT refund is considered the tax amount which is paid, according to the submitted VAT invoices to the taxpayer's VAT deposit account in the framework of transactions carried out in this account.

By the support of this module the taxpayer pays the amount of VAT indicated on the VAT invoices to the VAT deposit account of another taxpayer. At the same time tax obligations to the state budget regarding all kinds of taxes and VAT amounts on the import transactions which is necessary to be paid to the customs committee, can be paid by taxpayers through the VAT deposit account. Information about paid amounts is transferred by the Ministry of Taxes to the Main State Treasury ("MST") and then to the Central Bank of the Republic of Azerbaijan ("CBRA"). CBRA on the basis of information submitted by the Main State Treasury ensures the transformation of amounts to the relevant local treasury authorities. The Ministry of Taxes ensures inclusion of amounts which is noted in the submitted information to the taxpayer's personal files. The current system is connected with the Automated Tax Information System of the Ministry of Taxes. At the same time online exchange of information was organized with the MST and CBRA.

Implementation of the VAT deposit account makes it possible to timely control payments and refunded VAT amounts. Taxpayers who have tax debts can only transfer these amounts to the state budget. Taxpayers can make payments to the state budget without visiting banks, to the sub-accounts of other taxpayers and to the customs committee through the deposit account. The Ministry of Taxes automatically controls all transactions carried out through the deposit account using special software.

Use of balances in the VAT deposit account is restricted and can be used only for transactions connected with VAT and other applicable taxes.

**Trade receivables**

Trade receivables are carried at amortized cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognized in the statement of comprehensive income.

**Reclassification of financial assets**

If a non-derivative financial asset classified as held for trading is no longer held for the purpose of selling in the near term, it may be reclassified out of the fair value through profit or loss category in one of the following cases:

- A financial asset that would have met the definition of loans and receivables above may be reclassified to loans and receivables category if the Company has the intention and ability to hold it for the foreseeable future or until maturity;
- Other financial assets may be reclassified to available for sale or held-to-maturity categories only in rare circumstances.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables category of the Company has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets are reclassified at their fair value on the date of reclassification. Any gain or loss already recognized in profit and loss accounts is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

**Impairment of financial assets**

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

**De-recognition of financial assets**

The Company derecognizes a financial asset only 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 entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes 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 recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On de-recognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit and loss accounts.

On de-recognition of a financial asset other than in its entirety (for example, when the Company retains an option to repurchase part of the transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Company retains control), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer.

The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit and loss accounts. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

**Financial liabilities**

Financial liabilities are classified as either financial liabilities "at FVTPL" or "other financial liabilities".

***FVTPL***

Financial liabilities are classified as FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit and loss accounts. The net gain or loss recognized in profit and loss accounts incorporates any interest paid on the financial liability and is included in the "other income/(loss)" line item in the statement of comprehensive income.

***Other financial liabilities***

Other financial liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

**Borrowings**

Borrowings are carried at amortized cost using the effective interest method. Interest costs on borrowings to finance the construction of property and equipment are capitalized, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. Transactions cost are included in the initial recognition of financial instruments as an adjustment to the effective interest rate.

**Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are carried at amortized cost using the effective interest method.

**De-recognition of financial liabilities**

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit and loss accounts.

**Offset of financial assets and liabilities**

Financial assets and liabilities are offset and reported net on the statement of financial position when the Company has a legally enforceable right to set off the recognized amounts and the Company intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for de-recognition, the Company does not offset the transferred asset and the associated liability.

**Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Taxation**

***Simplified tax and income tax***

The Company’s current tax expense is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

According to Article 218.1.1.1 of the Tax Code of the Republic of Azerbaijan, persons and the entities carrying out a business of transporting passengers and cargo (except for international transportation) by means of motor vehicles may only be simplified taxpayers.

The simplified tax in respect of domestic passenger and cargo transportation is calculated on the basis of technical characteristics and types of motor vehicle at the rates as follows:

| Type of transportation | Unit of measurement applied by simplified tax | Monthly amount of simplified tax (in AZN) |
|---|---|---|
| Passenger transportation by the number of seats | 1 seat | 1.8 |

For businesses operating in Baku, namely within Baku and between Baku and other inhabited localities, the above rate of tax is to be further multiplied by a coefficient of 2.

The Company may also be engaged in other activities, such as provision of training services, rental, etc., which may subject to income tax. In this case, the Company will pay income taxes based on its taxable profits.

Income tax expense represents the sum of the tax currently payable and deferred tax expense. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred income tax assets and deferred income tax liabilities are offset and reported net on the statement of financial position if:

- The Company has a legally enforceable right to set off current income tax assets against current income tax liabilities; and

- Deferred income tax assets and the deferred income tax liability relate to income taxes levied by the same taxation authority on the same taxable entity.

***Value added tax***

According to the Azerbaijan tax law, VAT is a difference between output VAT (tax charged on sales/turnover) and input VAT (a creditable tax, paid on the basis of e-tax invoices, issued for goods, works and services received, or paid during imports).

VAT is reported and paid on a monthly basis, no later than the 20$^{th}$ of the following month.

Although its primary activities, consisting of passenger and cargo transportation using motor vehicles, are subject solely to simplified tax, the Company has been registered as a VAT payer on a voluntary basis.

***Output VAT***

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis.

Since 2013, the rules have been slightly softened and cash method (“a 30-day payment period” rule – if the client pays within 30 days after the tax event has occurred, the tax is declared in respect of the month of payment) has been partially incorporated in output VAT timing (reporting) rules.

***Input VAT***

Input VAT is recognized based on a cash method alongside being dependent on meeting certain mandatory criteria. Input VAT can only be claimed via a tax return only in the month when (on the later of):

- the supply of goods, services and works has been completed as evidenced by relevant supporting documents, including an electronic tax invoice (e-tax invoice) issued and sent to a customer;
- the base (principal) amount has been paid only via a bank transfer (from a customer’s bank account to a supplier’ bank account);
- VAT, relating to the base amount, has been remitted either via a VAT sub-account (from a customer’s VAT sub-account to a supplier’s VAT sub-account) or via a bank transfer (from a customer’s bank account to the unified VAT account).

Input VAT on imports can be claimed only at the time when customs duties have been levied on such imports.

The primary activities of Company are subject specifically to simplified tax calculated as mentioned above. Therefore, any expenses incurred in connection with domestic transportation of passengers and cargo cannot be used for decreasing the taxable base or carried forward for tax calculation and declaration purposes.

Notwithstanding the above, certain activities of the Company are covered by VAT and, hence, income tax in the Republic of Azerbaijan. Carrying on VATable transactions (for instance, lease of buses to third parties) means the entity is also obliged to declare income obtained thereof for profit taxation purposes. The Company may deduct expenses incurred in connection with obtaining of such [VATable] income pursuant to the provisions of the Tax Code.

The persons, engaged in VAT exempt (i.e. transactions covered solely by simplified tax) transactions, cannot claim input VAT under the existing tax law. However, pursuant to Article 175 of the Tax Code of the Republic of Azerbaijan, in case of carrying on mixed operations, i.e. when the entity/person is engaged in the both VAT exempt and VATable transactions, input VAT in any particular month may still be claimed based on the ratio of VAT exempt transactions to VATable transactions in that particular month.

The Company cannot claim Input VAT paid at the time of acquiring goods, services and works financed through government investments (except for subsidies). The respective Input VAT is charged to profit or loss or capitalized on assets.

***Land tax***

Owners and users of land in the Republic of Azerbaijan are subject to land tax at varying rates. The rate of tax varying from AZN 0.06 up to AZN 20 depends on the type of land, i.e. agricultural, industrial, construction, communication, trading or residential land, as well as the location of land.

The reporting period is a calendar year. For legal entities owning or using the land the deadline for tax filing is May 15 of each year, while the tax should be paid in equal installments no later than August 15 and November 15.

***Property tax***

Except for cases when the property has been insured at a value exceeding its residual value and the property tax is then calculated on the market value, the taxable base for resident legal entities and non-resident legal entities with permanent establishment is the average annual residual value of their fixed assets. Thus, an average annual residual value of fixed assets owned by such legal entities is subject to a property tax at the rate of 1%. At the same time, the taxable base in respect of resident and non-resident individuals comprises of buildings and their parts, as well as resident individuals' water and air transportation means, where the property tax rate varies depending on the type of asset owned.

The reporting period is a calendar year. Legal entities, owning the fixed assets, have to file the tax return no later than March 31 of the year following the reporting period. The property taxpayer legal entities remit the tax by way of advances (25% of the last year's property tax) by the $15^{th}$ of the second month of each quarter with the final balancing payment due no later than the filing deadline mentioned above.

The Republic of Azerbaijan also has various other taxes, which are assessed on the Company's activities. These taxes are included in the statement of comprehensive income.

**Share capital**

Shares are classified as equity. Incremental costs directly attributable to the issue of shares are recognized as a deduction from equity, net of any tax effects. Dividends on shares are recognized in equity as a reduction in the period in which they are declared.

Dividends that are declared after the reporting date are treated as a subsequent event under International Accounting Standard 10 "Events after the Reporting Date" ("IAS 10") and disclosed accordingly.

**Government investments**

According to the decree No. 183 of the Cabinet of the Ministry of the Republic of Azerbaijan dated October 22, 2010, all government investments allocated to the state companies of the Republic of Azerbaijan for the purposes of improvement of the infrastructure and enhancement of their operations since 2007 should be included in the share capital of these entities.

The Company policy is that government investments are initially recorded in government investments line in the equity until they are registered in relevant government agencies. It is then classified as share capital when all necessary documentary works are completed and amounts are registered in relevant government agency.

**Revenue**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Revenue is derived wholly from the provision of transport services in Baku city. Revenue is recognized upon the delivery of the service to the customers.

**Finance expenses**

Finance expenses are recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of such an instrument, taking into consideration all contractual terms of the instrument.

**Employee benefits**

Wages, salaries, contributions to the Republic of Azerbaijan state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Company.

**Foreign currency translation**

The functional currency of the Company is the currency of the primary economic environment, in which it operates. The Company's functional currency is AZN.

Financial assets and liabilities denominated in foreign currencies are translated into AZN at the appropriate spot rates of exchange of the CBAR ruling at the end of reporting date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction.

Profits and losses arising from these translations are included in foreign exchange translation gain/(loss) account.

The exchange rates at reporting date used by the Company in the preparation of the financial statements are as follows:

| | **December 31, 2016** | **December 31, 2015** |
|---|---|---|
| EUR/AZN | 1.8644 | 1.7046 |
| USD/AZN | 1.7707 | 1.5594 |

**Contingent liabilities and assets**

Contingent liabilities are not recognized in the financial statements. They are disclosed in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and disclosure of contingent liabilities during the reporting period.

As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based on the latest information available when the financial statements were prepared.

Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

The most significant estimates relate to the going concern, depreciable lives of property and equipment, impairment of non-financial and financial assets, fair value of financial instruments, provision for tax and legal contingencies, and deferred taxation. Actual results could differ from these estimates.

**Going concern**

These financial statements have been prepared on the assumption that the Company is a going concern and will continue in operation for the foreseeable future although the Company incurred losses in the amount of AZN 54,637,619 and cash outflow from operating activities in the amount of AZN 3,092,555 for the year ended December 31, 2016 (2015: AZN 95,260,805 loss, AZN 4,791,307 cash outflow from operating activities).

The management believes that the government of the Republic of Azerbaijan will continue investing to sustain the operations of the Company.

**Useful life of property and equipment**

The Company assesses the remaining useful lives of items of property and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amount of the carrying values of property and equipment and on depreciation recognized in profit and loss accounts.

**Impairment of property and equipment, and other non-financial assets**

The Company assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Company makes an estimate of 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 Company of assets.

Where the carrying amount of an asset 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 assessment 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 valuation model is used.

The Company bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Company's cash-generating units (CGU) to which the individual asset is allocated.

The management of the Company has not performed such review as at December 31, 2016 since the future cash flow projections of the Company have not yet been finalized as at the date of this report and therefore, the financial statements do not include any potential adjustment that could have derived from this assessment.

As at December 31, 2016 the Company has not provided impairment for property and equipment.

**Current taxes**

Azerbaijani tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Company’s entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Company’s entities may be assessed additional taxes, penalties and interest, which can be significant.

Periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As at December 31, 2016, the management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Company’s tax, currency and customs positions will be sustained.

***Income tax***

Income tax expense represents the sum of the tax currently payable and deferred tax expense.

The tax currently payable is based on taxable profit or other taxable basis for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company’s current tax expense is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

The management provided allowance against deferred tax assets in the amount of AZN 95,080 as it believes that proceeds from non-current activities other than those subjected to simplified tax will not be enough to recover carried forward tax-losses. The estimation can be revised upon the interpretation of tax legislation by tax authorities (December 31, 2015: AZN 103,941).

## 4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

In the current year, the Company has adopted all of the applicable new and revised Standards and Interpretations issued by the IASB and the IFRIC of the IASB that are relevant to its operations and effective for annual reporting periods ending in December 31, 2016. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the Company’s accounting policies that have affected the amounts reported for the current or prior years.

**Amendments to IAS 1 "Presentation of Financial Statements": Disclosure Initiative** – The amendments to IAS 1 "Presentation of Financial Statements" clarify, rather than significantly change, existing IAS 1 requirements.

The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements; and
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income.

**Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"** – The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of intangible assets. This presumption can only be rebutted in the following two limited circumstances:

a) When the intangible asset is expressed as a measure of revenue; or
b) When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

**Amendments to IAS 16 and IAS 41 "Agriculture": Bearer Plants –** The amendments to IAS 16 "Property and equipment" and IAS 41 "Agriculture" define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property and equipment in accordance with IAS 16, instead of IAS 41. In terms of the amendments, bearer plants can be measured using either the cost model or the revaluation model set out in IAS 16.

On the initial application of the amendments, entities are permitted to use the fair value of items of bearer plant as their deemed cost as at beginning of the earliest period presented. Any difference between the previous carrying amount and fair value should be recognized in opening retained earnings at the beginning of the earliest period presented. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

**Amendments to IAS 27 "Equity Method in Separate Financial Statements"** – The amendments to IAS 27 "Separate Financial Statements" allow an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. Therefore, an entity must account for these investments either:

- At cost;
- In accordance with IFRS 9 (or IAS 39); or
- Using the equity method.

The entity must apply the same accounting for each category of investments. A consequential amendment was also made to IFRS 1 "First-time Adoption of International Financial Reporting Standards". The amendment to IFRS 1 allows a first-time adopter accounting for investments in the separate financial statements using the equity method, to apply the IFRS 1 exemption for past business combinations to the acquisition of the investment.

**Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"** – The amendments address issues that have arisen in applying the investment entities exception under IFRS 10.

The amendments to IFRS 10 clarify that the exemption (in IFRS 10.4) from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value.

The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

**Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"** – The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture.

The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3 "Business Combinations", between an investor and its associate or joint venture, is recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

**Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"** – The amendments to IFRS 11 provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 "Business Combinations". Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 36 "Impairment of Assets" regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

**IFRS 14 "Regulatory Deferral Accounts"** allows rate-regulated entities to continue recognizing regulatory deferral accounts in connection with their first-time adoption of IFRS. Existing IFRS preparers are prohibited from adopting this standard. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate regulation and the effects of that rate regulation on its financial statements.

**Annual improvements to IFRSs 2012-2014 Cycle** – The annual improvements include amendments to a number of IFRSs, which have been summarized below.

| Standard | Subject of amendment |
|---|---|
| IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations" | Changes in methods of disposal |
| IFRS 7 "Financial Instruments: Disclosures" | Servicing contracts and applicability of the offsetting disclosures to condensed interim financial statements |
| IAS 19 "Employee Benefits" | Discount rate: regional market issue |
| IAS 34 "Interim Financial Reporting" | Disclosure of information "elsewhere in the interim financial report" |

Unless otherwise described above, the new Standards and Interpretations are not expected to significantly affect the Company's financial statements.

## 5. STANDARDS AND INTERPRETATIONS ISSUED AND NOT YET ADOPTED

At the date of authorization of these financial statements, other than the Standards and Interpretations adopted by the Company in advance of their effective dates, the following Interpretations were in issue but not yet effective.

**Amendments to IAS 7 "Statement of Cash Flows"** – The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments are effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted.

**Amendments to IAS 12 "Income Taxes"** – The amendments to IAS 12 "Income Taxes" clarify how to account for deferred tax assets related to debt instruments measured at fair value and clarify recognition of deferred tax assets for unrealized losses, to address diversity in practice.

Entities are required to apply the amendments for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

**Annual Improvements to IFRS Standards 2014-2016 Cycle** contains amendments to three International Financial Reporting Standards (IFRSs) as result of the IASB's annual improvements project.

| Standard | Subject of amendment |
|---|---|
| IFRS 1 "First-time Adoption of International Financial Reporting Standards" | Deletion of short-term exemptions for the first-time adopters: The amendments delete the short-term exemptions in IFRS 1 that relate to IFRS 7, IAS 19, IFRS 12 and IAS 27. |
| IFRS 12 "Disclosure of Interests in Other Entities" | Clarification of the scope of the Standard: IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified as held for sale. The amendment clarifies that this is the only concession from disclosure requirements of IFRS 12 for such interests. |

| | |
|---|---|
| IAS 28 "Investments in Associates and Joint Ventures" | Measuring an associate or joint venture at fair value: The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. |

The amendments to IFRS 1 and IAS 28 are effective for annual periods begin on or after January 1 2018, the amendment to IFRS 12 for annual periods beginning on or after January 1, 2017.

**The IASB and FASB have issued their joint revenue recognition standard, IFRS 15 "Revenue from Contracts with Customers"**, which replaces all existing IFRS and US GAAP revenue requirements. IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 was issued in May 2014 and applies to an annual reporting period beginning on or after January 1, 2018. Earlier application is permitted.

**Amendments to IAS 40 "Transfers of Investment Property"** are intended to clarify that an entity can only reclassify a property to/from investment property when, and only when, there is evidence that a change in the use of the property occurred.

The amendments are effective for periods beginning on or after January 1, 2018. Earlier application is permitted. An entity applies the amendments to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is also permitted if that is possible without the use of hindsight.

**IFRIC 22 "Foreign Currency Transactions and Advance Consideration"** addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The interpretation applies to annual reporting periods beginning or after January 1, 2018. Earlier adoption is permitted.

**IFRS 9 "Financial Instruments"** issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for de-recognition.

- IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods;

- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit and loss accounts. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit and loss accounts. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit and loss accounts was recognized in profit and loss accounts.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

**Amendments to IFRS 2 "Share-Based Payment"** – The IASB have published final amendments to IFRS 2 "Share-based Payment" that clarify the classification and measurement of share-based payment transactions. Classification and Measurement of Share-based Payment Transactions contains the following clarifications and amendments:

***Accounting for cash-settled share-based payment transactions that include a performance condition***

Until issue of these amendments, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. IASB has now added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

***Classification of share-based payment transactions with net settlement features***

The IASB has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

***Accounting for modifications of share-based payment transactions from cash-settled to equity-settled***

Until issue of these amendments, IFRS 2 did not specifically address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The IASB has introduced the following clarifications:

- On such modifications, the original liability recognized in respect of the cash-settled share-based payment is derecognized and the equity-settled share-based payment is recognised at the modification date fair value to the extent services have been rendered up to the modification date;

- Any difference between the carrying amount of the liability as at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately.

The amendments are effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

**IFRS 16 "Leases",** which specifies how and IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

IFRS 16 was issued in January 13, 2016 and applies to an annual reporting period beginning on or after January 1, 2019.

The management is considering the implications of these standards, their impact on the financial statements and the timing of its adoption by the Company.

## 6. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Related parties are defined in IAS 24 "Related Party Disclosures". Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Company's immediate parent and ultimate controlling party is the Government of Azerbaijan.

The Company applied the exemption in paragraph 25 of IAS 24 "Related Party Disclosures" regarding the disclosure requirement for government related entities.

A reporting entity is exempt from the disclosure requirements of paragraph 18 of IAS 24 "Related Party Disclosures" in relation to related party transactions and outstanding balances, including commitments, with:

(a) a government that has control or joint control of, or significant influence over, the reporting entity; and
(b) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.

The nature of transactions with government related entities include purchase of electricity, government investments, rendering and receiving other services, etc.

Compensation paid to directors for their services in full or part-time executive management positions is made up of a contractual salary. During the year ended December 31, 2016 and 2015 the remuneration of members of the key management included salaries and compensations classified as short-term in accordance with IAS 19 "Employee Benefits".

During the year ended December 31, 2016, the remuneration of key management personnel included salaries, discretionary bonuses and other short-term benefits totaling AZN 121,927 (December 31, 2015: AZN 137,363).

## 7. PROPERTY AND EQUIPMENT

Movements in the carrying amount of property and equipment were as follows:

| | Building | Road passenger vehicles | Car washing equipment | Other* assets | Construction in progress and equipment for installation | Intangible assets | Total |
|---|---|---|---|---|---|---|---|
| **Initial cost** | | | | | | | |
| **January 1, 2015** | **-** | **1,123,343** | **-** | **12,880** | **29,375,369** | **-** | **30,511,592** |
| Additions | 584,268 | 195,453,489 | 1,372,872 | 2,128,005 | 8,735,090 | 421,913 | 208,695,637 |
| Disposals | - | (5,712,706) | - | - | - | - | (5,712,706) |
| Transfer in | 29,375,369 | - | - | - | - | - | 29,375,369 |
| Transfer out | - | - | - | - | (29,375,369) | - | (29,375,369) |
| **December 31, 2015** | **29,959,637** | **190,864,126** | **1,372,872** | **2,140,885** | **8,735,090** | **421,913** | **233,494,523** |
| Additions | - | - | - | 168,034 | 7,486,924 | 1,256,853 | 8,911,811 |
| Revision of VAT capitalized on purchase | - | - | - | - | (554,801) | - | (554,801) |
| **December 31, 2016** | **29,959,637** | **190,864,126** | **1,372,872** | **2,308,919** | **15,667,213** | **1,678,766** | **241,851,533** |
| **Accumulated depreciation** | | | | | | | |
| **January 1, 2015** | **-** | **(6,889)** | **-** | **(61)** | **-** | **-** | **(6,950)** |
| Charge for the year | (576,727) | (10,723,166) | (116,494) | (308,775) | - | (64,548) | (11,789,710) |
| Elimination on disposal | - | 163,014 | - | - | - | - | 163,014 |
| **December 31, 2015** | **(576,727)** | **(10,567,041)** | **(116,494)** | **(308,836)** | **-** | **(64,548)** | **(11,633,646)** |
| Charge for the year | (998,655) | (15,902,940) | (137,287) | (454,869) | - | (99,648) | (17,593,399) |
| **December 31, 2016** | **(1,575,382)** | **(26,469,981)** | **(253,781)** | **(763,705)** | **-** | **(164,196)** | **(29,227,045)** |
| **Net book value:** | | | | | | | |
| **December 31, 2016** | **28,384,255** | **164,394,145** | **1,119,091** | **1,545,214** | **15,667,213** | **1,514,570** | **212,624,488** |
| **December 31, 2015** | **29,382,910** | **180,297,085** | **1,256,378** | **1,832,049** | **8,735,090** | **357,365** | **221,860,877** |

At the end of each reporting period the management of the Company reviews the carrying amounts of its property and equipment to determine whether there is any indication that those assets have suffered an impairment loss. The management of the Company has not performed such review as at December 31, 2016 since the future cash flow projections of the Company have not yet been finalized as at the date of this report and therefore, the financial statements do not include any potential adjustment that could have derived from this assessment.

As at December 31, 2016, road passenger vehicles with historical value of AZN 164,394,145 were insured (December 31, 2015: AZN 180,297,085).

* Other assets include vehicles, computer equipment’s and other fixed assets.

## 8. PREPAYMENTS:

Prepayments comprise:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Prepaid expenses | 49,867 | 57,067 |
| **Total prepayments** | **49,867** | **57,067** |

## 9. INVENTORIES

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Spare parts | 2,451,347 | 2,377,533 |
| Others | 5,844 | 88,040 |
| **Total inventories** | **2,457,191** | **2,465,573** |

## 10. TRADE RECEIVABLES

As at December 31, 2016 trade receivable represents amounts receivable from "K Group" LLC in the amount of AZN 314,296 (2015: AZN 421,401) and "K Group" LLC provides the collection of ticket fees from the customers of the Company.

The management of the Company considers the fair value of receivables to be in line with carrying values. No provision has been recognized for trade receivables in profit and loss accounts.

## 11. CASH AND CASH EQUIVALENTS

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Cash on hand | 169 | 418 |
| Cash in bank accounts | 10,038,410 | 1,487,833 |
| Cash in State Treasury Agency | - | 18,351,396 |
| **Total cash and cash equivalents** | **10,038,579** | **19,839,647** |

Cash in bank accounts balances are held in local banks in AZN and USD. As at December 2016, the Company does not have any interest-bearing deposit account placed in banks.

Financing transactions that did not require the use of cash and cash equivalents and were excluded from the combined cash flow statement.

## 12. BORROWINGS

The borrowings as at December 31, 2016 comprise:

**Non-current portion**

| Lender | Effective interest rate | Initial amount | CCY type | Originiation date | Maturity date | December 31, 2016 |
|---|---|---|---|---|---|---|
| **Societe Generale** | | | | | | |
| “ECA” | 6 months EURIBOR+0.70% | 49,067,067 | EUR | 19/12/2014 | 28/02/2021 | 44,165,529 |
| “EGAP” | 6 months EURIBOR+0.75% | 32,205,136 | EUR | 19/05/2015 | 19/11/2021 | 38,470,509 |
| “HERMES” | 6 months EURIBOR+0.70% | 48,445,811 | EUR | 16/11/2015 | 19/02/2021 | 55,595,668 |
| **Total non-current portion of interest bearing loans and borrowings** | | | | | | **138,231,706** |

**Current portion**

| Lender | Effective interest rate | Initial amount | CCY type | Originiation date | Maturity date | December 31, 2016 |
|---|---|---|---|---|---|---|
| **Soceiete Generale** | | | | | | |
| “ECA” | 6 months EURIBOR+0.70% | 49,067,067 | EUR | 19/12/2014 | 28/02/2021 | 13,079,654 |
| “EGAP” | 6 months EURIBOR+0.75% | 32,205,136 | EUR | 19/05/2015 | 19/11/2021 | 9,713,529 |
| “HERMES” | 6 months EURIBOR+0.70% | 48,445,811 | EUR | 16/11/2015 | 19/02/2021 | 16,481,261 |
| **Total current portion of interest bearing loans and borrowings** | | | | | | **39,274,444** |

The borrowings as at December 31, 2015 comprise:

**Non-current portion**

| Lender | Effective interest rate | Initial amount | CCY type | Originiation date | Maturity date | December 31, 2015 |
|---|---|---|---|---|---|---|
| **Societe Generale** | | | | | | **194,473,568** |
| "ECA" | 6 months EURIBOR+0.70% | 49,067,067 | EUR | 19/12/2014 | 28/02/2021 | 50,800,493 |
| "EGAP" | 6 months EURIBOR+0.75% | 32,205,136 | EUR | 19/05/2015 | 19/11/2021 | 43,286,185 |
| "HERMES" | 6 months EURIBOR+0.70% | 48,445,811 | EUR | 16/11/2015 | 19/02/2021 | 63,701,037 |
| **Total non-current portion of interest bearing loans and borrowings** | | | | | | **157,787,715** |

**Current portion**

| Lender | Effective interest rate | Initial amount | CCY type | Originiation date | Maturity date | December 31, 2015 |
|---|---|---|---|---|---|---|
| **Soceiete Generale** | | | | | | |
| "ECA" | 6 months EURIBOR+0.70% | 49,067,067 | EUR | 19/12/2014 | 28/02/2021 | 12,412,554 |
| "EGAP" | 6 months EURIBOR+0.75% | 32,205,136 | EUR | 19/05/2015 | 19/11/2021 | 8,804,817 |
| "HERMES" | 6 months EURIBOR+0.70% | 48,445,811 | EUR | 16/11/2015 | 19/02/2021 | 15,468,482 |
| **Total current portion of interest bearing loans and borrowings** | | | | | | **36,685,853** |

**Societe Generale S.A.**

On May 19, 2015 the Company signed a loan agreement (EGAP) with Societe Generale S.A. in the amount of EUR 32,205,136 to be disbursed with multiple instalments.

On November 16, 2015 the Company signed a loan agreement (HERMES) with Societe Generale S.A. in the amount of EUR 48,445,811 to be disbursed with multiple instalments.

On November 20, 2014 the Company signed a loan agreement (ECA) with Societe Generale S.A. in the amount of EUR 46,770,000 to be disbursed with multiple instalments.

The transaction costs in the total amount of EUR 6,824,199 consisting of loan insurance was included in the initial measurement of borrowings as an adjustment to effective interest rate.

The Company is obliged to comply with certain non-financial covenants as stipulated in the loan agreement signed with Societe Generale S.A. The Company has not breached covenants stipulated in the loan agreements as at December 31, 2016 and 2015.

## 13. TRADE PAYABLES

Trade payables of the Company per industry sectors and products were as follows:

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Service | 285,750 | 30,393 |
| Fuel | 85,317 | 50,187 |
| Customs | 27,323 | - |
| Insurance | 19,564 | - |
| Utility | 9,875 | 28,551 |
| Construction | - | 2,327,032 |
| Professional services | - | 20,910 |
| Other payables | 32,659 | 28,989 |
| | **460,488** | **2,486,062** |

## 14. SHARE CAPITAL

As at December 31, 2016 and 2015 the authorized share capital of the Company amounted to AZN 30,000,000 consisting of 100 shares par value of AZN 300,000 each. During the year ended December 31, 2016 the shareholder of the Company withdrew AZN 11,950,643 from the bank account of the Company at State Treasury Agency. As at December 31, 2016 the paid share capital of the Company was AZN 18,049,357 (2015: AZN 30,000,000).

## 15. GOVERNMENT INVESTMENTS

In order to improve and enhance the operations and the infrastructure of the Company, the Government has allocated subsidies to the Company under the several government programs.

According to the decree No 92 of Cabinet of Ministers of the Republic of Azerbaijan dated April 4, 2014, the government as represented by the Ministry of Finance of the Republic of Azerbaijan takes responsibility to finance the construction of infrastructure and maintenance of operations of the Company.

According to the decree No 183 of the Cabinet of the Ministries of the Republic of Azerbaijan dated October 22, 2010, all government investments allocated to the state companies of the Republic of Azerbaijan for the purposes of improvement of infrastructure and enhancement of their operations since 2007 should be included in the share capital of these entities.

The investments were as follows:

| | Transfer from state budget | Total AZN |
|---|---|---|
| **January 1, 2015** | **69,235,560** | **69,235,560** |
| Transfer from state budget for capital costs | 38,025,797 | 38,025,797 |
| Repayment of borrowings directly paid by the government | 5,447,567 | 5,447,567 |
| Transfer from state budget for operating expenses | 1,995,003 | 1,995,003 |
| **Decemer 31, 2015** | **114,703,927** | **114,703,927** |
| Repayment of borrowings directly paid by the government | 51,582,109 | 51,582,109 |
| Transfer from state budget for capital costs | 13,312,180 | 13,312,180 |
| Transfer from state budget for operating expenses | 2,098,890 | 2,098,890 |
| **Decemer 31, 2016** | **181,697,106** | **181,697,106** |

## 16. OPERATING REVENUE

| | Year ended December 31, 2016 | Year ended December 31, 2015 |
|---|---|---|
| Passenger revenue | 12,293,316 | 2,737,108 |
| Rental revenue | 195,949 | 1,547,720 |
| Others | 139,754 | 40,234 |
| **Total operating revenue** | **12,629,019** | **4,325,062** |

## 17. OPERATING COSTS

| | Year ended December 31, 2016 | Year ended December 31, 2015 |
|---|---|---|
| Depreciation expense | 15,902,940 | 10,839,660 |
| Staff costs | 6,571,518 | 2,238,753 |
| Fuel expense | 2,304,441 | 530,988 |
| Insurance expense | 1,444,435 | 1,531,013 |
| Repair and maintenance | 676,296 | 3,339 |
| Commission fees | 614,666 | 136,855 |
| Cleaning expenses | 361,802 | - |
| Material expenses | 295,085 | 129,567 |
| Simplified tax expense | 201,604 | 50,404 |
| Transportation expenses | 3,733 | 98,132 |
| Other expenses | 13,279 | 31,557 |
| **Total operating costs** | **28,389,799** | **15,590,268** |

## 18. ADMINISTRATIVE EXPENSES

| | Year ended December 31, 2016 | Year ended December 31, 2015 |
|---|---|---|
| Staff costs | 2,043,556 | 558,486 |
| Depreciation expense | 1,690,459 | 950,050 |
| Professional service expense | 245,010 | 685,182 |
| Electricity expense | 101,802 | 36,157 |
| Bank charges | 96,976 | 46,016 |
| Communication expenses | 68,660 | 97,345 |
| Tax expenses | 63,806 | 49,000 |
| Printing expenses | 31,971 | 23,056 |
| Security expenses | 29,400 | 21,487 |
| Marketing expense | 26,627 | 146,473 |
| Other expenses | 86,075 | 107,937 |
| **Total administrative expenses** | **4,484,342** | **2,721,189** |

## 19. LOSS ON DISPOSAL OF PROPERTY AND EQUIPMENT

During the year ended December 31, 2015, 43 Mercedes Sprinter buses were transferred from the Company to the Affairs Office of President of Azerbaijan Republic without any consideration. As a result loss on transfer of property and equipment has been recognized in the amount of AZN 6,555,749 in the statement of comprehensive income.

## 20. FOREIGN EXCHANGE TRANSLATION LOSS, NET

Foreign exchange loss in the amount of AZN 32,124,336 and AZN 276,608 related to borrowings and trade payables respectively, for the year ended December 31, 2016 (December 31, 2015: foreign exchange loss in the amount of AZN 70,106,950 and AZN 696,408 related to borrowings and trade payables, respectively.). Simultaneously, foreign exchange gain in the amount of AZN 538,579 mainly related to cash and cash equivalents for the year ended December 31, 2016 (December 31, 2015: foreign exchange gain in the amount of AZN 20,274 related to cash and cash equivalents).

## 21. INCOME TAXES

The Company measures and records its current income tax payable and its tax bases related to assets and liabilities in accordance with the statutory tax regulations of the Republic of Azerbaijan which differ from IFRS.

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at December 31, 2016 and 2015 relate mostly to different methods/timing expense recognition as well as to temporary differences generated by taxation bases’ differences for certain assets.

Temporary differences as at December 31, 2016 and 2015 comprise:

| | Year ended December 31, 2016 | Year ended December 31, 2015 |
|---|---|---|
| **Deductible temporary differences:** | | |
| Unused tax losses carry forward | 475,400 | 519,703 |
| **Total deductible temporary differences** | **475,400** | **519,703** |
| Net deductible temporary differences | 475,400 | 519,703 |
| **Deferred tax asset** | **95,080** | **103,941** |
| Deferred tax asset not recognized | (95,080) | (103,941) |
| **Net deferred tax asset** | **-** | **-** |
| **Loss before income tax** | **(54,597,842)** | **(95,260,805)** |
| Less result of operation subject to simplified tax | (54,796,728) | (94,741,102) |
| Net loss subject to income tax | 198,886 | (519,703) |
| Statutory tax rate | 20% | 20% |
| Theoretical tax at the statutory tax rate | (39,777) | 103,941 |
| Change in deferred tax asset not recognized | 8,861 | 230,361 |
| Revision of previous income tax estimation | (8,861) | (334,302) |
| **Income tax expense** | **(39,777)** | **-** |

As described in Note 3, the primary activities of Company are subject specifically to simplified tax calculated as mentioned above. Therefore, any expenses incurred in connection with domestic transportation of passengers and cargo cannot be used for decreasing the taxable base or carried forward for tax calculation and declaration purposes.

Notwithstanding the above, certain activities of the Company are covered by VAT and, hence, income tax in the Republic of Azerbaijan. Carrying on VATable transactions (for instance, lease of buses to third parties) means the entity is also obliged to declare income obtained thereof for income taxation purposes. The Company may deduct expenses incurred in connection with obtaining of such [VATable] income pursuant to the provisions of the Tax Code.

The management provided full allowance against deferred tax assets on the assumption that, it is not probable that the Company will generate sufficient taxable profit for VATable activities.

## 22. COMMITMENT AND CONTINGENCIES

### Taxation

Commercial legislation and tax legislation of the Republic of Azerbaijan in particular may give rise to varying interpretations and amendments. In addition, as management’s interpretation of tax legislation may differ from that of the tax authorities, transactions may be challenged by the tax authorities, and as a result, the Company may be assessed additional taxes, penalties and interest. The Company believes that it has already made all tax payments, and therefore no allowance has been made in the financial statements. Tax years remain open to review by the tax authorities for three years.

### Environmental matters

The enforcement of environmental regulation in the Republic of Azerbaijan evolving and the enforcement posture of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

### Capital expenditure commitments

As at December 31, 2016 and 2015 the Company had no capital commitments.

## 23. FINANCIAL RISK MANAGEMENT

Management of risk is fundamental to the Company’s business and is an essential element of its operations. The main risks inherent to the Company’s operations are those related to:

- Credit risk;
- Liquidity risk;
- Market risk.

The Company recognizes that it is essential to have efficient and effective risk management processes in place. To enable this, the Company has established a risk management framework, whose main purpose is to protect the Company from risk and allow it to achieve its performance objectives. Through the risk management framework, the Company manages the following risks:

### Credit risk

The Company is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

### Maximum exposure

The Company’s maximum exposure to credit risk varies significantly and is dependant on both individual risks and general market economy risks.

**Liquidity risk**

Liquidity risk is defined as the risk when the maturity of financial assets and liabilities does not match. Liquidity risk is managed by the Finance Department of the Company. The liquidity management of the Company requires considering the level of liquid assets necessary to settle obligations as they fall due; maintaining access to a range of funding sources; maintaining funding contingency plans and monitoring balance sheet liquidity ratio against regulatory requirements.

The periodic liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed. Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Fitch Rating. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to BBB. Financial assets which have ratings lower than BBB are classed as speculative grade.

The credit rating of the Republic of Azerbaijan according to the international rating agencies as at December 31, 2016 corresponded to investment level BB+ (2015: BBB-).

The following table details credit ratings of financial assets held by the Company as at December 31, 2016 and 2015 (this information is prepared for all financial assets that are neither past due nor impaired):

| | BB+ | BB | Not Rated | December 31, 2016 Total |
|---|---|---|---|---|
| Cash and cash equivalents | - | - | 10,038,579 | **10,038,579** |
| Trade receivables | - | - | 314,296 | **314,296** |

| | BB+ | BB | Not Rated | December 31, 2015 Total |
|---|---|---|---|---|
| Cash and cash equivalents | 18,351,396 | 1,005 | 1,487,246 | **19,839,647** |
| Trade receivables | - | - | 421,401 | **421,401** |

**Geographical risk concentration**

The Management exercises control over the risk in the legislation and regulatory area and assesses its influence on the Company's activity. This approach allows the Company to minimize potential losses from the investment climate fluctuations in the Republic of Azerbaijan.

The geographical concentration of assets and liabilities is set out below:

| | The Republic of Azerbaijan | OECD countries | December 31, 2016 Total |
|---|---|---|---|
| **FINANCIAL ASSETS** | | | |
| Cash and cash equivalents | 10,038,579 | - | 10,038,579 |
| Trade receivables | 314,296 | - | 314,296 |
| **TOTAL FINANCIAL ASSETS** | **10,352,875** | **-** | **10,352,875** |
| **FINANCIAL LIABILITIES** | | | |
| Trade payables | 460,488 | - | 460,488 |
| Borrowings | - | 177,506,150 | 177,506,150 |
| **TOTAL FINANCIAL LIABILITIES** | **460,488** | **177,506,150** | **177,966,638** |
| **NET POSITION** | **9,892,387** | **(177,506,150)** | **(167,613,763)** |

| | The Republic of Azerbaijan | OECD countries | December 31, 2015 Total |
|---|---|---|---|
| **FINANCIAL ASSETS** | | | |
| Cash and cash equivalents | 19,839,647 | - | 19,839,647 |
| Trade receivables | 421,401 | - | 421,401 |
| **TOTAL FINANCIAL ASSETS** | **20,261,048** | **-** | **20,261,048** |
| **FINANCIAL LIABILITIES** | | | |
| Trade payables | 159,030 | 2,327,032 | 2,486,062 |
| Borrowings | - | 194,473,568 | 194,473,568 |
| **TOTAL FINANCIAL LIABILITIES** | **159,030** | **196,800,600** | **196,959,630** |
| **NET POSITION** | **20,102,018** | **(196,800,600)** | **(176,698,582)** |

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Company's reputation.

The Company manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Company prepares a financial plan on a monthly basis which ensures that the Company has sufficient cash on demand to finance expected operational expenses, financial obligations and investing activities. The Company developed standard payment periods in respect of trade accounts payable and monitors the timeliness of payments to its suppliers and contractors.

The following tables summarize the maturity profile of the Company's financial liabilities based on contractual payment terms.

| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | December 31, 2016 Total |
|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | | |
| Cash and cash equivalents | 10,038,579 | - | - | - | - | 10,038,579 |
| Trade receivables | 314,296 | - | - | - | - | 314,296 |
| **Total financial assets** | **10,352,875** | **-** | **-** | **-** | **-** | **10,352,875** |
| **FINANCIAL LIABILITIES** | | | | | | |
| Trade payables | - | - | 460,488 | - | - | 460,488 |
| Borrowings | 1,153,618 | 6,309,361 | 31,811,465 | 138,231,706 | - | 177,506,150 |
| **Total interest bearing financial liabilities** | **1,153,618** | **6,309,361** | **32,271,953** | **138,231,706** | **-** | **177,966,638** |
| Liquidity gap | **9,199,257** | **(6,309,361)** | **(32,271,953)** | **(138,231,706)** | **-** | |
| **Cumulative liquidity gap** | **9,199,257** | **2,889,896** | **(29,382,057)** | **(167,613,763)** | **(167,613,763)** | |

| | Up to 1 month | 1 month to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | December 31, 2015 Total |
|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | | |
| Cash and cash equivalents | 19,839,647 | - | - | - | - | 19,839,647 |
| Trade receivables | 421,401 | - | - | - | - | 421,401 |
| **Total financial assets** | **20,261,048** | **-** | **-** | **-** | **-** | **20,261,048** |
| **FINANCIAL LIABILITIES** | | | | | | |
| Trade payables | - | - | 2,486,062 | - | - | 2,486,062 |
| Borrowings | 2,591,030 | 5,644,499 | 28,450,324 | 136,411,685 | 21,376,030 | 194,473,568 |
| **Total interest bearing financial liabilities** | **2,591,030** | **5,644,499** | **30,936,386** | **136,411,685** | **21,376,030** | **196,959,630** |
| Liquidity gap | **17,670,018** | **(5,644,499)** | **(30,936,386)** | **(136,411,685)** | **(21,376,030)** | |
| **Cumulative liquidity gap** | **17,670,018** | **12,025,519** | **(18,910,867)** | **(155,322,552)** | **(176,698,582)** | |

Asset and liability maturity periods and the ability to replace interest liabilities at an acceptable cost when they mature, are crucial in determining the Company's liquidity and its susceptibility to fluctuations in interest rates and exchange rates.

As at December 31, 2016 and 2015 the Company had short term and long term negative liquidity gap. The management believes the government of the Republic of Azerbaijan will continue to provide necessary financial support when the obligations of the Company under the borrowings agreements falls due.

A further analysis of the liquidity and interest rate risks is presented in the following tables in accordance with IFRS 7. The amounts disclosed in these tables do not correspond to the amounts recorded on the statement of financial position as the presentation below includes a maturity analysis for financial liabilities that indicates the total remaining contractual payments (including interest payments), which are not recognized in the statement of financial position under the effective interest rate method.

The maturity analysis of financial liabilities at December 31, 2016 is as follows:

| | Demand and less than 1 month | From 1 to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **FINANCIAL LIABILITIES** | | | | | | |
| Trade payables | - | - | 460,488 | - | - | 460,488 |
| Borrowings | 1,153,618 | 6,801,343 | 34,305,664 | 145,997,276 | - | 188,257,901 |
| **Total potential future payments for financial obligations** | **1,153,618** | **6,801,343** | **34,766,152** | **145,997,276** | **-** | **188,718,389** |

The maturity analysis of financial liabilities at December 31, 2015 is as follows:

| | Demand and less than 1 month | From 1 to 3 months | 3 months to 1 year | 1 year to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| **FINANCIAL LIABILITIES** | | | | | | |
| Trade payables | - | - | 2,486,062 | - | - | 2,486,062 |
| Borrowings | 2,591,030 | 6,273,412 | 31,532,016 | 145,719,93 | 22,756,383 | 208,872,777 |
| **Total potential future payments for financial obligations** | **2,591,030** | **6,273,412** | **34,018,078** | **145,719,936** | **22,756,383** | **211,358,839** |

### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. Market risk comprises currency and interest rate risks.

### Interest rate risk

The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The interest rate risk is the risk of financial losses due to adverse changes in the interest rates of the Company's financial assets and liabilities.

The Company borrows variable rate basis and has other interest-bearing liabilities. The Company incurs interest rate risk on liabilities with variable interest rate.

### Impact on loss before income tax:

| | As at December 31, 2016 | |
|---|---|---|
| | Interest rate +1% | Interest rate –1% |
| **FINANCIAL LIABILITIES** | | |
| Borrowings | 1,775,062 | (1,775,062) |
| **Net annual impact on loss before income tax** | **1,775,062** | **(1,775,062)** |

| | As at December 31, 2015 | |
|---|---|---|
| | **Interest rate +1%** | **Interest rate –1%** |
| **FINANCIAL LIABILITIES** | | |
| Borrowings | 1,944,736 | (1,944,736) |
| **Net annual impact on loss before income tax** | **1,944,736** | **(1,944,736)** |

## Currency risk

The currency risk is the risk of losses due to adverse changes in foreign exchange rates with regard to the Company's assets and liabilities denominated in foreign currencies.

The Company maintains centralized currency risk management system, which establishes risk policy towards certain currencies and prescribes regular analysis of foreign currency risk exposure. This analysis includes the assessment of open foreign exchange position, forecast modeling of exchange rates and the analysis of deviations between forecast and budget rates. The Company aims at maintaining a neutral open foreign exchange position through offset of outflows in a foreign currency by inflows in corresponding currency.

The Company is exposed to currency risk on selected receivables, payables and borrowings that are denominated in a currency other than the Company's functional currency. The currencies in which these transactions are denominated are primarily EUR.

The Company's exposure to foreign currency exchange rate risk is presented in the table below:

| | **AZN** | **USD** | **EUR** | **December 31, 2016 Total** |
|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | |
| Cash and cash equivalents | 4,274,474 | 5,759,912 | 4,193 | 10,038,579 |
| Trade receivables | 314,296 | - | - | 314,296 |
| **TOTAL FINANCIAL ASSETS** | **4,588,770** | **5,759,912** | **4,193** | **10,352,875** |
| **FINANCIAL LIABILITIES** | | | | |
| Trade payables | 460,488 | - | - | 460,488 |
| Borrowings | - | - | 177,506,150 | 177,506,150 |
| **TOTAL FINANCIAL LIABILITIES** | **460,488** | **-** | **177,506,150** | **177,966,638** |
| **OPEN CURRENCY POSITION** | **4,128,282** | **5,759,912** | **(177,501,957)** | |

| | **AZN** | **USD** | **EUR** | **December 31, 2015 Total** |
|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | |
| Cash and cash equivalents | 18,848,731 | 987,100 | 3,816 | 19,839,647 |
| Trade receivables | 421,401 | - | - | 421,401 |
| **TOTAL FINANCIAL ASSETS** | **19,270,132** | **987,100** | **3,816** | **20,261,048** |
| **FINANCIAL LIABILITIES** | | | | |
| Trade payables | 159,030 | - | 2,327,032 | 2,486,062 |
| Borrowings | - | - | 194,473,568 | 194,473,568 |
| **TOTAL FINANCIAL LIABILITIES** | **159,030** | **-** | **196,800,600** | **196,959,630** |
| **OPEN CURRENCY POSITION** | **19,111,102** | **987,100** | **(196,796,784)** | |

**Currency risk sensitivity**

The following tables detail the Company’s sensitivity to a 10 percent increase and decrease in the respective currencies with regard to its net monetary position against the AZN. 10 percent is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where the AZN strengthens 10% against the relevant currency. For a 10% weakening of the AZN against the relevant currency, there would be a comparable impact on the profit and other equity, and the balances below would be negative.

| | December 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | **Change in exchange rate** | **Net impact on loss before income tax** | **Change in exchange rate** | **Net impact on loss before income tax** |
| AZN/USD | 10% | 575,991 | 10% | 98,710 |
| | -10% | (575,991) | -10% | (98,710) |

| | December 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | **Change in exchange rate** | **Net impact on loss before income tax** | **Change in exchange rate** | **Net impact on loss before income tax** |
| AZN/EUR | 10% | (17,750,196) | 10% | (19,679,678) |
| | -10% | 17,750,196 | -10% | 19,679,678 |

## 24. FAIR VALUE OF FINANCIAL INSTRUMENTS

As at December 31, 2016 and 2015 the Company had no financial instruments measured at fair value.

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

| | | Fair value measurement using | | | |
|---|---|---|---|---|---|
| | **Date of valuation** | **Quoted prices in active markets (Level 1)** | **Significant observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** | **Total** |
| **Assets for which fair values are disclosed** | | | | | |
| Cash and cash equivalents | December 31, 2016 | 10,038,579 | - | - | **10,038,579** |
| Trade receivables | December 31, 2016 | - | - | 314,296 | **314,296** |
| **Liabilities for which fair values are disclosed** | | | | | |
| Trade payables | December 31, 2016 | - | - | 460,488 | **460,488** |
| Borrowings | December 31, 2016 | - | - | 177,506,150 | **177,506,150** |

| | | Fair value measurement using | | | |
|---|---|---|---|---|---|
| | Date of valuation | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
| **Assets for which fair values are disclosed** | | | | | |
| Cash and cash equivalents | December 31, 2015 | 19,839,647 | - | - | **19,839,647** |
| Trade receivables | December 31, 2015 | - | - | 421,401 | **421,401** |
| **Liabilities for which fair values are disclosed** | | | | | |
| Trade payables | December 31, 2015 | - | - | 2,486,062 | **2,486,062** |
| Borrowings | December 31, 2015 | - | - | 194,473,568 | **194,473,568** |

### Fair value of financial assets and liabilities not carried at fair value

Set out below is a comparison by class of the carrying amounts and fair values of the Company's financial instruments that are not carried at fair value in the statement of financial position. The table does not include the fair values of non-financial assets and non-financial liabilities.

| | Carrying value 2016 | Fair value 2016 | Unrecognized gain/(loss) 2016 | Carrying value 2015 | Fair value 2015 | Unrecognized gain/(loss) 2015 |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and cash equivalents | 10,038,579 | 10,038,579 | - | 19,839,647 | 19,839,647 | - |
| Trade receivables | 314,296 | 314,296 | - | 421,401 | 421,401 | - |
| **Financial liabilities** | | | | | | |
| Trade payables | 460,488 | 460,488 | - | 2,486,062 | 2,486,062 | - |
| Borrowings | 177,506,150 | 177,506,150 | - | 194,473,568 | 194,473,568 | - |
| **Total unrecognized change in unrealized fair value** | | | - | | | - |

### Assets and liabilities for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value.

### Fixed and variable rate financial instruments

For quoted debt instruments the fair values are determined based on quoted market prices. The fair values of unquoted debt instruments are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.