Caspian Drilling Company LLC

Consolidated financial statements prepared under International Financial Reporting Standards

For the years ended 31 December 2018 and 2017,
with independent auditor's report

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

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

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

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

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Ernst & Young Holdings (CIS) B.V.

10 March 2021

Baku, Azerbaijan

Consolidated statements of profit and loss and other comprehensive income

For the years ended 31 December 2018 and 2017

(All amounts are in thousands of US dollars)

	Note	2018	2017	2016 restated*
Revenue	6	323,928	345,959	423,102
Cost of sales	7	(183,931)	(136,517)	(260,815)
Gross profit		**139,997**	**209,442**	**162,287**
General and administrative expenses	8	(13,385)	(11,400)	(11,992)
Other income	9	9,108	2,217	2,029
Other expenses	10	–	(18,238)	(85,790)
Operating profit		**135,720**	**182,021**	**66,534**
Foreign exchange (loss)/gain, net		(509)	2,047	2,686
Profit before tax		**135,211**	**184,068**	**69,220**
Income tax expense	11	(28,383)	(33,706)	(26,206)
Profit for the year		**106,828**	**150,362**	**43,014**
Other comprehensive loss for the year, net of tax – currency translation differences		(3)	–	–
Total comprehensive income for the year		**106,825**	**150,362**	**43,014**

* *Certain amounts shown here do not correspond to the 2016 financial statements and reflect adjustment made, refer to Note 5.*

Signed and authorized for release on behalf of management:

Farid Akhundov
General Director

Ramin Aghaverdiyev
Deputy General Director, Finance

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

Consolidated statements of financial position

For the years ended 31 December 2018 and 2017

(All amounts are in thousands of US dollars)

	Note	31 December 2018	31 December 2017	31 December 2016 restated*	1 January 2016 restated*
Non-current assets					
Property, plant and equipment	12	310,707	346,410	377,502	391,070
Intangible assets	13	1,336	938	1,081	8,584
Deposit in bank	16	–	20,000	20,000	20,000
Prepayments (long-term)	21	–	1,605	4,703	18,311
Deferred income tax assets	11	12,446	13,866	32,984	–
Total non-current assets		**324,489**	**382,819**	**436,270**	**437,965**
Current assets					
Cash and cash equivalents	15	296,274	162,424	146,887	145,408
Deposit in bank	16	34,007	–	–	–
Restricted cash	17	18,282	5,981	10,000	10,000
Trade and other receivables	18	50,088	37,288	74,258	67,517
Due from related parties	19	–	10,000	10,373	–
Prepaid income tax	11	313	4,933	–	–
Inventories	20	27,753	7,393	10,574	11,337
Prepayments (short-term)	21	4,499	5,308	3,019	7,627
Other current assets	22	24	4,764	61,093	79,437
Total current assets		**431,240**	**238,091**	**316,204**	**321,326**
Total assets		**755,729**	**620,910**	**752,474**	**759,291**
Equity					
Charter capital	23	285,846	285,846	285,846	285,846
Additional paid-in capital		448	448	448	448
Retained earnings		328,154	251,378	113,998	120,003
Cumulative translation differences		8	11	11	11
Total equity		**614,456**	**537,683**	**400,303**	**406,308**
Non-current liabilities					
Deferred revenue (non-current portion)	6	5,426	–	60,680	5,763
Deferred income tax liability		–	–	–	19,205
Total non-current liabilities		**5,426**	**–**	**60,680**	**24,968**
Current liabilities					
Accounts payable and accrued liabilities	24	103,043	16,767	25,242	43,486
Advances received		5,000	–	–	115,191
Due to related parties	25	–	969	15,091	35,486
Deferred revenue	6	12,649	60,680	145,172	19,712
Income tax payable	11	15,104	–	44,915	34,748
Other current liabilities	22	51	4,811	61,071	79,392
Total current liabilities		**135,847**	**83,227**	**291,491**	**328,015**
Total liabilities		**141,273**	**83,227**	**352,171**	**352,983**
Total equity and liabilities		**755,729**	**620,910**	**752,474**	**759,291**

* *Certain amounts shown here do not correspond to the 2016 and 2015 financial statements and reflect adjustment made, refer to Note 5.*

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

Consolidated statements of changes in equity

For the years ended 31 December 2018 and 2017

(All amounts are in thousands of US dollars)

	Note	Charter capital	Additional paid-in capital	Retained earnings	Cumulative translation differences	Total equity
Balance at 1 January 2016 (as reported)		**285,846**	**448**	**153,712**	**11**	**440,017**
Restatement	5	–	–	(33,709)	–	**(33,709)**
Balance at 1 January 2016 (restated*)		**285,846**	**448**	**120,003**	**11**	**406,308**
Profit for the period (restated*)		–	–	43,014	–	**43,014**
Total comprehensive income		**–**	**–**	**43,014**	**–**	**43,014**
Dividends declared	23	–	–	(49,019)	–	**(49,019)**
Balance at 31 December 2016 (restated*)		**285,846**	**448**	**113,998**	**11**	**400,303**
Profit for the period		–	–	150,362	–	**150,362**
Total comprehensive income		**–**	**–**	**150,362**	**–**	**150,362**
Dividends declared	23	–	–	(12,982)	–	**(12,982)**
Balance at 31 December 2017		**285,846**	**448**	**251,378**	**11**	**537,683**
Impact of change in accounting policy	4	–	–	(6,012)	–	**(6,012)**
Adjusted balance at 1 January 2018		**285,846**	**448**	**245,366**	**11**	**531,671**
Profit for the period		–	–	106,828	–	**106,828**
Other comprehensive loss		–	–	–	(3)	**(3)**
Total comprehensive income		**–**	**–**	**106,828**	**(3)**	**106,825**
Dividends declared	23	–	–	(24,040)	–	**(24,040)**
Balance at 31 December 2018		**285,846**	**448**	**328,154**	**8**	**614,456**

* *Certain amounts shown here do not correspond to the 2016 and 2015 financial statements and reflect adjustment made, refer to Note 5.*

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

Consolidated statements of cash flows

For the years ended 31 December 2018 and 2017

(All amounts are in thousands of US dollars)

	Note	2018	2017	2016
Operating activities				
Profit before tax		**135,211**	**184,068**	**69,220**
Adjustments for:				
Depreciation and amortization	7, 8	43,709	38,890	36,796
Expected credit loss (reversal)	8	(404)	–	–
(Gain)/loss on disposal of property, plant and equipment	12	–	(20)	6
Impairment of property, plant and equipment	12	–	18,233	77,438
Derecognition of intangible assets	13	–	–	8,102
Foreign exchange loss/(gain), net		293	(2,130)	(7,471)
Working capital adjustments				
Change in trade and other receivables		(12,800)	36,970	(6,741)
Change in due from related parties		–	373	(373)
Change in prepayments		809	(2,289)	4,608
Change in restricted cash		(12,301)	4,019	–
Change in inventories		(20,360)	3,181	763
Change in other current assets and liabilities		(20)	69	–
Change in due to related parties		(969)	947	(3,339)
Change in advances received		5,000	–	(115,191)
Change in accounts payable and accrued liabilities		85,980	2,059	(9,931)
Change in deferred revenue		(42,605)	(145,172)	180,377
Cash generated from operations		**181,543**	**139,198**	**234,264**
Income tax paid		(7,239)	(59,281)	(57,879)
Net cash flows from operating activities		**174,304**	**79,917**	**176,385**
Investing activities				
Loan provided to the parent		–	–	(12,547)
Purchase of property, plant and equipment		(6,209)	(48,372)	(112,323)
Purchase of intangible assets		(590)	–	(709)
Placement of deposits		(15,000)	–	–
Net cash flows used for investing activities		**(21,799)**	**(48,372)**	**(125,579)**
Financing activities				
Dividends paid	23	(14,040)	(12,982)	(46,472)
Net cash flows used for financing activities		**(14,040)**	**(12,982)**	**(46,472)**
Expected credit losses for cash and cash equivalents		(4,615)	–	–
Net foreign exchange difference		–	(3,026)	(2,855)
Net increase in cash and cash equivalents		**133,850**	**15,537**	**1,479**
Cash and cash equivalents as at 1 January	15	162,424	146,887	145,408
Cash and cash equivalents as at 31 December		**296,274**	**162,424**	**146,887**

Non-cash transactions performed by the Group during 2018 are represented by settlement of declared dividends with loan receivable from shareholder in the amount of USD 10,000, while no such transaction occurred in 2017 (2016: USD 2,547).

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