“AZERBAIJAN CASPIAN SHIPPING”
Closed Joint Stock Company

Consolidated financial statements
with independent auditors’ report

For the year ended 31 December 2015

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Independent auditors' report on the consolidated financial statements at 31 December 2015 to Management of "Azerbaijan Caspian Shipping" CJSC

We have audited the accompanying consolidated financial statements of "Azerbaijan Caspian Shipping" CJSC and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Holdings (CIS) B.V.

27 May 2016

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	Notes	31 December 2015	31 December 2014	1 January 2014
Assets				
Non-current assets				
Vessels, property, plant and equipment	13	586,134	578,151	210,940
Intangible assets		1,160	1,697	47
Long-term prepayments	9	–	11,106	–
Deferred tax assets	19	34,654	52,999	31,756
Total non-current assets		**621,948**	**643,953**	**242,743**
Current assets				
Inventories	10	59,561	68,261	48,101
Trade and other receivables	7	113,937	86,061	43,406
Taxes receivable	8	3,826	25,831	10,156
Short-term prepayments	9	3,800	4,568	17,354
Cash and cash equivalents	6	769	6,120	176
Restricted cash	6	2	16	93
Total current assets		**181,895**	**190,857**	**119,286**
Total assets		**803,843**	**834,810**	**362,029**
Equity				
Share capital	15	383,421	383,421	24
Additional paid-in capital	15	37,877	32,155	–
Receivable from shareholder	11	–	(4,312)	–
Retained earnings		272,072	203,075	241,634
Total equity		**693,370**	**614,339**	**241,658**
Liabilities				
Non-current liabilities				
Long-term loans	12	33,877	39,652	–
Deferred tax liabilities	19, 23	3,819	4,057	–
Non-current provisions	14	2,621	3,188	1,383
Total non-current liabilities		**40,317**	**46,897**	**1,383**
Current liabilities				
Short-term loans	12	–	17,046	–
Current portion of long-term loans	12	6,265	6,551	–
Trade and other payables	11	50,051	132,358	103,751
Current provisions	14	13,064	16,844	9,689
Taxes payable		776	775	5,548
Total current liabilities		**70,156**	**173,574**	**118,988**
Total liabilities		**110,473**	**220,471**	**120,371**
Total equity and liabilities		**803,843**	**834,810**	**362,029**

Signed and authorized for release on behalf of the Group on 27 May 2016.

Mr. Rauf Valiyev
Chairman

Mr. Jalal Farajli
Deputy Chairman on Economic Issues

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

	Notes	2015	2014
Revenue	16	331,642	262,480
Cost of sales	17	(224,459)	(241,981)
Gross profit		**107,183**	**20,499**
Social expenses	17	(2,975)	(1,961)
General and administrative expenses	17	(36,471)	(34,737)
Other operating income	20	30,192	39,159
Other operating expenses		(9,307)	(6,079)
Loss on disposal of vessels, property, plant and equipment		(575)	(2,620)
Foreign exchange gain		4,864	–
Operating profit		**92,911**	**14,261**
Finance costs	21	(2,145)	(1,216)
Profit before income tax		**90,766**	**13,045**
Income tax (expense)/benefit	19	(21,769)	20,971
Profit for the year		**68,997**	**34,016**
Other comprehensive income for the year		–	–
Total comprehensive income for the year		**68,997**	**34,016**

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

	Share capital	Additional paid-in capital	Receivable from share-holder	Retained earnings	Total
Balance at 1 January 2014	**24**	**–**	**–**	**241,634**	**241,658**
Total comprehensive income for the year	–	–	–	34,016	**34,016**
Acquisition of 100% interest in ASCSC (Note 23)	–	595	–	(72,575)	**(71,980)**
Receivable from shareholder	–	–	(4,312)	–	**(4,312)**
Increase in share capital (Note 15)	383,397	–	–	–	**383,397**
Increase in additional paid-in capital (Note 15)	–	31,560	–	–	**31,560**
Balance at 31 December 2014	**383,421**	**32,155**	**(4,312)**	**203,075**	**614,339**
Total comprehensive income for the year	–	–	–	68,997	**68,997**
Receivable from shareholder	–	–	4,312	–	**4,312**
Increase in share capital (Note 15)	–	–	–	–	**–**
Increase in additional paid-in capital (Note 15)	–	5,722	–	–	**5,722**
Balance at 31 December 2015	**383,421**	**37,877**	**–**	**272,072**	**693,370**

	Notes	2015	2014
Cash flows from operating activities			
Profit before income tax		90,766	13,045
Adjustments for:			
Depreciation of vessels, property, plant and equipment	13	71,090	63,148
Amortization of intangible assets		640	463
Impairment of trade and other receivables	7	8,520	2,831
Net foreign exchange differences		(1,532)	–
Loss on disposal of vessels, property, plant and equipment		575	2,620
Finance costs	21	2,145	1,216
Movements in provisions	14, 20	(2,265)	9,119
Gain on release of payables	20	(5,955)	(259)
Operating cash flows before working capital changes		**163,984**	**92,183**
Increase in trade and other receivables	7	(27,905)	(40,309)
Decrease/(Increase) in inventories	10	8,700	(3,622)
Decrease in prepayments	9	768	4,870
Decrease in taxes receivable	8	22,005	6,109
Decrease in trade and other payables	11	(85,794)	(11,187)
Decrease in provision	17	(4,048)	(4,992)
Decrease in taxes payable	19	(2,662)	(438)
Cash generated from operations		**75,048**	**42,614**
Income taxes paid		(1,000)	(4,064)
Interest paid		(1,895)	(303)
Net cash flows from operating activities		**72,153**	**38,247**
Cash flows from investing activities			
Purchase of vessels, property, plant and equipment	13	(58,760)	(98,530)
Acquisition of ASCSC, net of cash acquired	23	–	548
Purchase of intangible assets		(103)	(2,114)
Net cash flows used in investing activities		**(58,863)**	**(100,096)**
Cash flows from financing activities			
Proceeds from long-term loans	12	–	42,347
Proceeds from short-term loans	12	3,300	17,019
Repayment of long-term loans	12	(6,035)	(1,650)
Repayment of short-term loans	12	(22,369)	–
Increase in share capital and additional paid-in capital	15	5,722	10,000
Net cash flows (used in) / from financing activities		**(19,382)**	**67,716**
Net (decrease) / increase in cash and cash equivalents		**(6,092)**	**5,867**
Net foreign exchange difference		727	–
Cash and cash equivalents at the beginning of the year		6,136	269
Cash and cash equivalents at the end of the year		**771**	**6,136**

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

1. The Group and its operations

"Azerbaijan Caspian Shipping" Closed Joint Stock Company (the "Company") was established by merging the Azerbaijan State Caspian Sea Shipping Company ("ASCSC") and the Caspian Sea Oil Fleet ("CSOF") of the State Oil Company of Azerbaijan Republic ("SOCAR"), in accordance with the Decree No. 6 of the President of Azerbaijan Republic, dated 22 October 2013 on "Establishment of "Azerbaijan Caspian Shipping" Closed Joint-Stock Company" and Decree No. 213, dated 10 January 2014, on "Organization of Activity of "Azerbaijan Caspian Shipping" Closed Joint-Stock Company". Two companies were merged in order to continue fundamental structural reforms in the economy, increase domestic and international transportation in maritime industry, enhance competitiveness and transit potential of Azerbaijan and get synergies from centralized management of the state owned shipping companies.

The Group comprises the offshore support and merchant fleets, two shipyards and production support and social development entities with near to 9,000 of full-time employees.

The ultimate controlling party of the Group as at 31 December 2015 is the Government of the Republic of Azerbaijan (the "Government").

The registered address of the Group is M.A. Rasulzade str., 5, Baku, Azerbaijan.

2. Basis of preparation and significant accounting policies

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

For all periods up to and including the year ended 31 December 2012, the balances of CSOF had been consolidated in the consolidated financial statements of SOCAR which were prepared in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements for the year ended 31 December 2015 are the first the Group has prepared in accordance IFRS.

Consolidated financial statements have been prepared on a historical cost basis except for certain exemptions applied as part of transition to IFRS as detailed in Note 5.

Considering substance over form accounting concept, by economic impact the accounting treatment of the transaction of merging of two former companies should be considered as the acquisition of ASCSC by CSOF. Acquirer and acquiree in the mentioned transaction are determined in accordance with IFRS 3 based on the following considerations:

- profitability and significance of assets;
- composition of governing body and senior management of combined entity;
- accounting and other software systems.

The principal accounting policies applied in the preparation of these consolidated financial statements are set below. These policies have been consistently applied to all the periods presented. All amounts in these consolidated financial statements are presented in thousands Azerbaijan Manat ("AZN"), except when otherwise indicated.

Basis for consolidation. The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2015.

Subsidiaries are all entities over which the Group has control, being the power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. Specifically, the Group controls an investee if, and only if, the Group has:

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

2. Basis of preparation and significant accounting policies (continued)

Basis for consolidation (continued). The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary;
- derecognises the carrying amount of any non-controlling interest;
- derecognises the cumulative translation differences, recorded in equity;
- recognises the fair value of the consideration received;
- recognises the fair value of any investment retained;
- recognises any surplus or deficit in profit or loss;
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Current versus non-current classification. The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset as current when it is:

- ► expected to be realised or intended to sold or consumed in normal operating cycle;
- ► held primarily for the purpose of trading;
- ► expected to be realised within twelve months after the reporting period; or
- ► cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- ► it is expected to be settled in normal operating cycle;
- ► it is held primarily for the purpose of trading;
- ► it is due to be settled within twelve months after the reporting period; or
- ► there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

2. Basis of preparation and significant accounting policies (continued)

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

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

Business combinations with entities under common control

The Group applies acquisition method of accounting for business combinations with entities under the common control.

Foreign currency translation. The functional currency of the Company and its subsidiaries is Azerbaijan Manat as the majority of the Group’s revenues, costs, inventory purchased, and trade liabilities are either priced, incurred, payable or otherwise measured in Azerbaijan Manat.

The operations in the Group entities of which currency differ from the functional currency of the Group and not already measured in the Group’s functional currency are translated by following the below steps:

- monetary assets and liabilities not already measured in the functional currency of respective Group entity are translated into the functional currency at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of equity – currency translation difference.

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

At 31 December 2015 the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 1.5594, EUR 1 = AZN 1.7046, RUB 1 = AZN 0.0216 (31 December 2014: USD 1 = AZN 0.7844, EUR 1 = AZN 0.9522, RUB 1 = AZN 0.0133 and 1 January 2014: USD 1 = AZN 0.7845, EUR 1 = AZN 1.0788, RUB 1 = AZN 0.0241).

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value, or amortized cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

2. Basis of preparation and significant accounting policies (continued)

Financial instruments – key measurement terms (continued). A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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

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

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

2. Basis of preparation and significant accounting policies (continued)

Financial assets. The Group classifies its financial assets in the following measurement categories: a) financial assets at fair value through profit or loss; b) loans and receivables; c) financial assets held-to-maturity and d) available-for-sale financial assets. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

(a) *Financial assets at fair value through profit or loss.* Financial assets at fair value through profit or loss are financial assets held for trading (a financial asset is classified in this category if acquired principally for the purpose of selling in the short term) and financial assets designated upon initial recognition as at fair value through profit or loss. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss. Assets in this category are classified as current assets;

(b) *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 included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the statement of financial position;

(c) *Held-to-maturity financial assets.* This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held-to-maturity at their initial recognition and reassesses the appropriateness of that classification at each reporting date. Investment securities held-to-maturity are carried at amortised cost;

(d) *Available-for-sale financial assets.* Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date;

Regular purchases and sales of financial assets are recognized on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss statement are initially recognized at fair value, and transaction costs are expensed in the statement of profit or loss and other comprehensive income. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are presented in the statement of profit or loss and other comprehensive income within other gains/(losses) in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the statement of profit or loss and other comprehensive income as part of other income when the Group’s right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit or loss; translation differences on non-monetary securities are recognized in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in equity.

2. Basis of preparation and significant accounting policies (continued)

Financial assets (continued). When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the statement of profit or loss and other comprehensive income as gains and losses from investment securities. Interest on available-for-sale securities calculated using the effective interest rate method is recognized in the statement of profit or loss and other comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognized in the statement of profit or loss and other comprehensive income as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income – is removed from equity and recognized in the profit or loss. Impairment losses recognized in the statement of profit or loss and other comprehensive income on equity instruments are not reversed through the profit or loss.

Financial liabilities. The Group classifies its financial liabilities into the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which they arise. Other financial liabilities are carried at amortised cost.

Derecognition of financial assets. The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Derecognition of financial liabilities. The Group derecognises financial liability when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts, together with any costs or fees incurred are recognized in profit or loss.

2. Basis of preparation and significant accounting policies (continued)

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest rate method. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. A provision for impairment of receivables is established when there is objective evidence that the Group 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 provision is recognised in profit or loss. The primary factors that the Group considers when determining whether a receivable is impaired are its overdue status and realisability or related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty;
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

Trade and other receivables are derecognised upon cash receipts from customers and borrowers or other similar settlements.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

Restricted cash. Restricted cash is presented separately from cash and cash equivalents. Restricted balances are excluded from cash and cash equivalents for the purposes of cash flow statement.

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

Loans. All loans are initially recognised at fair value of the proceeds received net of issue costs associated with the loan. Loans are carried at amortised cost using the effective interest rate method.

Interest costs on loans to finance the construction of vessels, property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Vessels, property, plant and equipment. Construction in progress, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Significant renovation and overhaul expenses over vessels arising at a later date are included in each asset's book value. They can be recognised as a separate asset only if it is likely that the future economic benefits associated with the item will be beneficial to the Group and if the acquisition cost of the asset can be reliably determined. Ordinary repair and maintenance expenses are recognised as expenses for the reporting period during which they were incurred.

2. Basis of preparation and significant accounting policies (continued)

Vessels, property, plant and equipment (continued). Vessels are depreciated over their estimated useful lives. The estimated useful lives and the residual values of assets are revised at each end of the reporting period and, when necessary, adjusted to reflect changes that have taken place in the expected future economic benefits.

A revaluation surplus is recorded in other comprehensive income and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, the increase is recognised in profit or loss. A revaluation deficit is recognised in the statement of profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Depreciation. Vessels, property, plant and equipment related to shipping industry are depreciated using a straight line depreciation method. Land is not depreciated. Assets under construction are not depreciated.

The estimated useful lives of the Group's vessels, property, plant and equipment are as follows:

Buildings and constructions	15 to 30 years
Machinery and equipment	3 to 25 years
Vessels and port facilities	3 to 30 years

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

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life unless scrap value is significant. The assets' residual values are reviewed, and adjusted if appropriate, at each reporting date.

Leases. The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee. A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

2. Basis of preparation and significant accounting policies (continued)

Leases (continued)

Group as a lessor. Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Goodwill. Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible assets. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. Intangible assets include rights and computer software, patents, licences, customer relationships, trade name, water rights and development projects.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible assets.

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

2. Basis of preparation and significant accounting policies (continued)

Research and development costs. Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- its intention to complete and its ability and intention to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset;
- the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Inventories. Inventories are stated at the lower of cost and net realizable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to sell.

Cost is assigned by the weighted average method. Cost comprises direct purchase costs of materials for vessels repair and maintenance and cost of production (based on normal operating capacity).

Distribution to the Government. Distribution to the Government represent cash distributions or financing which the Group may be required to make to the state budget, various government agencies and projects administered by the Government based on the particular decisions of the Government. Such distributions are recorded as a reduction of equity. Distributions in the form of transfers of non-monetary assets are recognised at the carrying value of transferred assets.

Contributions by the Government. Contributions by the Government are made in the form of cash contributions, transfer of other state-owned entities or transfer of all or part of the Government’s share in other entities. Transfer of the state-owned entities to the Group is recognized as contribution through equity statement in the amount being the fair value of the transferred entity (in case of transfer by the Government of its share in other entities – the transferred share in the fair value of the respective entity).

Value-added tax. The tax authorities permit the settlement of sales and purchases value-added tax (“VAT”) on a net basis.

VAT payable. VAT payable represents VAT related to sales net of VAT on purchases which have been settled at the reporting date. VAT related to sales is payable to tax authorities either upon receipt of payment, if payment is received prior to or within 30 days from the date of sale, or at recognition of sales to customers, if payment is received after 30 days from the date of sale. VAT related to sales which have not been settled at the statement of financial position date is also included in VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT where applicable. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

VAT recoverable. VAT recoverable relates to purchases which have not been settled at the reporting date. VAT recoverable is reclaimable against VAT on sales upon payment for the purchases.

Revenue recognition. The Group’s revenue is mainly generated through sales of offshore services and services which are port operations and transportation of cargo and passengers. Revenue is recognised as the services are rendered and to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue from port services is deferred relating to the uncompleted part of these services on each reporting date. Revenue is measured at the fair value of the consideration received or receivable adjusted according to indirect taxes, revenue adjustments and exchange rate differences. Revenue from time chartered vessels is recognised based on chartered days.

2. Basis of preparation and significant accounting policies (continued)

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

Related parties. Related parties are disclosed in accordance with IAS 24, *Related Party Disclosures*.

Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

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

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

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than income, are recorded within operating expenses.

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

Expenses. Expenses are presented by function in consolidated statement of comprehensive income. Categorization of the nature of expenses is based on operational functions of the Group's entities and subsidiaries.

3. Critical accounting estimates and judgements

Impairment provision for trade receivables. The impairment provision for trade receivables is based on management's assessment of the probability of collection of individual customer accounts receivable. Significant financial difficulties of the customer, probability that the customer will suffer bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is potentially impaired. Actual results could differ from these estimates if there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates.

When there is no expectation of recovering additional cash for an amount receivable, amount receivable is written off against associated provision.

Future cash flows of trade receivables that are evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Deferred tax. Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

3. Critical accounting estimates and judgements (continued)

Deferred tax (continued). Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

Provisions. Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3. Critical accounting estimates and judgements (continued)

Impairment of non-financial assets. Management assesses whether there are any indicators of possible impairment of all non-financial assets at each reporting date based on events or circumstances that indicate the carrying value of assets may not be recoverable. Such indicators include changes in the Group's business plans, changes in commodity prices leading to unprofitable performances, changes in product mixes. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when impairment indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

If the estimated weighted average cost of capital used in the calculation had been 1 per cent higher/lower than management's estimate, the value vessels, property, plant and equipment would have been AZN 159,501 lower / AZN 206,584 higher, respectively. Both cases would not result in impairment loss on vessels, property, plant and equipment.

Useful lives of vessels, property, plant and equipment and intangible assets. Management determines the estimated useful lives and related depreciation and amortization charges for its vessels, property, plant and equipment and intangible assets. This estimate is based on projected period over which the Group expects to consume economic benefits from the asset. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete assets that have been abandoned or sold. The useful lives are reviewed at least at each reporting date. Changes in any of the above conditions or estimates may result in adjustments to future depreciation rates.

Provision for unused vacation. The Group has a policy to settle total amount of payable to individual employee accrued for several years for unused vacations only when the vacation option is utilized by the employee and no reliable basis for estimation of timing of payment is available.

4. New standards and amendments issued, but not yet effective

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

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

The Group plans to adopt the new standard on the required effective date. During 2015, the Group has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. Overall, the Group expects no significant impact on its balance sheet and equity except for the effect of applying the impairment requirements of IFRS 9.

4. New standards and amendments issued, but not yet effective (continued)

IFRS 9 Financial Instruments (continued)

(a) Classification and measurement

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Quoted equity shares currently held as available-for-sale with gains and losses recorded in other comprehensive income ("OCI") will be measured at fair value through profit or loss instead, which will increase volatility in recorded profit or loss. The AFS reserve currently in accumulated OCI will be reclassified to opening retained earnings. Debt securities are expected to be measured at fair value through OCI under IFRS 9 as the Group expects not only to hold the assets to collect contractual cash flows but also to sell a significant amount on a relatively frequent basis.

The equity shares in non-listed companies are intended to be held for the foreseeable future. The Group expects to apply the option to present fair value changes in OCI, and, therefore, believes the application of IFRS 9 would not have a significant impact. If the Group were not to apply that option, the shares would be held at fair value through profit or loss, which would increase the volatility of recorded profit or loss.

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

(b) Impairment

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

(c) Hedge accounting

The Group believes that all existing hedge relationships that are currently designated in effective hedging relationships will still qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, the Group does not expect a significant impact as a result of applying IFRS 9. The Group will assess possible changes related to the accounting for the time value of options, forward points or the currency basis spread in more detail in the future.

IFRS 14 Regulatory Deferral Accounts. IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. 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 OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Group is an existing IFRS preparer, this standard would not apply.

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

4. New standards and amendments issued, but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers (continued). The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2015, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Group is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments.

The Group is in the business of providing fire prevention and electronics equipment and services. The equipment and services are sold both on its own in separate identified contracts with customers and together as a bundled package of goods and/or services.

(a) Sale of goods

Contracts with customers in which equipment sale is the only performance obligation are not expected to have any impact on the Group. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

In applying IFRS 15, the Group considered the following:

(i) Variable consideration

Some contracts with customers provide a right of return, trade discounts or volume rebates. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. If revenue cannot be reliably measured, the Group defers revenue recognition until the uncertainty is resolved. Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated at contact inception.

IFRS 15 requires the estimated variable consideration to be constrained to prevent over-recognition of revenue. The Group continues to assess individual contracts to determine the estimated variable consideration and related constraint. The Group expects that application of the constraint may result in more revenue being deferred than is under current IFRS.

(ii) Warranty obligations

The Group provides warranties for general repairs and does not provide extended warranties or maintenance services in its contracts with customers. As such, the Group determines that such warranties are assurance type warranties which will continue to be accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with its current practice.

(iii) Loyalty points programme

The Group determines that the loyalty programme offered within its electronic segment gives rise to a separate performance obligation because it provides a material right to the customer. Thus, it will need to allocate a portion of the transaction price to the loyalty programme based on relative stand-alone selling price instead of the allocation methodologies allowed under IFRIC 13 *Customer Loyalty Programmes*. As a result, the Group expects a change in the allocation of the consideration received and consequently the timing of the amount of revenue recognised in relation to the loyalty programme may be impacted. Consistent with current requirements in IFRIC 13, the Group expects that the revenue will still be recognised when the loyalty points are redeemed or expire. The Group is still analysing contracts with customers that have such elements and will need to perform further assessments in the future to quantify the financial impact to its financial statements.

4. New standards and amendments issued, but not yet effective (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

(b) Rendering of services

The Group provides installation services within the fire prevention segment. These services are sold either on their own in contracts with the customers while others may be bundled together with the sale of equipment to a customer. The Group has preliminarily assessed that the services are satisfied over time given that the customer simultaneously receives and consumes the benefits provided by the Group. Consequently, the Group does not expect any significant impact to arise from these service contracts.

(c) Equipment received from customers

When an entity receives, or expects to receive, non-cash consideration, IFRS 15 requires that the fair value of the non-cash consideration is included in the transaction price. An entity would have to measure the fair value of the non-cash consideration in accordance with IFRS 13 *Fair Value Measurement*.

The Group receives transfers of moulds and other tools for its manufacturing process from customers, which are recognised at fair value as property, plant and equipment under IFRIC 18 *Transfers of Assets from Customers*. This is consistent with the requirements of IFRS 15 and the Group does not expect equipment received from customers to have any resultant significant impact.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests. The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation. The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants. The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.

4. New standards and amendments issued, but not yet effective (continued)

Amendments to IAS 27: Equity Method in Separate Financial Statements. The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

Annual improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits. The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

4. New standards and amendments issued, but not yet effective (continued)

Annual improvements 2012-2014 cycle (continued)

IAS 34 Interim Financial Reporting. The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

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

Amendments to IAS 1 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 OCI 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;
- 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 OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

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 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.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group.

5. First-time adoption of IFRS

These consolidated financial statements, for the year ended 31 December 2015, are the first the Group has prepared in accordance with IFRS. For all periods up to and including the year ended 31 December 2012, the balances of CSOF had been consolidated in the consolidated financial statements of SOCAR which were prepared in accordance with International Financial Reporting Standards (“IFRS”). This note explains the principal adjustments made by the Group in restating its statement of financial position prepared as at 1 January 2014 and its consolidated financial statements prepared as at 31 December 2014 and for the year then ended.

5. First-time adoption of IFRS (continued)

Accordingly, the Group has prepared financial statements that comply with IFRS applicable as at 31 December 2015, together with the comparative period data for the year ended 31 December 2014, as described in the summary of significant accounting policies. In preparing the financial statements, the Group’s opening statement of financial position was prepared as at 1 January 2014, the Group’s date of transition to IFRS.

Exemptions applied IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

- The Group has applied the transitional relief from retrospective measurement of government loans with a below-market rate of interest.

- The Group has not applied IFRS 3 *Business Combinations* to acquisitions of subsidiaries, which are considered businesses for IFRS, or of interests in associates and joint ventures that occurred before 1 January 2014. Use of this exemption means that the carrying amounts of assets and liabilities, that are required to be recognized under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position. The Group did not recognize or exclude any previously recognized amounts as a result of IFRS recognition requirements.

- The Group has not applied IAS 21 retrospectively to fair value adjustments and goodwill from business combinations that occurred before the date of transition to IFRS. Such fair value adjustments and goodwill are treated as assets and liabilities of the parent rather than as assets and liabilities of the acquiree. Therefore, those assets and liabilities are already expressed in the functional currency of the parent or are non-monetary foreign currency items and no further translation differences occur.

- The Group elected to measure vessels, property, plant and equipment at fair value at the date of transition to IFRS.

- Cumulative currency translation differences for all foreign operations are deemed to be zero as at 1 January 2014.

- The estimates at 1 January 2014 and at 31 December 2014 are consistent with those made for the same dates in accordance with accounting policies of SOCAR apart from the following items where application of those policies did not require estimation due to scope of CSOF:

  - Provision for potential tax accruals;

  - Environmental provision;

  - Employee disability provision.

  The estimates used by the Group to present these amounts in accordance with IFRS reflect conditions at 1 January 2014, the date of transition to IFRS and as at 31 December 2015.

5. First-time adoption of IFRS (continued)

Group reconciliation of equity as at 1 January (date of transition to IFRS)

	Notes	2014 Unaudited	Remeasure-ments	2014 Audited IFRS
Assets				
Non-current assets				
Vessels, property, plant and equipment	A	214,945	(4,005)	210,940
Intangible assets		47	–	47
Long-term prepayments		–	–	–
Deferred tax assets	B	27,554	4,202	31,756
Total non-current assets		**242,546**	**197**	**242,743**
Current assets				
Inventories		48,819	(718)	48,101
Trade and other receivables	C	43,747	(341)	43,406
Taxes receivable		11,675	(1,519)	10,156
Short-term prepayments	D	19,456	(2,102)	17,354
Cash and cash equivalents		176	–	176
Restricted cash		93	–	93
Total current assets		**123,966**	**(4,680)**	**119,286**
Total assets		**366,512**	**(4,483)**	**362,029**
Equity				
Share capital		(24)	–	(24)
Additional paid-in capital		–	–	–
Retained earnings		(240,441)	(1,193)	(241,634)
Total equity		**(240,465)**	**(1,193)**	**(241,658)**
Liabilities				
Non-current liabilities				
Long-term loans	E	–	–	–
Deferred tax liabilities		–	–	–
Non-current Provisions	F	(2,764)	1,381	(1,383)
Total non-current liabilities		**(2,764)**	**1,381**	**(1,383)**
Current liabilities				
Short-term loans	E	–	–	–
Short-term portion of long-term loans	E	–	–	–
Trade and other payables	G	(101,686)	(2,065)	(103,751)
Current provisions	F	(8,203)	(1,486)	(9,689)
Taxes payable	G	(13,394)	7,846	(5,548)
Total current liabilities		**(123,283)**	**4,295**	**(118,988)**
Total liabilities		**(126,047)**	**5,676**	**(120,371)**
Total equity and liabilities		**(366,512)**	**4,483**	**(362,029)**

5. First-time adoption of IFRS (continued)

Group reconciliation of equity as at 31 December

	Notes	2014 Unaudited	Remeasure-ments	2014 Audited IFRS
Assets				
Non-current assets				
Vessels, property, plant and equipment	A	582,706	(4,555)	578,151
Intangible assets		1,697	–	1,697
Long-term prepayments and advances		–	11,106	11,106
Deferred tax assets	B	23,103	29,896	52,999
Total non-current assets		**607,506**	**36,447**	**643,953**
Current assets				
Inventories		72,371	(4,110)	68,261
Trade and other receivables	C	90,726	(4,665)	86,061
Taxes receivable		25,678	153	25,831
Short-term prepayments	D	16,542	(11,974)	4,568
Cash and cash equivalents		6,120	–	6,120
Restricted cash		16	–	16
Total current assets		**211,453**	**(20,596)**	**190,857**
Total assets		**818,959**	**15,851**	**834,810**
Equity				
Share capital		(384,879)	1,458	(383,421)
Additional paid-in capital		(44,560)	12,405	(32,155)
Receivable from shareholder		–	4,312	4,312
Retained earnings		(221,122)	18,047	(203,075)
Total equity		**(650,561)**	**36,222**	**(614,339)**
Liabilities				
Non-current liabilities				
Long-term loans	E	–	(39,652)	(39,652)
Deferred tax liabilities		–	(4,057)	(4,057)
Non-current Provisions	F	–	(3,188)	(3,188)
Total non-current liabilities		**–**	**(46,897)**	**(46,897)**
Current liabilities				
Short-term loans	E	–	(17,046)	(17,046)
Short-term portion of long-term loans	E	(62,566)	56,015	(6,551)
Trade and other payables	G	(92,502)	(39,856)	(132,358)
Current provisions	F	(8,203)	(8,641)	(16,844)
Taxes payable	G	(5,127)	4,352	(775)
Total current liabilities		**(168,398)**	**(5,176)**	**(173,574)**
Total liabilities		**(168,398)**	**(52,073)**	**(220,471)**
Total equity and liabilities		**(818,959)**	**(15,851)**	**(834,810)**

5. First-time adoption of IFRS (continued)

Reconciliation of total comprehensive income for the year ended 31 December

	Notes	2014 Unaudited	Remeasure-ments	2014 Audited IFRS
Revenue	H	264,743	(2,263)	262,480
Cost of sales	I	(251,622)	9,641	(241,981)
Gross profit		**13,121**	**7,378**	**20,499**
Social expenses	I	(2,549)	588	(1,961)
General and administrative expenses	I	(20,788)	(13,949)	(34,737)
Other operating income	H	35,291	3,868	39,159
Other operating expenses	I	(3,399)	(2,680)	(6,079)
Loss on disposal of vessels, property, plant and equipment		(2,620)	–	(2,620)
Operating profit		**19,056**	**(4,795)**	**14,261**
Finance costs	I	(303)	(913)	(1,216)
Profit before income tax		**18,753**	**(5,708)**	**13,045**
Income tax (expense)/benefit		(1,474)	22,445	20,971
Profit for the year		**17,279**	**16,737**	**34,016**
Other comprehensive income		–	–	–
Total comprehensive income for the year		**17,279**	**16,737**	**34,016**

Notes to the reconciliation of equity as at 1 January 2014 and 31 December 2014 and total comprehensive income for the year ended 31 December 2014

A. CSOF’s vessels, property, plant and equipment were recognized at their fair value at the date of transition to IFRS, 1 January 2014. Moreover, vessels, property, plant and equipment balance transferred from ASCSC as of the acquisition date on 1 February 2014 was revalued by independent valuators and recognized based on these figures. The adjustments were made mainly for the recognition of capitalization costs and writing off vessels, property, plant and equipment from the balance of CSOF as of 1 January 2014.

B. The various transitional adjustments lead to different timing differences. According to the Group’s accounting policy it has to account for such differences. Deferred tax adjustments are recognized in correlation to the underlying transaction in retained earnings and consolidated statement of comprehensive income as of 1 January 2014 and 31 December 2014.

C. At the date of transition to IFRS and 31 December 2014 the Group assessed doubtful and irrecoverable debts and created allowance for the IFRS reporting purposes.

D. The Group has made certain correcting and reclassification adjustments with respect to trade and other receivables, prepayments and advances from unidentified customers balance for the purposes of IFRS reporting.

E. The Group has made a number of correcting and reclassification adjustments to:
   1. achieve proper recognition of loans transferred from acquisition of ASCSC and;
   2. reclassify loans obtained from Ministry of Finance of Azerbaijan Republic and local banks among current, non-current interest bearing loans for the purpose of IFRS reporting.

F. The Group has recognized provision for disability and unused vacation payments of employees, and environmental provisions for the purposes of IFRS reporting.

G. The Group has made a number of correcting and reclassification adjustments with respect to income tax payable, other taxes and penalties payable, trade and other payables and advances received balances for the purpose of IFRS reporting.

5. First-time adoption of IFRS (continued)

Notes to the reconciliation of equity as at 1 January 2014 and 31 December 2014 and total comprehensive income for the year ended 31 December 2014 (continued)

H. The Group has made certain correcting and reclassification adjustments on revenue and other operating income for the purposes of IFRS reporting.

I. The Group has made certain correcting and reclassification adjustments on cost of sales, social, general and administrative, finance and other operating expenses for the purposes of IFRS reporting.

6. Cash and cash equivalents and restricted cash

Cash and cash equivalents and restricted cash comprised the following as at:

	31 December 2015	31 December 2014	1 January 2014
USD denominated bank balances	416	5,461	–
AZN denominated bank balances	348	657	176
EUR denominated bank balances	5	1	–
Cash on hand	–	1	–
VAT deposit account, AZN	2	16	93
Total cash and cash equivalents and restricted cash	**771**	**6,136**	**269**

Effective 1 January 2008 the state tax authorities introduced VAT deposit accounts and enforced payments of input and output VAT via these accounts. In order to comply with new tax regulation, the Group has opened a VAT deposit account. In accordance with this regulation, the balance on VAT deposit account may only be withdrawn with a 45 days notice to the tax authorities.

7. Trade and other receivables

Trade and other receivables comprised the following as at:

	31 December 2015	31 December 2014	1 January 2014
Trade receivables	122,125	88,618	43,437
Less: impairment loss provision	(8,520)	(2,739)	(827)
Total trade receivables	**113,605**	**85,879**	**42,610**
Other short-term receivables	332	274	796
Less: impairment loss provision	–	(92)	–
Total trade and other receivables	**113,937**	**86,061**	**43,406**

Movements on the provision for impairment of trade receivables were as follows:

At 1 January 2014	**(827)**
Receivables written off during the year as uncollectable, net of recovery	827
Charge for the year	(2,831)
At 31 December 2014	**(2,831)**
Receivables written off during the year as uncollectable, net of recovery	2,831
Charge for the year	(8,520)
At 31 December 2015	**(8,520)**

7. Trade and other receivables (continued)

As at 31 December the ageing analysis of trade and other receivables is as follows:

			Past due but not impaired			
	Total	**<30 days**	**30-60 days**	**61-90 days**	**91-360 days**	**>360 days**
1 January 2014	**44,233**	18,758	16,474	5,658	1,904	1,439
31 December 2014	**88,892**	28,886	19,189	11,012	21,560	8,245
31 December 2015	**122,457**	28,410	24,812	23,007	45,423	805

8. Taxes receivable

Taxes receivable is recoverable by means of an offset against future tax liabilities or as a direct cash refund from the tax authorities.

As at 31 December 2015, 31 December 2014 and 1 January 2014 taxes receivable mainly comprised of VAT recoverable related to purchases which have not been settled at the end of the year, and thus not claimed in tax declarations and prepayment on construction works which can be claimed only after the vendor performs the associated services.

9. Prepayments

Prepayments comprised the following as at:

	31 December 2015	**31 December 2014**	**1 January 2014**
Short-term prepayments for trade and services	3,800	4,568	18,017
Less impairment loss provision	–	–	(663)
Long-term prepayments for equipment	–	11,106	–
Total prepayments	**3,800**	**15,674**	**17,354**

Prepayments as at 31 December 2015, 31 December 2014 and 1 January 2014 are primarily represented by prepayments made to suppliers for construction of vessels, raw materials, parts and equipment and repair and maintenance services for vessels.

10. Inventories

Inventories comprised the followings as at:

	31 December 2015	**31 December 2014**	**1 January 2014**
Raw materials and spare parts	54,193	63,509	44,868
Fuel	5,307	4,703	3,157
Other	61	49	76
Total inventories	**59,561**	**68,261**	**48,101**

11. Trade and other payables

Trade and other payables as at 31 December 2015, 31 December 2014 and 1 January 2014 represent amounts due to suppliers for repair and maintenance services for vessels and purchases of fuel for vessels, raw materials and spare parts.

	31 December 2015	31 December 2014	1 January 2014
Trade payables	44,311	126,218	100,590
Other payables	4	220	–
Total financial payables	**44,315**	**126,438**	**100,590**
Advances received from customers	579	1,145	29
Payable to employees	5,157	4,775	3,132
Total trade and other payables	**50,051**	**132,358**	**103,751**

Financial payables of AZN 3,139 (31 December 2014: AZN 8,656 and 1 January 2014: AZN 5,357) are denominated in foreign currencies, mainly in EUR and USD.

Trade payables balance as of 31 December 2014 includes amount of AZN 4,312 for the acquisition of “Neptun” floating dock which is purchased at government financing. The amount received from the Government in 2015.

12. Loans

As at 31 December 2015 and 31 December 2014, short-term loans of the Group were represented by the following facilities:

Facilities	Interest rate	Maturity date	Total borrowed in original currency	Balance as at 31 December 2015	Balance as at 31 December 2014
Short-term facilities in USD	LIBOR + 5%	November 2015	11,500	–	9,019
Short-term facilities in AZN	10%	May 2015	8,000	–	8,027
Current portion of long-term loans			–	6,265	6,551
Total short-term loans and current portion of long-term loans				**6,265**	**23,597**

As at 31 December 2015 and 31 December 2014, long-term loans of the Group were represented by the following facilities:

			Balance as at 31 December 2015		Balance as at 31 December 2014	
Facilities	**Interest rate**	**Maturity date**	**Non-current portion**	**Current portion**	**Non-current portion**	**Current portion**
Azerbaijani Manat 13 million	4.00%	September 2017	–	1,444	1,541	1,723
Azerbaijani Manat 42 million	3.65%	August 2024	33,877	4,821	38,111	4,828
Total long-term loans			**33,877**	**6,265**	**39,652**	**6,551**

13. Vessels, property, plant and equipment

Movements in the carrying amount of vessels, property, plant and equipment (“PPE”) were as follows:

	Buildings and constructions	Machinery and equipment	Vessels and port facilities	Vehicles, furniture and other	Construction in progress	Total
Cost						
At 1 January 2014	**1,606**	**11,144**	**602,529**	**12,663**	**18,174**	**646,116**
Additions	134	1,549	97,695	1,419	27,101	**127,898**
Acquisition through business combination (Note 23)	62,077	4,587	226,777	2,983	8,657	**305,081**
Disposals	(132)	(4)	(3,217)	(222)	–	**(3,575)**
Transfers	29,666	–	–	–	(29,666)	**–**
At 31 December 2014	**93,351**	**17,276**	**923,784**	**16,843**	**24,266**	**1,075,520**
Additions	963	1,966	47,009	1,643	28,067	**79,648**
Disposals	(302)	(303)	(27)	(647)	–	**(1,279)**
Transfers	4,406	691	–	–	(5,097)	**–**
At 31 December 2015	**98,418**	**19,630**	**970,766**	**17,839**	**47,236**	**1,153,889**
Depreciation and impairment						
At 1 January 2014	**(935)**	**(8,797)**	**(409,750)**	**(8,572)**	**(7,122)**	**(435,176)**
Depreciation charge for the year	(4,046)	(1,311)	(54,963)	(2,828)	–	**(63,148)**
Disposal	2	–	734	219	–	**955**
Transfers	(131)	–	–	–	131	**–**
At 31 December 2014	**(5,110)**	**(10,108)**	**(463,979)**	**(11,181)**	**(6,991)**	**(497,369)**
Depreciation charge for the year	(4,517)	(1,600)	(63,033)	(1,940)	–	**(71,090)**
Disposal	80	231	19	374	–	**704**
At 31 December 2015	**(9,547)**	**(11,477)**	**(526,993)**	**(12,747)**	**(6,991)**	**(567,755)**
Net book value						
At 1 January 2014	**671**	**2,347**	**192,779**	**4,091**	**11,052**	**210,940**
At 31 December 2014	**88,241**	**7,168**	**459,805**	**5,662**	**17,275**	**578,151**
At 31 December 2015	**88,871**	**8,153**	**443,773**	**5,092**	**40,245**	**586,134**

13. Vessels, property, plant and equipment (continued)

Acquisition through business combination represents vessels, property, plant and equipment acquired through acquisition of ASCSC in amount of AZN 305,081.

In 2014, the Group engaged an independent appraiser to determine the fair value of vessels, property, plant and equipment balance transferred from ASCSC as of 1 February 2014. Fair value of vessels, property, plant and equipment was determined with the reference to income approach.

14. Provisions

	Environ-mental obligations (Note 25)	Disability payments	Unused vacation	Provision for potential tax accruals	Total
Carrying amount at 1 January 2014	**(6,598)**	**(1,800)**	**(2,674)**	**–**	**(11,072)**
Acquisition through business combination (Note 23)	–	(1,560)	(3,044)	–	**(4,604)**
Change in estimate and discount rate	–	(970)	–	–	**(970)**
Utilization	–	727	4,265		**4,992**
Charge	–	–	(5,084)	(3,065)	**(8,149)**
Unwinding of the present value discount (Note 21)	–	(229)	–	–	**(229)**
Carrying amount at 31 December 2014	**(6,598)**	**(3,832)**	**(6,537)**	**(3,065)**	**(20,032)**
Utilization	–	794	3,254		**4,048**
Disposals	–	–	–	604	**604**
Unwinding of the present value discount (Note 21)	–	(305)	–	–	**(305)**
Carrying amount at 31 December 2015	**(6,598)**	**(3,343)**	**(3,283)**	**(2,461)**	**(15,685)**
At 31 December 2014	**(6,598)**	**(3,832)**	**(6,537)**	**(3,065)**	**(20,032)**
Current	(6,598)	(644)	(6,537)	(3,065)	**(16,844)**
Non-current	–	(3,188)	–	–	**(3,188)**
At 31 December 2015	**(6,598)**	**(3,343)**	**(3,283)**	**(2,461)**	**(15,685)**
Current	(6,598)	(722)	(3,283)	(2,461)	**(13,064)**
Non-current	–	(2,621)	–	–	**(2,621)**

Provision for disability payments. The Group has an obligation to compensate its employees for the damage caused to their health during their employment, as well as to compensate the families of the employees died at work. The Group calculated the present value of the injury payments to employees using a discount rate of 7.95%, 5.46% and 6.83% as of 31 December 2015, 31 December 2014 and 1 January 2014, respectively. For the purpose of calculation of the lifetime payments to injured employees, the Group estimated a life expectancy as 71 and 77 for men and women, respectively.

Provision for potential tax accruals: In accordance with local tax legislation the Group should accrue VAT for the residual value of disposed vessels, property, plant and equipment. The Group disposed 16 vessels in 2014 with total carrying value of AZN 17,028. The Group accrued VAT on disposal of four vessels out of 16 in amount of AZN 604 in 2015.

15. Share capital and additional paid-in capital

Share capital. Parent company of the Group, "Azerbaijan Caspian Shipping" CJSC, has a legal status of a state enterprise. During 2014 the Group's share capital increased to AZN 383,421 at 31 December 2014 from AZN 24 at 1 January 2014. This increase is related to the acquisition of ASCSC. The Group includes four separate legal entities each possessing their own share capital. As at 31 December 2014 the Company had authorized and issued 383,420,621 shares at par 1 Azerbaijani Manat to the Government of the Republic of Azerbaijan, which is the sole and ultimate shareholder of the Group. The Company has ultimate control and 100% interest in all of its subsidiaries.

15. Share capital and additional paid-in capital (continued)

Additional paid-in capital. In 2014 the Group's additional paid-in capital increased by AZN 32,155 of which AZN 10,000 was contributed as cash and AZN 22,155 was contributed as an asset-floating dock by the Government.

In 2015 the Group's additional paid-in capital increased by AZN 5,722 of which full amount was contributed as cash.

16. Analysis of revenue by categories

The Group's main services offered are freight and passenger transportation and offshore support services. Income generated by business segments are:

	2015	2014
Offshore support services	232,610	162,574
Freight and passenger transportation	93,993	95,004
Other revenue	5,039	4,902
Total revenue	**331,642**	**262,480**

17. Analysis of expenses by nature

For the year ended 31 December 2015 and 31 December 2014 cost of sales, social, general and administrative expenses comprised the following:

	2015	2014
Wages, salaries and social security costs	80,299	85,385
Depreciation of vessels, property, plant and equipment	71,090	63,148
Raw materials and consumables used	43,725	50,179
Repairs and maintenance expenses	13,668	29,350
Port charges	10,586	10,996
Food expenses	8,802	7,907
Impairment provision for trade receivables	8,520	2,831
Taxes other than on income	7,553	9,436
Business trip expenses	4,607	4,221
Insurance expenses	2,757	2,225
Utilities expense	2,556	2,344
Agency and brokerage costs	905	725
Written off trade receivables	830	–
Amortisation of intangible assets	640	463
Provision for potential tax accruals (Note 14)	–	3,065
Other	7,367	6,404
Total cost of sales, social, general and administrative	**263,905**	**278,679**

18. Balances and transactions with related parties

Key management compensation. Key management of the Group includes the Chairman of the Group and its five Deputy Chairman. All of the Group's key management are appointed by the President of the Azerbaijan Republic. Key management individuals are entitled to salaries and benefits of the Group in accordance with the approved payroll matrix. During 2015 compensation of key management personnel totalled to AZN 136 (2014: AZN 102).

18. Balances and transactions with related parties (continued)

Key management compensation (continued). The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding are detailed below.

At 31 December 2015, 31 December 2014 and 1 January 2014, the outstanding balances with related parties were as follows:

	Government and entities under government control 31 December 2015	Government and entities under government control 31 December 2014	Government and entities under government control 1 January 2014
Trade and other receivables	84,765	66,499	25,639
Bad debt provision	(5,442)	(2,324)	–
Prepayments	251	11,303	2,170
Cash and cash equivalents and restricted cash	770	6,136	269
Long-term loans	(33,877)	(39,652)	–
Short-term portion of long-term loans	(6,265)	(6,551)	–
Short-term loans	–	(9,019)	–
Trade and other payables	(34,396)	(74,145)	(72,569)
Taxes payable	(776)	(774)	(5,548)

The transactions with related parties for the year ended 31 December 2015 and 31 December 2014 were as follows:

	Government and entities under government control 31 December 2015	Government and entities under government control 31 December 2014
Freight and passenger transportation services	45,756	49,095
Offshore support services	175,568	128,113
Other income	14,065	1,881
Property tax	(5,527)	(6,658)
Other taxes	(593)	(371)
Net VAT on free transferred fixed assets	(739)	(840)
Tax fines and claims	(8)	(1,025)
Provision for potential tax accruals	–	(3,064)
Repairs and maintenance expenses	(316)	(555)
Utilities expense	(2,185)	(1,975)
Bad debts written-off	(777)	(686)
Bad debts provision	(5,442)	(2,324)
Port expenses	(1,139)	(1,346)
Bank charges	(734)	(21)
Finance cost	(1,734)	(845)
Other expenses	(1,743)	(1,281)

Outstanding balances at the year-end are unsecured and settlement occurs in cash. There have been no guarantees provided for any related party receivables or payables.

19. Income taxes

Income tax expense comprises the following:

	2015	2014
Current tax expense	(3,662)	(272)
Deferred tax (charge)/benefit	(18,107)	21,243
Income tax (charge)/benefit for the year ended 31 December	**(21,769)**	**20,971**

The reconciliation between the expected and the actual taxation charge is provided below:

	2015	2014
Profit before tax	**90,766**	**13,045**
Theoretical tax charge at statutory rate of 20 per cent	(18,153)	(2,609)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	–	784
- Non-deductible expenses	(3,364)	(5,360)
Deferred tax asset, not recognized at acquisition date (1 February 2014)	–	29,417
Tax accruals reversal / (charge) non-deductible for statutory purposes	121	(613)
Other	(373)	(648)
Income tax (charge)/benefit for the year ended 31 December	**(21,769)**	**20,971**

Non-deductible expenses are mainly comprised of the social and employee-related expenses as well as the depreciation expenses of non-revenue generating assets.

The tax benefits arising from previously unrecognized deferred tax assets were recognized during 2014 as a result of acquisition in the amount of AZN 29,417.

Differences between IFRS and applicable domestic tax regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below:

	1 January 2014	Origination and reverse of temporary differences in the consolidated statement of profit or loss and other comprehensive income	31 December 2014
Tax effect of deductible/(taxable) temporary differences			
Vessels, property, plant and equipment	27,506	17,962	45,468
Other assets	405	(405)	–
Trade and other receivables, net	826	53	879
Inventories	494	76	570
Trade payables and accrued liabilities	310	(118)	192
Non-current and current provisions	2,215	1,178	3,393
Carried forward losses	–	2,497	2,497
Deferred tax assets	**31,756**	**21,243**	**52,999**

19. Income taxes (continued)

In 2014 deferred tax liability balance of AZN 4,057 was transferred to the Group as a result of acquisition of ASCSC.

Differences between IFRS and applicable domestic tax regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below:

	31 December 2014	Origination and reverse of temporary differences in the consolidated statement of profit or loss and other comprehensive income	31 December 2015
Tax effect of deductible/(taxable) temporary differences			
Vessels, property, plant and equipment	45,468	(16,604)	28,864
Trade and other receivables, net	879	1,507	2,386
Inventories	570	(168)	402
Trade payables and accrued liabilities	192	165	357
Non-current and current provisions	3,393	(748)	2,645
Carried forward losses	2,497	(2,497)	–
Deferred tax assets	**52,999**	**(18,345)**	**34,654**

	31 December 2014	Origination and reverse of temporary differences in the consolidated statement of profit or loss and other comprehensive income	31 December 2015
Tax effect of deductible/(taxable) temporary differences			
Vessels, property, plant and equipment	(4,039)	587	(3,452)
Trade and other receivables, net	–	(34)	(34)
Trade payables and accrued liabilities	(18)	(315)	(333)
Deferred tax liabilities	**(4,057)**	**238**	**(3,819)**

20. Other operating income

Other operating income comprised of the following:

	2015	2014
Sales of other goods and services rendered	2,643	1,077
Income from alliance agreements	7,797	6,483
Gain on release of payables	5,955	259
Income from sale of rights to obtain “JURA” and “ISLAY” vessels	–	23,530
Gain on release of provision	2,265	–
Other	11,532	7,810
Total other operating income	**30,192**	**39,159**

According to amendment to alliance agreement the Group waived its right of Early Purchase Option and right of obtaining the Vessels for 1 USD in return for USD 15,000,000 (AZN 11,765) for each vessel.

21. Finance costs

Finance costs comprised the following:

	2015	2014
Interest expense	1,840	987
Provision for disability payments: unwinding of the present value discount (Note14)	305	229
Total finance costs	**2,145**	**1,216**

22. Financial risk management

Financial risk factors. In the ordinary course of business, the Group is exposed to credit, liquidity and market risks. Market risk arises from fluctuating prices on commodities purchased and sold, prices of other raw materials, currency exchange rates and interest rates. Depending on degree of price volatility, such fluctuations in market prices may create volatility in the Group’s financial position. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group’s financial performance. To effectively manage the variety of exposures that may impact financial results, the Group’s overriding strategy is to maintain a strong financial position. Based on structured formal management procedures, management of the Group identifies and evaluates financial risks with reference to the current market position.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (i) foreign currencies, (ii) interest bearing assets and liabilities, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a regular basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various exposures in the normal course of business, primarily with respect to USD. Foreign exchange risk arises primarily from future commercial transactions, recognised assets and liabilities when assets and liabilities are denominated in a currency other than the functional currency.

The majority of the Group’s payables and receivables from foreign vendors and customers are denominated in USD. There were two waves of devaluation of Azerbaijani Manat against USD (34% on 21 February and 48% on 21 December) and other major foreign currencies in 2015. There has been no significant devaluation of AZN against USD and other major currencies during the year ended 31 December 2014.

22. Financial risk management (continued)

Market risk (continued). Management does not hedge the Group’s foreign exchange risk.

The following table demonstrates the sensitivity to a reasonably possible change in the USD, EUR, RUB exchange rates, with all other variables held constant, of the Group’s post-tax profit. There is no material impact on the Group’s equity:

	Change in rates (+/-)	Effect on 2015 post-tax profit	Change in rates (+/-)	Effect on 2014 post-tax profit
USD/AZN	60.00% / -15.00%	23,644 / (5,911)	35.00% / -15.00%	6,408 / (2,746)
EUR/AZN	60.00% / -15.00%	(1,041) / 260	35.00% / -15.00%	(976) / 418
RUB/AZN	50.00% / -33.50%	– / –	35.00% / -15.00%	(5) / 2

(ii) Interest rate risk

The Group is subject to interest rate risk on financial liabilities and assets with variable interest rates. To mitigate this risk, the Group’s management performs periodic analysis of the current interest rate environment and depending on that analysis management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In case where the change in the current market fixed or variable interest rates is considered significant management may consider refinancing a particular debt on more favourable interest rate terms.

Changes in interest rates impact primarily debt by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group’s exposure should be to fixed or variable rates. However, at the time of raising new debts management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable over the expected period until maturity.

The floating rate for majority of interest bearing liabilities exposes the Group to fluctuation in interest payments mainly due to changes in LIBOR.

As at 31 December 2014 and 31 December 2015 date the Group’s interest bearing liabilities are not significantly affected by fluctuating interest rate.

Credit risk and concentration of credit risk. Credit risk refers to the risk exposure that a potential financial loss to the Group may occur if counterparty defaults on its contractual obligations.

The Group’s financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, trade receivables and amounts due from customers for contract work.

The Group places its cash with reputable financial institutions in the Azerbaijan Republic. The Group’s cash is mainly placed with the International Bank of Azerbaijan (“IBA”) which is controlled by the Azerbaijani Government. The balance of cash and cash equivalents and restricted cash held with the IBA at 31 December 2015 was AZN 770 (2014: AZN 6,136). The Group continually monitors the status of the banks where its accounts are maintained.

The Group’s maximum exposure to credit risk is represented by carrying amounts of financial assets on the consolidated statement of financial position and is presented by class of assets as shown in the table below:

	31 December 2015	31 December 2014	1 January 2014
Cash and cash equivalents (Note 6)	769	6,120	176
Trade and other receivables, net (Note 7)	113,937	86,061	43,406
Total maximum exposure to credit risk	**114,706**	**92,181**	**43,582**

The Group structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties. Such risks are subject to an annual or more frequent review. Limits on the level of credit risk by category are approved annually by management.

22. Financial risk management (continued)

Credit risk and concentration of credit risk (continued). In assessing the credit quality of financial assets the Group considers the nature of counterparty, historical information about counterparty, default rates and any other available information which can be used to assess credit quality. Information on credit quality of cash and cash equivalents is disclosed in Note 6.

Trade receivables consist mainly of receivables from offshore and transportation services rendered to top customers operating on the local market in oil and gas industry. The Group’s credit risk arising from its trade receivables is further mitigated by continuous monitoring of the creditworthiness of customers.

The Group’s management reviews ageing analysis of outstanding trade receivables and follows up on past due balances.

Liquidity risk. Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group’s approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation. In managing liquidity risk, the Group maintains adequate cash reserves and debt facilities, continuously monitors forecast and actual cash flows.

Prudent liquidity risk management includes maintaining sufficient working capital and the ability to close out market positions. Management monitors rolling forecasts of the Group’s liquidity reserve on the basis of expected cash flows.

All of the Group’s financial liabilities represent non-derivative financial instruments. The table below analyses the Group’s financial liabilities into relevant maturity groupings based on the remaining period from the consolidated statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months approximate their carrying values, as the impact of discounting is not significant.

The maturity analysis of financial liabilities as of 31 December 2015, 31 December 2014 and 1 January 2014 was as follows:

At 31 December 2015	Notes	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade payables	11	44,315	–	–	–	**44,315**
Loans	12	4,325	4,843	20,623	16,526	**46,317**
Total undiscounted financial liabilities		**48,640**	**4,843**	**20,623**	**16,526**	**90,632**

At 31 December 2014	Notes	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade payables	11	126,438	–	–	–	**126,438**
Loans	12	17,540	45,082	5,525	5,599	**73,746**
Total undiscounted financial liabilities		**143,978**	**45,082**	**5,525**	**5,599**	**200,184**

At 1 January 2014	Notes	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade payables	11	100,590	–	–	–	**100,590**
Loans	12	–	–	–	–	**–**
Total undiscounted financial liabilities		**100,590**	**–**	**–**	**–**	**100,590**

22. Financial risk management (continued)

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

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

	31 December 2015	
	Carrying amounts	**Fair values**
Cash and cash equivalents (Note 6)	769	769
Restricted cash (Note 6)	2	2
Trade receivables and other receivables (Note 7)	113,937	113,937
Total financial assets	**114,708**	**114,708**
Total financial payables (Note 11)	(44,315)	(44,315)
Short-term and current portion of long-term loans (Note 12)	(6,265)	(6,265)
Long-term loans (Note 12)	(33,877)	(33,877)
Total financial liabilities	**(101,789)**	**(101,789)**

	31 December 2014	
	Carrying amounts	**Fair values**
Cash and cash equivalents (Note 6)	6,120	6,120
Restricted cash (Note 6)	16	16
Trade receivables and other receivables (Note 7)	86,061	86,061
Total financial assets	**92,197**	**92,197**
Total financial payables (Note 11)	(126,438)	(126,438)
Short-term and current portion of long-term loans (Note 12)	(23,597)	(23,597)
Long-term loans (Note 12)	(39,652)	(39,652)
Total financial liabilities	**(189,687)**	**(189,687)**

22. Financial risk management (continued)

Fair value of financial instruments. (continued)

	1 January 2014	
	Carrying amounts	Fair values
Cash and cash equivalents (Note 6)	176	176
Restricted cash (Note 6)	93	93
Trade receivables and other receivables (Note 7)	43,406	43,406
Total financial assets	**43,675**	**43,675**
Total financial payables (Note 11)	(100,590)	(100,590)
Short-term and current portion of long-term loans (Note 12)	–	–
Long-term loans (Note 11)	–	–
Total financial liabilities	**(100,590)**	**(100,590)**

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

(i) Short-term financial assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments;

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

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

The Group is 100% owned by the Government and periodically receives funds in the form of the Government investments for purchase of new vessels. Contributions and additions in capital depend on government decisions.

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

	Note	31 December 2015	31 December 2014	1 January 2014
Short-term loans	12	–	17,046	–
Non-current portion of long-term loans	12	33,877	39,652	–
Current portion of long-term loans	12	6,265	6,551	–
Trade and other payables and accrued liabilities	11	49,472	131,213	103,722
Less: cash and cash equivalents	6	(769)	(6,120)	(176)
Net debt		**88,845**	**188,342**	**103,546**
Equity	15	693,370	614,339	241,658
Capital and net debt		**782,215**	**802,681**	**345,204**
Gearing ratio		**11%**	**23%**	**30%**

23. Business combinations

ASCSC. On 1 February 2014 the CSOF acquired 100 per cent of the share capital of ASCSC. According to the Presidential Decree number 6 on “Establishment of “Azerbaijan Caspian Shipping” Closed Joint-Stock Company” ASCSC was merged to CSOF. Based on the results of analysis of acquired rights the Group’s management concluded that 1 February 2014 should be considered as the date of transition of control over ASCSC. The ASCSC is mainly involved in types of marine transportation to the Caspian countries.

	IFRS carrying amount immediately before business combination	Attributed fair value
Cash and cash equivalents	548	548
Restricted cash	27	27
Trade and other receivables	5,177	5,177
Prepayment	3,191	3,191
Inventories	19,927	16,536
Vessels, property, plant and equipment	304,486	305,081
Intangible assets	–	–
Deferred tax assets	–	
Taxes receivable	6,645	6,479
Deferred VAT	15,304	15,304
Trade and other payables	(27,389)	(27,415)
Other provisions	–	(3,331)
Long-term provision	–	(1,273)
Short-term portion of long-term loans	(1,650)	(1,650)
Long-term loans	(3,200)	(3,200)
Deferred tax liabilities	–	(4,057)
Net assets of subsidiary	**323,066**	**311,417**
Acquired interest in net assets of subsidiary	**–**	**311,417**
Total purchase consideration	**–**	**311,417**
Goodwill arising at the acquisition date	**–**	**–**
Goodwill at 31 December 2014	**–**	**–**

There was neither exchange of assets nor cash consideration paid as part of this business combination. In accordance with provision of IFRS 3, CSOF had sought an independent valuation for identification of fair value of purchase consideration of this business combination. Procedures determined that fair value of purchase consideration in the business combination is equal to fair value of 100 per cent of net assets of ASCSC as of acquisition date (1 February 2014), using net assets approach for identification of purchase consideration of business combination.

As a result of the acquisition the share capital of the Group was increased by the Government in the amount of AZN 383,397. AZN 71,980 of difference between the Shareholder’s addition to share capital and fair value of consideration paid is recognized through retained earnings as it represents transaction with the owner.

24. Significant non-cash investing and financing activities

Investing and financing transactions that does not require the use of cash and cash equivalents and is excluded from the consolidated statement of cash flows are as follows:

1. In 2014 increase in additional paid-in capital amount by AZN 22,155 transferred from Government as an asset in terms of floating dock.
2. In 2014 increase in share capital of the Group by transfer from the Government as a result of acquisition of ASCSC in the amount of AZN 383,397.

25. Contingences, commitments and operating risks

Operating environment. The Group's operations are mainly conducted in the Caspian Sea region. As an emerging market, at the present time the Republic of Azerbaijan does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy.

Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks as required by the market economy. The future stability of the Azerbaijan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

As a result of significant drop in crude oil prices, Azerbaijani Manat devalued against the USD AZN 0.7862 to AZN 1.0500 for 1 USD on 21 February 2015 and further to AZN 1.5500 for 1 USD on 21 December 2015 (also, against Euro from AZN 0.8934 to AZN 1.1950 for 1 Euro on 21 February 2015 and further to AZN 1.6850 for 1 Euro on 21 December 2015). Following the second devaluation, the Central Bank of the Republic of Azerbaijan announced floating exchange rate.

There continues to be uncertainty regarding economic growth, access to capital and cost of capital which could adversely affect the Group's future results and financial position and business prospects in a manner not currently determinable. Such adverse impacts could include decrease of the Group's revenue, with increases in non-recoverable receivables.

Azerbaijani government announced plans to accelerate reforms and support to mainly, banking system and other industry sectors in response to current economic challenges.

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

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

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

Legal proceedings. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

Tax legislation. Azerbaijan tax, currency and customs legislation is subject to varying interpretations, and changes, which may occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained and potential tax liabilities of the Group will not exceed the amounts recorded in these consolidated financial statements.

Environmental matters. The enforcement of environmental regulation in the Azerbaijan Republic is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised 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 above environmental obligation provision (Note 14) currently made by the Group.

25. Contingences, commitments and operating risks (continued)

Environmental matters (continued). The Group is subject to numerous national and local environmental laws and regulations concerning its products, operations and other activities. These laws and regulations may require the Group to take future action to remediate the effects on the environment of the Group's operations. Such contingencies may exist for various waste disposal sites. In addition, the Group may have obligations relating to prior asset sales or closed facilities. The ultimate requirement for remediation and its cost are inherently difficult to estimate. However, the estimated cost of known environmental obligations has been provided in the consolidated financial statements in accordance with the Group's accounting policies. While the amounts of future costs could be significant and could be material to the Group's results of operations in the period in which they are recognised, it is not practical to estimate the amounts involved. The Group does not expect these costs to have a material effect on the Group's financial position or liquidity.

26. Events after the reporting date

Government contribution for construction of "Zigh" Vessel Repair Plant. In 2015 the Government made cash contribution in amount of AZN 4,227 (increase in Additional paid-in capital as of 31 December 2015) out of AZN 10,000 for the construction of new "Zigh" Vessel Repair Plant. In 2016 remaining cash contribution in amount of AZN 5,773 was also transferred to the Group.

Establishment of "ACSC Logistics" LLC. In accordance with the order dated 4 April 2016 new subsidiary "ACSC Logistics" LLC had been established with share capital of 1,000 shares with 1 Azerbaijani Manat par value for each. "ACS Logistics" LLC is 100% owned by the Group. The purpose of the establishment of subsidiary is to broaden operations of the Group in logistics and to commence new cooperation with other logistics companies in the market.

Establishment of "Sailor" construction-cooperative company. In accordance with the order dated 4 April 2016 "Sailor" construction-cooperative company had been established with share capital of 100 shares with 20 Azerbaijan Manats par value per each. 96% of the share capital of the company is owned by the Group and remaining portion is controlled by 4 physical persons. The purpose of establishment is to facilitate the provision of Group's employees with apartments.

Acquisition of new vessels. In accordance with the purchase agreement signed on 18 March 2016 the Group acquired three new vessels from Caspian Marine Services Limited. Purchase price of the vessels is AZN 15,218 in total ("Rasul Rza" vessel – AZN 4,870, "Sabir" vessel – AZN 5,174 and "Vagif" vessel – AZN 5,174).

In accordance with purchase option terms of the Bareboat Charter agreement signed on 6 May 2016, the Group acquired vessel "General Aslanov" from Caspian Marine Services Limited with the price of USD 3,200,000.

Three new vessels constructed by Baku Shipyard LLC. The construction of three crew boats had been completed by Baku Shipyard LLC and final act of acceptance had been signed in 2016. The total price of the vessels is USD 26,550,000.

Transfer of Sailor Collage from Ministry of Education of Azerbaijan Republic ("MOE") to the Group. In accordance with the order №197 signed by Cabinet of Minister of Azerbaijan Republic on 19 May 2016 "Azerbaijan Sea and Fishery Industry Collage" is transferred from MOE to the Group and is called as "Azerbaijan Sailor Collage".