“AZERBAIJAN CASPIAN SHIPPING”
Closed Joint Stock Company

Preliminary Consolidated Financial Statements
with Special Purpose Independent Auditors’ Report

For the year ended 31 December 2014

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Special Purpose Independent Auditors' Report on the Preliminary Consolidated Financial Statements at 31 December 2014 to Management of "Azerbaijan Caspian Shipping" CJSC

We have audited the accompanying preliminary consolidated financial statements of "Azerbaijan Caspian Shipping" CJSC and its subsidiaries (the "Group"), which comprise the preliminary consolidated statement of financial position as at 31 December 2014, and the preliminary consolidated statement of profit or loss and other comprehensive income, preliminary consolidated statement of changes in equity and preliminary consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information (the "preliminary consolidated financial statements"). These preliminary consolidated financial statements have been prepared as part of the Group's conversion to International Financial Reporting Standards ("IFRS").

Management's Responsibility for the Preliminary Consolidated Financial Statements

Management is responsible for the preparation of the preliminary consolidated financial statements in accordance with the basis set out in Note 2, and for such internal control relevant to the preparation of the preliminary 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 the preliminary 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 preliminary consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the preliminary consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the preliminary 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 of the preliminary 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, if any, made by management, as well as evaluating the overall presentation of the preliminary 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 preliminary consolidated financial statements as at 31 December 2014 and for the year then ended are prepared, in all material respects, in accordance with the basis set out in Note 2, which describes how IFRS have been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS consolidated financial statements as at 31 December 2015.

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note 2 to the preliminary consolidated financial statements, which explains why there is a possibility that the preliminary consolidated financial statements may require adjustment before constituting the final IFRS consolidated financial statements. Moreover, we draw attention to the fact that, under IFRS only a complete set of financial statements with comparative financial information and explanatory notes can provide a fair presentation of the Group's consolidated financial position, results of operations and cash flows in accordance with IFRS.

Ernst & Young Holdings (CIS) B.V.

11 June 2015

"Azerbaijan Caspian Shipping" CJSC
Preliminary Consolidated Statement of Financial Position
(Amounts presented are in thousands of Azerbaijani Manats)

	Notes	31 December 2014	1 January 2014
ASSETS			
Non-current assets			
Vessels, property, plant and equipment	13	577,556	210,940
Intangible assets		1,700	49
Long-term prepayments	9	11,107	–
Deferred tax assets	19	50,619	31,756
Total non-current assets		**640,982**	**242,745**
Current assets			
Inventories	10	71,435	48,101
Trade and other receivables	7	86,061	43,406
Taxes receivable	8	25,830	10,156
Short-term prepayments	9	4,568	17,354
Cash and cash equivalents	6	6,120	176
Restricted cash	6	16	93
Total current assets		**194,030**	**119,286**
Total assets		**835,012**	**362,031**
EQUITY			
Share capital	15	383,421	24
Additional paid-in capital	15	31,560	–
Retained earnings		202,390	241,636
Total equity		**617,371**	**241,660**
LIABILITIES			
Non-current liabilities			
Long-term loans	12	39,652	–
Deferred tax liabilities	19, 23	4,057	–
Non-current provisions	14	3,188	1,383
Total non-current liabilities		**46,897**	**1,383**
Current liabilities			
Short-term loans	12	17,046	–
Short-term portion of long-term loans	12	6,503	–
Trade and other payables	11	128,046	103,751
Current provisions	14	18,375	9,689
Taxes payable		774	5,548
Total current liabilities		**170,744**	**118,988**
Total liabilities		**217,641**	**120,371**
Total equity and liabilities		**835,012**	**362,031**

Signed and authorized for release on behalf of the Group on 11 June 2015.

Mr. Rauf Valiyev
Chairman

Mr. Jalal Farajli
Deputy Chairman on Economic Issues

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

(Amounts presented are in thousands of Azerbaijani Manats)

	Notes	**2014**
Revenue	16	262,482
Cost of sales	17	(259,558)
Gross profit		**2,924**
Social expenses	17	(1,824)
General and administrative expenses	17	(20,458)
Other operating income	20	39,159
Other operating expenses		(4,451)
Gains and losses on disposal of vessels, property, plant and equipment, net		(2,620)
Operating profit		**12,730**
Finance costs	21	(1,167)
Profit before income tax		**11,563**
Income tax benefit	19	18,591
Profit for the year		**30,154**
Other comprehensive income for the year		–
Total comprehensive income for the year		**30,154**

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

(Amounts presented are in thousands of Azerbaijani Manats)

	Share capital	**Additional paid-in capital**	**Retained earnings**	**Total**
Balance at 1 January 2014	**24**	**–**	**241,636**	**241,660**
Total comprehensive income for the year	–	–	30,154	**30,154**
Acquisition of 100% interest in ASCSC (Note 23)	–	–	(69,400)	**(69,400)**
Increase in share capital (Note 15)	383,397	–	–	**383,397**
Additional paid-in capital (Note 15)	–	31,560	–	**31,560**
Balance at 31 December 2014	**383,421**	**31,560**	**202,390**	**617,371**

(Amounts presented are in thousands of Azerbaijani Manats)

	Notes	2014
Cash flows from operating activities		
Profit before income tax		11,563
Adjustments for:		
Depreciation of vessels, property, plant and equipment	13	63,148
Amortization of intangible assets		463
Impairment of trade and other receivables	7	2,831
Net losses on disposals of vessels, property, plant and equipment		2,620
Finance costs	21	1,167
Change in Provisions	14	970
Provision for potential tax accruals	14, 17	4,596
Gain on release of payables	20	(259)
Operating cash flows before working capital changes		**87,099**
Increase in trade and other receivables	7	(40,309)
Increase in inventories	10	(3,623)
Decrease in prepayments	9	4,870
Decrease in taxes receivable	8	6,109
Decrease in trade and other payables	11	(11,188)
Increase in provisions	14	92
Decrease in taxes payable	19	(438)
Cash generated from operations		**42,612**
Income taxes paid		(4,064)
Interest paid		(303)
Net cash from operating activities		**38,245**
Cash flows from investing activities		
Purchase of vessels, property, plant and equipment	13	(97,980)
Purchase of intangible assets		(2,037)
Net cash used in investing activities		**(100,017)**
Cash flows from financing activities		
Proceeds from long-term loans	12	42,347
Proceeds from short-term loans	12	17,019
Repayment of long-term loans	12	(1,650)
Increase in share capital and additional paid-in capital	15	10,000
Net cash from financing activities		**67,716**
Net increase in cash and cash equivalents		**5,944**
Cash and cash equivalents at the beginning of the year		**176**
Cash and cash equivalents at the end of the year		**6,120**

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

1. The Group and its operations

"Azerbaijan Caspian Shipping" Closed Joint Stock Company (the "Company") was established by merging of two largest existing fleets – 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 is comprised of the offshore support and merchant fleets and two shipyards with over 9,000 of full-time employees.

The ultimate controlling party of the Group as at 31 December 2014 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. These preliminary consolidated financial statements of the Group and its subsidiaries (collectively referred as the "Group") have been prepared as part of the Group`s conversion to International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and on the assumption that the Group is going concern and will continue in operation for the foreseeable future. The preliminary consolidated financial statements for the year ended 31 December 2014 will be used by the Group in preparation of its first complete set of consolidated IFRS financial statements for the year ending 31 December 2015.

These preliminary consolidated financial statements for the year ended 31 December 2014 are the first the Group has prepared using IFRS in accordance with the guidance prescribed by IFRS 1 *First-Time Adoption of International Financial Reporting Standards*. In accordance with this guidance, the Company prepared an opening balance sheet at the date of transition to IFRS (1 January 2014) based on the Group`s books and records, and as adjusted and reclassified in order to comply with IFRSs, using assumptions about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of consolidated financial statements as at 31 December 2015. In accordance with IFRS 1, these accounting policies shall comply with each IFRS effective at the reporting date of the Group's first complete set of consolidated financial statements for the year ending 31 December 2015, with certain exceptions and exemptions as specified by IFRS 1. As the standards and interpretations expected to be effective as at 31 December 2015 are subject to introduction or possible changes by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC"), management does not rule out a possibility that the preliminary consolidated financial statements may require adjustment due to such changes before constituting the final consolidated financial statements.

Management draws attention to the fact that these preliminary consolidated financial statements do not constitute a complete set of financial statements in accordance with IFRS, as they do not contain certain comparative financial information and accordingly they do not provide a fair presentation of the Group's consolidated financial position, results of operations and cash flows in accordance with IFRS, which can be achieved only by a complete set of financial statements with comparative financial information.

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.

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

Basis of preparation (continued). 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").

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

Basis for consolidation. The preliminary consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2014.

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.

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. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Current versus non-current classification. The Group presents assets and liabilities in the preliminary 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.

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.

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

Business combinations (continued). 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 Group 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 preliminary consolidated statement of profit or loss or other comprehensive income.

At 31 December 2014 the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 0.7844, EUR 1 = AZN 0.9522, RUB 1 = AZN 0.0133 (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.

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 are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

Financial instruments − key measurement terms (continued). 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.

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.

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

Financial assets (continued). 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.

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.

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

Financial assets (continued). 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.

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 is 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.

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

Trade and other receivables (continued). 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.

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.

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

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.

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.

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

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.

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. 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.

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

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 (VAT deferral) 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 transports 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.

Corporate income taxes. Corporate income taxes have been provided for in the preliminary 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 on income, are recorded within operating expenses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the preliminary consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. 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.

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

Corporate income taxes (continued). Deferred income taxes are provided in full on temporary differences arising on recognition and subsequent measurement of provision for asset retirement obligation and related adjustments to cost of vessels, property, plant and equipment.

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.

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 income tax asset recognition. The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgments and applies estimation based on last three years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

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 preliminary 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.

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.

3. Critical accounting estimates and judgements (continued)

Impairment of non-financial assets (continued). 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.

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.

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 preliminary 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* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for 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. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

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 other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. It is not expected that this amendment would be relevant to the Group.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions. IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

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

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations. The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

Annual improvements 2010-2012 Cycle (continued)

IAS 24 Related Party Disclosures. The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations. The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

***IFRS 13 Fair Value Measurement*.** The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property. The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

***IFRS 15 Revenue from Contracts with Customers*.** IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to 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.

The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

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

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 to the Group.

Annual improvements 2011-2013 Cycle

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 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 preliminary consolidated financial statements.

5. First-time adoption of IFRS

The Group has prepared preliminary consolidated financial statements which comply with IFRS applicable for periods beginning on or after 1 January 2014 as described in the accounting policies. The Group's opening balance sheet was prepared as at 1 January 2014, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its consolidated statement of financial position prepared as at 1 January 2014 and its preliminary consolidated financial statements prepared as at 31 December 2014 and for the year then ended.

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

(Amounts presented are in thousands of Azerbaijani Manats)

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		49	–	49
Long-term prepayments		–	–	–
Deferred tax assets	B	27,554	4,202	31,756
Total non-current assets		**242,548**	**197**	**242,745**
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		**366,514**	**(4,483)**	**362,031**
EQUITY				
Share capital		(24)	–	(24)
Additional Paid-in Capital		–	–	–
Retained earnings		(240,443)	(1,193)	(241,636)
Total equity		**(240,467)**	**(1,193)**	**(241,660)**
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		**(366,514)**	**4,483**	**(362,031)**

(Amounts presented are in thousands of Azerbaijani Manats)

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	582,703	(5,147)	577,556
Intangible assets		1,700	–	1,700
Long-term prepayments and advances		–	11,107	11,107
Deferred tax assets	B	23,103	27,516	50,619
Total non-current assets		**607,506**	**33,476**	**640,982**
Current assets				
Inventories		72,371	(936)	71,435
Trade and other receivables	C	90,726	(4,665)	86,061
Taxes receivable		25,678	152	25,830
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**	**(17,423)**	**194,030**
Total assets		**818,959**	**16,053**	**835,012**
EQUITY				
Share capital		(384,879)	1,458	(383,421)
Additional Paid-in Capital		(44,560)	13,000	(31,560)
Retained earnings		(221,122)	18,732	(202,390)
Total equity		**(650,561)**	**33,190**	**(617,371)**
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)	56,063	(6,503)
Trade and other payables	G	(92,502)	(35,544)	(128,046)
Current provisions	F	(8,203)	(10,172)	(18,375)
Taxes payable	G	(5,127)	4,353	(774)
Total current liabilities		**(168,398)**	**(2,346)**	**(170,744)**
Total liabilities		**(168,398)**	**(49,243)**	**(217,641)**
Total equity and liabilities		**(818,959)**	**(16,053)**	**(835,012)**

(Amounts presented are in thousands of Azerbaijani Manats)

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	264,745	(2,263)	262,482
Cost of sales	I	(251,622)	(7,936)	(259,558)
Gross profit		**13,123**	**(10,199)**	**2,924**
Social expenses	I	(2,549)	725	(1,824)
General and administrative expenses	I	(20,788)	330	(20,458)
Other operating income	H	35,291	3,868	39,159
Other operating expenses	I	(3,399)	(1,052)	(4,451)
Gains and losses on disposal of vessels, property, plant and equipment, net		(2,620)	–	(2,620)
Operating profit		**19,058**	**(6,328)**	**12,730**
Finance costs	I	(303)	(864)	(1,167)
Profit before income tax		**18,755**	**(7,192)**	**11,563**
Income tax (expense)/benefit		(1,475)	20,066	18,591
Profit for the year		**17,280**	**12,874**	**30,154**
Other comprehensive income		–	–	–
Total comprehensive income for the year		**17,280**	**12,874**	**30,154**

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.

(Amounts presented are in thousands of Azerbaijani Manats)

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)

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.

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 2014	1 January 2014
USD denominated bank balances	5,461	–
AZN denominated bank balances	657	176
EUR denominated bank balances	1	–
Cash on hand	1	–
VAT deposit account, AZN	16	93
Total cash and cash equivalents and restricted cash	**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 2014	1 January 2014
Trade receivables	88,638	43,437
Less: impairment loss provision	(2,831)	(827)
Total trade receivables	**85,807**	**42,610**
Other short-term receivables	254	796
Total trade and other receivables	**86,061**	**43,406**

(Amounts presented are in thousands of Azerbaijani Manats)

7. Trade and other receivables (continued)

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

	2014
At 1 January	**(827)**
Receivables written off during the year as uncollectable net of recovery	827
Net change in provision	(2,831)
At 31 December	**(2,831)**

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 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 2014	**1 January 2014**
Short-term prepayments for trade and services	4,568	18,017
Less impairment loss provision	–	(663)
Long-term prepayments for equipment	11,107	–
Total prepayments	**15,675**	**17,354**

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

10. Inventories

Inventories comprised the followings as at:

	31 December 2014	**1 January 2014**
Raw materials and spare parts	66,685	44,868
Fuel	4,703	3,157
Other	47	76
Total inventories	**71,435**	**48,101**

(Amounts presented are in thousands of Azerbaijani Manats)

11. Trade and other payables

Trade and other payables as at 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 2014	1 January 2014
Trade payables	121,831	100,590
Other payables	295	–
Total financial payables	**122,126**	**100,590**
Advances received from customers	1,145	29
Payable to employees	4,775	3,132
Total trade and other payables	**128,046**	**103,751**

Financial payables of AZN 8,656 (1 January 2014: AZN 5,357) are denominated in foreign currencies, mainly in USD.

12. Loans

As at 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 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				6,503
Total short-term loans and current portion of long-term loans				**23,549**

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

			Balance as at 31 December 2014	
Facilities	Interest rate	Maturity date	Non-current portion	Current portion
USD 16 million	4.00%	September 2017	1,541	1,683
USD 54 million	3.65%	August 2024	38,111	4,820
Total long-term loans			**39,652**	**6,503**

(Amounts presented are in thousands of Azerbaijani Manats)

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)	61,482	4,587	226,777	2,983	8,657	**304,486**
Disposals	(132)	(4)	(3,217)	(222)	–	**(3,575)**
Transfers	27,825	–	–	–	(27,825)	**–**
At 31 December 2014	**90,915**	**17,276**	**923,784**	**16,843**	**26,107**	**1,074,925**
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)**
Net book value						
At 1 January 2014	**671**	**2,347**	**192,779**	**4,091**	**11,052**	**210,940**
At 31 December 2014	**85,805**	**7,168**	**459,805**	**5,662**	**19,116**	**577,556**

(Amounts presented are in thousands of Azerbaijani Manats)

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 304,486.

In 2014, the Group engaged an independent appraiser, “American Appraisal” Inc., 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

	Environmental 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)	(4,596)	**(9,680)**
Unwinding of the present value discount	–	(229)	–	–	**(229)**
Carrying amount at 31 December 2014	**(6,598)**	**(3,832)**	**(6,537)**	**(4,596)**	**(21,563)**
Of which:					
Current	(6,598)	(644)	(6,537)	(4,596)	**(18,375)**
Non-current	–	(3,188)	–	–	**(3,188)**

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 6.83% and 5.46% as of 1 January 2014 and 31 December 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.

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.

Additional paid-in capital

In 2014 the Group’s additional paid-in capital increased by AZN 31,560 of which AZN 10,000 was contributed as cash and AZN 21,560 was contributed as an asset-floating dock by the Government.

(Amounts presented are in thousands of Azerbaijani Manats)

16. Analysis of revenue by categories

The Group’s main services offered are deep-sea transportation and offshore support services. Income generated by business segments are:

	2014
Offshore services	162,576
Transportation	95,004
Other revenue	4,902
Total revenue	**262,482**

17. Analysis of expenses by nature

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

	2014
Wages, salaries and social security costs	85,385
Depreciation of vessels, property, plant and equipment	63,148
Raw materials and consumables used	50,581
Repairs and maintenance expenses	33,030
Taxes other than on income	14,033
Port charges	10,996
Utilities expense	2,344
Impairment of trade and other receivables	2,831
Provision for potential tax accruals (Note 14)	4,596
Other	14,896
Total cost of sales, social, general and administrative	**281,840**

18. Balances and transactions with related parties

Key management compensation. Key management of the Group includes the Chairman of the Group and its four Vice-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 2014 compensation of key management personnel totalled to AZN 102.

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 2014, the outstanding balances with related parties were as follows:

	Government and entities under government control
Trade and other receivables	66,499
Prepayments	11,303
Cash and cash equivalents and restricted cash	5,814
Long-term loans	39,652
Short-term portion of long-term loans	6,503
Short-term loans	9,019
Trade and other payables	(74,145)
Taxes payable	(5,127)

(Amounts presented are in thousands of Azerbaijani Manats)

18. Balances and transactions with related parties (continued)

At 1 January 2014, the outstanding balances with related parties were as follows:

	Government and entities under government control
Trade and other receivables	25,639
Prepayments	2,170
Cash and cash equivalents and restricted cash	269
Long-term loans	–
Short-term portion of long-term loans	–
Short-term loans	–
Trade and other payables	(72,569)
Taxes payable	(13,394)

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

	Government and entities under government control
Transportation services	49,095
Offshore services	128,113
Other services	741
Other operating income	1,140
Net property tax	(6,658)
Land tax	(82)
Road tax	(34)
WHT	(164)
Net VAT on free transferred fixed assets	(840)
Fines and claims from tax authorities	(1,027)
Provision for potential tax accruals	(4,596)
Non recoverable VAT	(90)
Repairs and maintenance expenses	(555)
Utilities expense	(1,975)
Security expense	(375)
Research and Development Studies	(21)
Ecology service and environmental security	(135)
Communication expenses	(351)
Port expenses	(1,346)
Bank charges	(21)
IT expense	(36)
Other expenses	(363)
Finance cost	(845)

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.

(Amounts presented are in thousands of Azerbaijani Manats)

19. Income taxes

Income tax expense comprises the following:

	2014
Current tax expense	272
Deferred tax benefit	(18,863)
Income tax benefit for the year ended 31 December 2014	**(18,591)**

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

	2014
Profit before tax	**11,562**
Theoretical tax charge at statutory rate of 20 per cent	2,312
Tax effect of items which are not deductible or assessable for taxation purposes:	
- Income which is exempt from taxation	(784)
- Non-deductible expenses	5,360
Deferred tax asset, not recognized at acquisition date (1 February 2014)	(27,039)
Tax accruals charge non-deductible for statutory purposes	919
Other	641
Income tax benefit for the year ended 31 December 2014	**(18,591)**

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 the year as a result of acquisition in the amount of AZN 27,039.

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 preliminary 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	18,079	45,585
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
Deferred tax assets	**31,756**	**18,863**	**50,619**

(Amounts presented are in thousands of Azerbaijani Manats)

19. Income taxes (continued)

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

20. Other operating income

Other operating income comprised of the following:

	2014
Sales of other goods and services rendered	1,078
Income from alliance agreements	6,483
Gain on release of payables	259
Income from sale of rights to obtain "JURA" and "ISLAY" vessels	23,532
Other	7,807
Total other operating income	**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 11,766) for each vessel.

21. Finance costs

Finance costs comprised the following:

	2014
Interest expense	938
Provision for disability payments: unwinding of the present value discount (Note14)	229
Total finance costs	**1,167**

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.

(Amounts presented are in thousands of Azerbaijani Manats)

22. Financial risk management (continued)

Market risk (continued)

(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 loans, liabilities and sales as well as receivables from foreign venrdors and customers are denominated in USD. There has been no significant devaluation of USD against AZN during the year ended 31 December 2014.

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 2014 post-tax profit**
USD/AZN	34.00% / 8.74%	(9,468) / 2,434
EUR/AZN	34.00% / 10.70%	(948) / 298
RUB/AZN	34.00% / 30.18%	(5) / 4

(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 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.

(Amounts presented are in thousands of Azerbaijani Manats)

22. Financial risk management (continued)

Credit risk and concentration of credit risk (continued). 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 2014 was AZN 5,814. 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 2014	**1 January 2014**
Cash and cash equivalents (Note 6)	6,120	176
Trade and other receivables, net (Note 7)	86,061	43,406
Total maximum exposure to credit risk	**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.

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.

(Amounts presented are in thousands of Azerbaijani Manats)

22. Financial risk management (continued)

Liquidity risk (continued). The maturity analysis of financial liabilities as of 31 December 2014 was as follows:

At 31 December 2014	Notes	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade payables	11	122,126	–	–	–	**122,126**
Loans	12	17,540	45,082	5,525	5,599	**73,746**
Total undiscounted financial liabilities		**139,666**	**45,082**	**5,525**	**5,599**	**195,872**

The maturity analysis of financial liabilities as of 1 January 2014 was as follows:

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**

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 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)	(122,126)	(122,126)
Short-term and current portion of long-term loans (Note 12)	(23,549)	(23,549)
Long-term loans (Note 12)	(39,652)	(39,652)
Total financial liabilities	**(185,327)**	**(185,327)**

(Amounts presented are in thousands of Azerbaijani Manats)

22. Financial risk management (continued)

Liquidity risk (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. Having considered that contributions and additions in capital depend on government decisions and there are no requirements and limits set on level of the capital, no specific capital risk management policies were developed by the Group.

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

	Note	**31 December 2014**	**1 January 2014**
Short-term loans	12	17,046	–
Non-current portion of long-term loans	12	39,652	–
Current portion of long-term loans	12	6,503	–
Trade and other payables and accrued liabilities	11	122,126	100,590
Less: cash and cash equivalents	6	(6,120)	(176)
Net debt		**179,207**	**100,414**
Equity	15	617,371	241,636
Capital and net debt		**796,578**	**342,050**
Gearing ratio		**22%**	**29%**

(Amounts presented are in thousands of Azerbaijani Manats)

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	19,711
Vessels, property, plant and equipment	304,486	304,486
Intangible 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**	**313,997**
Acquired interest in net assets of subsidiary	**–**	**313,997**
Total purchase consideration		**313,997**
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 69,400 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 isexcluded from the preliminary consolidated statement of cash flows are as follows:

1. Increase in additional paid-in capital amount by AZN 21,560 transferred from Government as an asset in terms of floating dock.
2. 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 is developing business and regulatory infrastructure that would generally exist in a more mature market economy.

Whilst there have been improvements in economic trends in the Azerbaijan Republic, the country continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Azerbaijan Republic. The tax, currency and customs legislation within the Azerbaijan Republic is subject to varying interpretations and changes.

The future economic direction of the Azerbaijan Republic is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments. Management is unable to predict some developments in the economic environment which would have an impact on the Group’s operations and consequently what effect, if any, they could have on the financial position of the Group.

The Azerbaijani economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. While the Azerbaijan Government has introduced a range of stabilization measures, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group’s financial position, results of operations and business prospects. 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.

These preliminary consolidated 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 preliminary 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 preliminary consolidated financial statements.

25. Contingences, commitments and operating risks (continued)

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.

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 preliminary 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

Devaluation of Azerbaijani Manat. On 21 February 2015, the Azerbaijani Manat has been devalued against the US dollar and other major currencies by approximately 34%. The exchange rates before and after devaluation were AZN 0.786 and AZN 1.050 to USD 1, respectively. This event could adversely affect the Group's future results and financial position. The Group has taken precautionary measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future.