State Oil Company of the Azerbaijan Republic

International Financial Reporting Standards Consolidated Financial Statements

31 December 2014

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Independent auditors' report to Management of the State Oil Company of the Azerbaijan Republic

We have audited the accompanying consolidated financial statements of the State Oil Company of the Azerbaijan Republic (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Building a better working world

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Holdings (CIS) B.V.

17 June 2015

	Note	31 December 2014	31 December 2013 (reclassified)
ASSETS			
Current assets			
Cash and cash equivalents	8	1,492	1,206
Restricted cash	9	112	82
Deposits	8	39	25
Trade and other receivables	10	4,739	5,251
Inventories	11	1,155	1,197
Other current financial assets	13	261	110
Total current assets		**7,798**	**7,871**
Non-current assets			
Property, plant and equipment	14	12,134	11,665
Goodwill	38	177	191
Intangible assets other than goodwill	15	468	533
Investments in joint ventures	16	1,127	546
Investments in associates	17	1,280	1,328
Deferred tax asset	32	514	456
Other non-current financial assets	13	78	137
Other non-current assets	12	491	319
Total non-current assets		**16,269**	**15,175**
TOTAL ASSETS		**24,067**	**23,046**
EQUITY			
Charter capital	26	1,496	1,315
Additional paid-in-capital	26	963	955
Retained earnings		8,348	7,554
Other capital reserves		(18)	–
Put option on company's shares	34	(179)	–
Gain on sale of subsidiary share	34	122	–
Cumulative translation differences		(200)	(108)
Equity attributable to equity holders of the Group		**10,532**	**9,716**
Non-controlling interest		525	513
TOTAL EQUITY		**11,057**	**10,229**

	Note	31 December 2014	31 December 2013 (reclassified)
LIABILITIES			
Current liabilities			
Trade and other payables	18	4,181	5,677
Short-term and current portion of long-term borrowings	19	2,212	1,464
Taxes payable	20	334	623
Other provisions for liabilities and charges	22	68	77
Deferred acquisition consideration payable	25	76	70
Other current financial liabilities	34	20	–
Total current liabilities		**6,891**	**7,911**
Non-current liabilities			
Long-term borrowings	19	3,585	3,521
Asset retirement obligations	21	440	371
Other provisions for liabilities and charges	22	153	163
Deferred income	23	77	84
Deferred tax liability	32	580	568
Advances received for the sale of shares	33	625	–
Other non-current financial liabilities	34	216	–
Other non-current liabilities	24	443	199
Total non-current liabilities		**6,119**	**4,906**
TOTAL LIABILITIES		**13,010**	**12,817**
TOTAL LIABILITIES AND EQUITY		**24,067**	**23,046**

Approved for issue and signed on behalf of the Group on 17 June 2015.

Mr. Rovnag Abdullayev
President

Mr. Suleyman Gasymov
Vice-President for Economic Affairs

	Note	2014	2013 (reclassified)
Revenue	27	39,674	38,433
Cost of sales	28	(35,844)	(35,140)
Gross profit		**3,830**	**3,293**
Distribution expenses	28	(560)	(520)
General and administrative expenses	28	(804)	(735)
Gains and losses on disposal of property, plant and equipment, net		(13)	7
Social expenses		(153)	(237)
Exploration and evaluation expenses	28	(39)	(50)
Other operating expenses	28	(831)	(542)
Other operating income	29	368	435
Operating profit		**1,798**	**1,651**
Finance income	30	50	48
Finance costs	31	(250)	(256)
Foreign exchange gains and losses, net		(188)	(205)
Share of result of joint ventures	16	112	29
Share of result of associates	17	217	196
Profit before income tax from continuing operations		**1,739**	**1,463**
Income tax expense	32	(465)	(444)
Profit for the year from continuing operations		**1,274**	**1,019**
Discontinued operations			
Loss after tax for the year from discontinued operations	35	–	(42)
Profit for the year		**1,274**	**977**
Other comprehensive income:			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods – currency translation differences		(125)	(161)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		(18)	–
Total comprehensive income for the year		**1,131**	**816**
Profit is attributable to:			
Equity holders of the Group		1,286	986
Non-controlling interest		(12)	(9)
		1,274	**977**
Total comprehensive income attributable to:			
Equity holders of the Group		1,176	918
Non-controlling interest		(45)	(102)
		1,131	**816**

		Attributable to the equity holders of the parent									
	Note	Additional paid-in capital	Charter capital	Put option on an entity's own shares	Gain on sale of subsidiary share	Other capital reserves	Retained earnings	Currency translation difference	Total	Non-controlling interest	Total equity
Balance at 1 January 2013		**1,015**	**1,085**	**–**	**–**	**–**	**7,234**	**(40)**	**9,294**	**559**	**9,853**
Profit/(loss) for the year		–	–	–	–	–	986	–	**986**	(9)	**977**
Other comprehensive income		–	–	–	–	–	–	(68)	**(68)**	(93)	**(161)**
Total comprehensive income for 2013		**–**	**–**	**–**	**–**	**–**	**986**	**(68)**	**918**	**(102)**	**816**
Contribution in charter capital of subsidiaries by non-controlling shareholder		–	–	–	–	–	–	–	**–**	50	**50**
Establishment of subsidiary		–	–	–	–	–	–	–	**–**	15	**15**
Increase in charter capital		(230)	230	–	–	–	–	–	**–**	–	**–**
Additional paid-in-capital	26	170	–	–	–	–	–	–	**170**	–	**170**
Distribution to the Government	26	–	–	–	–	–	(666)	–	**(666)**	–	**(666)**
Dividends declared by subsidiary		–	–	–	–	–	–	–	**–**	(9)	**(9)**
Balance at 31 December 2013		**955**	**1,315**	**–**	**–**	**–**	**7,554**	**(108)**	**9,716**	**513**	**10,229**
Profit/(loss) for the year		–	–	–	–	–	1,286	–	**1,286**	(12)	**1,274**
Other comprehensive loss		–	–	–	–	–	–	(92)	**(92)**	(33)	**(125)**
Share-based payments		–	–	–	–	(18)	–	–	**(18)**	–	**(18)**
Total comprehensive income for 2014		**–**	**–**	**–**	**–**	**(18)**	**1,286**	**(92)**	**1,176**	**(45)**	**1,131**
Acquisition of non-controlling interest in subsidiary		–	–	–	–	–	(7)	–	**(7)**	7	**–**
Gain on sale of subsidiary share		–	–	–	122	–	–	–	**122**	49	**171**
Put option on company's shares		–	–	(179)	–	–	–	–	**(179)**	–	**(179)**
Contribution in charter capital of subsidiaries by non-controlling shareholder		–	–	–	–	–	–	–	**–**	12	**12**
Increase in charter capital	26	(170)	181	–	–	–	(11)	–	**–**	–	**–**
Additional paid-in-capital	26	178	–	–	–	–	–	–	**178**	–	**178**
Loss of control over subsidiary		–	–	–	–	–	2	–	**2**	–	**2**
Distribution to the Government	26	–	–	–	–	–	(476)	–	**(476)**	–	**(476)**
Dividends declared by subsidiary		–	–	–	–	–	–	–	**–**	(11)	**(11)**
Balance at 31 December 2014		**963**	**1,496**	**(179)**	**122**	**(18)**	**8,348**	**(200)**	**10,532**	**525**	**11,057**

	Note	2014	2013 (reclassified)
Cash flows from operating activities			
Profit before income tax from continuing operations		1,739	1,463
Loss before income tax from discontinued operations		–	(32)
Adjustments for:			
Depreciation of property, plant and equipment	28	772	720
Amortisation of intangible assets	15	26	24
Impairment of property, plant and equipment	14	294	248
Impairment of trade and other receivables	28	29	12
Change in provisions	28	39	(21)
Change in asset retirement obligations recognised in profit or loss		67	(187)
Gains and losses on disposals of property, plant and equipment, net		13	(7)
Finance income	30	(50)	(48)
Finance costs	31	250	256
Foreign exchange rate differences		41	127
Share of result of associates and joint ventures	16, 17	(329)	(225)
Gain on release of payables	29	–	(8)
Other non-cash transactions		(15)	(6)
Operating cash flows before working capital changes		**2,876**	**2,316**
(Decrease)/ increase in trade and other receivables		552	(331)
Decrease in inventories		18	9
(Decrease)/increase in trade and other payables		(881)	518
Increase in taxes payable		9	–
Change in other assets and liabilities		(124)	(6)
Utilization of provisions		(80)	(85)
Cash generated from operations		**2,370**	**2,421**
Income taxes paid		(808)	(399)
Interest paid		(188)	(168)
Net cash from operating activities		**1,374**	**1,854**
Cash flows from investing activities			
Acquisitions of subsidiary (net of cash acquired), additional share in joint operations, additional contribution in associates and joint ventures		(438)	(321)
Proceeds from sale of associate		43	–
Purchase of property, plant and equipment		(2,435)	(2,502)
Purchase of intangible assets	15	(40)	(53)
Deposits	8	(14)	54
Collection of loans provided to third parties		–	9
Financing provided to third parties		–	(19)
Interest received		50	14
Dividends received	16, 17	158	186
Proceeds from sale of property, plant and equipment		166	293
Proceeds from sale of shares of subsidiary		196	–
Loss of control over subsidiary		(15)	21
Net cash used in investing activities		**(2,329)**	**(2,318)**
Cash flows from financing activities			
Proceeds from borrowings		2,572	2,511
Repayment of borrowings		(1,695)	(1,941)
Contribution in subsidiary by non-controlling shareholder		12	50
Advances received for sales of interest	33	625	–
Increase in charter capital and additional paid-in capital	26	178	170
Dividends paid		(11)	(9)
Distribution to the Government	26	(448)	(387)
Change in restricted cash		(35)	16
Net cash provided by financing activities		**1,198**	**410**
Net foreign exchange difference on cash and cash equivalents		43	37
Net increase/(decrease) in cash and cash equivalents		**286**	**(17)**
Cash and cash equivalents at the beginning of the year	8	**1,206**	**1,223**
Cash and cash equivalents at the end of the year	8	**1,492**	**1,206**

1 The Group and its operations

The State Oil Company of the Azerbaijan Republic ("SOCAR") was established by the Presidential Decree on 13 September 1992 in accordance with Azerbaijani legislation and is domiciled in the Azerbaijan Republic. SOCAR is involved in upstream, midstream and downstream operations. SOCAR's main functions pertain to the extraction, refining, transportation of oil, gas and gas condensates, and sale of gas and oil and gas products. SOCAR is 100 per cent owned by the Government of the Azerbaijan Republic (the "Government").

SOCAR's registered address is 73 Neftchilar avenue, AZ 1000 Baku, the Azerbaijan Republic.

Information about subsidiaries

The Consolidated financial statements of the Group include the following material subsidiaries:

Name	Principal activities	Country of incorporation	% equity interest 2014	% equity interest 2013
SOCAR Turkey Enerji A.Ş.	Refinery	Turkey	99.99%	99.99%
Azerbaijan (ACG) Ltd	Oil production	Cayman Islands	100%	100%
Azerbaijan (Shah Deniz) Ltd	Gas production	Cayman Islands	100%	100%
Caspian Drilling Company (CDC)	Drilling operations	Azerbaijan	92.4%	92.4%
SOCAR Energy Georgia LLC	Sales and Distribution	Georgia	51%	51%
SOCAR Overseas LLC	Sales and Distribution	UAE	100%	100%
SOCAR Trading Holding	Sales and Distribution	Malta	100%	100%
Azerbaijan (BTC) Ltd	Sales and Distribution	Cayman Islands	100%	100%
Cooperative Menkent U.A.	Sales and Distribution	Netherlands	99.9%	99.9%
SOCAR Energy Holdings AG	Sales and Distribution	Switzerland	100%	100%
SOCAR Energy Ukraine	Sales and Distribution	Ukraine	100%	100%
Azerbaijan (SCP) LTD	Sales and Distribution	Cayman Islands	100%	100%
SOCAR Petroleum CJSC	Sales and Distribution	Azerbaijan	100%	100%
Baku Shipyard Company	Construction	Azerbaijan	65%	65%
Socar Polymer LLC	Chemicals production	Azerbaijan	71%	71%
Bosshelf	Construction	Azerbaijan	90%	90%

2 Basis of preparation and significant accounting policies

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

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

Subsidiaries are all entities (including special-purpose entities) over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

2 Basis of preparation and significant accounting policies (continued)

Basis for consolidation (continued). The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

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 at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

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

Transactions with non-controlling interest

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Group.

Business combinations with entities under common control

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

Investment in associates and joint ventures. An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries.

The Group's investments in its associate and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

2 Basis of preparation and significant accounting policies (continued)

Investment in associates and joint ventures (continued). The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Investments in Production Sharing Agreements ("PSAs"). Certain of the Group's upstream activities are governed by the PSAs. According to the terms of PSAs, the Group owns the portion of project's assets and liable for its portion of project's liabilities. At the same time the Group is entitled to its portion of expenses incurred and revenues earned by the whole project. Therefore the Group accounts for its investment in PSA's by recognizing the portion of underlying assets, liabilities, expenses incurred and income earned by the projects using undivided interest method.

PSA is the method to execute exploitation of mineral resources by taking advantage of the expertise of a commercial oil and gas entity. The Government retains title to the mineral resources (whatever the quantity that is ultimately extracted) and often the legal title to all fixed assets constructed to exploit the resources. The Government takes a percentage share of the output which may be delivered in product or paid in cash under an agreed pricing formula. The contracting parties may only be entitled to recover specified costs plus an agreed profit margin. It may have the right to extract resources over a specified period of time. Operating company is a legal entity created by one or more contracting parties to operate PSA.

As a contracting party to various PSAs the Group evaluates and accounts for the PSAs in accordance with the substance of the arrangement. It records only its own share of oil and gas under a PSA as revenue. Neither revenue nor cost is recorded by the Group for the oil and gas extracted and sold on behalf of the Government. The Group acts as the Government's agent to extract, deliver or sell the oil and gas and remit the proceeds.

Costs that meet the recognition criteria as intangible or fixed assets in accordance with IAS 38 and IAS 16, respectively, are recognized where the entity is exposed to the majority of the economic risks and has access to the probable future economic benefits of the assets. Acquisition, development and exploration costs are accounted for in accordance with policies stated herein.

Assets subject to depreciation, depletion or amortization are expensed using the appropriate depletion or depreciation method stipulated by the present accounting policies over the shorter of the PSA validity period or the expected useful life of the related assets.

2 Basis of preparation and significant accounting policies (continued)

Foreign currency translation. All amounts in these consolidated statements are presented in millions of Azerbaijani manats ("AZN"), unless otherwise stated.

The functional currencies of the Group's consolidated entities are the currencies of the primary economic environments in which the entities operate. The functional currency of SOCAR and its 24 business units and the Group's presentation currency is the national currency of the Azerbaijan Republic, AZN. However, US Dollar ("USD"), Swiss Franc ("CHF"), Georgian Lari ("GEL"), Ukrainian Hryvnia ("UAH"), Japanese yen ("JPY") and Turkish Lira ("TRY") are considered the functional currency of the Group's certain subsidiaries, associates and joint ventures as majority of these investments' receivables, revenues, costs and debt liabilities are either priced, incurred, payable or otherwise measured in these currencies.

The transactions executed in foreign currencies are initially recorded in the functional currencies of respective Group entities by applying the appropriate rates of exchanges prevailing at the date of transaction.

Monetary assets and liabilities not already measured in the functional currency of respective Group entity are translated into the functional currency of that entity at the appropriate exchange rates prevailing at the reporting date.

Foreign exchange gains and losses resulting from the re-measurement into the functional currencies of respective Group's entities are recognized in profit or loss.

The results and financial position of the Group entities which functional currency differ from the presentation currency of the Group and not already measured in the Group's presentation currency (functional currency of none of these entities is a currency of a hyperinflationary economy) are translated into the presentation currency of the Group as follows:

(i) assets and liabilities for each statement of financial position are translated at the closing rate at the date of that statement of financial position;

(ii) 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

(iii) all resulting exchange differences are recognized as a separate component of equity – currency translation difference.

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, CHF 1 = AZN 0.7916, GEL 1 = AZN 0.4244, UAH 1 = AZN 0.0496, TRY 1 = AZN 0.3381, JPY 100 = AZN 0.6515 (2013: USD 1 = AZN 0.7845, EUR 1 = AZN 1.0780, CHF 1 = AZN 0.8792, GEL 1 = AZN 0.4521, UAH 1 = AZN 0.0952, TRY 1 = AZN 0.3642, JPY 100 = AZN 0.7449).

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 to 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.

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. 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 are classified as held for trading unless they are designated as hedges. 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 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 analyzed 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.

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.

2 Basis of preparation and significant accounting policies (continued)

Financial assets (continued). 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.

Financial guarantee contracts. Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

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 an 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.

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

Interest costs on borrowings to finance the construction of 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.

Property, plant and equipment. The Group elected to measure property, plant and equipment at the date of transition to IFRS (1 January 2007) at their fair value and use that fair value as their deemed cost at that date. Fair value was determined by reference to market-based evidence and by using the depreciated replacement cost method. Subsequent to transition to IFRS, property, plant and equipment are stated at cost as described below, less accumulated depreciation and provision for impairment, where required.

The initial cost of an asset purchased after 1 January 2007 comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of decommissioning obligation, if any, and, for qualifying assets, borrowing costs. The assets held under finance lease are also included within property, plant and equipment.

Exploration and evaluation costs. Property leasehold acquisition costs are capitalised until the determination of reserves is evaluated. If a commercial discovery has not been achieved, these costs are charged to expense. Capitalisation is made within property, plant and equipment or intangible assets according to the nature of the expenditure.

The Group accounts for exploration and evaluation activities, capitalizing exploration and evaluation costs until such time as the economic viability of producing the underlying resources is determined. Exploration and evaluation costs related to resources determined to be not economically viable are expensed through operating expenses in the consolidated statement of profit or loss and other comprehensive income.

Development tangible and intangible assets. Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells is capitalised within tangible and intangible assets according to nature. When development is completed on a specific field, it is transferred to production assets (oil and gas properties).

The present value of the estimated costs of dismantling oil and gas production facilities, including abandonment and site restoration costs, are recognized when the obligation is incurred and are included within the carrying value of property, plant and equipment, subject to depletion using unit-of-production method.

All minor repair and maintenance costs are expensed as incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalized and the replaced part is retired.

2 Basis of preparation and significant accounting policies (continued)

Development tangible and intangible assets (continued). At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss, if any, is recognised in the statement of profit or loss and other comprehensive income. An impairment loss recognised for an asset or cash generating unit in prior years is reversed if there are indicators that impairment loss may no longer exist or may have decreased.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. Gains and losses are recognised in profit or loss.

Depreciation. Property, plant and equipment related to oil and natural gas properties are depreciated using a unit-of-production method.

Depreciation of oil and gas assets is computed on a field-by-field basis over proved developed reserves or over total proved reserves, as appropriate. Shared oil and gas properties and equipment (e.g. internal delivery systems, processing units, etc.) are depleted over total proved reserves.

Land is not depreciated. Property, plant and equipment other than oil and gas properties and equipment, are depreciated on a straight-line basis over their estimated useful lives. Assets under construction are not depreciated.

The estimated useful lives of the Group's property, plant and equipment (other than oil and gas properties) are as follows:

Buildings and constructions	12 to 40 years
Plant and machinery	3 to 50 years
Vessels	25 years

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

The 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.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

When assets are leased out under an operating lease, the lease payments receivable are recognized as rental income on a straight-line basis over the lease term.

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.

2 Basis of preparation and significant accounting policies (continued)

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

Intangible assets. Intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses. 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.

(a) Rights and computer software

Software is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the estimated useful lives of such assets. Land property rights consist of the rights over the dam, factory site, port site, site development, site and the water transmission line. Intangible assets obtained at the acquisition of Petkim Petrokimya Holding A.Ş. ("Petkim") (Note 15) were initially recognised at their fair values in accordance with IFRS 3 as at 30 May 2008 and amortised over their remaining useful lives commencing from the date of acquisition, except for the water transmission line which is not amortised as it is deemed to have an indefinite useful life.

(b) Customer relationships

Customer relationships acquired as part of net assets of Petkim were initially recognised at their fair values in accordance with IFRS 3 as at 30 May 2008 and amortised over their remaining useful lives of 22 years commencing from the date of the acquisition (Note 15).

Customer relationships acquired as part of net assets of SOCAR Switzerland were initially recognised at their fair values in accordance with IFRS 3 as at 30 June 2012 and amortised over their remaining useful lives commencing from the date of acquisition. The estimated useful life of retail card end customers is 18 years, retail distribution network and fuel customers are 30 years.

(c) Petkim trade name

Petkim trade name acquired at the Petkim acquisition was initially recognised at its fair value in accordance with IFRS 3 as at 30 May 2008. Petkim trade name is not amortised as it is deemed to have an indefinite useful life (Note 15).

(d) Water rights

Water rights acquired with the Petkim acquisition were initially recognised at their fair value in accordance with IFRS 3 as at 30 May 2008 and amortised over their remaining useful lives of 47 years commencing from the date of the acquisition (Note 15).

2 Basis of preparation and significant accounting policies (continued)

Intangible assets (continued)

(e) Development projects

Development projects (design and testing of new or improved products) acquired with the Petkim acquisition were initially recognised at their fair value in accordance with IFRS 3 as of 30 May 2008 and amortised on a straight-line basis over their remaining useful lives of 5 years commencing from the date of the acquisition. Cost incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be operational considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other expenditures on research and development activities are recognised as an expense in the period in which they incurred. When there is an impairment, the carrying values of the intangible assets are written down to their recoverable amounts.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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

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

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 property, plant and equipment.

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, cost of production, transportation and manufacturing expenses (based on normal operating capacity).

Government grants. Grants from the Government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight line basis over the expected lives of the related assets.

Government grants relating to income are deferred and recognised in profit or loss over the period necessary to match with the costs that they are intended to compensate.

2 Basis of preparation and significant accounting policies (continued)

Asset retirement obligations. Liabilities for asset retirement obligation costs are recognized when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. Where an obligation exists for a new facility, such as oil and natural gas production or transportation facilities, this will be on construction or installation. An obligation for asset retirement may also crystallize during the period of operation of a facility through a change in legislation. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements.

The cost of property, plant and equipment is also adjusted for amounts of estimated liabilities for asset retirement obligations.

Any change in the present value of the obligation resulting from changes in estimates of the amounts or timing of future expenditures is reflected as an adjustment to the provision and the corresponding capitalized costs within property, plant and equipment. Changes in estimates of the amounts or timing of future expenditures to dismantle and remove fully depreciated plant or facility is recognized in the statement of profit or loss and other comprehensive income. Changes in the present value of the obligation resulting from unwinding of the discount are recognized as finance costs in the statement of profit or loss and other comprehensive income.

Provisions for liabilities and charges. Provisions for liabilities and charges are liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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

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

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

VAT payable. VAT payable represents VAT related to sales that is payable to tax authorities upon recognition of sales to customers, net of VAT on purchases which have been settled at the reporting date. VAT related to sales which have not been settled at the reporting 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.

2 Basis of preparation and significant accounting policies (continued)

Revenue recognition. Revenue comprises the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of VAT, returns, discounts, and other sales-based taxes, if any, after eliminating sales within the Group.

Revenues from sales of crude oil are recognised at the point of transfer of risks and rewards of ownership of the crude oil, normally when the oil is loaded into the oil tanker or other transportation facilities. Revenues from sales of petroleum products are recognised at the point of transfer of risks and rewards of ownership of the petroleum products, normally when the products are shipped. Revenue from sales of natural gas are recorded on the basis of regular meter readings (monitored on a monthly basis) and estimates of customer usage from the last meter reading to the end of the reporting period. Natural gas prices and gas transportation tariffs to the final consumers in the Azerbaijan Republic are established by the Tariff Council of the Azerbaijan Republic.

Revenues from sales of other goods are recognised at the point of transfer of risks and rewards of ownership of the goods.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is recognised on a time-proportion basis using the effective interest rate method.

Overlift/underlift of crude oil. Overlift or underlift of crude oil occurs when the volume of oil lifted by a partner in a joint venture differs from its participating interest in the production. Underlift is recognized as a sale of crude oil at the point of lifting by the underlifter to the overlifter. Overlift is recognized as a purchase of oil by the overlifter from the underlifter. The extent of underlift is reflected by the Group as an asset in the statement of financial position, and the extent of overlift is reflected as a liability. The initial measurement of the overlift liability or underlift asset is at the market price of crude oil at the date of lifting. Subsequent measurement of overlift/underlift liabilities and assets depends on the settlement terms of the related operating agreements. If such terms allow for a cash settlement of the overlift/underlift balances between the parties, the balances are remeasured at fair value at reporting dates subsequent to initial recognition. The overlift/underlift balances that are settled through delivery of physical quantities of crude oil are measured at the lower of carrying amount and fair value at reporting dates subsequent to initial recognition.

Employee benefits. Wages, salaries, contributions to the Social Protection Fund of the Azerbaijan Republic, 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.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Related parties. Related parties are defined in IAS 24 *Related Party Disclosures*.

Governmental economic and social policies affect the Group's financial position, results of operations and cash flows. The Government imposed an obligation on the Group to provide an uninterrupted supply of oil and gas to customers in the Azerbaijan Republic at government controlled prices. Transactions with the state include taxes which are detailed in Note 20.

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 arm's length basis.

2 Basis of preparation and significant accounting policies (continued)

Carried interest arrangements. A carried interest arrangement where the Group participate as carried party is an agreement under which the carrying party agrees to pay for a portion or all of the pre-production costs of the carried party on a project in which both parties own participating interest. If the project is unsuccessful then the carrying party will not be reimbursed for the costs that it has incurred on behalf of the carried party. If the project is successful then the carrying party will be reimbursed either in cash out of proceeds of the share of production attributable to the carried party, or by receiving a disproportionately high share of the production until the carried costs have been recovered.

Depending on the terms of the carried interest agreements the Group recognises them either as financing-type arrangement or purchase/sale-type arrangement.

The finance-type arrangements presume that carrying party provides funding to the carried party and receives a lender's return on the funds provided, while the right to additional production acts as a security that underpins the arrangement.

In the purchase/sale-type arrangement, the carried party effectively sells an interest or a partial interest in a project to the carrying party. The carrying party will be required to fund the project in exchange for an increased share of any proceeds if the project succeeds, while the carried party retains a much reduced share of any proceeds.

During exploration stage of projects when the outcome of projects and probability of the carrying party to recover costs incurred on behalf of the carried party are not certain the Group does not recognise any carry related transactions and balances in the consolidated financial statements.

Step-acquisition of subsidiary that is not a business. Step-acquisition of subsidiary which has been previously accounted as investment in associates is recognized in the amount being the carrying value under the equity method related to the original interest in associate plus cost of additional investments made by the Group in order to obtain control over associate ("deemed cost"). Upon obtaining of the control over associate it becomes subsidiary of the Group and the "deemed" cost is allocated to the individual identifiable assets and liabilities of the subsidiary as following:

- monetary assets and monetary liabilities are recognized at their fair value;
- the amount of "deemed" cost remained after deduction of the fair value of monetary assets and monetary liabilities is allocated to non-monetary assets and non-monetary liabilities on the basis of their fair value at the date of acquisition.

Non-current assets held for sale or for distribution to equity holders of the parent and discontinued operations. The Group classifies non-current assets and disposal groups as held for sale or for distribution to equity holders of the parent if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use. Such non-current assets and disposal groups classified as held for sale or as held for distribution are measured at their carrying amount.

The criteria for held for distribution classification is regarded as met only when the distribution is highly probable and the asset or disposal group is available for immediate distribution in its present condition. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution with be withdrawn. Management must be committed to the distribution expected within one year from the date of the classification. Similar considerations apply to assets or a disposal group held for sale.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale or as held for distribution. Assets and liabilities classified as held for sale or for distribution are presented separately as current items in the statement of financial position.

A disposal group qualifies as discontinued operation if it is:

- A component of the Group that is a cash generating unit (CGU) or a group of CGUs;
- Classified as held for sale or distribution or already disposed in such a way, or;
- A major line of business or major geographical area.

2 Basis of preparation and significant accounting policies (continued)

Non-current assets held for sale or for distribution to equity holders of the parent and discontinued operations (continued). Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss. Additional disclosures are provided in Note 35. All other notes to the financial statements mainly include amounts for continuing operations, unless otherwise mentioned.

Reclassifications. Certain reclassifications have been made to the prior year's Consolidated Statement of Financial Position, Consolidated Statement of Profit or Loss and Other Comprehensive Income and corresponding notes to conform to the current year's presentation. There was no material impact on the Group's financial position, results of operations and equity as a result of these reclassifications.

Consolidated Statement of Financial Position

	Prior to reclassification	Reclassification	After reclassification
Reclassification from trade and other receivables to Other non-current assets			
Reclassification from Cash and cash equivalents and Other current financial assets to Trade and other receivables			
Cash and cash equivalents	1,223	(17)	1,206
Trade and other receivables	5,304	(53)	5,251
Other current financial assets	116	(6)	110
Other non-current assets	243	76	319
Reclassification from short-term and current portion of long-term borrowings to trade and other payables			
Short-term and current portion of long-term borrowings	(1,545)	81	(1,464)
Trade and other payables	(5,596)	(81)	(5,677)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Prior to reclassification	Reclassification	After reclassification
Reclassification among Cost of sales, General and administrative expenses, other operating expenses and distribution expenses:			
Cost of sales	35,163	(23)	35,140
Other operating expenses	517	25	542
Distribution expenses	466	54	520
General and administrative expenses	791	(56)	735

The Group has changed presentation of certain type of expenses (such as certain administrative expenditures of production units and others) and working capital items. As a result, certain prior period expenditures and working capital items were reclassified in order to conform to current period presentation.

3 Critical accounting estimates and judgments

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in these consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities at reporting date include:

Discontinued operations. On 22 October 2013, the President of the Azerbaijan Republic signed an order to transfer the Group's subsidiary – Caspian Sea Oil Fleet ("CSOF") from the ownership of the Group to another governmental entity – "Azerbaijan State Caspian Shipping Company" CJSC ("ASCSC"). The Group considered disposal of CSOF to meet the criteria to be classified as discontinued operations for the following reasons:

- represents a separate major line of business;
- is part of a single coordinated plan to dispose of a separate major line of business.

Estimation of oil and gas reserves. Oil and gas reserves are key elements in the Group's investment decision-making process. They are also an important element of testing for impairment. Changes in proved oil and gas reserves, particularly proved developed reserves, will affect unit-of-production depreciation charges in the statement of profit or loss and other comprehensive income.

Proved oil and gas reserves are the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e. prices and costs as of the date the estimate is made. Proved developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Estimates of oil and gas reserves are inherently imprecise, require the application of judgment and are subject to future revision. Accordingly, financial and accounting measures (such as depletion and amortization charges and provision for asset retirement obligations) that are based on proved developed or proved reserves are also subject to change.

Proved reserves are estimated by reference to available reservoir and well information. All proved reserves estimates are subject to revision, either upward or downward, based on new information, such as from drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, changes in the technical maturity or hydrocarbon reserves resulting from new information becoming available from development plans. In general, changes in the technical maturity of hydrocarbon reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions.

In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are developed and being depleted. As a field goes into production, the amount of proved reserves will be subject to future revision once additional information becomes available through, for example, the drilling of additional wells or the observation of long-term reservoir performance under producing conditions. As those fields are further developed, new information may lead to revisions.

Proved reserves of the SOCAR as of 1 January 2014 were based on reports prepared by independent reservoir engineers in accordance with Petroleum Resources Management System rules.

Asset retirement obligations. As further discussed in Note 21, management makes provision for the future costs of decommissioning oil and gas production and storage facilities, pipelines and related support equipment and site restoration based on the estimates of future cost and economic lives of those assets. Estimating future asset retirement obligations is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future. Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

3 Critical accounting estimates and judgments (continued)

Asset retirement obligations (continued). The Group assesses its asset retirement obligation liabilities in accordance with the guidelines of International Financial Reporting Interpretations Committee ("IFRIC") 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities.* The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current applicable legislation and regulations, and is also subject to changes because of modifications, revisions and changes in laws and regulations and respective interpretations thereof. Governmental authorities are continually considering applicable regulations and their enforcement. Consequently, the Group's ultimate asset retirement liabilities may differ from the recorded amounts. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of incurring such costs. Estimated liability of dismantling oil and gas production and storage facilities, including abandonment and site restoration costs, amounted to AZN 440 at 31 December 2014 (2013: AZN 371). Changes in any of these conditions may result in adjustments to provisions recorded by the Group.

Management determines discount rates used for discounting abandonment and site restoration costs as a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. The discount rate used as at 31 December 2014 was in range of 5.47 per cent to 7.05 per cent (2013: min. 6.33 max. 7.96 per cent). Management believes that this discount rate appropriately reflects all risks and uncertainties pertaining to oil and gas exploration, evaluation, development and distribution in Azerbaijan as of the reporting date.

If the estimated discount rate used in the calculation had been 1 per cent higher/lower than management's estimate, the carrying amount of the provision would have been AZN 73 lower / AZN 126 higher, respectively.

Environmental obligations. As further discussed in Note 22, the Group records a provision in respect of estimated costs of remediation of the damage historically caused to the natural environment primarily in the Absheron area both by the activities of the Group and its legacy operations in periods preceding the formation of the Group. The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current applicable legislation and regulations, and is also subject to changes because of modifications, revisions and changes in laws and regulations and respective interpretations thereof. Governmental authorities are continually considering applicable regulations and their enforcement. Consequently, the Group's ultimate liability for environmental remediation may differ from the recorded amounts. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of incurring such costs. Estimated liability for environmental remediation as of 31 December 2014 amounted to AZN 99 (2013: AZN 116). Changes in any of these conditions may result in adjustments to provisions recorded by the Group.

Management determines discount rate used for discounting environmental remediation costs as pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability as of the reporting date. The discount rate used as at 31 December 2014 was in a range of 5.99 per cent (2013: 7.21 per cent). Management believes that this discount rate appropriately reflects all risks and uncertainties pertaining to oil and gas exploration, evaluation and development industry in Azerbaijan. Changes in any of these conditions may result in adjustments to provisions recorded by the Group.

If the estimated discount rate used in the calculation had been 1 per cent higher/lower than management's estimate, the carrying amount of the provision would have been AZN 2 lower / AZN 2 higher, respectively.

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

3 Critical accounting estimates and judgments (continued)

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.

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, and for oil and gas properties, significant downward revisions of estimated proved reserves. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when impairment indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

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

In 2014, as the result of underperformance of some CGUs the Group carried out a review of the recoverable amounts of those CGUs resulting in impairment charge amounting to AZN 294 (2013: AZN 248). These assets are used in the Group's oil and gas segment. In assessing whether impairment is required in the carrying value of a potentially impaired asset, its carrying value is compared with its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value-in-use. Given the nature of the Group's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers are taking place. Consequently, unless indicated otherwise, the recoverable amount used in assessing the impairment charges described below is value-in-use. The Group generally estimates value-in-use using a discounted cash flow model from financial budgets approved by management.

Key assumptions used in value-in-use calculations. The calculation of value-in-use for oil fields is most sensitive to the following assumptions:

Production volumes. Estimated production volumes of SOCAR operated fields are based on detailed data for the fields and take into account development plans for the fields agreed by management as part of the long-term planning process. It is estimated that, if all production were to be reduced by 10 per cent for the whole of the next 15 years, this would result in additional impairment charge of AZN 991.

Gross margins. Gross margins are based on previous year's actual figures. These are increased over the budget period for anticipated inflation rate.

Capital expenditures. Capital expenditures necessary to maintain estimated production volumes are based on long-term development plans for particular oil field.

Crude oil price: Forecast commodity prices are publicly available.

Discount rate. The pre-tax discount rate applied to the cash flow projections was in range of 14.00-14.36 per cent for different CGUs (2013: 13.77-16.00 per cent). The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital (WACC). In calculating WACC the cost of equity was estimated using peer group data and the cost of debt is based on interest bearing borrowings, the Group is obliged to service. Specific risks are incorporated by applying individual beta factors, market risk and size of the Group. The beta factors are evaluated annually based on publicly available market data. If the estimated WACC used in the calculation had been 1 per cent higher/lower than management's estimate, this would not change the aggregate amount of impairment loss (2013: no change in aggregate amount of impairment charge).

3 Critical accounting estimates and judgments (continued)

Impairment of non-financial assets (continued)

Inflation rate estimates. Rates used are Economic Intelligence Unit (EIU) forecasts.

Excise tax rate and export duties: Excise tax and export duties on oil and petroleum products are an important factor for oil and gas properties and equipment and are forecasted based on enacted tax and duty rates.

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.

4 Adoption of new or revised standards and interpretations and new accounting pronouncements

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendment to IFRS effective as of 1 January 2014:

Investment Entities — Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements. These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements* and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32 Financial Instruments: Presentation. These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

Novation of Derivatives and Continuation of Hedge Accounting — Amendments to IAS 39 Financial Instruments: Recognition and Measurement. These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

Recoverable amount disclosures for non-financial Assets — Amendments to IAS 36 Impairment of Assets. The amendment clarifies the disclosures required in relation to the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment has no impact on the Group.

4 Adoption of new or revised standards and interpretations and new accounting pronouncements (continued)

Annual Improvements 2010-2012 Cycle
In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

Annual Improvements 2011-2013 Cycle
In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

Standards issued but not yet effective

These improvements are effective for annual periods beginning on or after 1 January 2014. These improvements will not have an impact on the Group.

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. Since the Group is an existing IFRS preparer, this standard would not apply.

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.

Annual improvements *2010-2012 Cycle*
These improvements are effective for periods beginning on or after 1 July 2014 and are not expected to have a material impact on the Group. They include:

4 Adoption of new or revised standards and interpretations and new accounting pronouncements (continued)

IFRS 2 *Share-based Payment.* This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

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).

IFRS 8 *Operating Segments.* The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

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.

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 for annual periods beginning on or after 1 January 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.

Annual improvements *2012-2014 Cycle*
In the 2012-2014 annual improvements cycle, the IASB issued five amendments to four standards, summaries of which are provided below. The changes are effective 1 January 2016. The Group did not early adopt any of the amendments.

4 Adoption of new or revised standards and interpretations and new accounting pronouncements (continued)

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

IFRS 7 *Financial Instruments: Disclosures.* The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required.
The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.
The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. The amendment must be applied retrospectively.

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

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

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.

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 re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, 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.

4 Adoption of new or revised standards and interpretations and new accounting pronouncements (continued)

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

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

Amendments to IAS 27: ***Equity Method in Separate Financial Statements.*** The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

5 Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the management of the Group and for which discrete financial information is available.

The Group is organised into business units based on their products and services and has four reportable segments as follows:

- Oil and gas – representing extraction of oil and gas products;
- Refining – representing refining of crude oil and gas condensate;
- Construction – representing construction of administrative premises and assets for extraction of oil and gas condensate;
- Sales and distribution – representing transportation and marketing of crude oil, natural gas, oil products and gas condensate.

No operating segments have been aggregated to form the above reportable operating segments.

The Group's segments are strategic business units that focus on different customers. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Transfer prices between operating segments are either on an arm's length basis or non-arm`s length basis.

Management evaluates performance of each segment based on profit after tax.

5 Segment information (continued)

Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 31 December 2014 is set out below:

	Oil and gas	Refining	Construction	Sales and distribution	Unallocated (*)	Eliminations (**)	Total
2014							
Revenues							
External customers	2,085	1,926	564	35,079	20	–	**39,674**
Inter-segment	2,052	415	690	15,265	329	(18,751)	–
Total revenue	**4,137**	**2,341**	**1,254**	**50,344**	**349**	**(18,751)**	**39,674**
Other operating income	30	8	18	56	300	(44)	**368**
Finance income	13	18	1	18	1,024	(1,024)	**50**
Foreign exchange gains/losses (net)	(6)	(76)	1	(102)	(13)	8	**(188)**
Raw materials and consumables used	(701)	(1,633)	(391)	(49,155)	(70)	17,862	**(34,088)**
Depreciation of property, plant and equipment	(463)	(88)	(65)	(155)	(61)	60	**(772)**
Wages, salaries and social security costs	(182)	(144)	(208)	(290)	(178)	119	**(883)**
Transportation and vehicle maintenance	(278)	(9)	(117)	(42)	(30)	204	**(272)**
Repairs and maintenance expenses	(191)	(27)	(78)	(40)	(9)	188	**(157)**
Impairment of property, plant and equipment	(293)	–	–	(1)	–	–	**(294)**
Mining tax	(113)	–	–	–	–	5	**(108)**
Utilities expense	(14)	(175)	(4)	(26)	(1)	4	**(216)**
Taxes other than on income	(47)	(8)	(3)	(8)	(1)	2	**(65)**
Amortization expense	–	(10)	–	(12)	(6)	2	**(26)**
Impairment of trade and other receivables	(4)	(7)	–	(12)	(6)	–	**(29)**
Change in other provisions for liabilities and charges	–	(6)	(13)	(7)	(13)	–	**(39)**
Other	(369)	(151)	(346)	(220)	(343)	300	**(1,129)**
Gains less losses on disposals of property, plant and equipment	(91)	(14)	(53)	(28)	173	–	**(13)**
Finance cost	(41)	(46)	(13)	(57)	(113)	20	**(250)**
Social expenses	(12)	(16)	(4)	(5)	(116)	–	**(153)**
Share of result of joint ventures	(1)	77	24	2	10	–	**112**
Share of result of associates	–	22	–	191	4	–	**217**
Income tax expense	(318)	22	(19)	(96)	12	(66)	**(465)**
Net profit/(loss) for the year from continuing operations	**1,056**	**78**	**(16)**	**355**	**912**	**(1,111)**	**1,274**
Net loss for the year from discontinued operations	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Net profit/(loss) for the year	**1,056**	**78**	**(16)**	**355**	**912**	**(1,111)**	**1,274**

(*) These numbers include unallocated revenues and expenses related to research and development, IT, security and other functions that are not managed at the group level.

(**) Inter-segment revenues and expenses are eliminated on consolidation. Amounts shown as eliminations include intercompany transactions.

5 Segment information (continued)

Information about reportable segment profit or loss, assets and liabilities (continued)

	Oil and gas	Refining	Construc-tion	Sales and distribu-tion	Unalloca-ted (*)	Elimina-tions (**)	Total
Investment in associates	–	–	–	1,260	20	–	**1,280**
Investment in joint ventures	355	516	187	39	30	–	**1,127**
Other reportable segment assets	9,515	3,755	1,878	9,767	8,947	(12,202)	**21,660**
Total reportable segment assets	**9,870**	**4,271**	**2,065**	**11,066**	**8,997**	**(12,202)**	**24,067**
Other reportable segment liabilities	(3,356)	(2,145)	(1,291)	(9,389)	(4,288)	7,459	**(13,010)**
Total reportable segment liabilities	**(3,356)**	**(2,145)**	**(1,291)**	**(9,389)**	**(4,288)**	**7,459**	**(13,010)**
Capital expenditure (***)							
Additions – SOCAR	746	241	118	202	173	(75)	**1,405**
Additions – subsidiaries	792	202	102	191	2	–	**1,289**
Acquisitions through business combination	–	–	–	1	–	–	**1**
Total capital expenditures	**1,538**	**443**	**220**	**394**	**175**	**(75)**	**2,695**

(*) These numbers include unallocated assets and liabilities related to research and development, IT, security and other functions that are not managed at the group level.

(**) Inter-segment balances are eliminated on consolidation. Amounts shown as eliminations include intercompany balances.

(***) Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets.

5 Segment information (continued)

Information about reportable segment profit or loss, assets and liabilities (continued)

Segment information for the reportable segments for the year ended 31 December 2013 is set out below:

	Oil and gas	Refining	Construction	Sales and distribution	Unallocated (*)	Eliminations (**)	Total
2013							
Revenues							
External customers	2,914	2,085	327	33,077	30	–	**38,433**
Inter-segment	660	488	708	13,407	345	(15,608)	**–**
Total revenue	**3,574**	**2,573**	**1,035**	**46,484**	**375**	**(15,608)**	**38,433**
Other operating income	7	21	31	58	322	(4)	**435**
Finance income	5	24	1	17	522	(521)	**48**
Foreign exchange gains/losses (net)	(8)	(199)	–	–	5	(3)	**(205)**
Raw materials and consumables used	(723)	(1,718)	(363)	(45,441)	(60)	14,715	**(33,590)**
Depreciation of property, plant and equipment	(450)	(114)	(69)	(117)	(37)	67	**(720)**
Wages, salaries and social security costs	(234)	(153)	(202)	(252)	(134)	131	**(844)**
Transportation and vehicle maintenance	(170)	(4)	(98)	(14)	(21)	170	**(137)**
Repairs and maintenance expenses	(211)	(31)	(111)	(37)	(17)	246	**(161)**
Impairment of property, plant and equipment	(235)	–	(4)	(10)	1	–	**(248)**
Mining tax	(114)	–	–	–	–	2	**(112)**
Utilities expense	(14)	(187)	(3)	(24)	–	2	**(226)**
Taxes other than on income	(105)	(7)	(4)	(20)	(7)	1	**(142)**
Amortization expense	–	(11)	–	(9)	(4)	–	**(24)**
Impairment of trade and other receivables	1	–	–	(12)	(1)	–	**(12)**
Change in other provisions for liabilities and charges	44	(10)	(11)	(5)	3	–	**21**
Other	(136)	(149)	(160)	(185)	(432)	270	**(792)**
Gains less losses on disposals of property, plant and equipment	4	(10)	(7)	13	33	(26)	**7**
Finance cost	(61)	(48)	(4)	(59)	(101)	17	**(256)**
Social expenses	(9)	(14)	(2)	(1)	(211)	–	**(237)**
Share of result of joint ventures	3	–	10	2	14	–	**29**
Share of result of associates	–	41	–	153	2	–	**196**
Income tax expense	(266)	(40)	(10)	(96)	(32)	–	**(444)**
Net profit/(loss) for the year from continuing operations	**902**	**(36)**	**29**	**445**	**220**	**(541)**	**1,019**
Net loss for the year from discontinued operations	**–**	**–**	**–**	**–**	**(42)**	**–**	**(42)**
Net profit/(loss) for the year	**902**	**(36)**	**29**	**445**	**178**	**(541)**	**977**

(*) These numbers include unallocated revenues and expenses related to research and development, IT, security and other functions that are not managed at the group level.

(**) Inter-segment revenues and expenses are eliminated on consolidation. Amounts shown as eliminations include intercompany transactions.

5 Segment information (continued)

Information about reportable segment profit or loss, assets and liabilities (continued)

	Oil and gas	Refining	Construction	Sales and distribution	Unallocated (*)	Eliminations (**)	Total
Investment in associates	–	180	–	1,130	18	–	**1,328**
Investment in joint ventures	317	–	153	36	40	–	**546**
Other reportable segment assets	8,866	3,407	1,601	10,100	8,085	(10,887)	**21,172**
Total reportable segment assets	**9,183**	**3,587**	**1,754**	**11,266**	**8,143**	**(10,887)**	**23,046**
Other reportable segment liabilities	(3,078)	(1,970)	(1,089)	(9,182)	(4,043)	6,545	**(12,817)**
Total reportable segment liabilities	**(3,078)**	**(1,970)**	**(1,089)**	**(9,182)**	**(4,043)**	**6,545**	**(12,817)**
Capital expenditure (***)							
Additions – SOCAR	827	39	307	415	296	(8)	**1,876**
Additions – subsidiaries	408	176	229	265	2	–	**1,080**
Acquisitions through business combination	–	–	–	149	–	–	**149**
Total capital expenditures	**1,235**	**215**	**536**	**829**	**298**	**(8)**	**3,105**

(*) These numbers include unallocated assets and liabilities related to research and development, IT, security and other functions that are not managed at the group level.

(**) Inter-segment balances are eliminated on consolidation. Amounts shown as eliminations include intercompany balances.

(***) Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets.

Geographical information

Revenues for each individual country for which the revenues are material are reported separately as follows:

	2014	2013
Switzerland	31,007	30,687
Azerbaijan	4,681	4,330
Turkey	2,196	2,222
UAE	691	246
Georgia	680	635
Other	419	313
Total consolidated revenues	**39,674**	**38,433**

The analysis is based on the country of incorporation of the selling entity.

5 Segment information (continued)

Geographical information (continued)

Non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts for each individual country for which it is material is reported separately as follows:

	2014	2013 (reclassified)
Azerbaijan	11,678	10,857
Turkey	2,118	1,874
UAE	1,121	1,001
Switzerland	331	391
Georgia	280	251
Other	149	208
Total	**15,677**	**14,582**

The analysis is based on location of assets.

6 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. Although there are no structured formal management procedures, management of the Group identifies and evaluates financial risks with reference to the current market position.

(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 borrowings and sales as well as receivables from foreign customers are denominated in USD.

Management does not hedge the Group's foreign exchange risk.

6 Financial risk management (continued)

Financial risk factors (continued). The following table demonstrates the sensitivity to a reasonably possible change in the USD, JPY, EUR, TRY, UAH exchange rates, with all other variables held constant, of the Group's post-tax profit:

2014	Change in rates (+/-)	Effect on post-tax profit
USD/AZN	35%/-8.74%	(757)/189
JPY/AZN	35%/-0.76%	(23)/1
EUR/AZN	35%/-10.70%	(18)/6
TRY/AZN	26%/-13.90%	1/(1)
USD/TRY	10.00%/-10.00%	(85)/85
EUR/TRY	10.00%/-10.00%	(5)/5
USD/GEL	7.01%/-7.01%	(4)/4
EUR/UAH	28.96%/-28.96%	(8)/8

2013	Change in rates (+/-)	Effect on post-tax profit
USD/AZN	1.37%/-1.37%	(13)/13
JPY/AZN	8.56%/-8.56%	(7)/7
EUR/AZN	10.16%/-10.16%	(4)/4
TRY/AZN	22.16%/-22.16%	10/(10)
USD/TRY	10.00%/-10.00%	(60)/60
EUR/TRY	10.00%/-10.00%	5/(5)
USD/GEL	4.79%/-4.79%	(3)/3
EUR/UAH	9.59%/-9.59%	(3)/3

Group's exposure to foreign currency changes for all other currencies is not material.

(ii) Commodity price risk

The Group is exposed to certain price risk due to volatility of oil market prices. Due to the risk the Group's management has developed and enacted a risk management strategy regarding oil price risk and its mitigation.

Based on forecasts about oil purchases and sales, the Group hedges the price using futures and sales contracts, options and contracts for difference.

The following sensitivity analysis is based upon derivative price exposures that existed at 31 December 2014, whereby if oil future prices had moved, as illustrated in the table below, with all other variables held constant, post tax profit after the impact of hedge accounting and equity (excluding the effect of net profit) would have been as follows:

	Change in year-end price	Effect on profit before tax	Effect on equity
2014	5%/(5%)	(15)/15	(15)/15
2013	5%/(5%)	(1)/1	(1)/1

6 Financial risk management (continued)

Financial risk factors (continued)

(iii) 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 and assets exposes the Group to fluctuation in interest payments and receipts mainly due to changes in LIBOR.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on loans and borrowings payable and receivable.

Loans and borrowings, net of loans receivable	Increase/ decrease in basis points	Effect on post-tax profit
2014	+2/-2	(0.4)/0.4
2013	+3/-3	(0.5)/0.5

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, including restricted cash, trade receivables and loans receivable.

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

	2014	2013
Cash and cash equivalents excluding cash on hand (Note 8)	1,489	1,200
Restricted cash	107	79
Deposits (Note 8)	39	25
Trade and other receivables	3,806	4,519
Other current financial assets (Note 13)	261	110
Other non-current financial assets (Note 13)	78	137
Financial guarantees given (Note 37)	191	119
Total maximum exposure to credit risk	**5,971**	**6,189**
Financial guarantees – amounts of guarantees of indebtedness of others (Note 37)	(398)	(381)
Total exposure to credit risk net of guarantees received	**5,573**	**5,808**

6 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 568 (2013: AZN 445). The Group continually monitors the status of the banks where its accounts are maintained.

Trade receivables consist primarily of balances with local and foreign customers, including related parties, for crude oil, oil products and natural gas sold. SOCAR has an obligation to secure uninterrupted supply of crude oil, oil products and natural gas to certain customers under control of the Azerbaijani Government, including such companies as Azerenergy OJSC and Azal CJSC, which operate important public infrastructure facilities in the Azerbaijan Republic. Actual settlement terms applicable to the Group's relationships with these customers are affected to a large extent by the social and economic policies of the Government of the Azerbaijan Republic. The Group's credit risk arising from its trade balance with private sector and other third-party unrelated customers is mitigated by continuous monitoring of their creditworthiness. Management of the Group believes that the Group is not exposed to high credit risk as the impairment provision has already been accrued in the accompanying consolidated financial statements for all debtors which are not expected to be recovered in a future.

As at 31 December 2014, letters of guarantee and bank guarantees in total amount of AZN 398 (TRY 1,174 million) (2013: AZN 381 (TRY 1,046 million)) were received from certain domestics and foreign customers of SOCAR Turkey Energy A.S ("STEAS").

The Group categorized its financial assets as follows:

31 December 2014	Standard	Sub-standard	Past due but not impaired	Individually impaired
Cash and cash equivalents excluding cash on hand	1,489	–	–	–
Restricted cash	107	–	–	–
Deposits	39	–	–	–
Trade receivables	3,010	152	644	227
Other current financial assets (Note 13)	–	261	–	–
Other non-current financial assets (Note 13)	–	78	–	–
Total	**4,645**	**491**	**644**	**227**

31 December 2013	Standard	Sub-standard	Past due but not impaired	Individually impaired
Cash and cash equivalents excluding cash on hand	1,200	–	–	–
Restricted cash	79	–	–	–
Deposits	25	–	–	–
Trade receivables	3,751	64	704	214
Other current financial assets (Note 13)	–	110	–	–
Other non-current financial assets (Note 13)	–	137	–	–
Total	**5,055**	**311**	**704**	**214**

Standard grade represents receivables from borrowers having a minimal level of credit risk, normally with a credit rating on or close to sovereign level or very well collateralized. Sub-standard grade represented by receivables from other borrowers with good financial position and good debt service which are neither past due nor impaired.

6 Financial risk management (continued)

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 reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

The maturity analysis of financial liabilities as of 31 December 2014 and 2013 is as follows:

At 31 December 2014	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade and other financial payables	3,857	–	–	–	**3,857**
Deferred acquisition consideration payable	–	76	–	–	**76**
Other current financial liability	–	20	–	–	**20**
Interest bearing borrowings	1,054	1,170	2,044	2,102	**6,370**
Other non-current liabilities	–	–	237	–	**237**
Other non-current financial liabilities	–	–	216	–	**216**
Total undiscounted financial liabilities	**4,911**	**1,266**	**2,497**	**2,102**	**10,776**

At 31 December 2013	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade and other financial payables	5,442	–	–	–	**5,442**
Deferred acquisition consideration payable	–	70	13	–	**83**
Other current financial liability	–	–	–	–	**–**
Interest bearing borrowings	605	936	2,316	1,907	**5,764**
Other non-current liabilities	–	–	55	–	**55**
Other non-current financial liabilities	–	–	–	–	**–**
Total undiscounted financial liabilities	**6,047**	**1,006**	**2,384**	**1,907**	**11,344**

6 Financial risk management (continued)

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 government, investor and creditor confidence to support its business activities.

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

	2014	2013
Total borrowings (Note 19)	5,797	4,985
Total equity attributable to the Group's equity holders	10,532	9,716
Less: cash and cash equivalents	(1,492)	(1,206)
Total capital under management	**14,837**	**13,495**

The Group is periodically mandated to contribute to the state budget and finance various projects undertaken by the Government of the Azerbaijan Republic.

There were no changes to the Group's approach to capital management during the year.

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 8)	1,492	1,492
Deposits (Note 8)	39	39
Restricted cash	107	107
Trade receivables and other receivables (Note 10)	3,806	3,806
Other current financial assets	261	261
Other non-current financial assets (Note 13)	78	78
Total financial assets	**5,783**	**5,783**
Trade and other payables (Note 18)	(3,857)	(3,857)
Other current financial liabilities	(20)	(20)
Short-term borrowings and current portion of long-term borrowings (Note 19)	(2,212)	(2,212)
Long-term borrowings (Note 19)	(3,585)	(3,565)
Deferred acquisition consideration payable	(76)	(76)
Other non-current liabilities	(237)	(237)
Other non-current financial liabilities	(216)	(216)
Total financial liabilities	**(10,203)**	**(10,183)**

6 Financial risk management (continued)

Fair value of financial instruments (continued)

	31 December 2013	
	Carrying amounts	Fair values
Cash and cash equivalents (Note 8)	1,206	1,206
Deposits (Note 8)	25	25
Restricted cash	79	79
Trade receivables and other receivables (Note 10)	4,519	4,519
Other current financial assets	110	110
Other non-current financial assets (Note 13)	137	137
Total financial assets	**6,076**	**6,076**
Trade and other payables (Note 18)	(5,442)	(5,442)
Other current financial liabilities	–	–
Short-term borrowings and current portion of long-term borrowings (Note 19)	(1,464)	(1,464)
Long-term borrowings (Note 19)	(3,521)	(3,583)
Deferred acquisition consideration payable	(70)	(70)
Other non-current liabilities	(69)	(69)
Other non-current financial liabilities	–	–
Total financial liabilities	**(10,566)**	**(10,628)**

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

(i) Current financial assets and liabilities approximate their carrying amounts largely due to the current maturities of these instruments;

(ii) Long-term fixed-rate and variable-rate receivables/borrowings 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.

6 Financial risk management (continued)

Fair value hierarchy. The following table provides the fair value measurement hierarchy of the Group's assets and liabilities:

As at 31 December 2014, the Group held the following classes of financial instruments measured at fair value:

	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Other current financial assets				
Unrealised gains on paper positions	**124**	112	12	–
Unrealised gains on physical positions	**39**	–	39	–
Other current financial liabilities				
Unrealised losses on paper positions	**71**	33	38	–
Unrealised losses on physical positions	**29**	–	29	–
Assets for which fair value are disclosed				
Cash and cash equivalents	**1,492**	1,492	–	–
Restricted cash	**107**	107	–	–
Deposits	**39**	–	–	39
Trade and other receivables	**3,806**	–	–	3,806
Other current financial assets	**261**	–	–	261
Other non-current financial assets	**78**	–	–	78
Liabilities for which fair values are disclosed				
Trade and other payables	**(3,857)**	–	–	(3,857)
Other current financial liabilities	**(20)**	–	–	(20)
Short-term borrowings and current portion of long-term borrowings	**(2,212)**	–	–	(2,212)
Long-term borrowings	**(3,565)**	–	–	(3,565)
Deferred acquisition consideration payable	**(76)**	–	–	(76)
Other non-current liabilities	**(237)**	–	–	(237)
Other non-current financial liabilities	**(216)**	–	–	(216)

As at 31 December 2013, the Group held the following classes of financial instruments measured at fair value:

	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Other current financial assets				
Unrealised gains on paper positions	**4**	3	1	–
Unrealised gains on physical positions	**28**	–	28	–
Other current financial liabilities				
Unrealised losses on paper positions	**9**	8	1	–
Unrealised losses on physical positions	**26**	–	26	–
Assets for which fair value are disclosed				
Cash and cash equivalents	**1,206**	1,206	–	–
Restricted cash	**79**	79	–	–
Deposits	**25**	–	–	25
Trade and other receivables	**4,519**	–	–	4,519
Other current financial assets	**110**	–	–	110
Other non-current financial assets	**137**	–	–	137
Liabilities for which fair values are disclosed				
Trade and other payables	**(5,442)**	–	–	(5,442)
Other current financial liabilities	**–**	–	–	–
Short-term borrowings and current portion of long-term borrowings	**(1,464)**	–	–	1,464
Long-term borrowings	**(3,583)**	–	–	(3,583)
Deferred acquisition consideration payable	**(70)**	–	–	(70)
Other non-current liabilities	**(69)**	–	–	(69)
Other non-current financial liabilities	**–**	–	–	–

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements during 2014 and 2013.

7 Balances and transactions with related parties

Key management compensation. Key management of the Group includes the President of SOCAR and its ten Vice-Presidents. 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 SOCAR in accordance with the approved payroll matrix as well as to compensation for serving as members of the Boards of directors for certain Group companies. During 2014 compensation of key management personnel totalled to AZN 0.4 (2013: AZN 0.4).

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:

	Note	Government and entities under government control	Associates, joint ventures
Gross amount of trade receivables		608	35
Impairment provisions for trade and other receivables		(72)	–
Other receivables		116	67
Other non-current financial assets		–	19
Cash and cash equivalents		420	–
Deposit		152	–
VAT and other taxes receivable		499	–
Prepayment for corporate income tax		3	–
Prepayments to vendors		–	–
Receivables from a joint venture		1	–
Borrowings from IBA (at fixed rates varying from 3 to 3.5 per cent and floating interest rates varying from LIBOR plus 2 per cent to LIBOR plus 3.5 per cent)		(570)	–
Borrowings from the Ministry of Finance of Azerbaijan Republic		(106)	–
Trade and other payables		(793)	(335)
Other non-current liabilities		–	(291)
Taxes payable to State Oil Fund of Azerbaijan Republic ("SOFAZ")	20	(123)	–
Bond payable to SOFAZ		(512)	–
Payable to SOFAZ		(836)	–
Taxes payable		(134)	–

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

	Note	Government and entities under government control	Associates and joint ventures
Sales of natural gas		400	168
Sales of oil products		262	8
Service rendered		216	201
Interest on loans to related parties		(28)	(1)
Corporate income tax		(285)	–
Excise tax	27	(458)	–
Price margin tax		(211)	–
Mining tax	28	(108)	–
Other taxes		(92)	–
Utilities costs		(48)	(2)
Other operating expenses		(31)	(14)
Social security deductions		(121)	–
Social expenses		(439)	–
Transportation expenses		(77)	(41)
Ecology service and environmental security		–	(1)
Purchases of PPE and inventory		(9)	(246)
Dividends received from joint ventures	16	–	22
Dividends received from associates	17	–	136

7 Balances and transactions with related parties (continued)

Key management compensation (continued)

At 31 December 2013, the outstanding balances with related parties were as follows:

The transactions with related parties for the year ended 31 December 2013 were as follows:

	Note	Government and entities under government control	Associates, joint ventures
Gross amount of trade receivables		415	25
Impairment provisions for trade and other receivables		(71)	–
Other receivables		29	79
Other non-current financial assets		–	30
Cash and cash equivalents		221	–
Deposit		227	–
VAT and other taxes receivable		435	–
Prepayment for corporate income tax		1	–
Receivable from a joint venture		1	–
Borrowings from IBA (at fixed rates varying from 3 to 3.5 per cent and floating interest rates varying from LIBOR plus 2 per cent to LIBOR plus 3.5 per cent)		(500)	–
Borrowings from the Ministry of Finance of Azerbaijan Republic		(127)	–
Trade and other payables		(134)	(570)
Taxes payable to State Oil Fund of Azerbaijan Republic ("SOFAZ")	20	(123)	–
Bond payable to SOFAZ		(742)	–
Payable to SOFAZ		(1,106)	–
Taxes payable		(438)	–

The transactions with related parties for the year ended 31 December 2013 were as follows:

	Note	Government and entities under government control	Associates and joint ventures
Sales of natural gas		261	108
Sales of oil products		266	567
Service rendered		288	134
Interest income on deposits		2	–
Interest on loans to related parties		(35)	8
Corporate income tax		(259)	–
Excise tax	27	(570)	–
Price margin tax		(318)	–
Mining tax	28	(112)	–
Other taxes		(201)	–
Utilities costs		(57)	(4)
Other operating expenses		(39)	(33)
Social security deductions		(137)	–
Social expenses		(547)	–
Transportation expenses		(1)	(47)
Ecology service and environmental security		–	(2)
Purchases of PPE and inventory		(53)	(354)
Dividends received from joint ventures	16	–	13
Dividends received from associates	17	–	173

Terms and conditions of transactions with related parties. The sales to and purchases from the Government and entities under government control are made at prices regulated by the Azerbaijani Government. 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.

8 Cash and cash equivalents and deposits

	2014	2013 (reclassified)
USD denominated bank balances	1,069	881
AZN denominated bank balances	259	120
TRY denominated bank balances	44	46
EUR denominated bank balances	54	53
CHF denominated bank balances	48	72
Other denominated bank balances	15	28
Cash on hand	3	6
Total cash and cash equivalents	**1,492**	**1,206**

Included in USD denominated bank balances as at 31 December 2014 are two call deposits of AZN 152 (31 December 2013: deposit of AZN 206) and AZN 31 (31 December 2013: deposit of AZN 28) placed with International Bank of Azerbaijan ("IBA") and Xalq Bank, respectively. Interest rate on these deposits for the years ended 31 December 2014 and 2013 equalled 70 per cent of USD LIBOR overnight rate published by Reuters and 3 per cent, respectively. Call deposit has original maturity of less than three months.

Deposits. At 31 December 2014 term deposits included placements in the amount of AZN 21 with maturity ranging from three to six months, under fixed contractual interest rates ranging from 2.5 per cent to 6 per cent per annum.

In addition as at 31 December 2014 term deposits included placements in the amount of AZN 16 with one year maturity bearing 3.4 per cent of annual interest rate. Management expects to withdraw the deposit till 31 August 2015. Other deposits are insignificant. All the bank balances and deposits in the amount of AZN 39 (31 December 2013: AZN 25) are neither past due nor impaired.

9 Restricted cash and deposits

At 31 December 2014 other restricted cash was mainly represented by cash collateral account in the amount of EUR 40 million (AZN 38) placed with Natixis (2013: AZN 43). This account was opened as on-demand performance guarantee for the benefit of Hellenic Republic Assets Development Fund S.A. in accordance with the terms of agreement on acquisition of gas distribution company DESFA.

In addition, 30 per cent of capital of Petlim Limancılık Ticaret A.Ş., a subsidiary of the Group was sold to Goldman Sachs International on 18 December 2014. As per sales-purchase agreement, bank deposits in the amount of TRY 116 million (AZN 39) was pledged in favour of Goldman Sachs International as at 31 December 2014 (2013: nil).

10 Trade and other receivables

	2014	2013 (reclassified)
Trade receivables	3,831	4,608
Less impairment loss provision	(177)	(164)
Total trade receivables	**3,654**	**4,444**
VAT recoverable	492	473
Other taxes receivable	76	27
Prepayments	271	187
Other receivables	278	151
Less impairment loss provision (other receivables)	(50)	(50)
Receivable for underlift of oil	18	19
Total trade and other receivables	**4,739**	**5,251**

Receivables mainly represent receivables for crude oil, oil products and natural gas sold to customers of the Group. The Group does not hold any collateral as security, except as described further in this note.

At 31 December 2014 trade receivables of AZN 3,022 (2013: AZN 4,033) were denominated in foreign currencies, mainly in USD.

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.

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

	2014	2013
At 1 January	**214**	**200**
Net change in provision	13	14
At 31 December	**227**	**214**

The impaired receivables mainly relate to overdue debts (in excess of 360 days) for oil, natural gas and oil products supplied to state-owned entities.

An analysis of the age of financial assets that are past due, but not impaired:

	2014	2013
1-30 days overdue	179	271
1-3 months overdue	87	38
Over 3 months overdue	378	395
Total overdue receivables	**644**	**704**

At 31 December 2014 trade receivables of AZN 644 (2013: AZN 704) were past due. The Group had overdue receivable from Azerenergy OJSC in amount of AZN 365 (2013: AZN 188). The Group is engaged in sales of natural gas to Azerenergy OJSC. Azerenergy OJSC is the biggest power producer and 100 per cent owned by the Government of the Azerbaijan Republic. Management believes that the receivable amount is not impaired and will be recovered in due course. (refer to Note 40)
The Group holds guarantee letters and letters of credits in total amount of AZN 2 (2013: AZN 2).

11 Inventories

	2014	2013
Crude oil	293	136
Finished goods	291	323
Goods in transit	230	320
Raw materials and spare parts	228	310
Work in progress	99	96
Other	14	12
Total inventories	**1,155**	**1,197**

12 Other non-current assets

At 31 December 2014 other non-current assets were mainly represented by long-term prepayments for purchase of property, plant and equipment in the amount of AZN 394 (2013: AZN 232), for vessel hire in the amount of AZN 47 (2013: nil) and VAT receivable in the amount of AZN 30 (2013: AZN 39) and other non-current assets.

13 Other financial assets

Current

At 31 December 2014 other current financial assets were mainly represented by short-term loans receivable from third parties in the amount of AZN 34 (2013: AZN 44), balances relating to margin deposits and financial derivatives in the amount of AZN 180 (2013: AZN 61) and other financial assets.

At 31 December 2014 the Group also had short-term dividends receivable from BTC Co, an associate company, in the amount of AZN 36 (2013: nil).

Non-current

At 31 December 2014 and 2013 other non-current financial assets were mainly represented by loan receivable from Palmali International Holding Co Ltd. (Palmali) As per agreement, dated 5 October 2009, amended on 6 November 2009, 30 March 2010 and 19 December 2014, the Group provided a loan in the amount of USD 120 million (AZN 96) bearing annual interest with the rate of LIBOR plus 4.5 per cent and maturing on 31 December 2021. The principal and interest are payable on a quarterly basis.

At 31 December 2014 the carrying value of loan receivable from Palmali equalled to AZN 66 (2013: AZN 65).

In accordance with the Share Pledge Agreement and Corporate Guarantee dated 7 October 2009, signed between the Group and owners of Palmali, the latter pledged 340 shares out of total authorized and issued 514 shares and any related equity interests in Palmali as a security for its obligations under the above-mentioned loan agreement. In addition, Palmali has assigned in favor of the Group all of its rights and interests in all proceeds and funds received or receivable by Palmali under the transportation services agreement signed with one of the Group subsidiaries on 20 March 2008 in relation to transportation of crude oil and oil products. The above security arrangements shall remain in force until Palmali fully repays its liabilities to the Group.

At 31 December 2013 the Group also had long-term dividends receivable from BTC Co, an associate company, in the amount of AZN 33 and receivable from Trans Adriatic Pipeline ("TAP"), a joint venture company established with the purpose of planning, developing and building the Trans Adriatic gas pipeline, in the amount of AZN 30.

14 Property, plant and equipment

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

	Buildings and constructions	Oil & gas properties and equipment	Plant and machinery	Vessels and port facilities	Other	Exploration and evaluation assets	Construction in progress	Total
Cost:								
At 1 January 2013	**1,340**	**8,477**	**2,192**	**534**	**1,307**	**171**	**1,964**	**15,985**
Additions	43	874	222	57	121	118	1,199	2,634
Acquisition through business combination	96	–	2	–	5	–	1	104
Discontinued operations (Note 35)	(5)	–	(12)	(571)	(12)	–	(24)	(624)
Disposals	(12)	(78)	(43)	(8)	(114)	–	(169)	(424)
Transfers	74	147	389	2	18	–	(630)	–
Translation to presentation currency	(10)	(12)	(158)	–	(106)	–	(34)	(320)
At 31 December 2013	**1,526**	**9,408**	**2,592**	**14**	**1,219**	**289**	**2,307**	**17,355**
Additions	62	751	185	–	81	283	635	1,997
Disposals	(57)	(34)	(68)	–	(18)	–	(126)	(303)
Transfers	325	422	97	55	65	–	(964)	–
Translation to presentation currency	(56)	(16)	(70)	–	(45)	–	(22)	(209)
At 31 December 2014	**1,800**	**10,531**	**2,736**	**69**	**1,302**	**572**	**1,830**	**18,840**
Depreciation and impairment:								
At 1 January 2013	**(376)**	**(3,115)**	**(832)**	**(373)**	**(275)**	**–**	**(237)**	**(5,208)**
Depreciation charge for the year	(70)	(403)	(195)	(27)	(115)	–	–	(810)
Disposal	6	28	23	6	28	–	14	105
Discontinued operations (Note 35)	4	–	1	391	9	–	7	412
Impairment	(11)	(224)	(1)	–	(1)	–	(11)	(248)
Transfers	(2)	(19)	–	(2)	(3)	–	26	–
Translation to presentation currency	3	2	50	–	4	–	–	59
At 31 December 2013	**(446)**	**(3,731)**	**(954)**	**(5)**	**(353)**	**–**	**(201)**	**(5,690)**
Depreciation charge for the year	(73)	(472)	(223)	(1)	(81)	–	–	(850)
Disposal	23	21	39	–	8	–	5	96
Impairment	(5)	(214)	(8)	–	–	–	(67)	(294)
Transfers	2	3	12	–	(17)	–	–	–
Translation to presentation currency	3	3	22	–	4	–	–	32
At 31 December 2014	**(496)**	**(4,390)**	**(1,112)**	**(6)**	**(439)**	**–**	**(263)**	**(6,706)**
Net book value:						–		
At 1 January 2013	**964**	**5,362**	**1,360**	**161**	**1,032**	**171**	**1,727**	**10,777**
At 31 December 2013	**1,080**	**5,677**	**1,638**	**9**	**866**	**289**	**2,106**	**11,665**
At 31 December 2014	**1,304**	**6,141**	**1,624**	**63**	**863**	**572**	**1,567**	**12,134**

14 Property, plant and equipment (continued)

Included in the disposed property, plant and equipment during the year ended 31 December 2014 were assets at cost of AZN 28 (2013: AZN 33) which were transferred to governmental entities as part of social program approved by the Government and recognized in the distribution to the Government (Note 26). Due to the fact that the assets are constructed/acquired and disposed to the Government within the same year, management believes that their fair value at the date of transfer to the Government approximate cost of construction/acquisition.

Acquisition through business combination in 2013 represents property, plant and equipment acquired through acquisition of SOCAR Petroleum CJSC in amount of AZN 104.

Impairment in the amount of AZN 294 for the year ended 31 December 2014 is mainly related to non-recoverable fields of Azneft Production Union resulted from high operational and capital expenditure and decrease in crude oil prices (2013: AZN 248).

15 Intangible assets other than goodwill

Movement of intangible assets other than goodwill and related accumulated amortization was as follows:

	Land and property rights	**Water rights**	**Trade name**	**Customer relation-ship**	**Other intangible assets**	**Total**
Cost						
At 1 January 2013	**155**	**167**	**32**	**203**	**98**	**655**
Additions	28	–	–	–	25	**53**
Disposal	–	–	–	–	(13)	**(13)**
Translation to presentation currency	(22)	(28)	(5)	(12)	–	**(67)**
At 31 December 2013	**161**	**139**	**27**	**191**	**110**	**628**
Additions	9	–	–	–	31	**40**
Disposal	–	–	–	–	(4)	**(4)**
Loss of control over subsidiary	(27)	–	–	–	–	**(27)**
Translation to presentation currency	(23)	(10)	(2)	(17)	(3)	**(55)**
At 31 December 2014	**120**	**129**	**25**	**174**	**134**	**582**
Amortization and impairment						
At 1 January 2013	**(15)**	**(16)**	**-**	**(20)**	**(28)**	**(79)**
Amortization charge for the year	(5)	(3)	–	(8)	(8)	**(24)**
Translation to presentation currency	2	2	–	3	1	**8**
At 31 December 2013	**(18)**	**(17)**	**-**	**(25)**	**(35)**	**(95)**
Amortization charge for the year	(4)	(3)	–	(9)	(10)	**(26)**
Translation to presentation currency	2	1	–	3	1	**7**
At 31 December 2014	**(20)**	**(19)**	**-**	**(31)**	**(44)**	**(114)**
Net book value						
At 1 January 2013	**140**	**151**	**32**	**183**	**70**	**576**
At 31 December 2013	**143**	**122**	**27**	**166**	**75**	**533**
At 31 December 2014	**100**	**110**	**25**	**143**	**90**	**468**

15 Intangible assets other than goodwill (continued)

At 31 December 2014 included carrying value of intangible assets was AZN 25 (2013: AZN 27) trade name of Petkim acquired through business combination in May 2008.

The carrying value of Petkim trade name at December 31, 2014 has been tested for impairment through comparison with its recoverable amount. Recoverable amount has been determined based on the relief from royalty approach. In applying this methodology, the Group estimated the value of the trade name by capitalising the royalties saved due to Petkim owning the trade name. The valuation exercises are highly sensitive to the change in royalty rate and change in WACC, which were taken into account by the Group as 0.2 per cent and 8.4 per cent throughout the projection period, respectively. As a result of the test performed, no impairment on the Petkim trade name was identified.

During 2014, total amortization expense amounting to AZN 26 (2013: AZN 24) has been allocated to cost of sales by AZN 22 (2013: AZN 19), marketing, selling and distribution expenses by AZN 3 (2013: AZN 4), and general and administrative and research and development expenses by AZN 1 (2013: AZN 1).

16 Investments in joint ventures

The table below summarizes movements in the carrying amount of the Group's investment in joint ventures.

	Note	2014	2013
Carrying amount at 1 January		**546**	**438**
Additions to investments in joint ventures		246	135
Share of after tax results of joint ventures		112	29
Dividends received from joint ventures	7	(22)	(13)
Transfer of associate to joint venture		285	–
Acquisition of control over joint ventures		–	(56)
Exchange differences		(37)	(1)
Other		(3)	14
Carrying amount at 31 December		**1,127**	**546**

At 31 December 2014, the summarized financial information of the Group's principal joint ventures, based on their IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	Azgerneft LLC	AZFEN	Azeri M-I Drilling Fluids	SOCAR Umid	SOCAR AQS	Azerbaijan Rigs	SOCAR Aurora Terminal	STYAS
Country of incorporation	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**	**Panama**	**Turkey**
Current assets	37	136	51	138	354	47	5	99
including cash and cash equivalents	5	30	4	4	–	13	–	–
Non-current assets	54	24	6	298	3	306	81	1,299
Current liabilities	(34)	(90)	(36)	(20)	(86)	–	(11)	(89)
including current financial liabilities (except trade and other payables and provisions)	–	–	–	–	–	–	–	
Non-current liabilities	–	(1)	–	–	(49)	–	(34)	(60)
including non-current financial liabilities (except trade and other payables and provisions)	–	–	–	–	–	–	–	
Net assets	**57**	**69**	**21**	**416**	**222**	**353**	**41**	**1,249**
Proportion of the Group's ownership	40%	60%	51%	80%	51%	10%	50%	60%
Interest in the net assets	**23**	**41**	**11**	**333**	**113**	**35**	**21**	**749**
Adjustments	–	–	–	–	–	(3)	13**	(233)*
Carrying value	**23**	**41**	**11**	**333**	**113**	**32**	**34**	**516**

* At 31 December 2014 the other shareholder of SOCAR TURKEY YATIRIM A.Ş. paid more than its portion of investment.
** The amount represents goodwill recognised upon acquisition of SOCAR Aurora Terminal SA (SATSA).

16 Investment in joint ventures (continued)

	Azgerneft LLC	AZFEN	Azeri MI Drilling Fluids	SOCAR Umid	SOCAR AQS	Azerbaijan Rigs	SOCAR Aurora Terminal	STYAS
Revenue	39	270	148	–	99	–	15	–
Cost of sales	(32)	(222)	(127)	–	(78)	–	(11)	–
including depreciation	–	(6)	(1)	–	–	–	–	–
General and administrative expenses	–	(3)	(1)	(5)	(5)	–	–	(9)
Other expense	–	–	–	–	(4)	–	–	–
Finance income	–	–	–	–	–	–	–	12
Finance costs	–	–	–	–	–	–	–	(10)
Profit before tax	**7**	**45**	**20**	**(5)**	**12**	**–**	**4**	**(7)**
Income tax (expense)/ benefit	–	(9)	(4)	–	(2)	–	–	**136**
Profit for the year (continuing operations)	**7**	**36**	**16**	**(5)**	**10**	**–**	**4**	**129**
Adjustment	–	–	3	–	(5)*	–	–	–
Group's share of profit for the year	**3**	**22**	**11**	**(4)**	**–**	**–**	**2**	**77**

* The amount represents elimination of unrealised profit from sales to AzNeft.

At 31 December 2014, the Group's interests in other joint ventures that are not significant both individually and in aggregate and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (loss)	Interest held	Country of incorporation
Oil and Gas Proservice	19	–	(8)	(2)	6	–	30%	Azerbaijan
Ekol Engineering Services	7	9	(1)	–	12	(1)	51%	Azerbaijan
Caspian Shipyard Company	36	2	(18)	–	85	14	20%	Azerbaijan
SOCAR KPS	15	1	(16)	–	5	–	50%	Azerbaijan
SOCAR-Construction	5	8	(1)	–	1	–	97%	Azerbaijan
Sarmatia	–	–	–	–	–	–	27%	Poland
SOCAR Baglan LLC	1	14	(13)	(6)	1	–	51%	Azerbaijan
AGRI LNG Project Company SRL	–	–	–	–	–	–	33%	Romania
SOCAR CAPE	20	6	(32)	–	57	–	51%	Azerbaijan
SOCAR Foster Wheeler Engineering	1	–	(1)	–	11	–	65%	Azerbaijan
Socar CNG	1	1	(2)	–	–	–	51%	Azerbaijan
Socar Fugro	1	–	(1)	–	1	–	51%	Azerbaijan
Total	**106**	**41**	**(93)**	**(8)**	**179**	**13**		

At 31 December 2013, the summarized financial information of the Group's principal joint ventures, based on their IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

2013	Azgerneft LLC	AZFEN	Azeri MI Drilling Fluids	SOCAR Umid	SOCAR AQS	Azerbaijan Rigs	SOCAR Aurora Terminal
Country of incorporation	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**	**Panama**
Current assets:	33	59	51	11	337	21	4
including cash and cash equivalents	8	3	1	5	–	1	–
Non-current assets	46	13	6	397	3	171	83
Current liabilities:	(29)	(23)	(20)	(21)	(73)	(4)	(10)
including current financial liabilities (except trade and other payables and provisions)	–	–	–	–	(19)	–	–
Non-current liabilities:	–	–	–	(3)	(55)	–	(41)
including non-current financial liabilities (except trade and other payables and provisions)	–	–	–	–	–	–	–
Net assets	**50**	**49**	**37**	**384**	**212**	**188**	**36**
Proportion of the Group's ownership	40%	60%	51%	80%	51%	10%	50%
Interest in the net assets	**20**	**29**	**19**	**307**	**108**	**19**	**18**
Adjustments	–	–	–	(10)*	–	–	14**
Carrying value	**20**	**29**	**19**	**297**	**108**	**19**	**32**

* As of 31 December 2013 the other shareholder of SOCAR Umid paid more than its portion of investment.
** The amount represents goodwill recognised upon acquisition of SATSA.

16 Investments in joint ventures (continued)

2013	Azgerneft LLC	AZFEN	Azeri MI Drilling Fluids	SOCAR Umid *	SOCAR AQS	Azerbaijan Rigs	SOCAR Aurora Terminal
Revenue	47	138	139	–	116	–	7
Cost of sales	(24)	(111)	(116)	–	(83)	–	(6)
Including depreciation	–	(4)	(1)	–	–	–	–
General and administrative expenses	–	(2)	(3)	(5)	(5)	–	–
Other expense	–	(4)	–	–	(1)	–	–
Finance income	–	–	–	–	–	–	–
Finance costs	–	–	–	–	(3)	–	–
Profit before tax	**23**	**21**	**20**	**(5)**	**24**	**–**	**1**
Income tax expense	(4)	(4)	(4)	–	(5)	–	–
Profit for the year (continuing operations)	**19**	**17**	**16**	**(5)**	**19**	**–**	**1**
Adjustment*					**(10)***	**–**	**–**
Group's share of profit for the year	**8**	**10**	**8**	**(4)**	**–**	**–**	**1**

* The amount represents elimination of unrealised profit from sales to AzNeft.

At 31 December 2013, the Group's interests in other joint ventures that are not significant both individually and in aggregate and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (loss)	Interest held	Country of incorporation
Azeri-Fugro	–	–	–	–	–	–	60%	Azerbaijan
Oil and Gas Proservice	14	3	(6)	(1)	3	1	30%	Azerbaijan
Ekol Engineering Services	9	10	(4)	(1)	23	2	51%	Azerbaijan
Caspian Shipyard Company	45	1	(35)	–	7	3	20%	Azerbaijan
SOCAR KPS	15	1	(16)	–	2	–	50%	Azerbaijan
SOCAR-Construction	1	12	(1)	–	–	(1)	97%	Azerbaijan
Sarmatia	1	–	–	–	–	–	27%	Poland
SOCAR Baglan LLC	–	15	(15)	(5)	2	(2)	51%	Azerbaijan
AGRI LNG Project Company SRL	–	–	–	–	–	–	33%	Romania
SOCAR CAPE	15	1	(21)	–	36	(5)	51%	Azerbaijan
SOCAR Foster Wheeler Engineering	5	–	(4)	–	9	1	65%	Azerbaijan
Socar CNG	–	–	–	–	–	–	51%	Azerbaijan
Total	**105**	**43**	**(102)**	**(7)**	**82**	**(1)**		

Investments where the Group's share is more than 50 per cent and which are jointly controlled by venturers are recognized as investments in joint ventures.

During 2014, the Group has made additional contributions in share capital of its joint ventures, SOCAR Umid LLC in the amount of AZN 40 (2013: AZN 84), Azerbaijan Rigs LLC in the amount AZN 14 (2013: AZN 19) and STYAS in the amount of AZN 192, respectively, and insignificant contributions to other joint ventures.

In 2013, shareholders agreement related to Star Gulf FZCO was changed and SOCAR obtained control over this joint venture (without any consideration paid by SOCAR). As a result Star Gulf FZCO and Bosshelf LLC (where Star Gulf FZCO has 50 per cent interest) became subsidiaries of SOCAR (Note 38).

During second half of 2013, SOCAR Overseas, the Group's subsidiary, acquired remaining 49 per cent share in SOCAR Petroleum, as a result of which control over the latter was obtained (Note 38).

In July 2013 the Group acquired remaining 50 per cent shares of its associate, SOCAR International DMCC, as a result of which SOCAR International DMCC's investment in SOCAR Aurora Terminal in the amount of AZN 30 was recognized as Group's joint venture (Note 17, 38).

17 Investments in associates

The table below summarises the movements in the carrying amount of the Group's investment in associates.

	Note	2014	2013
Carrying amount at 1 January		**1,328**	**1,157**
Additions to investments in associates		178	178
Share of after tax results of associates		217	196
Dividends received from associates	7	(136)	(173)
Acquisition of control over associate		–	(18)
Transfer from associate to joint venture		(285)	(9)
Exchange differences		7	(5)
Disposal of associate		(43)	–
Other		14	2
Carrying amount at 31 December		**1,280**	**1,328**

At 31 December 2014, the summarized financial information of the Group's principal associates, based on their IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below.

2014	South Caucasus Pipeline Company	BTC Co	Southern Gas Corridor
Country of incorporation	**Cayman Islands**	**Cayman Islands**	**Azerbaijan**
Current assets	123	403	270
Non-current assets	1,798	3,629	1,996
Current liabilities	(308)	(652)	(146)
Non-current liabilities	(123)	(113)	(2,043)
Net assets	**1,490**	**3,267**	**77**
Proportion of the Group's ownership	10%	25%	49%
Interest in the net assets	**149**	**817**	**38**
Adjustments	–	226*	16**
Carrying value	**149**	**1,043**	**54**

* The adjustment on BTC Co represents mainly fair value adjustment on net assets at the date of acquisition of BTC Co adjusted for the effect of accumulated depreciation as of 31 December 2014 which is not reflected in the IFRS financial statements of BTC Co.

** The amount represents elimination of loss recognized from sales of the Group shares in SGC

17 Investments in associates (continued)

2014	South Caucasus Pipeline Company	BTC Co	SOCAR TURKEY YATIRIM A.Ş.	Southern Gas Corridor
Revenue	240	1,060	–	60
Cost of sales	(90)	(372)	–	(29)
General and administrative expenses	(1)	–	–	(4)
Finance income	–	–	–	3
Finance costs	–	(21)	–	(29)
Profit before tax	**149**	**667**	**–**	**1**
Income tax (expense)/benefit	(38)	–	52	(1)
Profit for the year (continuing operations)	**111**	**667**	52	**–**
Group's share of profit for the year	**11**	**167**	**22**	–
Adjustments	–	16	–	–
Total	**11**	**183**	**22**	–

At 31 December 2014, the Group's interests in other associates that are not significant both individually and in aggregate and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/ (loss)	Interest held	Country of incorporation
Ateshgah Insurance Company	**32**	**(25)**	36	–	10%	Azerbaijan
Azerbaijan Gas Supply Company	**391**	**(391)**	1,842	–	28%	Cayman Islands
AzLab	**1**	**–**	2	–	50%	Azerbaijan
Caspian Geophysical	**23**	**(1)**	6	–	45%	Azerbaijan
Caspian Pipe Coatings LLC	**11**	**(3)**	19	6	50%	Azerbaijan
Cross Caspian Oil and Gas Logistics	**6**	**(6)**	53	–	34%	Azerbaijan
South Caucasus Pipeline Company Hold Co ("SCPC Hold Co.")	**27**	**–**	–	–	10%	Cayman Islands
Interfax Azerbaijan	**4**	**–**	–	–	49%	Azerbaijan
Cooperatief Saiph	**73**	**(82)**	–	(7)	20%	Netherlands
Tankanlagen Mellingen AG (TAMAG)	**6**	**(2)**	3	–	33%	Switzerland
Tanklager Taegerschen AG (TLT)	**1**	**–**	1	–	21%	Switzerland
SOGEP AG	**1**	**(1)**	5	–	34%	Switzerland
UBAG AG	**14**	**(12)**	12	–	24%	Switzerland
SAPPRO SA	**3**	**(1)**	10	–	13%	Switzerland
SARACO SA	**8**	**(7)**	10	–	20%	Switzerland
Total	**601**	**(531)**	**1,999**	**(1)**		

In March 2014 the Group together with Ministry of Economic Development of Azerbaijan Republic (MED) established a new company, Southern Gas Corridor Company ("SGC"). The Group invested AZN 38 into charter capital of SGC to obtain 49 per cent share in SGC.

In May 2014 the Group acquired additional 18.5 per cent shares of its associate, SOCAR Turkey Yatirim A.S. (STYAS), for the amount of AZN 50 and made additional contribution in share capital of the entity in the amount of AZN 24 (2013: AZN 144). At the same time the Shareholders of STYAS signed a new shareholding agreement. According to new shareholding agreement the Group has joint control in STYAS. As a result of this transaction the Group transferred the associate to joint venture (Note 16).

During 2014, the Group has made additional contributions in share capital of its associates, AzSCP and AzTAP in the amount of AZN 55 (2013: nil) and AZN 11 (2013: AZN 33), respectively, and insignificant contributions to other joint ventures.

On 23 July 2014 the Group has sold its subsidiary AzTAP to Southern Gas Corridor Company. At the date of sale the carrying value of TAP amounted to AZN 43. Before the sale, the Group, through its subsidiary AzTAP, owned 20 per cent of TAP, which was accounted as associate at 31 December 2013.

17 Investments in associates (continued)

At 31 December 2013, the summarized financial information of the Group's principal associates, based on their IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

2013	South Caucasus Pipeline Company	BTC Co	SOCAR TURKEY YATIRIM A.Ş.
Country of incorporation	**Cayman Islands**	**Cayman Islands**	**Turkey**
Current assets	65	380	271
Non-current assets	1,146	3,648	390
Current liabilities	(312)	(640)	(59)
Non-current liabilities	(71)	(247)	–
Net assets	**828**	**3,141**	**602**
Proportion of the Group's ownership	10%	25%	41.5%
Interest in the net assets	**83**	**785**	**250**
Adjustments	–	211**	(70)*
Carrying value	**83**	**996**	**180**

* At 31 December 2013 the other shareholder of SOCAR TURKEY YATIRIM A.Ş. paid more than its portion of investment.

** The adjustment on BTC Co represents mainly fair value adjustment on net assets at the date of acquisition of BTC Co adjusted for the effect of accumulated depreciation as of 31 December 2013 which is not reflected in the IFRS financial statements of BTC Co.

In 2013 the Group established Socar Turkey Yatirim A.S. that purchased all STEAS shares in STAR refinery (Group subsidiary) at market value. Socar Turkey Yatirim A.S. has then sold 40 per cent of the shares to the Ministry of Economic Development of Azerbaijan Republic and 18.5 per cent to Turcas. The Group's interest in Socar Turkey Yatirim A.S. was 41.5 per cent which is accounted at equity method.

In July 2013 the Group acquired remaining 50 per cent shares of SOCAR International DMCC, as a result of which the Group obtained control over SOCAR International DMCC. Accordingly, SOCAR International DMCC was consolidated into these financial statements (Note 38).

At 31 December 2014 and 2013 the Group holds 28 per cent interest in the Azerbaijan Gas Supply Company ("AGSC"). AGSC was established together with the Ministry of Fuel and Energy of the Azerbaijan Republic and contractor parties of Shah Deniz Production Sharing Agreement ("Shah Deniz PSA") related to the Exploration, Development and Production of gas field on Caspian Sea where the Group has 10 per cent participating interest. AGSC is established for marketing, accounting, billing, payment and reporting of other administrative activities related to the sales of Shah Deniz gas and operates on no gain / no loss basis. The Group exercises a significant influence over AGSC.

The Group exercises a significant influence over SCPC and SCPC Hold Co. All significant decisions of SCPC and SCPC Hold Co are made at Shah Deniz PSA Steering Committee, where the Group has 50 per cent voting rights.

The Group exercises a significant influence over Ateshgah Insurance Company by participating in the financial and operating policy decisions of the associate.

17 Investments in associates (continued)

2013	South Caucasus Pipeline Company	BTC Co	SOCAR TURKEY YATIRIM A.Ş.
Revenue	174	1,143	–
Cost of sales	(78)	(462)	–
General and administrative expenses	(1)	–	(10)
Finance income	–	–	17
Finance costs	–	(23)	(14)
Profit before tax	**95**	**658**	**(7)**
Income tax (expense)/benefit	(29)	–	105
Profit for the year (continuing operations)	**66**	**658**	**98**
Adjustment	–	(18)	–
Group's share of profit for the year	**7**	**147**	**41**

At 31 December 2013, the Group's interests in other associates that are not significant both individually and in aggregate and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/ (loss)	Interest held	Country of incorporation
Ateshgah Insurance Company	29	(21)	38	–	10%	Azerbaijan
Azerbaijan Gas Supply Company	710	(709)	1,720	–	28%	Cayman Islands
AzLab	1	–	2	–	50%	Azerbaijan
Caspian Geophysical	37	(15)	36	8	45%	Azerbaijan
Caspian Pipe Coatings LLC	7	(3)	6	1	50%	Azerbaijan
Cross Caspian Oil and Gas Logistics	9	(9)	89	–	34%	Azerbaijan
South Caucasus Pipeline Company Hold Co ("SCPC Hold Co.")	17	(1)	1	1	10%	Cayman Islands
Interfax Azerbaijan	4	–	–	–	49%	Azerbaijan
TAP	252	(157)	–	(8)	20%	Switzerland
Tankanlagen Mellingen AG (TAMAG)	7	(2)	3	–	33%	Switzerland
Tanklager Taegerschen AG (TLT)	1	–	1	–	21%	Switzerland
SOGEP AG	1	(1)	4	–	34%	Switzerland
UBAG AG	12	(9)	12	–	24%	Switzerland
SAPPRO SA	3	(2)	10	–	13%	Switzerland
SARACO SA	6	(5)	7	–	20%	Switzerland
Total	**1,096**	**(934)**	**1,929**	**2**		

18 Trade and other payables

	2014	2013 (reclassified)
Trade payables	2,563	4,210
Accrued liabilities	1,046	1,062
Other payables	248	170
Total financial payables	**3,857**	**5,442**
Liabilities for overlift of oil	24	45
Advances from customers	225	126
Payable to employees	75	64
Total trade and other payables	**4,181**	**5,677**

Financial payables of AZN 3,300 (2013: AZN 4,332) are denominated in foreign currencies, mainly in USD. Trade payables mainly represent payables for crude oil, oil products, gas, construction, drilling, transportation and utilities provided by vendors of the Group.

Accrued liabilities of the Group represent obligations occurred for purchase of crude oil and oil products, for which invoices have not yet been received.

Liabilities for overlift relate to the oil lifted by the Group in excess of its participating interest in Azeri-Chirag-Gunashli (ACG) PSA and Shah Deniz PSA and thus, represent the Group's obligation to deliver physical quantities of oil out of its share of future production.

19 Borrowings

As at 31 December 2014, short-term borrowings 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	0.26%-14%	January 2015 – December 2015	1,676	1,192
Short-term facilities in JPY	3.5%-4%	January 2015 – August 2015	329	258
Short-term facilities in GEL	8%-11.25%	February 2015 – December 2015	108	46
Short-term facilities in CHF	LIBOR + 0.0714%	July 2015	22	18
Short-term facilities in AZN	1%	December 2015	22	22
Short-term facilities in other currencies	9.6%-12%	January 2015 – August 2015	55	19
Current portion of long-term borrowings				657
Total short-term borrowings and current portion of long-term borrowings				**2,212**

19 Borrowings (continued)

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

Facilities	Interest rate	Maturity date	Balance as at 31 December 2014 Non-current portion	Current portion
USD 1000 million	4.75%	March 2023	784	12
AZN 750 million	3.15%	July 2023	400	50
USD 500 million	5.45%	February 2017	392	9
USD 485 million	6m LIBOR + 1%	December 2024	244	56
USD 330 million	LIBOR + 4.88%	August 2019	229	13
USD 200 million	LIBOR + 1.34%	December 2027	150	6
USD 300 million	LIBOR + 2.30%	August 2018	147	49
USD 170 million	LIBOR + 4.88%	August 2019	119	7
USD 150 million	LIBOR + 2.5%	March 2019	117	1
USD 150 million	LIBOR + 2.2%	May 2019	116	–
USD 150 million	LIBOR + 1.8%	November 2019	116	–
USD 150 million	LIBOR + 1.8%	December 2019	116	–
USD 150 million	LIBOR + 2.50%	November 2018	100	17
YEN 15398 million	1.50%	April 2039	79	3
AZN 120 million	3.65%	October 2024	73	47
USD 78 million	4.00%	December 2027	63	2
USD 200 million	LIBOR + 2.5%	August 2016	55	47
USD 50 million	LIBOR + 1.8%	November 2019	39	–
USD 50 million	LIBOR + 1.8%	December 2019	39	–
USD 100 million	LIBOR + 2.20%	October 2016	31	32
USD 29 million	4%	December 2027	24	1
USD 50 million	LIBOR+2.40%	December 2016	19	20
USD 24 million	4.26%	December 2022	19	–
EUR 20 million	LIBOR + 0.872%	September 2023	19	–
EUR 20 million	1.64%	October 2023	19	–
USD 35 million	LIBOR + 2.35%	April 2020	18	4
EUR 12 million	LIBOR + 3.00%	March 2022	10	2
USD 14 million	LIBOR + 1.70%	June 2017	7	4
EUR 7 million	LIBOR + 3.00%	March 2022	6	1
EUR 5 million	LIBOR + 3.00%	March 2022	4	1
USD 5 million	4.26%	December 2022	4	–
USD 6 million	4.26%	December 2022	4	–
AZN 60 million	5%	March 2016	3	24
USD 4 million	4.26%	December 2022	3	–
USD 110 million	LIBOR + 3%	August 2015	–	44
USD 100 million	LIBOR + 3%	October 2015	–	40
USD 100 million	LIBOR + 2.4%	October 2015	–	25
USD 100 million	LIBOR + 3%	November 2015	–	39
AZN 100 million	4%	August 2015	–	50
EUR 40 million	EURIBOR + 2.25%	November 2015	–	38
Other long-term borrowings			17	13
Total long-term borrowings			**3,585**	**657**

19 Borrowings (continued)

As at 31 December 2013, short-term borrowings of the Group were represented by the following facilities:

Facilities	Interest rate	Maturity date	Total borrowed in original currency	Balance as at 31 December 2013
Short-term facilities in USD	0.75%-14%	January 2014 – December 2014	1,180	845
Short-term facilities in EUR	2%-4%	February 2014 – May 2014	45	49
Short-term facilities in AZN	1%-6%	September 2014	32	32
Short-term facilities in CHF	LIBOR + 0.07%	January 2014	22	19
Short-term facilities in GEL	8%-12%	June 2014 – December 2014	49	22
Short-term facilities in other currencies	4%	January 2014 – December 2014		33
Current portion of long-term borrowings				464
Total short-term borrowings and current portion of long-term borrowings				**1,464**

As at 31 December 2013, long-term borrowings of the Group were represented by the following facilities:

			Balance as at 31 December 2013	
Facilities	**Interest rate**	**Maturity date**	**Non-current portion**	**Current portion**
USD 1000 million	4.75%	March 2023	785	12
AZN 750 million	3.15%	July 2023	450	50
USD 500 million	5.45%	February 2017	392	9
USD 485 million	6m LIBOR + 1%	December 2024	272	57
USD 330 million	LIBOR + 4.88%	August 2019	241	5
USD 300 million	LIBOR + 2.3%	August 2018	194	19
USD 200 million	LIBOR + 1.34%	December 2027	161	–
USD 170 million	LIBOR + 4.88%	August 2019	124	3
USD 150 million	LIBOR + 2.5%	November 2018	117	–
USD 200 million	LIBOR + 2.5%	August 2016	101	31
AZN 100 million	4%	August 2015	100	–
YEN 15398 million	1.5%	April 2039	94	5
USD 100 million	LIBOR + 2.2%	October 2016	62	16
USD 78 million	4.00%	December 2027	61	2
USD 110 million	LIBOR + 3%	August 2015	42	45
EUR 40 million	EURIBOR + 2.25%	November 2015	41	1
USD 100 million	LIBOR + 3%	October 2015	39	40
USD 100 million	LIBOR + 3%	November 2015	39	40
USD 50 million	LIBOR + 2.4%	December 2016	39	–
AZN 60 million	5%	October 2015	30	23
USD 29 million	4%	December 2027	23	1
USD 35 million	LIBOR + 2.35%	April 2020	21	4
USD 24 million	4.26%	December 2022	19	–
USD 100 million	LIBOR + 2.4%	October 2015	18	32
USD 14 million	LIBOR + 1.7%	June 2017	11	2
USD 20 million	LIBOR + 4%	August 2015	10	6
EUR 7 million	LIBOR + 3%	March 2022	7	–
EUR 5 million	LIBOR + 3%	March 2022	5	–
USD 10 million	LIBOR + 3.75%	June 2016	3	2
USD 4 million	4.26%	December 2022	3	–
USD 4 million	4.26%	December 2022	3	–
EUR 3 million	LIBOR+3%	March 2022	3	–
USD 20 million	7.79%	July 2016	2	1
USD 2 million	LIBOR + 1.7%	June 2017	2	–
USD 2 million	LIBOR + 1.7%	June 2017	2	–
USD 3 million	5.5%	January 2019	2	–
USD 7 million	LIBOR + 3.75%	June 2015	1	2
TRY 5 million	9.66%	July 2018	1	–
USD 130 million	LIBOR + 2.6%	April 2014	–	14
USD 200 million	LIBOR + 2.55%	April 2014	–	11
EUR 20 million	EURIBOR + 3.5%	June 2014	–	14
EUR 30 million	EURIBOR + 3.5%	December 2014	–	14
Other long-term borrowings			1	3
Total long-term borrowings			**3,521**	**464**

19 Borrowings (continued)

At 31 December 2014, 51% of Petkim shares have been pledged in favour of the financial institutions for the loans in the amount of AZN 565 (2013: AZN 592).

20 Taxes payable

	Note	2014	2013
Payable to SOFAZ	7	123	123
Social security contributions		2	1
Other taxes payable		209	499
Total taxes payable		**334**	**623**

In 2008 apart from regular export tax the Group was liable to transfer a certain share of proceeds from sales of crude oil priced at the level exceeding the price determined by the government (USD 50 per barrel for 2009) to SOFAZ. No such taxes were imposed on the Group in 2009-2014.

Taxpayers operating under the Azerbaijani tax legislation are eligible for offsetting their taxes payable with taxes receivable and tax prepayments. Other taxes payable balance consists of corporate income tax, VAT, property, excise tax, personal income tax, price margin tax liabilities offset with tax receivables and prepayments.

21 Asset retirement obligations

The Group has a legal and constructive obligation with respect to decommissioning of oil and gas production and storage facilities and environmental clean-up. Movements in provisions for the related asset retirement obligations are as follows:

	Note	2014	2013
Carrying amount at 1 January		**371**	**621**
Additions/(Disposals)		17	(37)
Unwinding of the present value discount	31	22	36
Effect of change in estimates		30	(241)
Exchange differences		-	(8)
Carrying amount at 31 December		**440**	**371**

The Group makes full provision for the future cost of oil and natural gas production facilities retirement and related pipelines on a discounted basis on the installation of those facilities. The provision has been estimated using existing technology, at current prices and discounted using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability as of the reporting date. These costs are expected to be incurred over the useful life of the fields and properties ranging between 10 and 68 years from the reporting date.

Asset retirement obligations related to the PSAs are determined with reference to capital costs incurred by contractor parties and they are limited to the maturities of respective PSAs.

Governmental authorities are continually reviewing regulations and their enforcement. Consequently, the Group's ultimate liabilities may differ from the recorded amounts.

21 Asset retirement obligations (continued)

Estimated costs of dismantling oil and gas production facilities, pipelines and related processing and storage facilities, including abandonment and site restoration costs amounting to AZN 174 at 31 December 2014 (2013: AZN 158) are included in the cost of oil and gas properties and equipment.

The maximum estimated cost to Azneft PU to abandon the production facilities employed at 31 December 2014 was AZN 1,660, as at 31 December 2014 (as at 31 December 2013: AZN 1,607). The Company used 7.05 per cent rate to discount this obligation (2013: 7.96 per cent).

The maximum estimated cost to Azerbaijan Shah Deniz Limited ("AzSD") to abandon the production facilities employed at 31 December 2014 in Shah Deniz project was AZN 120 as at 31 December 2014 (as at 31 December 2013: AZN 84). The Company used 5.77 per cent rate to discount this obligation (in 2013: 7.02 per cent).

The maximum estimated cost to AzACG to abandon the production facilities employed at 31 December 2014 in ACG project was AZN 300, as at 31 December 2014 (as at 31 December 2013: AZN 279). The Company used 5.47 per cent rate to discount this obligation (in 2013: 6.33 per cent).

The following inflation rates were applied in calculation of discounted cash flows:

Year	2015	2016	2017	2018-2019	2020	2021	2022 and later
Inflation rate	1.90%	2.90%	2.80%	4.30%	3.80%	3.30%	3.00%

While the provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines, there is uncertainty regarding both the amount and timing of incurring these costs.

22 Other provisions for liabilities and charges

Movements in other provisions for liabilities and charges are as follows:

	Note	Environmental obligations	Disability payments	Unused vacation	Total
Carrying amount at 1 January 2013		**195**	**102**	**23**	**320**
Additions/(Disposals)		(74)	10	56	**(8)**
Utilisation		(18)	(12)	(49)	**(79)**
Unwinding of the present value discount	31	14	6	–	**20**
Effect of change in estimates		(1)	(12)	–	**(13)**
Carrying amount at 31 December 2013		**116**	**94**	**30**	**240**
of which:					
Current		33	14	30	**77**
Non-current		83	80	–	**163**
Carrying amount at 1 January 2014		**116**	**94**	**30**	**240**
Additions/(Disposals)		(12)	2	40	**30**
Utilisation		(15)	(12)	(46)	**(73)**
Unwinding of the present value discount	31	8	7	–	**15**
Effect of change in estimates		2	7	–	**9**
Carrying amount at 31 December 2014		**99**	**98**	**24**	**221**
of which:					
Current		30	14	24	**68**
Non-current		69	84	–	**153**

22 Other provisions for liabilities and charges (continued)

Under the Presidential Decree number 1697 dated 28 September 2006 the Group prepared and approved Action Plan for Environmental Restoration with respect to the damage caused to the environment as a result of the Group's activities within Absheron area. In 2014 the Group amended the Action Plan in accordance with the Presidential Decree dated 27 February 2014, extending period to be covered up to 2018 and including other additional regions of Azerbaijan to be restored, as well as Absheron area. Corresponding provision is recognized at the present value of future costs to be incurred for the environmental remediation, discounted at the rate of 5.99 per cent (2013: 7.21 per cent).

The Group has an obligation to compensate its employees for the damage caused to their health at workplace up to January 2012 (payments to employees injured after January 2012 are made by insurance company, based on insurance contract), as well as to compensate dependants of died employees. The compensations provided are linked to the salaries paid to the affected employees. The Group calculated the present value of the disability payments to employees using a discount rate of 6.39 per cent (2013: 7.52 per cent). For the purpose of calculation of the lifetime payments to injured employees, the Group estimated a life expectancy as 71 and 76 for men and women, respectively.

The inflation rates in Note 21 were applied to reflect the escalation in average salaries.

23 Deferred income

The Group obtained government grants for the purpose of gasification of Baku suburban area and regions of the Azerbaijan Republic and recognised them as deferred income:

	2014	2013
Carrying amount at 1 January	**84**	**91**
Amortisation of deferred income to match related depreciation	(7)	(7)
Carrying amount at 31 December	**77**	**84**

24 Other non-current liabilities

Other non-current liabilities comprise the following:

	2014	2013
Payables for drilling services received	184	–
Advances received from related parties	157	84
Liabilities under carried interest arrangement	53	55
Provision for employment termination benefits	24	31
Payables for acquisition of a subsidiary	–	14
Provision for seniority incentive bonus	1	1
Other liabilities	24	14
Total other non-current liabilities	**443**	**199**

Under Turkish Labor Law, the Group is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men).

24 Other non-current liabilities (continued)

The liability is not funded, as there is no funding requirement. The provision is calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. IAS 19 requires actuarial valuation methods to be developed to estimate the enterprises' obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	2014	2013
Discount rate (per cent)	3.80	4.09
Probability of retirement (per cent)	100	100

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation.

Movement of the provision for employment termination benefits were as follows:

	2014	2013
Carrying amount at 1 January	**31**	**34**
Actuarial loss and service cost	2	4
Payments during the year	(8)	(4)
Translation to presentation currency	(2)	(4)
Other	1	1
Carrying amount at 31 December	**24**	**31**

25 Deferred acquisition consideration payable

The Group has deferred cash consideration payable in the amount of AZN 30 (2013: AZN 18) for the purchase of remaining 49 per cent shares of SOCAR Petroleum CJSC from other shareholder.

In addition to this the Group has deferred cash consideration payable in the amount of AZN 46 (2013: AZN 46) for acquisition of SOCAR Trading in 2012.

The Group also had deferred cash consideration payable in the amount of AZN 6 in 2013 for acquisition of other entities.

26 Charter capital, additional paid-in-capital and retained earnings

Charter capital

SOCAR as a Holding company of the Group has a legal status of a state enterprise. During 2013 charter capital of the Group was increased in the amount of AZN 170. The increase in charter capital was registered during 2014 and accordingly the amount was reclassified from additional paid in capital to charter capital.

Additional paid-in capital ("APIC")

During 2014 Government contributed to the charter capital of the Group in the amount of AZN 178. The increase in charter capital was not registered as of 31 December 2014 and recognized as APIC.

26 Charter capital, additional paid-in-capital and retained earnings (continued)

Distribution to the Government

Based on decisions of the Government, the Group is periodically mandated to make direct cash contributions or finance construction and repair works for the Government (including transfer of assets), various government agencies and projects administered by the Government. During the year 2014, such direct cash transfers to the Government and financing (made in the form of payments to sub-contractors of governmental entities and transfer of assets constructed by the Group) amounted to AZN 131 and AZN 317, respectively (2013: AZN 229 and AZN 158, respectively), mainly for repair and reconstruction of existing, as well as construction of new recreational, transport, educational and medical infrastructure of the Azerbaijan Republic. Financing in the form of transfer of assets constructed by the Group amounted to AZN 28 as of December 31, 2014 (2013: AZN 33).

In December 2013 Caspian Sea Oil Fleet with the carrying value of net assets AZN 246 has been transferred under control of ASCSC.

27 Analysis of revenue by categories

	2014	2013
Crude oil, net	22,441	25,319
Oil products, net	12,660	8,946
Petrochemicals	1,694	1,854
Natural gas	1,523	1,416
Other revenue	1,356	898
Total revenue	**39,674**	**38,433**

Revenue from crude oil sales is stated net of price margin tax which is levied in the Azerbaijan Republic on the margins between the international market price and internal state-regulated price on crude oil. The difference between the market price and the internal state-regulated price is taxed at the rate of 30 per cent and the amount of tax is transferred to the State Budget.

Revenue from oil product sales is stated net of excise tax of AZN 458 (2013: AZN 570).

Revenue from sales of crude oil produced under ACG PSA and condensate produced under Shah Deniz PSA is not subject to excise and price margin taxes mentioned above.

28 Analysis of expenses by nature

	Note	2014	2013
Raw materials and consumables used		34,088	33,590
Depreciation of property, plant and equipment		772	720
Wages, salaries and social security costs		883	844
Transportation and vehicle maintenance		272	137
Repairs and maintenance expenses		157	161
Impairment of property, plant and equipment	14	294	248
Mining tax	7	108	112
Utilities expense		216	226
Taxes other than on income		65	142
Amortization expense	15	26	24
Impairment of trade and other receivables		29	12
Change in other provisions for liabilities and charges	22	39	(21)
Other		1,129	792
Total cost of sales, exploration and evaluation, distribution, general and administrative and other operating expenses		**38,078**	**36,987**

28 Analysis of expenses by nature (continued)

During 2014 the Group increased its estimate of provision for environmental obligations and asset retirement obligation and included the resulting change in other operating expenses of Consolidated Statement of Profit or Loss and Other Comprehensive Income.

29 Other operating income

	2014	2013
Sales of other goods and services rendered	263	307
Gain on release of payables	–	8
Other	105	120
Total other operating income	**368**	**435**

30 Finance income

	2014	2013
Interest income on deposits and bank accounts	25	30
Interest on loans from related parties	1	–
Other	24	18
Total finance income	**50**	**48**

31 Finance costs

	Note	2014	2013
Interest expense		213	200
Provisions for asset retirement obligations: unwinding of the present value discount	21	22	36
Environmental provision: unwinding of the present value discount	22	8	14
Provision for disability payments: unwinding of the present value discount	22	7	6
Total finance costs		**250**	**256**

32 Income taxes

Income tax expense comprises the following:

	2014	2013
Current tax expense	511	419
Deferred tax (benefit)/charge	(46)	25
Income tax expense reported in the statement of profit or loss	**465**	**444**

32 Income taxes (continued)

Reconciliation between the expected and the actual taxation charge is provided below:

	2014	2013
Profit before tax	**1,739**	**1,463**
Loss before tax from a discontinued operation	–	(32)
Accounting profit before income tax	**1,739**	**1,431**
Theoretical tax charge at statutory rate of 20 per cent	**348**	**286**
Effects of different tax rates for certain subsidiaries (25 and 27 per cent)	27	33
Dividends income taxable at 10 per cent	(4)	(3)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(60)	(54)
- Non-deductible expenses	70	103
Allowance for deferred tax asset	81	79
Recognition of previously unrecognized deferred tax asset	(23)	(16)
Income not recognised in IFRS	8	–
Correction of previous years current tax	–	2
Other	18	24
Income tax expense reported in the statement of profit or loss	**465**	**444**
Income tax attributable to a discontinued operation	–	10
Income tax expense for the year	**465**	**454**

Non-deductible expenses are mainly comprised of the social and employee-related expenses, as well as the provision for impaired receivables which are not expected to be deductible from taxable income in future. Allowance for deferred tax assets mainly relates to the accumulated tax losses of the Group's subsidiaries which are not expected to utilize these losses.

At 31 December 2014 cumulative balance of unrecognized deferred tax asset is AZN 425 (2013: AZN 367).

The benefits arising from a previously unrecognized deferred tax assets were used during the year to reduce deferred tax and current tax expenses by the amount of AZN 18 and AZN 5, respectively (2013: AZN 16 and nil, respectively).

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	Credited/ (charged) to profit or loss	Translation difference	31 December 2014
Tax effect of deductible/(taxable) temporary differences				
Accrued revenue	1	(1)	–	–
Carry forward tax losses	28	6	(2)	32
Investments in associates and joint ventures	8	(1)	–	7
Trade and other payables	4	3	–	7
Impairment provision for receivables	8	(5)	–	3
Trade and other receivables	4	26	(7)	23
Inventory	19	(10)	–	9
Property, plant and equipment	312	50	–	362
Provisions for liabilities and charges	63	19	–	82
Other	9	(16)	(4)	(11)
Deferred tax asset	**456**	**71**	**(13)**	**514**

32 Income taxes (continued)

	1 January 2014	Credited/ (charged) to profit or loss	Translation difference	31 December 2014
Tax effect of deductible/(taxable) temporary differences				
Accruals	10	(2)	–	8
Employment termination benefits and seniority incentive bonus provision	7	(7)	–	–
Investments in associates and joint ventures	(74)	6	–	(68)
Intangible assets	(24)	–	–	(24)
Trade and other payables	22	(29)	–	(7)
Impairment provision for receivables	(30)	(1)	6	(25)
Trade and other receivables	(6)	5	1	–
Inventory	(5)	(4)	–	(9)
Property, plant and equipment	(499)	41	6	(452)
Provisions for liabilities and charges	59	(9)	–	50
Other	(28)	(25)	–	(53)
Deferred tax liability	**(568)**	**(25)**	**13**	**(580)**

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 2013	Credited/ (charged) to profit or loss	Translation difference	Disposal	Loss of control over subsidiary	31 December 2013
Tax effect of deductible/ (taxable) temporary differences						
Accrued revenue	6	(2)	–	(3)	–	1
Carry forward tax losses	37	(10)	1	–	–	28
Investments in associates and joint ventures	17	(9)	–	–	–	8
Trade and other payables	(2)	(1)	7	–	–	4
Impairment provision for receivables	1	5	–	2	–	8
Trade and other receivables	(20)	24	–	–	–	4
Inventory	29	(10)	–	–	–	19
Property, plant and equipment	248	90	–	(21)	(5)	312
Provisions for liabilities and charges	128	(64)	–	(1)	–	63
Other	48	(20)	(3)	–	(16)	9
Deferred tax asset	**492**	**3**	**5**	**(23)**	**(21)**	**456**

	1 January 2013	Credited/ (charged) to profit or loss	Translation difference	31 December 2013
Tax effect of deductible/(taxable) temporary differences				
Accruals	3	7	–	10
Employment termination benefits and seniority incentive bonus provision	8	–	(1)	7
Investments in associates and joint ventures	(72)	(2)	–	(74)
Intangible assets	(23)	(1)	–	(24)
Trade and other payables	(16)	38	–	22
Impairment provision for receivables	(23)	(7)	–	(30)
Trade and other receivables	(1)	(5)	–	(6)
Inventory	(19)	15	(1)	(5)
Property, plant and equipment	(458)	(73)	32	(499)
Provisions for liabilities and charges	28	31	–	59
Other	12	(31)	(9)	(28)
Deferred tax liability	**(561)**	**(28)**	**21**	**(568)**

32 Income taxes (continued)

The Group does not file a consolidated tax return. In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

In accordance with Azerbaijani tax legislation, tax losses arising in one period can be carried forward for five years.

The Group is a participant to ACG PSA through its subsidiary AzACG. However, AzACG is not explicitly defined as a contractor party in the ACG PSA. As a result, its tax-payer status is not clearly determinable. Based on current understanding from communication with relevant tax authorities, management believes that the status of the contractor party will be granted retrospectively and therefore AzACG has already assumed a tax-payer status. At the moment AzACG accrues and pays its income tax at the rate of 25 per cent in accordance with ACG PSA provisions. AzACG is charged with zero per cent VAT effective in the Azerbaijan Republic for a contractor party under the ACG PSA according to a VAT certification issued by tax authorities to AzACG and effective until 19 September 2019.

In addition, the Group is a participant to Shah Deniz PSA through its subsidiary AzSD. According to the provisions of Shah Deniz PSA, AzSD is liable for corporate income tax payments. However, in accordance with PSA, the Government makes payments of the profit taxes on behalf of the contractor parties from the proceeds from sales of profit petroleum attributable to the Government. Accordingly, AZN 37 of corporate income tax related to Shah Deniz project for the year 2014 was recognized as revenue from sale of crude oil and natural gas and income tax expense in the statement of profit or loss and other comprehensive income (2013: AZN 22). At 31 December 2014 and 2013 deferred tax balance of AzSD was nil. AzSD is also exempt from certain ordinary operational taxes in the Azerbaijan Republic. AzSD is charged at zero per cent VAT effective in the Azerbaijan Republic for a contractor party under the Shah Deniz PSA according to a VAT certification issued to AzSD and effective until 3 June 2026.

The Group operates in the tax environment of Turkey through its subsidiary, STEAS. Income tax rate in Turkey is 20 per cent. In accordance with the tax legislation of Turkey dividends paid to non-resident corporations, which have a place of business in Turkey are not subject to withholding tax that is 15 per cent. Corporate income taxes are payable quarterly. Besides that there are many exemptions in Corporate Tax Law of Turkey regarding corporations including deduction of investment incentives from fiscal gains during determination of tax base up to 25 per cent.

33 Advances received for the sale of shares

In July 2014, the Company signed a Deferred Sales Purchase Agreement ("DSPA") to sell SOCAR's 10 per cent interest in the Shah Deniz PSA and 10 per cent interest in SCPC (together referred as "Interest"). According to the terms of this agreement SGC shall pay advance for these acquisitions to SOCAR while control will pass to SGC in 2023 upon meeting of conditions preceding sale. Total consideration for the interest in Shah Deniz PSA received in 2014 amounted USD 455 mln (AZN 357). Total consideration for the interest in SCPC received in 2014 equalled USD 342 mln (AZN 268). In addition, DSPA specifies certain progress payments related to acquisition consideration payable annually till the end of 2020.

34 Other current and non-current financial liabilities

In 2014, 45 million shares, representing 30% of capital of Petlim Limancılık Ticaret A.Ş., a subsidiary of the Group, has been purchased by Goldman Sachs International ("GSI") in exchange for USD 250 million (AZN 196) ("Share Purchase Agreement").

At the same time, STEAŞ entered into a put option agreement with GSI, whereby STEAŞ has committed to purchase back the shares held by GSI, at a specified price, in case if the planned initial public offering (IPO) of Petlim does not occur, or to settle the put option in case if certain conditions provided by the put option agreement are not met. Put option provided by STEAŞ to GSI will be valid for 7 years following the signing of the put option agreement.

As a result of the information that is mentioned above, analysis of the profit on sale of subsidiary as follows:

Sales amount of the Petlim's 30% shares	196
The net book value of the shares sold	(17)
Pre-tax profit on sale of shares	**179**
Calculated tax	(8)
Net profit on sale of shares	**171**
Equity attributable to holders of the Group	122
Non-controlling interest	49

In addition, according to put option agreement signed between STEAŞ and GSI, GSI paid USD 50 million (AZN 40) to STEAŞ to be repaid in 2 years. Accordingly, financial liability is presented as current and non-current in the amounts of AZN 20, respectively.

35 Discontinued operations

On 22 October 2013 President of the Azerbaijan Republic signed an order to transfer the Group's subsidiary, CSOF, from the ownership of the Group to ASCSC. Management determined that the date when control lost by the Group is 30 December 2013. No consideration was received by the Group for CSOF.

The results of CSOF for the year ended 31 December 2013 is presented below:

	2013
Revenue and other income	61
Expenses	(92)
Gross loss	**(31)**
Finance cost	(1)
Loss before income tax	**(32)**
Corporate income tax charge	(10)
Loss after tax for the year from discontinued operations	**(42)**

35 Discontinued operations (continued)

The net cash flow incurred by CSOF is, as follow:

	2013
Operating	66
Investing	(66)
Financing	–
Net cash flow	**–**

36 Significant non-cash investing and financing activities

Investing and financing transactions that did not require the use of cash and cash equivalents and were excluded from the cash flow statement are as follows:

	2014	2013
Non-cash investing and financing activities		
Capitalized decommissioning costs	(20)	(54)
Transfer of property, plant and equipment to the Government (Note 14)	(28)	(33)
Distribution of subsidiary to the Government	–	(246)
Non-cash investing and financing activities	**(48)**	**(333)**

37 Contingences, commitments and operating risks

Operating environment. The Group's operations are conducted in the Azerbaijan Republic. As an emerging market, at the present time the Azerbaijan Republic is developing business and regulatory infrastructure that would generally exist in a more mature market economy.

Considering significant drop in crude oil prices during second half of 2014, there continues to be uncertainty regarding economic growth, access to capital and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects. In addition, as described in Note 40, Azerbaijani Manat has been devalued against major currencies by approximately 34 per cent on 21 February 2015.

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 all 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 and as 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.

37 Contingences, commitments and operating risks (continued)

Operating environment (continued). Concerning the Group's activities in Ukraine, these characteristics include, but are not limited to, low levels of liquidity in the capital markets and the existence of currency controls which cause the national currency to be illiquid outside of Ukraine. The stability of the Ukrainian economy will be significantly impacted by the Government's policies and actions with regard to administrative, fiscal, legal, and economic reforms. As a result, operations in Ukraine involve risks that are not typical for developed markets. The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

Significant changes occurred in operating environment and political situation in Ukraine in the end of 2013 – beginning of 2014, which resulted in political and economic instability. From 1 January 2014 to 31 December 2014, the Ukrainian Hryvnia (the "UAH") devaluated against major foreign currencies by approximately 97 per cent, and the National Bank of Ukraine imposed certain restrictions on purchase of foreign currencies at the inter-bank market, cross border settlements. The international rating agencies have downgraded sovereign debt ratings for Ukraine. The combination of the above events has resulted in a deterioration of liquidity and much tighter credit conditions where credit is available. Management is monitoring these developments in the current environment and taking actions where appropriate. Further negative developments, including the political unrest, could adversely affect the Group's subsidiary, SOCAR Energy Ukraine's results and financial position in a manner not currently determinable. These 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. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

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

Fiscal periods remain open to review by the tax authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances such reviews may cover longer periods.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained and potential tax liabilities of the Group will not exceed the amounts recorded in these consolidated financial statements. Accordingly, at 31 December 2014 and 2013 no provision for potential tax liabilities had been recorded.

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 currently made by the Group. See Note 22.

37 Contingences, commitments and operating risks (continued)

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

The Group also has obligations to decommission oil and natural gas production facilities and related pipelines. Provision is made for the estimated costs of these activities, however there is uncertainty regarding both the amount and timing of these costs, given the long-term nature of these obligations. The Group believes that the impact of any reasonably foreseeable changes to these provisions on the Group's results of operations, financial position or liquidity will not be material.

Compliance with financial covenants. At 31 December 2014 the Group had loans payable in total amount of AZN 5,797 (Note 19) which were received for financing its investing and operating activity. The Group is subject to certain financial covenants related to these borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. Management believes that, as of 31 December 2014 and 2013 the Group was in compliance with all applicable financial covenants.

For the loans in the amount of AZN 565 the 51 per cent of Petkim shares have been pledged in favour of the financial institutions.

Commitments of Petkim. The Group has committed to preserve the rights of union member personnel subject to Labor Law Article 4857 and to pay their employment termination benefits (including periods they have worked in other public institutions) along with all other rights they have earned. The Group has accepted and committed that Petkim has the responsibility to compensate for the unused vacation rights of the personnel whose service contracts are still valid and have the right to be transferred to other public institutions as of the effective date of the Share Sales Agreement.

As of 31 December 2014, the Group has a commitment to purchase 943,746,586 cubic meters of natural gas from BOTAS Petroleum Pipeline Corporation ("BOTAS") in 2015.

37 Contingences, commitments and operating risks (continued)

Guarantee received and given by Petkim. The following table demonstrates guarantees received and given by the Group at 31 December.

	2014	2013
Guarantees received		
Bank guarantees within context of direct order collection system (DOCS)	250	238
Letters of guarantee received	147	142
Other	1	1
Total guarantees received	**398**	**381**
Guarantees given		
Letters of guarantee given	191	119
Total guarantees given	**191**	**119**

Commitment of Azerigaz PU. Based on Presidential Decree number 118 dated 27 February 2014, directed to social-economic development of Baku area and regions of the Azerbaijan Republic, Azerigaz PU has certain commitments with respect to improvement of gasification options in mentioned areas. According to this decree, Azerigaz PU would be engaged in restoration of old local gas pipelines, continue gasification of new residential communities/regions/far locations, and renewal of old industrial and personal meters for physical customers.

Management believes that these expenditures will continue to be financed by the Government through contributions into capital.

Gas purchase commitment. Based on the Gas sales and purchase agreement signed on 27 February 2003 between Azerbaijan Gas Supply Company (AGSC) and the Ministry of Fuel and Energy of the Azerbaijan Republic (currently purchase rights under this agreement are executed by the Group), the Group has obligation to purchase seller's minimum annual quantity as indicated in the agreement for the period beginning from signing of the contract up to the termination date of AzSD PSA. Monetary amount of commitment to purchase seller's minimum annual quantity is USD 87 million (AZN 68) for 2014 and further periods.

A new agreement was signed between AGSC and SOCAR on 17 December 2013. Based on agreement SOCAR agreed to buy additional volume of (Low Pressure) Gas from Shah Deniz field for fixed new price, USD 65 per 1000 m3. The annual contractual volume for each delivery year, other than the first and the last delivery years is defined as 0.55 billion m3. Annual volume of Gas in the first delivery year (for year 2014) was defined as 0.65 billion m3. The volume of gas to be made available in the last delivery year (01 January 2018 – 30 June 2018) is 0.27 billion m3.

Participating interest in ACG PSA. Azerbaijan International Operating Company, the Operator of the ACG PSA has entered into a number of capital commitments and operating leases as at 31 December 2014. The Group estimated its 11.65 per cent (2013: 11.65 per cent) share of these commitments and operating leases to be USD 551 million (AZN 432) (2013: USD 654 million (AZN 513)) and USD 11 million (AZN 9) (2013: USD 21 million (AZN 17)), respectively.

Commitments related to participating interest in Shah Deniz. On 17 December 2013 Shah Deniz consortium announced the final investment decision for stage 2 development of Shah Deniz gas field in the Azerbaijan Sector of the Caspian Sea and signed certain Addendums to Shah Deniz Exploration and Development and Production Sharing Agreement ("SD EDPSA"). According to these Addendums the parties agreed to extend the development and production period to 40 years from 7 March 2001. By 31 December 2018 the Contractor Parties shall spend no less than USD 25 million (AZN 20) in order to undertake a long-term Shah Deniz Stage 2 appraisal plan. The Group's share in these expenses is estimated at USD 3 million (AZN 2).

37 Contingences, commitments and operating risks (continued)

Commitments related to participating interest in Shah Deniz (continued).

BP Exploration Shah Deniz Limited, the Operator of the Shah Deniz PSA has entered into a number of capital commitments and operating leases as at 31 December 2014. The Group estimated its 10 per cent share of these commitments and operating leases to be USD 2,520 million (AZN 1,976) (2013: USD 325 million (AZN 255) and USD 21 million (AZN 16) (2013: USD 36 million (AZN 28), respectively.

Commitments related to participating interest in AGSC. As discussed in Note 17, the Group holds 28 per cent interest in AGSC. In accordance with the agreements of AGSC the Group has the following commitments relating to AGSC's activity:

Stage 2 Gas Contract. On 25 October 2011, the Group and BOTAS executed a gas sale and purchase agreement with respect to the sale by the SOCAR to BOTAS of certain volumes of Shah Deniz Stage 2 Gas (2 bcm first delivery year, 4 bcm second delivery year, 6 bcm plateau period). In December 2012 SOCAR transferred and assigned the rights and obligations under the Stage 2 SPA to AGSC. The anticipated commencement of first gas delivery under Stage 2 BOTAS SPA is July 2018.

BOTAS contract for BTC fuel gas. AGSC is obliged under the agreement with Baku-Tbilisi-Ceyhan Pipeline Company to make available 0.14 bcm in 2015 and onwards, at a price which is calculated based on formula established in the contract.

The performance of AGSC under the Gas Contract Stage 1 and BOTAS Stage 2 Contract is guaranteed under the Azerbaijan-Turkey Intergovernmental Agreement ("IGA"), by the government of the Azerbaijan Republic. Commitments indicated above in respect of gas volumes to be delivered by the AGSC are covered by the Upstream Purchase Agreements ("UPA") signed with the Shah Deniz PSA contractor parties and SOCAR (for and on behalf of the Azerbaijan Republic).

Georgian gas obligation. AGSC is obliged under an agreement signed with Georgian Oil and Gas Corporation ("GOGC") and the government of Georgia to make available 0.5 bcm in 2015 and onwards, at a price which is calculated based on a formula established in the contract.

Sale and purchase agreement with Option Co. AGSC is obliged under the agreement signed with OptionCo to make available 0.2 bcm during the contract year started on October 1, 2014. Thereafter, AGSC is obliged to deliver during a contract year, which starts on October 1, a maximum (limitation of use of SCPC capacity) of five percent of the volumes transported by AGSC through Georgia via the South Caucasus pipeline in the previous calendar year, at a price which is calculated based on a formula established in the contract.

BOTAS SPA. AGSC is obliged under the Gas Contract Stage 1 signed with BOTAS to make available a maximum of approximately 6.3 bcm from 2015 and onwards at a price calculated based on a formula established by the Gas Contract.

Shah Deniz Stage 2 EU Long term Gas Sales Agreements ("GSA"). In September 2013 10 EU GSAs were signed by SOCAR with 9 EU Buyers and in December 2013 the GSAs were assigned to AGSC until Shah Deniz PSA expiry with re-assignment to SOCAR as Shah Deniz Production declines. The commencement date will be firmed up through funnelling mechanism within a 1-year window between 1 January, 2020 and 1 January, 2021 for DEPA, Shell, Axpo (PSV) and E.On; 1 July, 2020 and 1 July, 2021 for Axpo (WTB), GDF Suez, Gas Natural Fenosa, Enel, Hera and Bulgargaz. The GSAs assumes 3 year build-up period, as defined in the contract, with the following peak delivery obligations: AXPO (PSV) 0.48 bcm, GDF Suez 2.64 bcm, Gas Natural Fenosa 0.99 bcm, E.On 1.44 bcm, Shell 0.95 bcm, Hera 0.3 bcm, Enel 0.48 bcm, AXPO (WTB) 0.96 bcm, Bulgargaz 0.94 bcm, DEPA 1 bcm.

Transportation agreement with SCPC. AGSC is party to SCPC Gas Transportation Agreement ("GTA") which was amended and re-stated with effect from 17 December 2013 in order to provide additional transportation services in respect of Shah Deniz Stage 2. AGSC is obliged to pay certain tariffs, as calculated in accordance with the agreement, to SCPC starting from the commencement date, which is 1 October 2006.

37 Contingences, commitments and operating risks (continued)

Commitments related to participating interest in AGSC (continued). The transportation agreement provides for Monthly Minimum Payment ("MMP"), as calculated in accordance with this agreement, payable by AGSC to SCPC, regardless of whether natural gas is shipped or not, in respect of each contract year until the termination or expiry of the GTA. MMP are recoverable from BP Exploration (Shah Deniz) Limited ("BPX SD") under the amended of the Annual Reserved Capacity Deed ("ARC Deed"). Annual Minimum Payment ("AMP") due in 2015 is USD 288 million (AZN 226), as calculated and presented to AGSC by SCPC in August 2014. In addition to AMP, AGSC shall pay to SCPC Incremental Monthly Charges calculated in accordance with the GTA. Further, the Company is obliged to provide SCPC, free of charge, the natural gas necessary to fill and pressurize the pipeline to its designed operating pressure and as fuel gas.

Trans Anatolian Pipeline (TANAP GTA). AGSC is party to TANAP GTA with annual reserved capacity during the build-up period, as defined in the contract, of 6.1 bcm, 6.2 bcm, 7.2 bcm and plateau of 10.5 bcm after 18 months with 100% ship or pay on the capacity reservation. The start date will be set through a funnelling mechanism inside the first window period between 1 July, 2019 – 1 July, 2021.

Trans Adriatic Pipeline (TAP GTA). AGSC is party to TAP GTA with initial capacity of 10 bcm and expansion capacity up to additional 10 bcm. The planned commencement date is inside the second window period between 1 January, 2020 – 31 December 2020.

Sale and purchase agreement with BTC Co. AGSC is obliged under an agreement signed with BTC to make 0.16 bcm in 2015 and during the following years until the termination of the contract subject to the right of BTC to reduce annual off-take, at a price which is calculated based on a formula established in the contract.

The Shah Deniz PSA contractor parties and SOCAR are obliged to deliver and sell to AGSC the necessary volumes of gas to fulfil AGSC's obligations listed above at a price resulting in neither a gain nor a loss to AGSC.

In addition to the above, the Shah Deniz PSA contractor parties and SOCAR are obliged to pay to AGSC all transportation charges and third party liabilities as stipulated in the UPAs.

Oil shipment commitment. On 1 August, 2002 the Group and other participants under the ACG PSA (the "Shipper Group") have entered into the ACG Field Production Transportation Agreement ("ACG TA") with the BTC Company which was amended on 3 February 2004. Under this Agreement, the Shipper Group (including the Group) have committed to ship through the BTC pipeline all of their crude oil entitlement from the ACG field, other than any production which each participant may ship through the Western Export Route. The Group has agreed to transport its crude oil by rail unless Baku-Tbilisi-Ceyhan pipeline is operating at its full capacity. However, in accordance with ACG TA the Group has agreed not to use other transportation options if capacity of the BTC is sufficient. The BTC pipeline was put into operation in May 2006. A total of 10 million barrels of oil from the ACG fields was used to fill the pipeline and the first tanker loaded with oil which had flowed through the BTC sailed away from the Ceyhan terminal on the Mediterranean coast of Turkey on 4 June 2006. The BTC pipeline, with a throughput capacity of more than 1,200,000 barrels per day, is used as the Shipper Group's main export route. In accordance with the Transportation Agreement, Direct Agreement entered into on 3 February 2004 by BTC, the Shipper Group, the Group Representative, the lenders and security trustee to BTC, and the lenders and security trustee to certain of the ACG Shipper Group, the parties have agreed that payment of BTC tariff has a first priority claim on oil and oil sale proceeds.

Commitments of SOCAR Switzerland. The Group has entered into a number of capital commitments and operating leases for the next years. The Group estimated its commitments and operating leases to be CHF 7 million (AZN 6) and CHF 67 million (AZN 53), respectively.

Commitments related to Black Sea Terminal LLC. In August 2007, the Group's subsidiary, Black Sea Terminal LLC ("Black Sea Terminal") entered into a sale and purchase agreement to purchase five land plots from Black Sea Industry LLC. These land plots were originally sold to Black Sea Industry LLC pursuant to a privatisation agreement entered into with the Ministry of Economic Development of Georgia in July 2007, for a total consideration of USD 7.25 million (AZN 5).

37 Contingences, commitments and operating risks (continued)

Commitments related to Black Sea Terminal LLC (continued). The Ministry of Economic Development of Georgia consented to the transfer of the land plots to Black Sea Terminal on the condition that Black Sea Terminal and Black Sea Industry LLC are jointly and severally liable under the privatisation agreement for the implementation of the investment programme relating to the land plots. The acquisition of title to the land plots is also contingent on the completion of the investment programme. This investment programme involves the investment of at least USD 250 million (AZN 196) for the construction of: (i) a liquid natural gas plant; (ii) oil processing facilities; (iii) seaport facilities; and (iv) a railroad. The privatization agreement also includes certain commitments in relation to the employment of personnel during the construction period. The privatisation agreement sets out certain financial penalties in the event that the investment programme is not implemented within five years. The original deadline for implementation was 16 July 2012. Due to a lack of available funding, as a result of the global financial crisis and economic conditions in Georgia, the investment program has not been implemented by this deadline. In such case MESD had the right to request the sanctioned payments that should be determined as:

a) In case of not meeting the investment commitment, accrual of 0.1% on the remaining investment amount on each day of delay;

b) In case of not meeting investment commitment and other commitments determined by the contract, accrual of 0.1% on the remaining investment amount on each day of delay (i.e. employment of more than 3,000 persons with the average salary of no less than USD 360).

On 11 February, 2013 the Group received the letter from MESD, according to which the maturity of the investment commitment was prolonged by one year till 1 August 2013. However, such extension did not suspend the accrual of USD 0.25 million on each day of delay for not fulfilment of above commitments. Total amount of such penalty comprised USD 84 million (AZN 66) as of 31 December 2013. In case the Group and Black Sea Industry LLC do not meet their investment commitments and/or do not pay the penalty until the new maturity date the MESD has the right to repatriate the above mentioned land plots (neighbouring to Kulevi terminal) and terminate the agreement.

On 19 December 2013 Group has received another decree (No.1988) issued by the Government of Georgia. According to the decree Black Sea Industry and Black Sea Terminal will be free from the liabilities (including both investment liability and possible penalties) under the agreement formed on 16 July 2007, in case if:

- Investment in amount of USD 250 million (AZN 196) will be made by SOCAR Georgia Gas LLC covering the liabilities appearing on the balance of the Black See Terminal, except for the liability of JSC SagarejoGas towards the GOGC. The maturity of the commitment was defined to be 3 year.
- Gasification of minimum of 250,000 subscribers (as more fully described in the paragraph below).

Commitments of SOCAR Energy Georgia. For the purposes of supplying natural gas in regions of Georgia and raising funds for investing in respective sphere, based on agreement formed with the Ministry of Economy of Georgia in 2008, the Group had to invest USD 40 million (AZN 31) and provide natural gas to additional 150,000 subscribers. However, on 19 December 2013 the terms of this commitment were amended and a new decree # 1988 of the government of Georgia was approved. According to this decree the commitment of investing in gas network increased from USD 40 million (AZN 31) to USD 250 million (AZN 196) and the number of new gas subscribers increased from 150,000 to 250,000. According to decree the maturity of commitment was defined to be 3 year beginning from conducting amendment agreement which is signed on 8 December 2014 by both parties.

As of 31 December 2014 SOCAR Energy Georgia had guarantees to banks in the total amount of AZN 31 in favour of third parties that engaged in the gasification process.

38 Business combination, acquisition of non-controlling interests, acquisition of subsidiary which is not a business and goodwill

Goodwill. Movement in the carrying amount of goodwill is as follows:

	2014	2013
Carrying amount at 1 January	**191**	**203**
Acquisition of subsidiaries	–	7
Translation difference	(14)	(19)
Carrying amount at 31 December	**177**	**191**

The carrying amount of goodwill as of 31 December 2014 and 2013 includes an accumulated goodwill impairment of AZN 3.

Allocation of goodwill by CGUs at 31 December 2014 and 2013 is as following:

	2014	2013
Petkim	66	71
SOCAR Switzerland	53	59
SOCAR Trading	48	48
Other	10	13
Carrying amount at 31 December	**177**	**191**

Testing of the carrying value of goodwill related to acquisition of Petkim. The carrying value of the goodwill at 31 December 2014 has been tested for impairment through comparison with its recoverable amount. Recoverable amount has been determined based on the value-in-use calculations of Petkim. Pre-tax cash flows projections used for this purpose are based on financial budgets approved by management covering 11-year period. Cash flows for 11-year period are based on existing long-term projects with duration until 2023. Cash flow projections beyond 11-year period are extrapolated by the expected growth rates and then discounted to their net present value. The following key assumptions were used for impairment test of the goodwill:

- The valuation exercises are highly sensitive to the range of EBITDA/ Net Sales and the WACC, which were taken into account by the Group, as 5.8 per cent – 13.4 per cent and 7.1 per cent – 8.4 per cent between 2014 and 2024, respectively;
- The EBITDA / Net Sales ratio is in line with the Group's budget for the year 2014 and onwards; whereas the WACC is based on macroeconomic and sector specific parameters.

As a result of the test performed, no impairment has been identified.

A sensitivity analysis is conducted by changing the assumptions used in the estimation of Petkim value in use in relation to the key parameters that are described below:

- WACC is estimated to be 0.4 per cent higher and lower than the based WACC rates;
- Terminal growth rate forecast is estimated to be 0.5 per cent higher and lower than the long-term growth rate estimation.

As the results of the sensitivity analysis, the carrying amount of the value in use of Petkim is estimated between AZN 2,963 and AZN 3,862.

38 Business combination, acquisition of non-controlling interests, acquisition of subsidiary which is not a business and goodwill (continued)

Testing of the carrying value of goodwill related to acquisition of SOCAR Switzerland. The carrying value of the goodwill at 31 December 2014 has been tested for impairment through comparison with its recoverable amount. Recoverable amount has been determined based on the value-in-use calculations of SOCAR Energy Holdings AG and its subsidiaries as AZN 300 as of 31 December 2014. Pre-tax cash flows projections used for this purpose are based on mid-term business plan approved by management covering 5-year period. Management believes that the underlying cash flows projections represent accurate and reliable forecast. Cash flow projections beyond 5 year period are extrapolated by expected growth rates of 1.5 per cent p.a. and then discounted to their net present value, applying WACC, used as a discount factor of 6.0 per cent p.a.

As a result of the test performed, no impairment has been identified.

If the estimated discount rate used in the calculation had been 1.0 per cent higher/lower than management's estimate, the value in use would have been AZN 57 lower / AZN 89 higher, respectively.

If the terminal growth rate used in the calculation had been 0.25 per cent higher / lower than management's estimate, the carrying amount of the value in use would have been AZN 15 higher / AZN 14 lower, respectively.

Testing of the carrying value of goodwill related to acquisition of SOCAR Trading. The carrying value of the goodwill attributable to the acquisition of SOCAR Trading at 31 December 2014 has been tested for impairment through comparison with its recoverable amount. Recoverable amount has been determined based on the value-in-use calculations of SOCAR Trading and its subsidiaries as AZN 442 as of 31 December 2014. Cash flow projections used for this purpose are based on financial forecast approved by management covering 5-year period. Cash flows for that period are based on existing and new projects and discounted to their net present value. Management believes that these cash flow projections represent accurate and realistic forecast. Cash flow projections beyond 5-year period have terminal growth rate of 1 per cent. The following key assumptions were used for impairment test of the goodwill:

- Valuation exercise is sensitive to the range WACC, which were taken into account by the Group, as 12 per cent;
- Valuation is also sensitive to terminal growth rate which is taken into account by the Group as 1 per cent.

As a result of the test performed, no impairment has been identified.

If the estimated discount rate used in the calculation had been 0.25 per cent higher/lower than management's estimate, the amount of the value in use would have been AZN 9 lower / AZN 10 higher, respectively.

If the terminal growth rate used in the calculation had been 0.25 per cent higher / lower than management's estimate, the carrying amount of the value in use would have been AZN 6 higher / AZN 4 lower, respectively.

Acquisition of SOCAR International DMCC. In August 2013, the Group acquired 100 per cent ownership interest in Socar International DMCC, previously an associate of the Group, with carrying value of AZN 17. SOCAR International DMCC is the entity holding 50% interest in jointly controlled entity SOCAR Aurora oil terminals in Fujairah (UAE), constructed with a view to handle and store oil transported through a pipeline from onshore oilfields of Abu Dhabi (UAE). The Group has recognized this transaction as a step-acquisition of subsidiary which is not a business. At the date of obtaining control over Socar International DMCC, cost of acquisition in the amount of AZN 32 was allocated to Investments in jointly controlled entities.

From the date of acquisition, SOCAR International DMCC contributed AZN nil of revenue and AZN 0.3 of loss to the Group. If the acquisition had taken place at the beginning of 2013, the Group's revenue would not be different from the respective amount recognized in the Consolidated Statement of Comprehensive Income and the profit would have been AZN 1,049 after adjusting the results of the SOCAR International DMCC to reflect the additional depreciation that would apply if the fair value adjustments made on acquisition were reflected in the records of the SOCAR International DMCC.

38 Business combination, acquisition of non-controlling interests, acquisition of subsidiary which is not a business and goodwill (continued)

Acquisition of SOCAR Petroleum CJSC. In December 2013, the Group acquired 100 per cent control over SOCAR Petroleum CJSC, previously a joint-venture of the Group with carrying value AZN 58. The activities of SOCAR Petroleum CJSC are the storage, distribution and retail sale of oil products in the Azerbaijani market. The Company is made up of a total of 23 petrol storage depots and 17 petrol stations in Baku and in the regions of Azerbaijan. The acquisition-date fair value of the Group's equity interest in SOCAR Petroleum CJSC held by the Group immediately before the acquisition date approximated AZN 76. This transaction was accounted by the Group as a step acquisition and the difference between the carrying value and fair value of previously held interest in SOCAR Petroleum CJSC was recognized as gain in the Consolidated Statement of Comprehensive Income.

Fair value of identifiable assets and liabilities of SOCAR Petroleum CJSC as at acquisition date, which was determined by a purchase price allocation conducted by an independent third party, was as follows:

	Fair value recognized on acquisition
Assets	
Cash and cash equivalents	5
Trade and other receivables	18
Inventories	16
Property, plant and equipment	104
	143
Liabilities	
Trade and other payables	(21)
	(21)
Total identifiable net assets at fair value	**122**
Gain arising on acquisition	12
Fair value of previously held interest	**76**
Consideration, settled in cash	**34**

Revenue and profit contributions of SOCAR Petroleum CJSC to the Group from the date of acquisition were insignificant as of 31 December 2013. If the acquisition had taken place at the beginning of the year, the Group's revenue would have been AZN 38,456 and the profit would not be different from the respective amount recognized in the Consolidated Statement of Comprehensive Income. The gross amount of trade receivables as of acquisition date is AZN 18. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

Acquisition of Star Gulf FZCO and Bosshelf LLC. In July 2013, the Group obtained control over Star Gulf FZCO and Bosshelf LLC, previously joint-ventures of the Group. The amount of fair value of Star Gulf FZCO and Bosshelf net assets at the date of acquisition and total consideration paid were not significant to the Group as of 31 December 2013.

From the date of acquisition, Star Gulf FZCO contributed AZN 10 of revenue and AZN 2 of profit to the Group. If the acquisition had taken place at the beginning of 2013, the Group's revenue would have been AZN 38,441 and the profit would have been AZN 1,048.

From the date of acquisition, Bosshelf LLC contributed AZN 45 of revenue and AZN 1 of loss to the Group. If the acquisition had taken place at the beginning of 2013, the Group's revenue would have been AZN 38,449 and the profit would not be different from the respective amount recognized in the Consolidated Statement of Comprehensive Income.

39 Material partly-owned subsidiaries

Financial information of subsidiaries that have material non-controlling interests is provided below:

The Group's subsidiary with material non-controlling interests is Petkim Petrokimya Holding A.Ş. Country of incorporation and operation of Petkim is Turkey.

Financial information of mentioned subsidiary that have material non-controlling interests are provided below:

	2014	2013 (reclassified)
Proportion of equity interest held by non-controlling interests	31%	31%
Accumulated balances of material non-controlling interest	469	444
Profit allocated to material non-controlling interest	117	87

The summarized financial information of subsidiary is provided below. The information is based on amounts before inter-company eliminations.

	2014	2013 (reclassified)
Revenue	1,484	1,714
Cost of Sales	(1,472)	(1,645)
General and administrative expenses	(43)	(36)
Distribution expenses	(10)	(14)
Other operating income	44	43
Other operating expense	(58)	(74)
Finance income	51	27
Finance costs	(52)	(35)
Profit before tax	**(56)**	**(20)**
Deferred tax income	25	6
Profit for the year from continuing operations	**(31)**	**(14)**
Other comprehensive income to be reclassified to profit or loss in subsequent periods – currency translation differences	407	294
Other comprehensive income not to be reclassified to profit or loss in subsequent periods	–	–
Total comprehensive income	**376**	**280**
Attributable to non-controlling interests	117	87
Dividends paid to non-controlling interests	–	–

39 Material partly-owned subsidiaries (continued)

Summarized statement of financial position:

	2014	2013
Current assets	**597**	**619**
including:		
Cash and cash equivalents	237	102
Trade and other receivables	184	315
Inventories	146	169
Other current assets	30	33
Non-current assets	**1,565**	**1,495**
including:		
Property, plant and equipment	1,176	1,178
Intangible assets	326	301
Other non-current assets	63	16
Current liabilities	**(384)**	**(442)**
including:		
Short-term borrowings and current portion of long-term borrowings	(134)	(69)
Trade and other payables	(250)	(373)
Non-current liabilities	**(266)**	**(240)**
including:		
Long-term borrowings	(110)	(60)
Deferred income	(22)	(19)
Other provisions for liabilities and charges	(27)	(34)
Deferred tax liability	(107)	(127)
Total equity	**1,512**	**1,432**
Attributable to:		
Equity holders of parent	1,043	988
Non-controlling interest	469	444

Summarized cash flow information:

	2014	2013 (reclassified)
Operating	(11)	90
Investing	57	(100)
Financing	106	5
Net (decrease)/increase in cash and cash equivalents	**152**	**(5)**

40 Events after reporting date

Exchange rate loss

On February 21, 2015, the Azerbaijani Manat has been devalued against the US dollar and other major Currencies by approximately 34 per cent. The exchange rates before and after devaluation was AZN 0.786 and AZN 1.050 to USD 1, respectively.

This event could adversely affect the Group's future results and financial position. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the foreseeable future.

Increase in Charter Capital

On 9 April 2015 the Group charter capital was increased by AZN 329.

New Loans

On 12 February 2015 and 29 March 2015 the Group obtained new loans from IBAR in the amount of AZN 13 and AZN 50, respectively.

On 29 January 2015 the Group obtained new loan from Caucasus Development Bank in the amount of USD 52 million (AZN 41).

Issue of notes

On 18 March 2015 the Group issued senior unsecured notes on London Stock Exchange in the amount of USD 750 million (AZN 787). The notes bear interest rate of 6.95 per cent per annum and mature on 18 March 2030. Interest expenses are payable on a semi-annual basis.

Receivable from Azerenergy OJSC

The Group subsequently appealed to the Baku Administrative Economical Court on 14 January 2015 with the claim of repayment of the debt. The Court made a decision in favour of the Group. Azerenergy OJSC did not appeal to the court for revision of the decision regarding payment of the outstanding amount.