Southern Gas Corridor Closed Joint-Stock Company

Consolidated financial statements

Period from 31 March 2014 (inception) to 31 December 2014
with independent auditors' report

Southern Gas Corridor CJSC

Consolidated financial statements

Period from 31 March 2014 to 31 December 2014

Contents

Building a better
working world

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Independent auditors' report

To the Board of Directors and shareholders of Southern Gas Corridor CJSC

We have audited the accompanying consolidated financial statements of the Southern Gas Corridor Closed Joint Stock Company (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 statement of cash flows for the period from 31 March 2014 (inception) to 31 December 2014, 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2014 and its financial performance and its cash flows for the period from 31 March 2014 (inception) to 31 December 2014 in accordance with International Financial Reporting Standards.

Ernst & Young Holdings (CIS) B.V.

21 September 2015

Southern Gas Corridor CJSC

Consolidated statement of financial position

(Amounts presented are in thousands of US dollars)

	Note	2014
Assets		
Non-current assets		
Oil and gas properties	5	512,404
Construction in progress and development costs	6	988,117
Advance payments	7	943,134
Investments in associate	8	56,432
Loan to associate	9	44,334
Other non-current assets		2,335
Total non-current assets		**2,546,756**
Current assets		
Cash and cash equivalents	10	212,198
Deposits	10	33,246
Accounts receivable	11	36,820
Accrued revenue	18	13,118
Inventories	12	13,152
Other current assets	13	38,214
Total current assets		**346,748**
Total assets		**2,893,504**
Equity and liabilities		
Equity		
Share capital	14	100,000
Cumulative translation differences		(11,104)
Retained earnings		13,208
Total equity		**102,104**
Non-current liabilities		
Long-term borrowings	16	1,854,301
Government grant	16	697,699
Decommissioning liabilities	15	37,063
Deferred revenue	18	7,662
Deferred tax liability	20	6,458
Total non-current liabilities		**2,603,183**
Current liabilities		
Trade and other payables	17	54,896
Accrued liabilities	17	131,945
Income tax payable		1,376
Total current liabilities		**188,217**
Total equity and liabilities		**2,893,504**

Signed and authorized on behalf of the Board of Directors

Azərbaycan Respublikası Qapalı Səhmdar Cəmiyyəti Cənub Qaz Dəhlizi Southern Gas Corridor Closed Joint Stock Company Azerbaijan Republic

Afgan Isayev, General Director 21 September 2015

Ramil Babayev, Finance Director 21 September 2015

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

Southern Gas Corridor CJSC

Consolidated statement of comprehensive income

(Amounts presented are in thousands of US dollars)

	Note	From 31 March 2014 (inception) to 31 December 2014
Revenue	18	76,894
Cost of sales	19	(28,433)
Gross profit		**48,461**
Transportation tariffs		(1,594)
General and administrative expenses		(1,489)
Other income	16, 18	13,122
Operating profit		**58,500**
Interest income		3,338
Finance costs	16	(42,715)
Share of result of associates	8	(2,749)
Foreign exchange loss, net		(1,955)
Profit before income tax		**14,419**
Income tax expenses	20	(1,211)
Profit for the period		**13,208**
Other comprehensive loss		
Other comprehensive loss to be reclassified to profit or loss in subsequent period:		
Exchange differences on translation of foreign operations		(5,354)
Exchange differences on translation of foreign associate		(5,750)
Other comprehensive loss for the period		**(11,104)**
Total comprehensive income for the period		**2,104**

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

Southern Gas Corridor CJSC

Consolidated statement of cash flows

(Amounts presented are in thousands of US dollars)

	Note	From 31 March 2014 (inception) to 31 December 2014
Operating activities		
Profit before income tax		**14,419**
Non-cash adjustments to reconcile profit before tax to net cash flows:		
Finance costs	16	42,715
Depreciation and depletion	19	21,133
Share of result of associate	8	2,749
Other income	16, 18	(13,122)
Interest income	12	(3,338)
Exchange loss		817
Working capital adjustments:		
Accounts receivable		(14,208)
Inventories		1,479
Accrued revenue		(8,844)
Other assets		(24,049)
Deferred revenue		(313)
Trade and other payables		(4,720)
Accrued liabilities		10,885
Cash generated from operations		**25,603**
Interest received		2,823
Net cash flows from operating activities		**28,426**
Investing activities		
Acquisition of subsidiary, net of cash received	22	(165,219)
Acquisition of undivided interests in joint projects		(946,986)
Placement of deposits		(99,000)
Proceeds from withdrawal of deposits		65,754
Advance payments for acquisition of shares	7	(796,288)
Investments in oil and gas properties		(174,396)
Additions to construction in progress and development costs		(180,509)
Investment in associates	8	(8,260)
Other acquisitions		(2,003)
Net cash used in investing activities		**(2,306,907)**
Financing activities		
Contribution from shareholders	14	100,000
Proceeds from borrowings	16	2,522,996
Repayment of borrowings	16	(132,317)
Net cash from financing activities		**2,490,679**
Net increase in cash and cash equivalents		**212,198**
Cash and cash equivalents as at inception	9	-
Cash and cash equivalents at end of the year	9	**212,198**
Non-cash operating activity		
Government grant on loan received for financing of projects	16	704,270

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

Consolidated statement of changes in equity

(Amounts presented are in thousands of US dollars)

	Share capital	Cumulative translation differences	Retained earnings	Total
At 31 March 2014 (inception)	**–**	**–**	**–**	**–**
Contribution from shareholders	100,000	–	–	**100,000**
Profit for the period	–	–	13,208	**13,208**
Other comprehensive loss	–	(11,104)	–	**(11,104)**
At 31 December 2014	**100,000**	**(11,104)**	**13,208**	**102,104**

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

(Amounts presented are in thousands of US dollars, unless otherwise stated)

1. Corporate information

Southern Gas Corridor Closed Joint-Stock Company (the "Company") was established by the Presidential Decree No 287 dated 25 February 2014. It was incorporated on 31 March 2014 in accordance with Azerbaijani legislation. 51% of the Company is owned by the Government of Azerbaijan Republic (the "State"), which is represented by the Ministry of Economy and Industry of the Republic of Azerbaijan, whereas 49% belongs to the State Oil Company of the Azerbaijan Republic ("SOCAR"). The Company is domiciled in the Republic of Azerbaijan. The registered address is located at 73 Neftchilar Avenue, Baku, AZ 1000, the Republic of Azerbaijan.

The Company was established for consolidating, managing and financing the State's interests in the full-field development of the Shah Deniz gas-condensate field, the expansion of the South Caucasus Pipeline ("SCP"), implementation of Trans-Anatolian Natural Gas Pipeline ("TANAP") and Trans Adriatic Pipeline ("TAP") projects (together the "Projects").

On 24 April 2014 the Company incorporated its 100% owned subsidiary, SGC Upstream LLC ("SGC U"), for participating in the exploration and development of the Shah Deniz gas-condensate field in accordance with the Agreement on the Exploration, Development and Production Sharing for the Shah Deniz Prospective Area in the Azerbaijan Sector of the Caspian Sea ("SD PSA") dated 4 June 1996.

On 25 April 2014 the Company incorporated its 100% owned subsidiary, SGC Midstream LLC ("SGC M"), to participate in the SCP project for the transportation of gas through gas export pipeline system from Azerbaijan through Georgia to the Georgian-Turkish border in accordance with, amongst other things, the Intergovernmental Agreement signed between the Government of Azerbaijan and the Government of Georgia.

On 31 July 2014 the Company, through its subsidiary, SGC U, acquired 6.67% participating interest in Shah Deniz project and 5.336% shares in Azerbaijan Gas Supply Company Limited ("AGSC") as well as 6.67% shares in SCPC, through its subsidiary, SGC M, based on the Sale and Purchase Agreement ("SPA") signed on 29 April 2014 between the Company's respective subsidiaries (acting as the purchasers) and Azerbaijan (Shah Deniz) Limited ("AzSD") and Azerbaijan (South Caucasus Pipeline) Limited ("AzSCP") (acting as the sellers).

On 23 July 2014 the Company signed the agreement to acquire from SOCAR 100% shares of TANAP Doğalgaz Iletim A.Ş. (Project Company of TANAP), which was established for the implementation of TANAP project within the territory of the Republic of Turkey. The purpose of constructing TANAP is to distribute natural gas across the country and to transit gas through the territory of Turkey to European countries in accordance with the Intergovernmental Agreement signed between the Government of Azerbaijan and the Government of Turkey.

On 23 July 2014 the Company signed the agreement to get hold of 20% shares in TAP AG (Project Company of TAP) through the acquisition of 100% shares of AzTAP GmbH from SOCAR Energy Holdings AG, a subsidiary of SOCAR. TAP AG was established for planning, developing, financing, and operating TAP project, including the construction of TAP, for the transportation of natural gas to the European markets.

On 23 July 2014 the Company, acting through SGC U and SGC M signed the Deferred Sale and Purchase Agreement ("DSPA") for the acquisition of 10% participating interest in Shah Deniz project and 8% shares in AGSC from AzSD and 10% shares in SCPC from AzSCP, respectively. The closing of the agreement is expected to happen in March 2023, subject to fulfillment of all the conditions precedent. Further details are disclosed in Note 7 and Note 24.

2. Significant accounting policies

Basis of preparation

These consolidated financial statements of the Company and its subsidiaries and associate (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.

The consolidated financial statements are the Group's first financial statements for the period ended 31 December 2014 covering the accounting period from 31 March 2014 (inception) to 31 December 2014 ("the period ended 31 December 2014").

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.

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.

2. Significant accounting policies (continued)

Business combinations

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

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

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 pooling of interest method of accounting for business combinations with entities under the common control from the date when the combination took place.

The pooling of interests method includes the following:

- The assets and liabilities of the combining entities are reflected at their carrying amounts. No adjustments are made to reflect fair values, or recognise any new assets or liabilities, at the date of the combination. The only adjustments that are made are to align accounting policies.
- No "new" goodwill is recognised as a result of the combination. The only goodwill that is recognised is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid/transferred and the net assets acquired is reflected within equity.
- Total comprehensive income reflects the results of the combining entities from the period when the combination took place.

Acquisition of an entity that is not a business

When the Group acquires an entity that is not a business, it allocates the cost of acquisition between the individual identifiable assets and liabilities of the acquired entity on the basis of their relative fair values as following:

- monetary assets and monetary liabilities are recognized at their fair value;
- the cost of acquisition 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.

2. Significant accounting policies (continued)

Investment in associates

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.

The Group's investment in its associate is accounted for using the equity method. Under the equity method, the investment in an associate 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 since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in other comprehensive income ("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, 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 are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate 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.

The financial statements of the associate 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. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as "Share of profit of an associate in the statement of profit or loss".

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

Investments in SD PSA, SCP and AGSC

According to the terms of SD PSA, the Group owns the portion of project's assets and is 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 SD PSA by recognizing its interest portion of underlying assets, liabilities, expenses incurred and income earned by the project.

Participating interest of the Group in the SCP Project is treated by the Group as undivided interest related to the investment in SCPC and accounted by recognizing its interest portion of underlying assets, liabilities, expenses incurred and income earned by the project

At initial recognition the Group allocated the consideration amount to the individual identifiable assets and liabilities relevant to its share in SD PSA and SCP, on the basis of their relative fair values.

The Group holds an interest in the AGSC, a company established together with other contractor parties of the Shah Deniz Project and Ministry of Energy of the Republic of Azerbaijan. AGSC is special structured entity 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.

2. Significant accounting policies (continued)

Foreign currency translation

The consolidated financial statements are presented in US dollars ("USD") and all values are rounded to the nearest thousands, except when otherwise indicated.

The functional and the presentation currency of the Company and its subsidiaries are the following:

SGC Upstream LLC	USD
SGC Midstream LLC	USD
TANAP Doğalgaz Iletim A.Ş.	USD
AzTAP GmbH	EUR

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 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 1.2139 per EUR 1.

Financial instruments – key measurement terms

Depending on their classification financial instruments are carried at fair value, cost or amortised 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.

2. Significant accounting policies (continued)

Financial instruments – key measurement terms (continued)

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.

All assets and liabilities for which fair value is measured or disclosed in the consolidated 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 consolidated 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 items in the consolidated statement of financial position.

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 repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

2. Significant accounting policies (continued)

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, or as derivatives.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification:

Loan and receivables

This category is most relevant to the Group. Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate method.

The effective interest rate method amortization is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognized in the consolidated statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less.

Accounts receivable

Accounts receivable, which generally have 30-90 days' terms, are recognized and carried at original invoice amount less an allowance for any uncollectible amounts.

Derecognition

A financial asset (or, where applicable a part of a financial asset) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2. Significant accounting policies (continued)

Financial assets (continued)

Impairment of financial assets

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

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses individually 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 recognized, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group has not designated any financial liabilities upon initial recognition as financial liabilities at fair value through profit or loss, or as derivatives designated as hedging instruments in an effective hedge.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

This category is most relevant to the Group. After initial recognition, interest bearing loans and borrowings which have a fixed contractual repayment schedule are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized as well as through the effective interest rate method amortization process.

2. Significant accounting policies (continued)

Financial liabilities (continued)

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate method. The effective interest rate method amortization is included in finance cost in the consolidated statement of comprehensive income.

Borrowings with no pre-defined contractual repayment schedules are measured in accordance with actual contractual terms.

Trade and other payables

Trade and other 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.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When 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, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Oil and gas properties

Oil and gas properties are stated at cost, less accumulated depreciation and provision for impairment, where required. Such cost includes the cost of replacing part of the oil and gas properties and borrowing costs for long-term construction projects if the recognition criteria are met.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of oil and gas properties items are capitalised and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of oil and gas properties. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset'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 is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate 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 and are recognised in profit or loss for the year.

2. Significant accounting policies (continued)

Construction in progress

All costs directly or indirectly attributable to the projects to construction and expansion the capacity of the pipeline systems are capitalized as a construction in progress. The construction in progress is stated at a cost and not depreciated. The construction in progress is transferred to the property, plant and equipment upon completion.

Depreciation, depletion and amortization

Depreciation, depletion and amortization of capitalized costs of oil and gas properties is calculated using the units-of-production method based on proved reserves for the cost of property acquisitions and proved developed reserves for exploration and development costs.

The cost of an off-shore production platform, terminal and other development costs incurred in connection with a planned group of development wells is reduced for the portion of development costs related to wells which have not been drilled yet in determining the asset base subject to the unit-of-production amortization rate until the additional development wells are drilled. Similarly, in computing the depletion rate, those proved reserves that will be produced only after significant additional development costs are incurred are excluded from proved developed reserves.

Depreciation, depletion and amortization of capitalized costs of the pipeline systems are calculated using the straight line method for the period of useful life of pipelines. The estimated useful life of the SCP pipeline is thirty years from 25 November 2006 when the pipeline was officially put in use. The estimated useful life of the TANAP pipeline system will be the period from the date when the pipeline is officially put in use till the year 2061.

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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Oil and natural gas exploration, evaluation and development expenditure

The Group follows the successful efforts method of accounting for oil and natural gas exploration, evaluation and development activities. Costs to acquire mineral interests, to determinate the technical feasibility, assess commercial viability of an identified resource and to drill and equip exploratory wells that find proved reserves are capitalized within exploration and evaluation assets. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs, and costs of carrying and retaining unproved properties are expensed.

When proved reserves of oil and natural gas are identified and development is sanctioned by management, the relevant capitalized expenditure is first assessed for impairment and (if required) any impairment loss is recognized, then the remaining balance is transferred to oil and gas properties. No amortization is charged during the exploration and evaluation phase.

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, the drilling and equipment of development wells, including unsuccessful development or delineation wells, is capitalized within oil and gas properties. Oil and gas properties are stated at cost less accumulated depreciation and accumulated impairment losses.

Advance payments

Advance payments are recognized and carried at the original amount of payment less provision for any amount at risk of non-performance by the counterparty. Advance payments made for non-current assets as well as payments which will be settled during more than one-year period are non-current advance payments.

2. Significant accounting policies (continued)

Impairment of oil and gas properties, construction in progress, development costs and other non-financial assets

The Group assesses at each statement of financial position date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the consolidated statement of comprehensive income in expense categories consistent with the function of the impaired asset, except for a property previously revalued and the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of producing crude oil is accounted on weighted average basis. This cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. The cost of crude oil is the production cost, the appropriate proportion of DD&A and overheads. Net realizable value of crude oil is based on estimated selling price in the ordinary course of business less any costs expected to be incurred to completion and disposal.

Decommissioning liabilities

Under the provisions of the SD PSA, the Contractor Parties to the SD PSA are obligated to finance the ultimate abandonment of oil and gas production properties employed in petroleum operations within the contract area. The maximum amounts of abandonment funds cannot exceed 10% of the capital costs in accordance with the SD PSA. The Group estimates its share of total decommissioning liabilities based on SD PSA provisions by applying the 10% limit to all capital costs incurred in petroleum operations in the contract area as at the year-end. The present value of the decommissioning liabilities is recorded by the Group as a liability at the time the assets are installed or placed in service. The amount of liability equals the present value of the future decommissioning liabilities discounted at pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability rate, which equals 5.77% at 31 December 2014. A corresponding tangible fixed asset of an amount equivalent to the liability is also created and included in the cost of oil and gas production properties. This amount is subsequently depreciated as part of the oil and gas production properties and charged against income using the unit-of-production method based on proved reserves. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to oil and gas production properties. The unwinding of the discount on the decommissioning provision is included as a finance cost.

According to the Host Government Agreement ("HGA") signed with the Georgian and Azerbaijan Governments, no later than 30 days after the termination of the HGA, SCPC must submit a decommissioning plan to these Governments addressing its obligations to retire the pipeline. The amount of asset retirement obligation is capitalized by shareholders of SCPC.

In accordance with HGA signed with the Government of Turkey, the Group shall comply with all its decommissioning obligations following the expiry of the agreement (2061). At the date of the consolidated financial statements, the Group did not perform construction works in TANAP system which would require decommissioning of the system.

2. Significant accounting policies (continued)

Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant related to an expense item, it is recognized as deduction of the related expense. When the grant related to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

The benefit of a governmental bond at a below market rate of interest is treated as a government grant. Such benefit is measured as the difference between the initial fair value of the issued bond and the proceeds received.

Income taxes

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

The Group is liable for financing of its 6.67% share in the tax liabilities of SCPC, namely Azerbaijani income tax, Georgian income tax and Georgian minimum tax liabilities.

According to the provisions of SD PSA, contractor parties are liable for profit taxes. However, according to the SD PSA, respective government entity of the Republic of Azerbaijan is liable for payment of profit taxes of each contractor party from the proceeds from sales of crude oil and natural gas. Accordingly, the Group recognizes profit taxes and related revenue in the consolidated statement of profit and loss.

In accordance with HGA signed with the Government of Turkey and the Government of Azerbaijan, the Group will be subject to income tax in respect of TANAP project after the pipeline will be put in use. Accordingly, the Group is not subject to income tax during the construction phase.

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.

2. Significant accounting policies (continued)

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, or receivable, taking into account contractually defined terms of payment net of discounts, returns, value added taxes and other taxes or duty.

Revenues associated with sales of crude oil (condensate) and gas are recorded at the point when the significant risks and rewards of ownership are transferred, which is when title to the extracted oil and gas passes to the customer based on the terms of the SD PSA and based on the proportion of its share in total crude oil and gas entitlement. The actual volume of oil received by the Group may differ from the entitled volume resulting in an over/under lifting. 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.

BP Exploration Shah Deniz Limited, the Operator of the SD PSA (the "SD Operator"), provides the Contractor Parties of SD PSA on a quarterly basis with the Shah Deniz Petroleum Entitlement Report, that contains, inter alia, the final net back price figure which is applied when determining the final petroleum volume that each SD PSA party is entitled to receive. When the actual Shah Deniz Petroleum Entitlement Report is not available, the Group recognizes the revenue based on a provisional Shah Deniz Petroleum Entitlement Report issued by the SD Operator. The revenue recognized may be further revised in the event that actual net back price differs from the provisional net back price used for revenue calculation. The Group treats such revision of revenue, if any, as a change in estimate and reflects in the current year statement of comprehensive income.

Employee benefits

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

Transactions with related parties

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements unless it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

3. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of commitments, guarantees and contingent liabilities, at the end of the reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

On an on-going basis, management evaluates their estimates, including those related to revenue recognition and contingencies. Management bases their estimates on various market-specific assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making assumptions about the carrying values of assets that are not readily apparent from other sources. Actual results may differ significantly from these estimates using different assumptions or conditions.

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of consolidated financial statements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Reserve estimates

Estimates of recoverable quantities of proven and probable reserves reported include judgmental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quantity of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period, changes in reported reserves can impact provision of decommissioning liabilities due to changes in expected future cash flows. Reserves are integral to the amount of depreciation, depletion and amortization charges to the consolidated statement of comprehensive income.

Natural gas and condensate reserves depend on price fluctuations as a result of change in production entitlement split between the State and contractor parties. Natural gas prices are calculated based on the long-term sales contracts provisions and depend on crude oil prices and other inputs. The current long-term Brent FOB oil price assumption used in the estimation of reserves is fifty seven dollars thirty three cents per barrel (US dollars 57.33) as at the consolidated statement of financial position date.

The level of estimated commercial reserves is also a key determinant in assessing whether the carrying value of any of the Group's development and production assets has been impaired.

Decommissioning liabilities

As discussed in Note 2, under the terms of the SD PSA the Group will have to make contributions to the abandonment fund when seventy percent (70%) of petroleum reserves of the Shah Deniz field are recovered. Decommissioning liabilities are stated in the amount of expected contributions related to the currently employed assets discounted at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. This valuation requires the Group to make estimates about timing of expected future cash flows and adjustment to the discount rate, and hence they are subject to uncertainty. The estimation of the decommissioning liabilities is based on the assumption that contributions to the abandonment fund will start in 2029. Further details are disclosed in Note 15.

If the estimated discount rate used in the calculation had been 1% higher/lower than management's estimate, the carrying amount of the provision would have been US dollar 5,694 lower / US dollars 6,842 higher, respectively.

Deferred and accrued revenue

In the valuation of the Group's over-lift and under-lift position under the Shah Deniz PSA as at the year-end the Group uses fifty seven dollars thirty three cents per barrel (US dollars 57.33) market price for crude oil as at 31 December 2014.

3. Significant accounting judgments, estimates and assumptions (continued)

Recoverability of oil and gas assets

The Group assesses each asset or CGU every reporting period to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term oil prices, discount rates, operating costs, future capital requirements, decommissioning costs, exploration potential, reserves and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs.

Given the nature of the Group's activities, information on the fair value of an asset or CGU is not practicable to identify. Consequently, the recoverable amount used in performing the impairment test described below is value-in-use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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:

Identification of CGU

CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets of group of assets. The management assesses that SCP, TANAP and TAP projects are being constructed with the ultimate goal of the delivering Shah Deniz field natural gas to the Georgian, Turkish and European markets. Therefore, all these projects have been considered as one CGU and impairment test is performed on the level of the whole Group.

Capital expenditures

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

Crude oil price

Forecast commodity prices are publicly available.

If the forecasted prices used in the calculation had been five dollars (US dollars 5.0) lower than management's estimate, this would not result any impairment loss.

Discount rate

The post-tax discount rate applied to the cash flow projections of CGU was 6%. The discount rate calculation is based on the specific circumstances of the Group and derived from its incremental borrowing rate adjusted to the specific risks associated with the asset's estimated cash flows. If the estimated discount rate used in the calculation had been 0.5% higher than management's estimate, this would not result in impairment loss.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

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

Standards issued, but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* which reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities.

Annual improvements 2010-2012 Cycle

These improvements are effective for periods beginning on or after 1 July 2014 and are not expected to have an impact on the Group. They include:

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 amortization 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 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).

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.

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.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

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

Annual improvements 2012-2014 Cycle (continued)

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.

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 recognized 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 recognizing 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.

5. Oil and gas properties

At 31 December oil and gas properties consisted of the following:

	Oil and gas production properties	Pipeline assets	Decommis-sioning costs	Total
Cost				
At 31 March 2014	–	–	–	–
Acquisition of undivided interest in joint projects	430,079	47,938	14,273	**492,290**
Additions	12,619	26,535	2,093	**41,247**
At 31 December 2014	**442,698**	**74,473**	**16,366**	**533,537**
Accumulated depletion and depreciation				
At 31 March 2014	–	–	–	–
Charge for the year	(19,182)	(1,402)	(549)	**(21,133)**
At 31 December 2014	**(19,182)**	**(1,402)**	**(549)**	**(21,133)**
Net book value				–
At 31 December 2014	**423,516**	**73,071**	**15,817**	**512,404**

(Amounts presented are in thousands of US dollars, unless otherwise stated)

5. Oil and gas properties (continued)

Oil and gas production properties

Oil and gas production properties are represented by the Group's 6.67% share in oil and gas production properties of SD project.

Pipeline assets

The pipeline cost represents the Group's 6.67% share in cost of construction and capitalized maintenance expenses on SCP pipeline.

Decommissioning costs

The capitalized decommissioning costs are represented by the Group's 6.67% share in costs related to decommissioning of assets employed for the purposes of SD and SCP projects. Refer to Note 15 for details.

6. Construction in progress and development costs

At 31 December construction in progress and development costs consisted of the following:

	Development costs	Construction in progress	Decommissioning costs	Total
At 31 March 2014	–	–	–	–
Acquisition of undivided interest in joint projects	449,630	81,200	18,125	**548,955**
Acquisition of subsidiary	–	206,828	–	**206,828**
Additions	108,223	121,539	2,572	**232,334**
At 31 December 2014	**557,853**	**409,567**	**20,697**	**988,117**
Net book value				
At 31 December 2014	**557,853**	**409,567**	**20,697**	**988,117**

Development costs

Development costs are represented by costs incurred in respect of Shah Deniz Stage 2 Development project.

Construction in progress

As at 31 December 2014 this amount includes cost directly related to the construction of TANAP and expansion of SCP pipeline system in the amount of US dollars 322,080 and US dollars 87,487, respectively. The amount related to construction of TANAP includes costs for project management services, early work expenses, land acquisition costs, personnel expenses and other costs directly attributable to the construction of pipeline.

7. Advance payments

At 31 December advance payments consisted of the following:

	2014
Advance payments for acquisition of shares	796,288
Other payments related to construction works	146,846
	943,134

Advance payments for acquisition of shares represents advances paid in the amount of US dollars 454 million to AzSD and US dollars 342 million to AzSCP for acquisition of their 10% interests in the SD PSA and SCP projects, respectively, and treated as non-financial assets. Refer to Note 24 for further details.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

8. Investments in associate

At 31 December 2014 the Group held twenty percent (20%) interest in TAP AG. TAP AG is responsible for the development and operation of the gas transportation infrastructure from the Greece/Turkey border to Southern Italy in order to deliver Caspian natural gas to European countries. The Group exercises significant influence over the entity by participating in its financial and operating decisions.

The Group acquired investment in TAP AG through acquisition of 100% shares of AzTAP GmbH ("AzTAP").

The table below summarizes the movements in the carrying amount of the Group's investment in TAP AG:

	2014
Carrying amount at 31 March	-
Acquisition of investment in associate	56,671
Additions to investment in associate	8,260
Share of after tax results of associate	(2,749)
Exchange differences	(5,750)
Carrying amount at 31 December	**56,432**

The following table illustrates summarized financial information of the Group's investment in TAP AG at 31 December:

	2014
Current assets	49,600
Non-current assets	390,633
Current liabilities	(23,033)
Non-current liabilities	(221,665)
Net assets	**195,535**
Group's interest in net assets	**39,107**
Goodwill recognized upon acquisition*	18,872
Exchange differences on translation of goodwill	(1,547)
Carrying value	**56,432**

* Difference between the cost allocated to the acquisition of TAP AG and the fair value of its identifiable assets and liabilities is accounted as goodwill relating to TAP AG and is included in the carrying amount of the investment in associate. Refer to Note 22 for details.

Share of associate's results for the period ended 31 December:

	2014
Revenue	-
Operating expenses	16,100
Other income	(829)
Loss before tax	**15,271**
Income tax benefit	(1,526)
Net loss for the period since acquisition of associate	**13,745**
Group's share of net loss	**2,749**

(Amounts presented are in thousands of US dollars, unless otherwise stated)

9. Loan to associate

Loan to associate represents receivable from TAP AG in accordance with Term Credit Facility Agreement ("TCFA") signed between TAP AG and its shareholders. The Group obtained control over the financial assets as a result of acquisition of AzTAP (Note 22).

The loan bears interest equal to EUR rate for cross border shareholders loans as published by the Swiss federal tax authorities plus 1% margin and approximates 3%. The loan matures in July 2043. Total interest income earned during 2014 was US dollars 580.

10. Cash and cash equivalents, deposits

Cash and cash equivalents consisted of the following at 31 December:

	2014
Cash at bank, USD	202,472
Cash at bank, EUR	9,726
Total cash and cash equivalents	**212,198**

Cash at bank mainly includes time deposits in the amount of US dollars 194,832 with maturity of up to one month and bearing effective interest rates ranging between 1.6%-2.5%. Total interest income earned during 2014 was US dollars 1,575.

Deposits

At 31 December 2014 time deposits includes placements in the amount of US dollars 33,246 with maturity period of one year bearing the interest rates ranging between 1.5%-2.85% per annum. Total interest income earned during 2014 was US dollars 1,131.

11. Accounts receivable

Accounts receivable consisted of the following at 31 December:

	2014
Receivable from AzSD	21,554
Receivable from AGSC	5,178
Receivable from the SD Operator	5,127
Other receivables	4,961
Total accounts receivable	**36,820**

Receivables from the SD Operator represent the inception-to-date excess of cash calls paid by the Group to the SD Operator over the actual expenditures reported by the SD Operator.

12. Inventories

As at 31 December 2014 inventories are represented by the Group's share of inventories reported by the SD Operator.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

13. Other current assets

Other current assets represent the following as at 31 December:

	2014
VAT receivable	25,966
Other assets	12,248
Total other current assets	**38,214**

14. Share capital

At 31 December 2014 the Group share capital amounted US dollars 100 million.

15. Decommissioning liabilities

The Group has a legal and constructive obligation with respect to decommissioning of oil and gas production and pipeline assets. Movements in provisions for the related asset retirement obligations are as follows:

	2014
At 31 March	–
Acquisition of undivided interest in joint projects	32,398
Additional liability during the period	4,665
At 31 December	**37,063**

Under the provisions of the SD PSA and SCP HGAs all Contractor Parties will have to make contributions to an abandonment fund, which will be used to finance the decommissioning and dismantling of constructed assets after the maturity of the SD PSA and SCP.

The maximum amount of decommissioning fund cannot exceed 10% of the capital costs in accordance with SD PSA. Decommissioning liability is estimated based on capital expenditures incurred in respect of assets already employed as at the end of each financial year. The Group share of the estimated undiscounted cost to abandon the production facilities employed in SD PSA was US dollar 101,619 as at 31 December 2014.

The Group's share of expected undiscounted cost to decommission the SCP pipeline facilities at 31 December 2014 was US dollars 7,643. The Group used a 2% inflation rate in its estimate of the retirement obligation upon termination of HGA and used a pre-tax rate that reflects current market assessments of the time value of money to discount the obligation.

16. Long-term borrowings and Government grant

Bonds issued to SOFAZ

In accordance with the Presidential Decree dated 31 March 2014 the State Oil Fund of Azerbaijan ("SOFAZ"), a governmental fund established for funding of important socio-economic projects, was assigned for financing of the Group's acquisitions of interests in the projects described in Note 1. Accordingly, in 2014 the Group issued bonds to SOFAZ in the aggregate amount of US dollars 2,516,996 with maturity period of 10 years. Interest rate implicit in bond prospectus is 1% + 6 months LIBOR. The repayment of interest shall be made in semiannual installments effective from 2021 till 2024.

At initial recognition, the Group calculated the fair value of the bond using market rate for similar financial instruments (4.5% + 6 months LIBOR) and recognized US dollars 704,270 of difference between fair value and carrying amount of the bond as government grant in its consolidated statements of financial position.

Total interest charges incurred during 2014 was US dollars 41,575 plus withholding tax of 1,140.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

16. Long-term borrowings and Government grant (continued)

Bonds issued to SOFAZ (continued)

During 2014 the Group recognized income from government grant over the expected useful life of the related assets. Total income recognized from government grant was US dollars 6,571 included in other income.

Loan from Akbank T.A.Ş.

On acquisition of TANAP, the Group recognized the loan at its carrying value in the amount of US dollars 19,000 due to Akbank T.A.Ş. under the loan agreement signed between the parties. On 23 July 2014, the Group received additional loan in the amount of US dollars 6,000 under the existing agreement. Within the reporting period the Group repaid all due amount of US dollars 25,000 loan due to Akbank T.A.Ş.

Loan from SOCAR

On acquisition of AzTAP, the Group recognized the loan at its fair value due to SOCAR Energy Holdings AG under the loan agreement between SOCAR and AzTAP. On 23 July 2014, the Group repaid all outstanding balance of US dollars 107,317 to SOCAR.

17. Trade and other payables, Accrued liabilities

Trade and other payables and accrued liabilities mainly consist of payables related to Shah Deniz Stage 2 development, expansion of SCP and construction of TANAP pipeline systems at 31 December.

18. Revenue, Accrued revenue and Deferred revenue

Revenue

The Group's revenue consisted of the following for the period ended 31 December:

	2014
Revenue from sale of gas	47,503
Revenue from sale of crude oil	29,391
	76,894

According to the provisions of SD PSA the profit oil and gas is shared between the State and the contractor parties of PSA depending on cumulative after-tax real rate of return achieved as at the end of each calendar quarter by contractor parties. During 2014 the profit oil and gas was shared at a ratio of 55% to 45% in favor of the State.

Revenue from sale of crude oil includes the amount of crude oil lifted by the AzSD in 2014. The parties agreed for cash settlement of the imbalance volume in the amount of US dollars 20,234. Accordingly, the Group recognized receivable from AzSD for the respective amount.

Accrued revenue

Accrued revenue balance of US dollar 13,118 at 31 December 2014 represents the Group's underlift of crude oil resulting from a difference between the volumes lifted and entitled at Ceyhan terminal.

Deferred revenue

Deferred revenue balance of US dollars 7,662 at 31 December 2014 represents the Group's over-lifting of crude oil resulting from a difference between the volumes lifted and entitled at Baku-Tbilisi-Ceyhan route ("BTC"). At initial recognition of share in SD PSA, the Group recognized deferred revenue in the amount of US dollars 14,526 for the overlift position as at acquisition date. The movement between the deferred revenue at acquisition date and 31 December 2014 is mainly due to price change and was recognized as other income in the consolidated statement of the comprehensive income in the amount of US dollars 6,551.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

19. Cost of sales

The Group's cost of sales consisted of the following for the period ended 31 December:

	Note	2014
Depreciation and depletion	5	21,133
Other costs		7,300
		28,433

20. Taxation

Taxation under the Shah Deniz Project

According to the provisions of SD PSA, the contractor parties are liable to pay income taxes related to the operations under the SD Project. According to the same provisions the respective state body of the Republic of Azerbaijan remits to the State Budget income taxes of each contractor party and reimburses the respective amount from condensate and natural gas attributable to the State. Accordingly, as a contractor party to SD PSA, the Group is liable for Azerbaijani income taxes and at the same time is entitled to additional profit petroleum. During the period ended 31 December 2014 the Group had no income taxes from the activities in SD PSA.

The Group is exempt from certain ordinary operational taxes including Azerbaijani value added taxes in accordance with provision of SD PSA.

Taxation under the SCP project

SGC Midstream LLC elected SCPC to represent it in all tax issues before the tax authorities, so that the Group is a non-tax electing shareholder in accordance with the terms of Azerbaijani HGA. SCPC is liable for Azerbaijani income tax and Georgian minimum tax with respect to the income and deductions of, and natural gas transported by, SCPC, which are allocable to non-tax electing shareholders, including the Group.

The following taxes have been enacted for the period ended 31 December 2014:

- Azerbaijani income tax at a fixed rate of 27%;
- Georgian income tax at a fixed rate of 25%;
- Georgian minimum tax (the "GMT") at a fixed rate of US dollars 2.50 per thousand of cubic meters of gas delivered to Georgian-Turkey border.

Georgian income tax and minimum tax

According to Georgian HGA, SCPC is liable for the income tax at a fixed rate of 25% for income generated from operations in Georgia. In case SCPC does not generate taxable income during a fiscal year, it shall be liable for GMT. The GMT for the preceding periods can be carried forward without limitation and credited against future income tax liability of SCPC in Georgia. The Group estimates that the GMT will exceed the income tax under Georgian HGA.

The provision for income taxes mainly comprised of the Group's share in Azerbaijan income tax expense, Georgian minimum tax expense and deferred tax expense of SCPC for the period ended 31 December 2014.

Deferred tax liabilities of SCPC are calculated on the temporary differences arised from the differences in accounting under IFRS and HGA (accrual versus cash basis).

(Amounts presented are in thousands of US dollars, unless otherwise stated)

21. Transactions with related parties

Transactions with related parties consisted of the following at 31 December 2014:

Related party	Long-term borrowings	Advance payments	Accounts receivable	Receipts from related parties	Settlements with related parties
SOFAZ (Note 16)	1,854,301	–	–	–	2,516,996
SOCAR	–	–	–	–	273,258
AzSD	–	454,661	21,554	–	1,318,967
AzSCP	–	341,627	–	–	439,277
AGSC	–	–	5,178	40,249	–
Total	**1,854,301**	**796,288**	**26,732**	**40,249**	**4,548,498**
Total category	**1,854,301**	**943,134**	**36,820**		

SOCAR

Settlements with SOCAR are represented by consideration paid in the amount of US dollars 165,919 for acquisition of TANAP (Note 22) and US dollars 22 for acquisition of AzTAP (Note 22), and repayment of loan in the amount of 107,317 (Note 16) to SOCAR.

AzSD

Settlements with AzSD (a subsidiary of SOCAR) are represented by consideration paid for acquisition of 6.67% share in SD PSA and 5.336% share AGSC in the amount of 849,336, advances paid for acquisition of 10% share in SD PSA and 8% share in AGSC under DSPA and other advances. Refer to Note 24 for details.

AzSCP

Settlements with AzSCP (a subsidiary of SOCAR) are represented by consideration paid for acquisition of 6.67% share in SCPC in the amount of 97,650 and advances paid for acquisition of 10% shares in SCPC under DSPA. Refer to Note 24 for details.

AGSC

AGSC is a company established by the contractor parties of the Shah Deniz PSA for marketing, accounting, billing, payment and reporting of other administrative activities related to the sales of Shah Deniz gas. Receipts from AGSC represent cash received in the amount of 40,249 from sale of gas to AGSC.

Key management personnel

The senior management group consists of the Group's General Director and Finance Director. The aggregate remuneration of members of the senior management group and the number of managers determined on a full-time equivalent basis receiving remuneration within this category are:

	2014
Aggregate remuneration	63
Number of persons	2

(Amounts presented are in thousands of US dollars, unless otherwise stated)

22. Business combination and acquisition of an entity that is not a business

Acquisition of TANAP

As discussed in the Note 1, on 23 July 2014 the Group acquired 100% shares of TANAP from SOCAR. This transaction was accounted by the Group as acquisition of an entity under the common control and the assets and liabilities of the combining entity were recognized at their carrying amounts under pooling of interest method from the date when the combination took place.

Carrying values of identifiable assets and liabilities of TANAP at acquisition were as follows:

	Carrying value on acquisition
Assets	
Cash and cash equivalents	623
Accounts receivable	301
Other current assets	744
Oil and gas properties, net	206,828
Advance payments	11,604
	220,100
Liabilities	
Trade and other payables	(18,680)
Accrued liabilities	(16,501)
Short-term borrowings	(19,000)
	(54,181)
Total identifiable net assets at carrying value	**165,919**
Distribution to equity	-
Consideration, settled in cash	**165,919**

From the date of acquisition, TANAP contributed US dollars 1,412 net profit to the Group.

Acquisition of AzTAP

As discussed in Note 1, in July 2014 the Group acquired 100% shares of AzTAP from SOCAR Energy Holdings AG for the amount US dollars 22 (CHF 20 thousand). AzTAP was established by SOCAR exclusively to exercise the option right to become shareholder of TAP AG. The Group recognized this purchase as acquisition of an entity that is not a business and allocated the cost of acquisition between the individual identifiable assets and liabilities of AzTAP on the basis of their relative fair values.

At the date of obtaining control over AzTAP, allocation of cost of acquisition to the identifiable assets and liabilities of AzTAP was as following:

	Allocated cost
Cash and cash equivalents	99
Other current assets	65
Loan to associate	48,549
Investments in associates	56,671
Long-term borrowings	(105,362)
Net assets of subsidiary	**22**
Consideration, settled in cash	**22**

(Amounts presented are in thousands of US dollars, unless otherwise stated)

23. Financial risk management objectives and policies

Financial risk factors

In the ordinary course of business, the Group is exposed to credit, liquidity and market risks. Market risks arise from fluctuating currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize 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 risk management procedures, management of the Group identifies and evaluates financial risks with reference to the current market position.

(i) Foreign exchange risk

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. 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 Group does not have any formal procedures on managing foreign exchange risk, however, management is quite well informed on the tendencies in the economy and has undertaken steps to minimise its foreign exchange risks. Management does not hedge the Group's foreign exchange risk.

The major financial instruments in a foreign currency comprise loan receivable and certain cash and cash equivalents that are denominated in EUR.

The following table demonstrates the sensitivity to a reasonably possible change in EUR of the Group's profit before tax. A negative amount in the table reflects a potential net reduction in the profit before tax, while a positive amount reflects a net potential increase. The Group's exposure to change in EUR is not material.

	Change in USD/EUR rate	Effect on profit before tax
2014	6.23%	3,368
	(6.23%)	(3,368)

(ii) Interest rate risk

The Group hold significant interest bearing assets and liabilities as described in Note 9 and Note 16. Interest rates on existing loan agreements are fixed in respective agreements and depend on fluctuations in LIBOR and EUR rate for cross border shareholders loans published by the Swiss federal tax authorities (ESTV).

The table below summarizes effect on profit before tax of the following shift in LIBOR and EUR rate per ESTV as at 31 December 2014:

	Change in floating variable		Effect on profit before tax	
2014	**Increase**	**Decrease**	**After increase**	**After decrease**
LIBOR	+0.2	-0.2	(1,802)	1,802
EUR rate per ESTV	+0.5	-0.5	192	(192)

(iii) Credit risk

Financial instruments involve, to varying degrees, credit risks. The Group is subject to credit risk from its portfolio of loan receivable, cash and cash equivalents, deposits and accounts receivable and would be exposed to losses in the event of non-performance by counterparties.

The Group's exposure to credit risks arises from default of the counterparty, with a maximum exposure of US dollars 321,471 as at 31 December 2014.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

23. Financial risk management objectives and policies (continued)

Financial risk factors (continued)

The Group places its cash with high credit quality financial institutions. The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade for condensate on credit terms are subject to credit verification procedures. Gas sales are made through AGSC to entities with strong financial position.

(iv) Liquidity risk

The Group monitors its risk to a shortage of funds by reviewing its net financial debt indicator on a regular basis. The net financial debt represents the difference between total financial liabilities and cash and cash equivalents. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of loans.

The tables below summarize the maturity profile of the Group's financial liabilities at 31 December 2014 based on contractual undiscounted payments:

2014	**On demand**	**3 to 12 months**	**1 to 5 years**	**>5 years**	**Total**
Trade and other payables	–	54,896	–	–	**54,896**
Accrued liabilities	–	131,945	–	–	**131,945**
Long-term borrowings	–	–	–	2,860,020	**2,860,020**
	–	**186,841**	**–**	**2,860,020**	**3,046,861**

(v) Capital management

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

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

	31 December 2014
Long-term borrowings (Note 16)	1,854,301
Less: cash and cash equivalents (Note 10)	(212,198)
Net debt	**1,642,103**
Equity	102,104
Capital and net debt	**1,744,207**
Gearing ratio	**94%**

(vi) 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.

(Amounts presented are in thousands of US dollars, unless otherwise stated)

23. Financial risk management objectives and policies (continued)

Financial risk factors (continued)

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 10)	212,198	212,198
Deposits (Note 10)	33,246	33,246
Accounts receivables (Note 11)	31,693	31,693
Loan to associate (Note 9)	44,334	44,334
Total financial assets	**321,471**	**321,471**
Trade and other payables (Note 17)	(54,896)	(54,896)
Accrued liabilities (Note 17)	(131,945)	(131,945)
Long-term borrowings (Note 16)	(1,854,301)	(1,854,301)
Total financial liabilities	**(2,041,142)**	**(2,041,142)**

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.

24. Commitments and contingencies

Commitments related to participating interest in Shah Deniz PSA

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 Sixth, Seventh and Eighth Addendums to Shah Deniz PSA. The Group is committed to finance expenditures related to Stage 2 exploration and development based on its share of interest.

As of 31 December 2014 the SD operator has entered into a number of capital commitments and operating leases. The Group estimated its 6.67% share of these commitments and operating leases in the amount of US dollars 1,255,780 and US dollars 13,775, respectively. The total of future minimum lease payments under non-cancellable operating leases for each of the following periods is as follows:

For the year ended 31 December 2014	
- Not later than one year	6,848
- Later than one year and not later than five years	6,875
- Later than five years	52
	13,775

24. Commitments and contingencies (continued)

Commitment related to SCP Expansion

SD PSA Contractor Parties made the final investment decision on SCP Expansion project on 17 December 2013. SCP Expansion project objective is to expand the existing SCP pipeline system capacity. Due to SCP expansion additional facilities will be constructed in Georgia for the purposes of interconnection with TANAP. The Group has the commitment to fund the SCP Expansion project throughout the construction and initial operational phase.

The SCP Expansion approved construction budget is estimated in the amount of US dollars 5,277,000 (the Group's share: US dollars 352,000).

Commitment related to TANAP

Construction of TANAP

At the financial statement date, the Group has commitment to fund construction of TANAP pipeline system. Approved budget for construction of TANAP system is estimated in the amount of US dollars 9,592,369. The project is expected to be completed by 2020.

Sale and purchase agreement with BOTAS for the sale of shares in TANAP

On 26 May 2014 SOCAR and BOTAS Petroleum Pipeline Corporation ("BOTAS") signed sale and purchase agreement for the sale of 30% shares in TANAP to BOTAS. On 23 July 2014, following the acquisition of TANAP, the Group signed novation agreement with SOCAR and BOTAS, where all rights and obligations under the sale and purchase agreement were transferred from SOCAR to the Group. At the financial statement date, the Group has a commitment to sell 30% share of TANAP to BOTAS. Refer to Note 26 for further information.

Commitment related to TAP

Construction of TAP

The Group has the commitment to fund construction of TAP pipeline system. The budget for construction of the TAP system is estimated in the amount of EUR 3,939,000 (US dollars 4,781,552). The Group share of commitment at the financial statement date was EUR 787,800 (US dollars 956,310).

Commitments related to participating interest in AGSC, TANAP, TAP and SCPC

BOTAS gas contract

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

Stage 2 gas contract

On 25 October 2011, SOCAR and BOTAS executed a gas sale and purchase agreement with respect to the sale by 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 to make available 0.14 bcm in 2015 and onwards, at a price which is calculated based on the formula established in the contract.

24. Commitments and contingencies (continued)

Commitments related to participating interest in AGSC, TANAP, TAP and SCPC (continued)

The performance of AGSC under the gas contract and BOTAS Stage 2 Contract is guaranteed under the Azerbaijan-Turkey IGA, by the government of the Republic of Azerbaijan. Commitments indicated above in respect of gas volumes to be delivered by 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 Republic of Azerbaijan).

Azerbaijan gas obligation

AGSC is obliged under an agreement signed with SOCAR to make available a minimum of approximately 1.5 bcm in 2015 and onwards at a price calculated based on the formula established in the agreement.

Georgian gas obligation

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

Sale and purchase agreement with OptionCo

AGSC is obliged under the agreement signed with OptionCo to make available 0.2 bcm during the contract year starting on 1 October 2014. Thereafter, the Group is obliged to deliver during a contract year, which starts on 1 October a maximum of five percent of the volumes transported by AGSC through Georgia via the SCP in the previous calendar year, at a price which is calculated based on the formula established in the contract.

Shah Deniz Stage 2 EU Long term Gas Sales Agreements ("GSA")

In September 2013 ten EU GSAs were signed by SOCAR with nine 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 assume 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.

Trans Anatolian Pipeline Gas Transportation Agreement (TANAP GTA)

AGSC is a 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 and 1 July 2021.

Trans Adriatic Pipeline GTA (TAP GTA)

AGSC is a 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 and 31 December 2020.

TAP Deferral Gas Sales Agreement

AGSC is obliged under the agreement signed with SOCAR to make available gas during the period 1 May 2019 – 31 December 2020 (with possible extension of the contract period) in the volume equal to approximately 3.66 bcm in 2019 and 6.4 bcm in 2020, at a price which is stipulated in the contract.

24. Commitments and contingencies (continued)

Commitments related to participating interest in AGSC, TANAP, TAP and SCPC (continued)

Sale and purchase agreement with BTC Co

AGSC is obliged under an agreement signed with BTC to make available 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 the formula established in the contract.

DBV SPA

AGSC is obliged under the agreement signed with SOCAR to make available gas during the period 1 January 2014 – 30 June 2018 as follows: 1.3 bcm in 2015-2017 and 0.64 bcm in 2018, at a price which is stipulated 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 fulfill 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.

BOTAS Gas Transportation Agreement (BOTAS GTA)

TANAP is a party to BOTAS GTA and with annual reserved capacity during the build-up period, as defined in the contract, of 1.9 bcm (12 month period commencing on start date), 3.8 bcm (next 12 month period) and plateau of 5.7 bcm after 24 months of start date. The start date will be within the period from and including 1 May 2018 to and including 30 June 2018.

AGSC and TANAP Gas Transportation Agreement

The agreement was signed on 17 December 2013 with the start date occurring on 1 July 2019. Annual reserved capacity during the build-up period is 6.1 bcm (1 July 2019), 6.2 bcm (1 January 2020), 7.2 bcm (1 April 2020), 10.5 bcm (1 January 2021) and plateau of 10.5 bcm (after the date when annual reserve capacity in this GTA first becomes 10.5 bcm).

SOCAR Gas Transportation Agreement (SOCAR GTA)

Based on this GTA, from and including the start date (6 March 2036) SOCAR shall pay to TAP AG the amount of actual monthly charge in relation of each booking of reserved capacity at each entry point and exit point at a price which is calculated based on the formula established in the contract. TAP AG shall make available to SOCAR for transportation of natural gas, at the applicable entry point and exit point(s) as described below, a reserved capacity equal to the flow rates expressed in kWh per gas day: Entry point at Kipoi – 287,318,605 kWh per gas day; Exit point at SRG – 242,999,147 kWh per gas day; Exit point at Komotini – 44,319,458 kWh per gas day.

Commitment under the Deferred Sale and Purchase Agreement

As mentioned in Note 1, in July 2014 the Group signed the DSPA for the acquisition of 10% participating interest in Shah Deniz project and 8% shares in AGSC from AzSD and 10% shares in SCPC from AzSCP in March 2023. According to the terms of this agreement the Group shall make advance payments for these acquisitions to AzSD and AzSCP, while control will pass to the Group in 2023, provided that certain conditions precedent are satisfied. As of 31 December 2014, the Group had commitments for payments in the amount of US dollars 559,754 to AzSD and has to make progress payments equaled to Shah Deniz Stage 2 Development cash call requirements of AzSD from 2015 to 2020 year. In addition, the Group had commitments in the amount of US dollars 9,369 to AzSCP and has to make progress payments equaled to SCP Expansion project related cash calls requirements of AzSCP from 2015 to 2020 year.

24. Commitments and contingencies (continued)

Contingencies related to the SPA in respect of share in Shah Deniz PSA and AGSC

As mentioned in Note 1, in July 2014 the Group acquired 6.67% participating interest in Shah Deniz project and 5.336% shares in AGSC and 6.67% shares in SCPC based on the Sale and Purchase Agreement ("SPA") signed on 29 April 2014 with AzSD and AzSCP. These interest and shares were acquired by AzSD and AzSCP from Statoil Azerbaijan A.S. based on the sale and purchase agreement signed between the parties thereto. At 31 December 2014 AzSD had disagreement with Statoil Azerbaijan A.S. in respect of consideration determination in the amount US dollar 29,369 and was planning to involve the independent expert to resolve the disputed issues as required under the provisions of their sale and purchase agreement. In case the dispute is resolved in favour of Statoil A.S., AzSD will have to make additional payments determined by the expert and the Group, in turn, shall be liable to pay any corresponding adjustments to the consideration under the SPA, unless it disagrees with Final Completion Statement served by the seller, as per the terms of the SPA. Management believes that the resolution of the issue will not result in any additional liability to the Group.

Dispute between AGSC and BOTAS

AGSC and BOTAS have ongoing disputes on determination of the make-up gas deliveries start-up date which is 5 November 2014 based on AGSC position versus 18 October 2014 in accordance with BOTAS position. Make-up gas deliveries start-up date impacts the entitlement of BOTAS to receive make-up gas. Invoices were issued based on AGSC's interpretation of start-up of make-up gas deliveries and contested by BOTAS which made payments in accordance with its own position.

The disputes are based on the treatment of the volumes of deficient gas not taken by BOTAS due to the failures occurred at Hanak Compressor Station during the year 2014 and claimed as Force Majeure Events by BOTAS. The BOTAS SPA places the obligation on the party claiming Force Majeure Event to provide supporting documentation and information which is required to substantiate such claim. AGSC has rejected the claims of Force Majeure Events on a number of grounds concerning BOTAS's failure to demonstrate the sufficient evidence for validity of claims on Force Majeure Events. In accordance with BOTAS SPA if parties are not able to resolve a dispute relating to the claim of Force Majeure, the matter may be submitted to the Expert or arbitration. On 3 March 2015, AGSC has obtained Directors' approval for referral of the Force Majeure Disputes to an Expert determination. The disputed amount remains with BOTAS until the dispute is resolved. AGSC believes that the matter will be resolved in its favor and disputed amount is fully collectible.

25. Current business environment

Azerbaijan economy

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

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

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 26, Azerbaijani Manat has been devalued against major currencies by approximately 34% on 21 February 2015.

25. Current business environment (continued)

Turkish economy

The strong performance of the Turkish economy, as clearly demonstrated in economic indicators of previous years, was impacted to some degree by the sluggish European markets that Turkey is most dependent on. The Turkish government began to implement new policies and measures to revive domestic demand in order to compensate for the slowdown in foreign markets. Subsequent to the year end, Turkish lira has been depreciated against major currencies by approximately 21%.

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

These 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.

26. Events after the reporting date

Exchange rate loss

On 21 February 2015, Azerbaijani Manat has been devalued against US dollar and other major currencies by 34%. The exchange rates before and after devaluation were AZN 0.786 and AZN 1.050 to US dollar 1, respectively. In addition, Turkish lira has been depreciated against US dollar and other major currencies by average 21%. 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 share capital

During February and March 2015 the Group's share capital has increased by US dollars 625,000.

Sale of interest in subsidiary

On 13 April 2015 the Group sold its 30% share in TANAP Doğalgaz Iletim A.Ş. to BOTAS.

On 16 April 2015 the Group sold its 12% share in TANAP Doğalgaz Iletim A.Ş. to BP Pipelines (TANAP) limited.