IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE NON-U.S. PERSONS (AS DEFINED BELOW) LOCATED OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the Prospectus following this page and you are therefore advised to read this page carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Issuer or the Managers (each as defined in the Prospectus).

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED IN THE ATTACHED DOCUMENT.

Confirmation of your representation: In order to be eligible to view the Prospectus or make an investment decision with respect to the securities being offered, prospective investors must be non-U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) located outside the United States. The Prospectus is being sent to you at your request, and by accessing the Prospectus you shall be deemed to have represented to the Issuer and the Managers that (1) you are purchasing the securities being offered in an offshore transaction (within the meaning of Regulation S) and the electronic mail address that you gave us and to which this email has been delivered is not located in the United States, its territories and possessions, any State of the United States or the District of Columbia and (2) you consent to delivery of the Prospectus by electronic transmission.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.

The materials relating to this offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer, and the Managers or any affiliate of the Managers is a licensed broker or dealer in the relevant jurisdiction, the offering shall be deemed to be made by the Managers or such affiliate on behalf of the Issuer in such jurisdiction.

The Prospectus may only be distributed to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (b) high net worth entities falling within article 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Order (all such persons together being referred to as "**relevant persons**"). Any person who is not a relevant person should not act or rely on this document or any of its contents.

The Prospectus has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Managers, any person who controls them or any director, officer, employee or agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Managers.

STATE OIL COMPANY OF THE AZERBAIJAN REPUBLIC

(a company organised and existing under the laws of the Republic of Azerbaijan)

U.S.$750,000,000 6.95% Senior Unsecured Notes due 2030

Issue Price: 100%

Application has been made (i) to the Financial Conduct Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for the U.S.$750,000,000 6.95% Senior Unsecured Notes due 2030 (the "**Notes**") of State Oil Company of the Azerbaijan Republic ("**SOCAR**", the "**Company**" or the "**Issuer**") to be admitted to the official list of the UK Listing Authority (the "**Official List**") and (ii) to the London Stock Exchange plc (the "**London Stock Exchange**") for the Notes to be admitted to trading on the London Stock Exchange's regulated market (the "**Market**"). References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

Interest on the Notes is payable semi-annually in arrear on 18 March and 18 September in each year. Payments on the Notes will be made without deduction for, or on account of taxes of, the Republic of Azerbaijan ("**Azerbaijan**" or the "**Republic**") to the extent described under "*Terms and Conditions of the Notes—Condition 10. Taxation*". See "*Risk Factors—Risk Factors Relating to the Notes—Payments made in respect of the Notes will be subject to withholding tax and have other tax consequences for investors".*

The Notes are subject to redemption in whole, at their principal amount, together with accrued interest, at the option of the Issuer at any time on any Interest Payment Date in the event of certain changes affecting taxes of Azerbaijan. See "*Terms and Conditions of the Notes—Condition 9. Redemption and Purchase*".

AN INVESTMENT IN THE NOTES INVOLVES CERTAIN RISKS
PROSPECTIVE INVESTORS SHOULD CONSIDER THE FACTORS DESCRIBED
UNDER THE SECTION HEADED "*RISK FACTORS*" IN THIS PROSPECTUS.

The Notes will be offered and sold in offshore transactions outside the United States in reliance on Regulation S ("**Regulation S**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**").

THE NOTES HAVE NOT BEEN NOR WILL BE REGISTERED UNDER THE SECURITIES ACT, OR ANY STATE SECURITIES LAW, AND THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

The Notes will be issued in registered form in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes will be represented by a global registered note certificate (the "**Global Certificate**"), which will be registered in the name of BT Globenet Nominees Limited, as nominee for, and deposited with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") on or about 18 March 2015 (the "**Closing Date**"). Definitive note certificates (the "**Definitive Note Certificates**") evidencing holdings of Notes will be available only in certain limited circumstances. See "*Summary of Provisions Relating to the Notes in Global Form*".

The Notes are expected to be rated BBB- by Fitch Ratings Limited ("**Fitch**") and BB+ by Standard & Poor's Credit Market Services Europe Limited ("**S&P**"). The Issuer's current long-term rating by Fitch is BBB- (outlook stable), by Moody's Investors Service Ltd. ("**Moody's**") is Ba1 (outlook stable) and by S&P is BB+ (outlook negative). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. The credit ratings included or referred to in this Prospectus will be treated for the purposes of Regulation (EC) № 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended, (the "**CRA Regulation**") as having been issued by Fitch, Moody's and S&P, respectively. Each of Fitch, Moody's and S&P is established in the European Union and is registered in accordance with the CRA Regulation.

JOINT LEAD MANAGERS

Deutsche Bank **J.P. Morgan**

CO-MANAGERS

NATIXIS **SMBC Nikko**

The date of this Prospectus is 17 March 2015.

This prospectus (this "**Prospectus**") constitutes a prospectus for the purpose of Article 5.4 of Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented in a relevant Member State of the European Economic Area) (the "**Prospectus Directive**") and for the purpose of giving information with regard to the Company and its subsidiaries from time to time (taken as a whole, the "**Group**"), and the Notes which, according to the particular nature of the Company and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Company and the rights attaching to the Notes. The Company accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Company, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Neither Deutsche Bank AG, London Branch, J.P. Morgan Securities plc, Natixis nor SMBC Nikko Capital Markets Limited (collectively, the "**Managers**") nor any of their respective directors, affiliates, advisers or agents has made an independent verification of the information contained in this Prospectus in connection with the issue or offering of the Notes, and no representation or warranty, express or implied, is made by the Managers or any of their respective directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained in this Prospectus is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether to the past or the future, by the Managers or any of their respective directors, affiliates, advisers or agents in any respect. The contents of this Prospectus are not, are not to be construed as, and should not be relied on as, legal, business or tax advice, and each prospective investor should consult its own legal and other advisers for any such advice relevant to it.

No person is authorised to give any information or make any representation not contained in this Prospectus in connection with the issue and offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any of the Company, Deutsche Trustee Company Limited (the "**Trustee**") or the Managers or any of their respective directors, affiliates, advisers or agents. The delivery of this Prospectus does not imply that there has been no change in the business and affairs of the Company since the date hereof or that the information herein is correct as at any time subsequent to its date.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy the Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions is restricted by law. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. In particular, this Prospectus does not constitute an offer of securities to the public in the United Kingdom. Consequently this document is being distributed only to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (b) high net worth entities falling within article 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Order (all such persons together being referred to as "**relevant persons**"). Any person who is not a relevant person should not act or rely on this document or any of its contents. Persons into whose possession this Prospectus may come are required by the Company and the Managers to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offers, sales and deliveries of the Notes and the distribution of this Prospectus and other offering material relating to the Notes is set out under "*Subscription and Sale*" and "*Summary of Provisions Relating to the Notes in Global Form*".

Unless otherwise specified or the context so requires, references to "**U.S. Dollars**" and "**U.S.$**" are to the lawful currency of the United States; references to "**Euros**", "**EUR**" and "**€**" are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended; references to "**Manat**" and "**AZN**" are to the lawful currency of Azerbaijan; references to "**Turkish Lira**" and "**YTL**" are to the lawful currency of the Republic of Turkey; references to "**Lari**" and "**GEL**" are to the lawful currency of Georgia; references to "**CHF**" or "**Swiss Francs**" are to the lawful currency of Switzerland; references to "**Ukrainian Hryvnia**" are to the lawful currency of Ukraine; and references to "**Sterling**", "**GBP**" and "**£**" are to the lawful currency of the United Kingdom. References to "**billions**" are to thousands of millions.

In connection with the issue of the Notes, Deutsche Bank AG, London Branch (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager) may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over allotment must be conducted by the Stabilising Manager (or person(s) acting on behalf of Stabilising Manager) in accordance with all applicable laws and rules.

FORWARD-LOOKING STATEMENTS

Certain statements included herein may constitute "forward-looking statements". Such statements, certain of which can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "are expected to", "intends", "will", "will continue", "should", "could", "would be", "seeks", "approximately", "estimates", "predicts", "projects", "aims" or "anticipates", or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, goals, objectives, future events, plans or intentions, involve a number of risks and uncertainties. Such forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realised. These forward-looking statements include matters that are not historical facts. They appear in a number of places throughout this Prospectus and include statements regarding the Company's current intentions, plans, estimates, assumptions, programmes, beliefs and expectations.

Factors that could cause actual results to differ materially from the Company's expectations are contained in cautionary statements in this Prospectus and include, among other things, the following:

- price fluctuations in crude oil, gas and refined products markets and related fluctuations in demand for such products;
- operational limitations, including equipment failures, labour disputes and processing limitations;
- the availability or cost of transportation routes and fees charged for arranging transportation of hydrocarbons;
- overall economic and business conditions, including commodity prices;
- changes in the regulations and policy of the Azerbaijan Government (the "**Government**"), including with respect to the Company's social obligations;
- unplanned events or accidents affecting the Company's operations or facilities;
- changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations;
- the Company's ability to increase market share for its products and control expenses;
- economic and political conditions in Azerbaijan, Ukraine and international markets, including governmental changes;
- the impact of regional tensions, including on the Company's ability to extract and transport its principal products;
- incidents or conditions affecting the export of oil, gas and refined products;
- reservoir performance, drilling results and the implementation of the Company's oil and gas strategy;
- an inability to implement any potential acquisition or an inability to acquire such interests on terms proposed by the Company; and
- the timing, impact and other uncertainties of future actions.

The sections of this Prospectus entitled "*Risk Factors*" and "*Management's Discussion and Analysis of Results of Operations and Financial Performance*" contain a more complete discussion of the factors that could affect the Company's future performance and the industry in which it operates. In light of these risks, uncertainties and assumptions, the forward-looking events described in this Prospectus may not occur.

The Company is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Prospectus whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to the Company, or persons acting on its behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

ENFORCEMENT OF FOREIGN ARBITRATION AWARDS AND JUDGMENTS

The Company is a company organised and existing under the laws of Azerbaijan and its principal officers are residents of Azerbaijan. All or a substantial portion of the assets of the Company and of each such person are located in Azerbaijan. As a result, it may not be possible to effect service of process upon the Company or any such person outside Azerbaijan, to enforce against any of them in courts of jurisdictions other than Azerbaijan judgments obtained in such courts that are predicated upon the laws of such other jurisdictions or to enforce against any of them in Azerbaijani courts judgments obtained in jurisdictions other than Azerbaijan, including, *inter alia*, judgments obtained on the Trust Deed (as defined below) in the courts of England. Although Azerbaijan is a signatory to certain conventions on the recognition and enforcement of foreign arbitral awards, such awards are not consistently enforced in local courts and enforcement can be denied on the grounds outlined below. See "*Risk Factors—Risk Factors Relating to the Republic of Azerbaijan—Foreign judgments and arbitral awards may not be enforceable in Azerbaijan*".

The Notes and the Trust Deed are governed by English law, and the Company has agreed in the Notes and the Trust Deed that disputes arising thereunder are subject to arbitration in England See "*Terms and Conditions of the Notes—Condition 19. Governing Law and Arbitration*". The Supreme Court of Azerbaijan will not (other than at its own discretion) enforce any judgment obtained in a court established in a country other than Azerbaijan unless such country allows for reciprocal enforcement of Azerbaijani court judgments and then only in accordance with the terms of a treaty providing for reciprocal enforcement and the Code of Civil Procedure of the Republic of Azerbaijan (the "**Civil Procedure Code**"). There is no such treaty in effect between Azerbaijan and the United Kingdom, and, therefore, the provisions of the Civil Procedure Code described below will apply. However, Azerbaijan and the United Kingdom are parties to the 1958 New York Convention on Recognition and Enforcement of Foreign Arbitral Awards (the "**Convention**") and, accordingly, an arbitral award under the Convention should generally be recognised and enforceable in Azerbaijan provided the conditions to enforcement set out in the Convention are met. The conditions to recognition and enforcement of an arbitral award include requirements that there should be an "agreement in writing" signed by the parties, that the parties have capacity to enter into such agreement and that the agreement is valid under the law to which the parties have subjected it. The Company believes that the agreement in the Notes and the Trust Deed satisfies those conditions and, therefore, subject to the satisfaction of the other conditions specified in the Convention, an arbitral award under the Notes or the Trust Deed should be recognised and enforced in Azerbaijan.

The recognition and enforcement of a foreign judgment is made by the Supreme Court of Azerbaijan and can be denied if such foreign judgment or award is contrary to the laws of Azerbaijan and in the circumstances set out in Article 465 of the Civil Procedure Code, whereby recognition and enforcement of foreign court judgments may be denied on further grounds including, *inter alia*, where:

(a) the subject of the dispute is within the exclusive jurisdiction of the courts of Azerbaijan (in accordance with Article 444 of the Civil Procedure Code, disputes raised in respect of, *inter alia*, the validity and liquidation of an Azerbaijan legal entity and the cancellation of decisions adopted by an Azerbaijan legal entity shall be exclusively resolved by the courts of Azerbaijan);

(b) a party to the dispute was not given proper and timely notice of the proceedings;

(c) there is a valid judgment of a court of Azerbaijan in respect of a dispute between the same parties, involving the same subject matter and grounds or, prior to the institution of civil proceedings in a foreign court, a court of Azerbaijan began to review a case between the same parties, in respect of the same subject matter and grounds;

(d) such foreign court judgment did not enter into force according to the law of the jurisdiction where it was made;

(e) the enforcement of any such judgment contradicts the general principles of the laws or the sovereignty of Azerbaijan; or

(f) there is an absence of reciprocity with a foreign state.

PRESENTATION OF FINANCIAL, RESERVES AND CERTAIN OTHER INFORMATION

The Company is required to maintain its books of account in Manat in accordance with Azerbaijan accounting and tax regulations. The financial information of the Company set forth herein, has, unless otherwise indicated, been extracted without material adjustment from its unaudited consolidated financial statements, which are comprised of its consolidated statement of financial position, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows as at, and for the six months ended, 30 June 2014 (the "**Interim Financial Statements**") and its audited consolidated statement of financial position, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows as at, and for each of the years ended, 31 December 2013 and 2012 (the "**2013 Financial Statements**" and the "**2012 Financial Statements**", respectively, and, together, the "**Audited Financial Statements**" and the Audited Financial Statements, together with the Interim Financial Statements, the "**Financial Statements**"). The Financial Statements were prepared in accordance with International Financial Reporting Standards ("**IFRS**").

The Audited Financial Statements were audited by Ernst & Young Holdings (CIS) B.V. ("**Ernst & Young**") in accordance with International Standards on Auditing ("**ISA**"). The Interim Financial Statements were reviewed by Ernst & Young in accordance with International Standards on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

The Company's estimates, in particular with respect to reserves and production figures, have been based on information obtained from the Company's subsidiaries (including Petkim Petrokimya Holding A.Ş. ("**Petkim**")), joint ventures, associates, customers, suppliers, trade and business organisations and other contacts in the markets in which the Company operates. The Company believes these estimates to be accurate in all material respects as at the dates indicated. However, this information may prove to be inaccurate because of the method by which the Company obtained some of the data for these estimates or because this information cannot always be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other inherent limitations and uncertainties.

This Prospectus contains illustrations and charts, extracted from the Company's internal information and the internal information of the Company's subsidiaries, joint ventures and associates (including, *inter alia*, the Company's reserves and production figures), which have not been independently verified unless specifically indicated.

Certain amounts, which appear in this Prospectus, have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures, which precede them.

Reclassifications

The Company is in the process of adopting improved automated systems, including, *inter alia*, with respect to its procurement, human resources, production and finance and accounting functions. Accordingly, the Company has made certain reclassifications in previous periods, as further described below. The Company believes that these reclassifications have had no material impact on the financial position, results of operation or equity of the Company.

Six months ended 30 June 2013

The Company made certain reclassifications to its 2013 interim consolidated statement of profit or loss and other comprehensive income and corresponding notes, in order to conform the presentation of the 2013 interim figures to the presentation of the 2014 interim figures. Accordingly, the figures for the six months ended 30 June 2013 included in this Prospectus may differ from figures published elsewhere. See Note 2 to the Interim Financial Statements.

The following table sets forth the reclassifications referred to above and the effects of the relevant line items:

	For the six months ended 30 June 2013		
	Prior to reclassification	**Reclassification**	**After reclassification**
		(*AZN millions*)	
INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME			
Reclassification from cost of sales, general and administrative expenses and exploration and evaluation expenses to other operating expenses and evaluation expenses to other operating expenses and distribution expenses			
Cost of sales	18,117	(9)	18,108
General and administrative expenses	404	(30)	374
Exploration and evaluation expenses	10	(5)	5
Other operating expenses	170	9	179
Distribution expenses	222	35	257

Year ended 31 December 2012

Certain reclassifications were also made to the consolidated statement of financial position as at 31 December 2012 and the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows for the year ended 31 December 2012 and the corresponding notes thereto to conform to the presentation as at, and for the year ended 31 December 2013. See Note 2 to the 2013 Financial Statements.

The following table sets forth the reclassifications referred to above and the effects on the relevant line items:

	As at 31 December 2012		
	Prior to reclassification	**Reclassification**	**After reclassification**
		(*AZN millions*)	
CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Reclassification from investments in associates to trade and other receivables, from trade and other receivables to other long-term financial assets, from trade and other receivables to other current financial assets and from corporate income tax prepayments to trade and other receivables			
Trade and other receivables	5,034	(14)	5,020
Investment in associates	1,165	(8)	1,157
Other long-term financial assets	158	29	187
Other current financial assets	136	6	142
Corporate income tax prepayments	11	(11)	—
Reclassification from corporate income tax payable to taxes payable			
Corporate income tax payable	(6)	6	—
Taxes payable	(595)	(6)	(601)

	For the year ended 31 December 2012		
	Prior to reclassification	**Reclassification**	**After reclassification**
		(*AZN millions*)	
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME			
Reclassification from cost of sales to other operating expenses, distribution expenses and social expenses, from other operating expenses to general and administrative expenses, from distribution expenses to cost of sales, from general and administrative expense to other operating expenses			
Cost of sales	14,010	(61)	13,949
Other operating expenses	564	18	582
Distribution expenses	412	40	452
Social expenses	233	6	239
General and administrative expenses	672	(3)	669
Reclassification from other operating income to revenue			
Revenue	17,139	2	17,141
Other operating income	152	(2)	150

Year ended 31 December 2011

Certain reclassifications were also made to the consolidated statement of financial position as at 31 December 2011 and the consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended 31 December 2011 and the corresponding notes thereto to conform to the presentation as at, and for the year ended 31 December 2012. See Note 2 to the 2012 Financial Statements.

The following table sets forth the reclassifications referred to above and the effects on the relevant line items:

	As at 31 December 2011		
	Prior to reclassification	**Reclassification**	**After reclassification**
		(*AZN millions*)	
CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Reclassification from inventories to property, plant and equipment to other long-term financial assets			
Property, plant and equipment	8,920	145	9,065
Inventories	936	(151)	785
Other long-term financial assets	82	6	88

The above reclassifications primarily relate to inventories held by the Company for the purposes of planned construction works on the Companies fields, which were further capitalised in oil and gas properties.

	As at 31 December 2011		
	Prior to reclassification	**Reclassification**	**After reclassification**
		(*AZN millions*)	
CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Reclassification from trade and other receivables to other long-term assets, from corporate income tax payable to taxes payable and other receiveables			
Other long-term assets	279	31	310
Trade and other receivables	2,741	(50)	2,690
Corporate income tax payable	(22)	18	(5)
Taxes payable	(436)	2	(434)

	For the year ended 31 December 2011		
	Prior to reclassification	**Reclassification**	**After reclassification**
		(*AZN millions*)	
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME			
Reclassification from cost of sales, distribution and social expenses to general and administrative and other operating expenses			
Cost of sales	5,392	(396)	4,996
General and administrative expenses	296	105	401
Distribution expenses	437	(54)	383
Social expenses	308	(30)	278
Other operating expenses	262	375	637

Investors should be aware that (i) the financial data for the Company set out in this Prospectus for the six months ended 30 June 2013 are taken from the Interim Financial Statements, (ii) the financial data for the Company set out in this Prospectus as at and for the year ended 31 December 2012 are taken from the 2013 Financial Statements and (iii) the financial data for the Company set out in this Prospectus as at and for the year ended 31 December 2011 are taken from the 2012 Financial Statements. Accordingly, comparative data differ in certain respects from the corresponding data previously published.

Certain Reserves Information

The reserves figures contained in this Prospectus, unless otherwise stated, are taken from reserves analyses prepared by the Company's professional engineering staff. The Company calculates its reserves using the "Perspective and Prognosis Oil and Gas Resources Fields Reserves Classification" methodology, a system employed in the former Soviet Union, which differs significantly from the internationally accepted reserve estimation standards under the Petroleum Resources Management System sponsored by the Society for Petroleum Engineers, the American Association of Petroleum Geologists, World Petroleum Council and the Society for Petroleum Evaluation Engineers ("**PRMS**"), in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves.

The methodology used by the Company permits the inclusion of highly speculative reserve quantities attributable to highly speculative acreage, and reserves estimates calculated according to this methodology may be substantially higher than those calculated in accordance with PRMS. As a result, the methodology used by the Company differs in significant ways from PRMS standards. In addition, under this methodology, stated reserves do not necessarily correspond to economically recoverable reserves and cannot be accurately reconciled with reserves calculations performed using different methodologies.

The reserves figures included in this Prospectus differ from figures previously published by the Company due to such different methodologies and standards in calculating such reserves figures. To the extent that the reserves figures included in this Prospectus show increased levels of reserves as compared to previously published figures, it is primarily a result of the differences in such methodologies and standards and does not necessarily reflect increases in reserves or in reserves that are economically viable to extract.

The classification system used by the Company is based on the degree of development of the field reserves. Each field has two subgroups: profitable and unprofitable reserves. Profitable (or recoverable) reserves are reserves the extraction of which is economical using existing technologies and techniques. These reserves are determined on the basis of the recovery ratio. By the degree of development, reserves are divided into proved (A, B, C1) and preliminary estimated (not explored) (C2) reserves. Proved reserves are further sub-divided into reserves to be developed (A and B) and reserves to be explored (C1). According to the methodology employed by the Company, C1 reserves are considered to be proved to at least a 70% degree of certainty.

Reserves not currently identified as commercial are classified as "resources". All figures set out in this Prospectus are figures for category A, B and C1 only, which are referred to in this Prospectus as "**A+B+C1 reserves**".

The following table sets forth a detailed discussion of each reserve classification used in the methodology employed by the Company:

Category A..................................... Category A reserves relate to the part of a deposit drilled in accordance with an approved development project for the oil or natural gas field. They represent reserves that have been analysed in sufficient detail to comprehensively define the type, shape and size of the deposit, the level of hydrocarbon saturation, the reservoir type, the nature of changes in the reservoir characteristics, the hydrocarbon saturation of the productive strata of the deposit, the content and characteristics of the hydrocarbons and the major features of the deposit that determine the conditions of its development (mode of operations, well productivity, strata pressure, natural gas, gas condensate and oil balance, hydro and other features).

Category B..................................... Category B reserves relate to the part of a deposit drilled in accordance with either a trial industrial development project, in the case of a natural gas field, or an approved technological development scheme, in the case of an oil field. They represent reserves in which natural gas, gas condensate and oil content is determined on the basis of commercial flows from wells at various depths.

Category C1 .... Category C1 reserves are calculated on the results of both commercial flows from operational wells and geological exploratory work, which are analysed to determine the type, shape and size of the deposit and the structure of the hydrocarbon bearing reservoir. The reservoir type and characteristics, hydrocarbon saturation, liquid hydrocarbon displacement rate, level of hydrocarbon saturation of the productive strata, content and characteristics of the hydrocarbons under stratum and standard productivity, stratum pressure,

temperature, hydrocarbon balance and hydro geological and other conditions are analysed according to test data from drilled wells, core analyses and comparisons with neighbouring explored fields. Based on these analyses, preliminary data for trial industrial development, in the case of a natural gas field, or a technological development project, in the case of an oil field, is drawn up.

As a rough approximation, recoverable A and B reserves can be broadly compared to proved reserves and C1 reserves to proved and probable reserves in accordance with international methodology, although these categories do not necessarily consistently correspond to international methodologies. For example, the estimation of recoverable reserves under the methodology used by the Company is usually higher than under international methodologies, such as the internationally-accepted classifications and methodologies established by PRMS, in particular with respect to the manner in which and the extent to which commercial factors are taken into account in calculating reserves.

Hydrocarbon Data

References in this Prospectus to "**tonnes**" are to metric tonnes. One metric tonne equals 1,000 kilograms.

For informational purposes only, estimates in this Prospectus of oil and condensate in barrels and barrels per annum and plant products, which include butane, propane, liquefied petroleum gas and liquid hydrocarbons, are presented in barrels. Barrel figures are converted from the Company's internal records presented in tonnes at a rate of 7.4 barrels ("**barrels**" or "**bbl**") per tonne. Barrel per day figures have been obtained by dividing annual figures by 365.

For internal record keeping purposes, the Company's information relating to production, transportation and sales of crude oil and gas condensate is recorded in tonnes, a unit of measure that reflects the mass of the relevant hydrocarbon. For convenience, certain information is presented in this Prospectus as both tonnes and in standard 42 U.S.-standard gallon barrels, converted from tonnes as described above. The actual number of barrels of crude oil produced, shipped or sold may vary from the barrel equivalents of crude oil presented herein, as a tonne of heavier crude oil will yield fewer barrels than a tonne of lighter crude oil. The conversion rates for other companies for converting tonnes into barrels and for converting cubic feet into cubic metres ("**m^3**") may be at different rates. Volumes of natural gas are measured in billions of cubic metres ("**bcm**").

The Company uses "**consolidated production**" to refer to production of the Company and its majority-owned subsidiaries (in other words, production from Azneft (as defined below)), and "**total production**" to refer to consolidated production plus production attributable to the Company through joint ventures.

Certain Definitions and Terminology

Certain defined terms are used in this Prospectus. See Appendix I for a glossary of frequently used defined terms. Additionally, see Appendix II for a glossary of measurement and technical terms used in this Prospectus.

Certain Third Party Information

Statistical data and other information appearing in this Prospectus relating to the oil and gas industry in Azerbaijan have, unless otherwise stated, been based on information obtained from the Company's subsidiaries, joint ventures and associates. In addition, certain statistical data appearing in the section headed "*Risk Factors*" and elsewhere in this Prospectus has been extracted from documents and other publications released by the Central Bank of the Republic of Azerbaijan (the "**Central Bank**") and the U.S. Energy Information Agency (the "**EIA**").

Similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Although every effort has been made to include in this Prospectus the most reliable and the most consistently presented data, the Company cannot guarantee that such data has been compiled or prepared on a basis consistent with international standards. Any discussion of matters relating to Azerbaijan in this Prospectus is, therefore, subject to uncertainty due to concerns about the reliability of available official and public information. See "*Risk Factors—Risk Factors Relating to the Republic of Azerbaijan—Official data may be unreliable*" on page 15 of this Prospectus.

The information in this Prospectus obtained from third party sources has been accurately reproduced and, as far as the Company is aware and is able to ascertain from the information published by such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where third-party information has been used in this Prospectus, the source of such information has been identified.

TABLE OF CONTENTS

	Page
FORWARD-LOOKING STATEMENTS	iii
ENFORCEMENT OF FOREIGN ARBITRATION AWARDS AND JUDGMENTS	iv
PRESENTATION OF FINANCIAL, RESERVES AND CERTAIN OTHER INFORMATION	v
RISK FACTORS	1
OVERVIEW	22
USE OF PROCEEDS	35
SELECTED FINANCIAL INFORMATION	36
MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL PERFORMANCE	40
BUSINESS	83
MANAGEMENT	129
RELATIONSHIP WITH THE GOVERNMENT	135
REGULATION OF THE OIL AND GAS SECTOR IN AZERBAIJAN	140
TAXATION	147
TERMS AND CONDITIONS OF THE NOTES	149
SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM	168
SUBSCRIPTION AND SALE	172
GENERAL INFORMATION	174
APPENDIX I – GLOSSARY OF FREQUENTLY USED DEFINED TERMS	176
APPENDIX II – GLOSSARY OF MEASUREMENT AND TECHNICAL TERMS	179
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS	F-1

RISK FACTORS

The Company believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies, which may or may not occur, and the Company is not in a position to express a view on the likelihood of any such contingency occurring. In addition, factors that the Company believes are material for the purpose of assessing the market risks associated with the Notes are also described below.

The Company believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Company to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and the Company does not represent that the statements below regarding the risks of holding the Notes are exhaustive. Additional risks and uncertainties not presently known to the Company or those that the Company currently considers to be immaterial may also have an adverse effect on the Company. Prospective investors should make such inquiries as they deem appropriate in connection with the Notes, read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Risk Factors Relating to the Company's Business

The Company's revenue and net profits fluctuate significantly with changes in crude oil, which are historically volatile and are affected by a variety of factors beyond the Company's control.

Crude oil sales are a significant source of the Company's revenue with the price of crude oil affected by a variety of factors. World prices for crude oil are characterised by significant fluctuations that are determined by the global balance of supply and demand, which is entirely outside of the Company's control. The Company's revenue and net income fluctuate significantly with changes in crude oil prices. Crude oil prices have been particularly volatile in recent years, declining in mid-2010 before recovering later in the year and into 2011. While crude oil prices declined in June 2012, prices recovered in July 2012 and, according to the EIA, generally remained high for the second year in a row. According to the EIA, the average spot price of Brent crude oil declined to U.S.$109/bbl in 2013, as compared to an average of U.S.$111.67/bbl in 2012 and U.S.$111/bbl in 2011. In the six months ended 30 June 2014, the average spot price of Brent crude oil declined further to U.S.$103/bbl, according to data published by the EIA. International crude oil prices continued to fall in 2014 and December 2014 marked the sixth consecutive month in which monthly average Brent prices had decreased, falling by U.S.$17/bbl, as compared to November 2014, to U.S.$62/bbl, the lowest since May 2009. As at the date of this Prospectus, the price of crude oil is significantly below the record high average monthly price of U.S.$133/bbl recorded in July 2008. In its January 2015 report, the EIA forecasted that the Brent crude oil spot price will average U.S.$58/bbl in 2015 and U.S.$75/bbl in 2016. As at 23 February 2015, the spot price for Brent crude oil was U.S.$59.78/bbl. Historically, high oil prices have had a considerable positive impact on the Company's business, prospects, financial condition, cash flows and results of operations and low oil prices are expected to have a corresponding negative effect. There can be no assurance that crude oil prices will not continue to deteriorate or whether a recovery in crude oil prices will be forthcoming.

The Company's profitability derived from crude oil sales is determined in large part by the difference between the income received for the crude oil the Company produces and receives under production sharing agreements ("**PSAs**") and its operating costs, as well as costs incurred in transporting and selling its crude oil. Therefore, lower crude oil prices may reduce the amount of crude oil that the Company is able to produce economically or may reduce the economic viability of the production levels of specific wells or of projects planned or in development because production costs would exceed anticipated income from such production. Any further declines (even relatively modest declines) in oil prices or any resulting curtailment in the Company's overall production volumes may result in a reduction in net income, impair the Company's ability to make planned capital expenditures or to incur costs necessary for the development of its fields.

Prices for crude oil are subject to large fluctuations in response to a variety of factors beyond the Company's control, including:

- global and regional supply and demand, and expectations regarding future supply and demand, for crude oil and petroleum products;
- the impact of recessionary economic conditions on the Company's customers, including reductions in demand for gas and oil products;
- global and regional socioeconomic and political conditions and military developments, particularly in the Middle East and other oil-producing regions;

- weather conditions and natural disasters;
- access to pipelines, railways and other means of transporting crude oil, gas and petroleum products;
- prices and availability of alternative fuels;
- the ability of the members of the Organisation of Petroleum Exporting Countries ("**OPEC**"), and other crude oil producing nations, to set and maintain specified levels of production and prices;
- Azerbaijan and foreign governmental regulations and actions, including export restrictions and taxes; and
- market uncertainty and speculative activities.

Continued low oil prices or a further decrease in oil prices would have a material adverse effect on the Company's results of operations and financial condition.

The Government, which directly controls the Company, may cause the Company to engage in business practices that may not be in the interests of the Noteholders and may cause the appointment or removal of members of the Company's management team.

The Company was established as the state oil and gas company of Azerbaijan. The Company is wholly-owned by the state and is controlled by the Government. In addition, the president of SOCAR and another member of the Group's senior management team are members of the Parliament of the Republic. There can be no assurance that the Government will not cause the Company to engage in business practices that may materially affect the Company's ability to operate on a commercial basis or in a way that is consistent with the best interests of the Noteholders. As has been the case in the past with the Company and other state-owned companies, the Government has caused and may continue to cause the Company to sell oil, gas and other products at below market prices by regulation or otherwise, engage in activities outside of its core activities or acquire assets other than on an arm's length basis, as well as to produce crude oil and natural gas from wells that might not be considered economical. Furthermore, the Government could claim title to the Company's interests in future projects, acquisitions or discoveries. The Government has also imposed and may continue to impose social duties on the Company, such as constructing social and recreational infrastructure (including participating in the construction of the Olympic Stadium in Baku, the costs of which are reimbursed by the Ministry of Youth and Sports), engaging in charitable activities and implementing community development programmes, which could be a significant drain on the Company's profits.

Further, the President of the Republic has the power to appoint and remove the president and vice-presidents of the Company. There can be no assurance that the President of the Republic will not make material management changes at the Company, which could be disruptive to the Company's operations.

The Government has, and may in the future, cause the Company to acquire unprofitable businesses.

In order to consolidate its oil and gas holdings and improve efficiencies, the Government has in the past, and may in the future, cause the Company to acquire unprofitable businesses. For example, pursuant to a Presidential Decree, the Company acquired Azerikimya Production Union ("**Azerikimya**") from the Government in 2010. At the time of acquisition, Azerikimya was not profitable and had a negative net asset value. Future similar acquisitions may have a material adverse effect on the Company's profitability and financial condition.

The Government has imposed regulations and other requirements requiring the Company to sell oil, oil products and gas in the domestic market at below market prices.

The Tariff Council of the Republic of Azerbaijan (the "**Tariff Council**") has the authority to regulate many of the Company's products and services, including, *inter alia*, the domestic wholesale and retail prices of oil, oil products and gas, and tariffs for services on transportation of oil through main trunk pipelines, transportation of gas through pipelines and storage and distribution of natural gas. The Tariff Council has imposed the prices and tariffs for these goods and services. See "*Regulation of the Oil and Gas Sector in Azerbaijan—Other regulatory requirements—Price regulation*". Furthermore, as a company with a dominant position in certain commodity markets, the Company is precluded from reducing or suspending production of minimum volumes of some of its products and services in order to ensure that domestic demand is met. As a result, the Company is not permitted either to raise or otherwise alter its domestic prices, which are below international market prices, or reduce the supplies of certain products that it makes available on the domestic market and is effectively subsidising the domestic energy market, which, in turn, reduces its profitability. If

these requirements are increased (or not altered as the domestic inflationary and economic environments change), it would have a material adverse effect on the Company's profitability and financial condition.

Oil and gas transportation tariff levels are outside of the Company's control.

In addition to being subject to regulation by the Tariff Council, the Company's tariffs for oil and natural gas transportation are subject to international treaty, inter-governmental and inter-company agreements and, as a result, may be set at levels other than market rates. In addition, transportation tariffs in countries other than Azerbaijan may be set by national regulators, who may not take market rates into consideration when setting such tariffs. No assurance can be given that any actions of the Government or other governments and parties in setting oil and gas transportation tariffs at other than market rates will not reduce the Company's revenues and cash flows from tariffs for oil and natural gas transportation, which would have a material adverse effect on the Company's profitability and financial condition.

The Company relies heavily on oil and gas transportation systems operated by third parties to transport its products and its customers' products to markets outside Azerbaijan.

Azerbaijan's crude oil and gas is exported primarily through pipelines, and also by rail and sea, using routes through other countries. The Company currently primarily exports its crude oil through the Baku-Tbilisi-Ceyhan Pipeline (the "**BTC Pipeline**") (which transported 68.5% of oil and condensate produced in Azerbaijan in 2013) and, to a lesser extent, through the Western Route Export Pipeline (the "**WRE Pipeline**") (which transported 9.2% of the total oil produced in Azerbaijan in 2013) and the NRE Pipeline (as defined below) (which transported 4.1% of the total oil produced in Azerbaijan in 2013). It also exports oil products by rail to Black Sea ports in Georgia for shipment to the international market. In addition, refined oil products shipped for consumption in the domestic Georgian market are shipped exclusively by railway to Georgia pursuant to a contract with Azerbaijan Railways. The Company currently transports gas produced domestically to Turkey, Russia and Georgia via the South Caucasus Pipeline (the "**SCP**") (which transported 32.8% of the total natural gas produced in Azerbaijan in 2013) and, to a lesser extent, other pipelines. Consequently, the Company is largely dependent upon the intergovernmental agreements between Azerbaijan and Georgia, Turkey and other countries to transport its oil and gas abroad, which, if amended, could adversely affect the Company's ability to transport its oil and gas.

Although failures and shutdowns of the pipeline systems (such as the brief shutdown of pipelines in Georgia during Georgia's 2008 conflict with Russia) to date have not resulted in the Company suffering significant losses, any reduction or cessation in the availability of these pipelines, whether due to maintenance breakdowns, security issues, political developments or natural disasters, among other things, would materially adversely affect exports, which, in turn, would have a material adverse effect on the Company's transportation operations and the revenues and cash flows derived from such operations.

Many of the Company's transportation and refining facilities were constructed many years ago and may require significant further investment.

The Company's transportation and refining facilities largely rely on relatively old infrastructure, and any breakdown or failure of such infrastructure could materially adversely affect the Company's activities.

The natural gas transportation systems operated by the Company, including the pipelines and compressor stations, were initially constructed over 50 years ago. Most of the pipelines in current use are over ten years old, with some parts more than 30 years old. Considerable sums of money have been invested by the Company to overhaul and improve the pipeline network and compressor stations to bring them into compliance with internationally accepted standards. While recently there have been no significant delays or curtailments in the supply of natural gas to the Company's customers, there can be no assurance that such delays or curtailments will not occur in the future due to stress or corrosion of pipelines, defective construction of compressor stations, problems associated with the climate, or insufficient maintenance or refurbishment of the network. The Company has, on a small number of occasions, experienced power outages at its fields. Any problem or adverse change affecting the power supply for the Company's operations or other operational infrastructure provided by third parties could have a material adverse effect on the Company's transportation activities and the revenues derived from such activities.

The Heydar Aliyev Baku Oil Refinery and Azerneftyag Oil Refinery in Azerbaijan were constructed in 1953 and 1881, respectively. The Heydar Aliyev Baku Oil Refinery and Azerneftyag Oil Refinery only operate at slightly above the break-even point, and the low utilisation rates primarily result from plant and equipment constraints. See "*Business—Refining, Marketing and Trading—Refining Facilities*". In January 2015, the Azerneftyag Oil Refinery was merged into the Heydar Aliyev Baku Oil Refinery to form a single subsidiary, which remains 100% owned by the Company. The Company is in the process of closing the Azerneftyag Oil Refinery and integrating its refinery assets with those of the Heydar Aliyev Baku Oil Refinery. Certain other obsolete assets at the Azerneftyag Oil Refinery will also be dismantled.

The Government and the Company also intend to construct the Oil-Gas Processing and Petrochemical Complex (the "**OGPC**"), which will comprise two principal elements (i) a gas processing plant, which is expected to commence operations in early 2020; and (ii) a petrochemical plant, which is expected to commence operations by the end of 2020. A refinery is also expected to be constructed and commence operations after 2030. There can be no assurance, however, that OGPC will be completed at all or in its currently envisaged form and, if built, what the economic effect of these facilities will be on the Company. In addition, it is not yet known who will own, finance or operate the facilities. Any delay in the construction of these facilities or further constraints in plant and equipment at the Heydar Aliyev Baku Oil Refinery could adversely affect the Company's refining activities and the revenues and cash flows derived from such activities.

The Company's transportation operations may also be adversely affected by, among other things, the breakdown or failure of equipment or processes leading to performance below expected levels of output or efficiency. A large number of the Company's facilities and large segments of its networks are located in areas that occasionally experience severe weather conditions, which can accelerate wear and tear on pipelines and related equipment. Weather conditions and the remoteness of certain of the Company's facilities can make it difficult to gain access to conduct repairs or maintenance quickly. Any damage to the Company's equipment caused by severe weather conditions or a delay in performing required repair or maintenance work on such equipment could affect the output or efficiency of the Company's transportation activities, which could, in turn, affect the revenues and cash flows from such operations.

A significant portion of the Company's production operations is offshore in the Caspian Sea.

Because of the remote location of many of the Company's operations, in particular those offshore in the Caspian Sea, the Company generally does not have ready access to equipment or facilities to address problems such as, *inter alia*, equipment breakdown or failures and delays may occur in accessing required materials or supplies in order to carry out necessary repairs or maintenance. In addition, equipment breakdown or failures affecting certain key parts of the Company's facilities, such as the Company's transportation operations and the interface between the field gathering systems and its processing facilities, might affect the Company's ability to use its facilities and substantially curtail or stop production.

The remote location of many of the Company's offshore operations also makes its assets and infrastructure susceptible to natural disasters. In addition, political unrest or military actions may limit the Company's ability to use certain of its assets. Because of the remote location of many of the Company's offshore operations, the Company may not be able to immediately respond to or repair damage resulting from such acts. Should any of these events occur, it could have a material adverse effect on the Company's production operations and the revenues and cash flows derived from such operations.

The vast majority of the Company's oil reserves are located in the Caspian Sea, which is divided amongst five littoral states and negotiations on the division of the Caspian Sea may cause tensions with Azerbaijan's neighbouring countries.

The Caspian Sea was divided, under the Russo-Persian Treaty of Friendship in 1921, into Iranian and Soviet zones by drawing a boundary line across the sea between Astara and Husseingholi. The Soviet sector was further divided utilising the median line principle, which extended an equal distance from the coasts of the former socialist republics (now Azerbaijan, Kazakhstan, Russia, and Turkmenistan) to the centre of the sea until the boundaries met. Since the dissolution of the Soviet Union, the international legal status of the Caspian Sea has remained uncertain and is currently the subject of international negotiations amongst the five littoral states, including Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan.

Although Azerbaijan has signed bilateral agreements on the division of the Caspian Sea with both Kazakhstan and Russia, tensions amongst neighbouring states have not been resolved by any multilateral regime for the seabed as a whole. The fourth summit of the Caspian heads of states was held in Astrakhan in Russia in September 2014. At this summit, a declaration was signed regarding the main principles for co-operation over the Caspian Sea. The declaration envisages that a treaty on the delimitation of the Caspian Sea will be signed in 2015. There can be no assurance, however, that any such treaty or other convention will be signed. Any convention or agreement that results in an unfavourable division of the Caspian Sea for Azerbaijan may cause the country's oil reserves to be reduced and result in additional tensions in the region. The occurrence of either of the aforementioned events could have a material adverse effect on the Azerbaijani economy and on the Company's exploration and production and development operations, as well as the revenues and cash flows derived from such operations.

The Company conducts several of its significant operations through jointly-controlled entities in which it has a non-controlling interest.

The Company directly or through its subsidiaries is party to several jointly-controlled entities and agreements, some of which contribute a significant part of the Company's current and prospective cash flows, in particular Azeri-Chirag-Gunashli ("**ACG**") and Shah Deniz. The Company may in the future enter into additional jointly controlled entities and agreements as a means of conducting its business. Although it has a considerable degree of influence, the Company does not control the operations or the assets of these entities, nor can it unilaterally make major decisions with respect to such entities. This lack of control constrains the Company's ability to cause such entities to take action that would be in the best interests of the Company or refrain from taking actions that would be adverse to the interests of the Company and may result in operational or production inefficiencies or delay, which could, in turn, adversely affect the profits generated by, as well as the oil and gas delivered to, the Company from, the production and development operations of such jointly-controlled entities.

The Company's business requires significant capital expenditures, and the Company may be unable to finance some or all of its planned capital expenditures.

The Company's business requires significant capital expenditures related to exploration and development, production, transportation, refining and trading and compliance with environmental laws and regulations. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Capital Expenditures—Budgeted Capital Expenditures*". Since 2011, the Company has had high levels of capital spending and investment. The Company funds, and expects to fund in the future, a substantial part of its capital expenditures out of net cash provided by its operating activities.

The Company has plans for a number of significant projects, including new refineries, fertiliser plants and petrochemical facilities (including, *inter alia*, at Petkim, STAR (as defined below) and OGPC), as well as modernisation works for its existing facilities. The source of funding for certain of these projects has not yet been determined. Although the Company expects significant contributions from the Government, there is no assurance that such Government support will be forthcoming or on terms favourable to the Company. If such support does not materialise, the Company could have difficulty financing, completing or operating any or all of its projects. In addition, while the Company has estimates for the costs of each project, these estimates are preliminary and subject to substantial revision due to potential inadequate provisions and contingencies, as well as errors in the Company's estimation of the costs or to factors outside of the Company's control, such as, *inter alia*, requirements of the Government, availability of construction materials and contractors, changes in oil prices and foreign currency exchange rates and delays. If costs are greater than expected or budgeted for, it is not known who will fund such costs, but the Company may be responsible for some or all of such costs.

In addition, if low international oil prices continue or if international oil prices decrease further, the Company may have to finance more of its planned capital expenditures from outside sources, including bank borrowings and offerings of debt securities in the domestic and international capital markets. The Company may be unable to raise or may be prevented from raising the financing required for its future capital expenditures, on a secured basis or otherwise, on acceptable terms or at all. Lack of sufficient funds in the future may require the Company to delay or terminate some of its anticipated projects. Although the Company may also seek financing from the Government, through capital increases or otherwise, the Company can give no assurance that it will be able to receive additional financing from the Government on acceptable terms or at all.

If the Company is unable to raise necessary financing either from the Government, banks or the capital markets, it will have to reduce planned capital expenditures and downsize, curtail or abandon certain projects, which could have a material adverse effect on its financial condition, results of operations and prospects. For example, in such circumstances, any such reduction in capital expenditures could adversely affect the Company's ability to expand its business, and if the reductions are severe enough, could adversely affect its ability to maintain its operations at current levels.

Certain of the Company's customers and business associates are subject to U.S. and EU sanctions and the ongoing or future impact of such sanctions may have an adverse effect on the Company.

The U.S. government imposes economic sanctions and trade embargoes with respect to certain countries in support of its foreign policy and national security goals. These laws and regulations are administered by the U.S. Treasury Department's Office of Foreign Assets Control ("**OFAC**"), and in certain instances by the U.S. Department of State. U.S. Economic Sanctions impose restrictions on U.S. persons and, in certain circumstances, non-U.S. persons with respect to activities or transactions with certain countries, governments, entities or individuals that are the target of the relevant U.S. economic sanctions. Under applicable U.S. economic sanctions, U.S. persons also are prohibited from facilitating such activities or transactions, and non-U.S. persons are prohibited from causing other persons to violate

applicable prohibitions. The United Kingdom, the other Member States of the EU and various other countries (such as Australia, Canada, Japan and Switzerland), as well as the United Nations, have also implemented measures aimed at prohibiting or restricting engagements in financial and other dealings with sanctioned countries, entities and individuals.

In connection with the recent civil disturbances and political instability in Ukraine, including the annexation of Crimea in March 2014 and the ongoing military action in Eastern Ukraine, the United States and the EU have imposed sanctions on certain individuals and companies in Russia, including Gazprom (a Russian state-owned oil and gas company), Transneft (a Russian state-owned pipeline company), Rosneft (a Russian state-owned oil and gas company) and Lukoil (a privately-owned Russian energy company). The Company has had and has various business relationships with each of Transneft (see "*Business—Transportation—Transportation of Crude Oil—NRE Pipeline*), Rosneft (with which, in August 2013, the Company signed a co-operation agreement to participate in certain upstream oil and gas projects and has subsequently signed a shareholders' agreement for a joint venture company, although no such company has yet been incorporated and no such projects are currently underway; SOCAR Trading S.A. ("**SOCAR Trading**") also has certain trading activities with Rosneft), Lukoil (see "*Business—Exploration and Production—Significant Production Fields of the Company's Joint Ventures and Associates—Shah Deniz*") and Gazprom (see "*Business—Transportation—Transportation and Storage of Gas—Gas (Baku-Mozdok) Pipeline*", *"Business—Transportation—Transportation and Storage of Gas—Export gas supply agreements*" and "*Business—Refining, Marketing and Trading—SOCAR Polymer*").

While the Company has not been sanctioned and has not engaged in, and does not expect to engage in, any actions that would cause it to be sanctioned by any relevant authority, there can be no assurance that the Company will not be sanctioned in the future. If the Company were to be sanctioned in the future, some of its investors, in the United States, in the EU and in other jurisdictions where sanctions similar to the U.S. Economic Sanctions apply, may be required (by operation of law or regulations or under internal investment policies, or both) to divest their interests in the Notes and some potential investors may forgo the purchase of Notes. Moreover, under such circumstances, other counterparties to the Company, both U.S. and non-U.S. and including various sources of funding for the Company, may be required, or may decide for reputational reasons or otherwise, to cease their business relationships with or divest their investments in the Company. Any of these factors could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations and on the price of the Notes.

In addition, the Company is a borrower under two loan agreements with Sberbank (see "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Borrowings*"), which is included on the list of sanctioned entities. As a result of the imposition of sanctions on certain Russian financial institutions, the Company's continued and future access to funding from Russian banks may be limited as such banks may be unable to offer funds, particularly in U.S. Dollars, to companies at an acceptable cost, if at all. Accordingly, the Company's available funding sources may become more limited and there can be no assurance that the Company will be able to find alternative available funding on the same or better terms, if at all.

Sustained periods of high inflation could adversely affect the Company's business.

The Company's operations are located principally in Azerbaijan and, aside from the operations of SOCAR Trading and its activities in Turkey, in particular, through Petkim, the majority of the Company's costs are incurred in Azerbaijan. Since the majority of such expenses are denominated in Manat, inflationary pressures in Azerbaijan are a significant factor affecting the Company's expenses. For example, employee and contractor wages, consumable prices and energy costs have been, and are likely to continue to be, particularly sensitive to monetary inflation in Azerbaijan. In a low oil price environment, the Company may not be able to sufficiently increase the prices that it receives from the sale of crude oil, gas and oil products in order to preserve existing operating margins, particularly in the case of the Company's domestic sales, which could have a material adverse effect on its financial condition and cash flows.

Weaknesses in the Company's accounting systems and internal controls may adversely affect its ability to comply with financial reporting under IFRS.

The Company's growth in recent years and its strategy for continued growth has placed a strain on accounting personnel and may make it more difficult for the Company to remedy any material weaknesses in the internal controls over the Company's preparation of its future financial statements in accordance with IFRS, prevent future material weaknesses or prepare financial statements on a timely basis. In particular, the Company has experienced issues with its IT system, inventory, valuations of material assets and accounting of internal transactions between units within the Company.

If the Company is unable to remedy any material weaknesses or prevent future material weaknesses, it may not be able to prevent or detect a material misstatement in its annual or interim IFRS consolidated financial statements in the future. This could delay the Company's preparation of timely and reliable interim and annual consolidated financial statements, distort its operating results and cause investors to lose confidence in its reported financial information. Notwithstanding

these deficiencies, the Company believes that its financial systems are sufficient to ensure compliance with the requirements of the UKLA's Disclosure and Transparency Rules as a listed entity. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Issuer or the Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

Legal provisions currently believed to be inapplicable to the Company may, in the future, be deemed applicable to the Company.

The Company was established by a Presidential Decree and its activities are currently conducted under the authority of various Presidential Decrees. It is currently believed that a variety of other laws and regulations that may, on their face, appear to apply to the Company do not, in fact, apply to the Company as a result of its special status and authorities granted by Presidential Decree and in the absence of implementing legislation for certain laws. See "*Regulation of the Oil and Gas Sector in Azerbaijan—Applicability of licensing and permit requirements to SOCAR—Provisions not currently applicable to SOCAR*". There can be no assurance, however, that this position will not change, and the Company cannot predict what, if any, impact such change would have on it. Any additional regulatory and compliance obligations on the Company may require material expenditure by the Company or for the Company to modify its operations.

The regulatory regime in Azerbaijan is underdeveloped.

When compared to their equivalents in more developed countries, the large state-owned enterprises in Azerbaijan, such as the Company, operate in weak regulatory environments. This may lead to a lack of transparency and certain inefficiencies.

Government regulation of the oil and gas industry in Azerbaijan is underdeveloped and not consistently applied. For example, Law № 439-IQ of the Republic of Azerbaijan on Subsoil (the "**Subsoil Law**"), which was enacted in 1998, has not been implemented in relation to the oil and gas sector. In addition, the Company has a privileged position under Azerbaijani law and is thus currently exempt from certain licensing, regulatory and other requirements. See "*Regulation of the Oil and Gas Sector in Azerbaijan*". If the regulatory regime is further developed or if requirements currently not applicable to the Company are made applicable to the Company, the Company could face higher compliance and other costs, which could have a material adverse effect on the Company's profitability.

The Company's operations subject it to developing and uncertain environmental regulations, non-compliance with which could result in severe fines and suspension or permanent shut down of activities.

The Company's operations are subject to the environmental risks inherent in oil and gas exploration, production, transportation and refining. See "*Business—Environment*". There are environmental issues with current and past sites of operations caused by the Company and its predecessors. The Company's primary environmental liabilities currently result from land contamination, gas flaring and the disposal of waste water and oil spills. Although the Company has made substantial provisions in its accounts for remediation and other environmental costs on a "best-estimate" basis, the Company is not able to quantify the full amount of such liabilities with any certainty.

Although the level of pollution and potential clean up is difficult to assess, the Company, like most other oil and gas companies operating in the Commonwealth of Independent States (the "**CIS**"), is burdened with a Soviet-era legacy of environmental mismanagement. There are problems relating to the maturity of fields at past production sites, some of which have been exploited for over 150 years. Poor environmental awareness in the past allowed a number of incidents of oil leaks due to pipeline failures. Temporary reservoirs for the storage of drilling mud, liquid waste and oil were not maintained, replaced or closed properly, causing severe pollution of certain regions, including in Baku, Absheron, Salyan, Shirvan, Muradkhanli and Neftchala. In total, an area of approximately 100 km^2 is polluted by hydrocarbon waste products in these six regions. While the Ministry of Ecology and Natural Resources (the "**MENR**") monitors pollution and land contamination, the potential cost of the clean-up of the aforementioned areas has not yet been assessed, and the responsibility for such costs (including whether the Company will bear a portion of such responsibility) has not been determined by the MENR. The Company has established no contingency for this environmental remediation.

The legal framework in Azerbaijan for environmental protection is underdeveloped and not consistently applied; the responsibility of current oil and gas operators in respect of both historic and ongoing environmental damage is unclear. While the Company's policy is to comply with applicable environmental regulations, certain environmental regulations adopted by the Government have not been published or made publicly-available, so the content of such regulations is unknown. The Government may impose stricter environmental regulations or apply existing regulations more strictly, including regulations regarding discharges into air and water, the handling and disposal of solid and hazardous waste, land use and reclamation and remediation of contamination. Compliance with present and future environmental

requirements may make it necessary for the Company, at costs which are as yet unknown but may be substantial, to undertake new measures in connection with the storage, handling, transport, treatment or disposal of hazardous materials and waste and the remediation of contamination. In addition, local communities or interest groups who are concerned about the environmental impact of the Company's operations either within Azerbaijan or other countries in which the Company operates, may take action intended to disrupt the Company's operations or attract negative media attention. While the Company aims to maintain positive relationships with such groups, it is possible that the Company may experience delays, disruption or increased costs in relation to certain of its projects, which are not foreseen or provisioned for.

On 28 September 2000, the Government ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change (the "**Kyoto Protocol**"). Ratification of the Kyoto Protocol, which is intended to limit or discourage emissions of greenhouse gases such as carbon dioxide, has had, and will continue to have, an impact on environmental regulation in Azerbaijan. The effect of such ratification in other countries is still unclear; accordingly, potential compliance costs associated with the Kyoto Protocol are unknown. Nonetheless, the likely effect will be to increase the Company's costs for electricity and transportation, restrict its emissions levels, impose additional costs for emissions in excess of permitted levels and increase the Company's costs for monitoring, reporting and financial accounting. In addition, concerns about global warming and limits on greenhouse gas emissions have resulted in investors divesting their investments in coal and other fossil fuel extracting companies. Investor policy changes or initiatives may result in reduced demand for the Company's products and services or more limited access to funding for the Company.

The costs of environmental compliance in the future and potential liability due to any environmental damage that may be or may have been caused by the Company could be material, and the Company could be adversely affected by future actions and fines imposed on the Company by the MENR and other Government authorities. To the extent that any provision in the Company's accounts relating to remediation costs for environmental liabilities proves to be insufficient, it could have a material adverse effect on the Company's financial condition and cash flows.

Although the Company is obliged to comply with all applicable environmental laws and regulations, it cannot, given the changing nature of environmental regulations, guarantee that it is or will be in compliance. Any failure to comply with these environmental requirements could subject the Company to, among other things, civil liabilities and penalty fees and possibly temporary or permanent shutdown of the Company's operations. Moreover, the Company cannot be certain that its environmental liabilities will not increase due to recent and future acquisitions. Any imposition of environmental fines, increases in the costs associated with compliance or suspension or revocation of licences or contracts could result in the Company incurring substantial costs or having to modify its operations in order to maintain compliance or acquire licences and contracts.

The Company faces drilling, exploration and production risks and hazards that may affect the Company's ability to produce crude oil and gas at expected levels and costs.

The Company's future success will depend, in significant part, on its ability to develop, independently or pursuant to PSAs, crude oil and gas reserves in a timely and cost effective manner. Drilling activities may be unsuccessful, and the actual costs incurred to drill and operate wells and to complete well workovers may have an impact on the Company's profits. Due to the geological complexity of the Caspian Sea shelf, there are few service providers in the region that have suitable offshore drilling equipment. A lack of availability of suitable service equipment, including drilling platforms, could slow exploration work.

Drilling activities may be curtailed, delayed or cancelled because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, premature declines in reservoirs, blowouts, uncontrollable flows of crude oil, natural gas or well fluids, pollution and other environmental risks, adverse weather conditions, compliance with governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment.

In addition, crude oil and gas exploration activities may result in unproductive wells or wells that are not economically feasible to produce. The Company cannot be certain that there will not be delays. Completion of a well does not guarantee a profit on the investment or recovery of drilling, completion and operating costs. Also, drilling hazards or environmental damage could greatly increase the cost of operations and various field operating conditions may adversely affect the production from successful wells.

The Company's production operations are also subject to risks associated with natural disaster, fire, explosion, blowouts, encountering formations with abnormal pressure, the level of water cut, cratering and crude oil spills, reservoir performance, each of which could result in falling production, substantial damage to the crude oil wells, production facilities, other property, the environment or result in personal injury or death. Any of these risks could result in an unexpected decline in production, a loss of crude oil and gas or could lead to environmental pollution and other damage to the Company's properties or surrounding areas, and increased costs or claims against the Company.

Any of these drilling, production and exploration risks and hazards could have a material adverse effect on the Company's exploration and production operations, as well as on its financial condition and cash flows.

The Company has business activities in Ukraine.

The Company has business activities in Ukraine and, as at 30 June 2014, the Company owned 72 retail stations located in Ukraine, through its subsidiary SOCAR Energy Ukraine LLC and its affiliated companies in Ukraine.

The recent significant civil disturbances and political instability in Ukraine and the armed insurrection and conflict in Eastern Ukraine in recent months, as well as the annexation of Crimea, is continuing to destabilise the region and has put further pressure on relations between Russia and Ukraine. Escalating geopolitical tensions have had an adverse effect on the Ukrainian financial markets and there have been reports of increased capital outflows from Ukraine. Although a ceasefire was agreed in February 2015, there can be no assurance that such ceasefire will hold or that tensions will not continue or escalate further. The ability of Ukrainian companies and banks to obtain funding from the international capital and loan markets has also been hampered as a result of decreased demand from the international investor base. Any continuing or escalating military action in eastern Ukraine could have a further material adverse effect on the Ukrainian economy, which may, in turn, have a material adverse effect on the value of the Company's investments in Ukraine, as well as on the Company's business, financial condition and results of operations.

The Company's insurance coverage may not be adequate to cover losses arising from potential operational hazards and unforeseen interruptions.

The Company has a unified insurance programme for itself and substantially all of its subsidiaries, joint ventures and associates. This insurance programme covers third party environmental liability, some-property and third party liability coverage insurance. However, the amount of such insurance coverage is more limited than that which would normally be acquired by similar companies in more developed economies. For example, the Company does not carry insurance against environmental damage caused by its own operations, sabotage or terrorist attacks. The Company can give no assurance that the proceeds of insurance would be adequate to cover increased costs and expenses relating to these losses or liabilities. Accordingly, the Company may suffer material losses from uninsurable or uninsured risks or insufficient insurance coverage.

Failure to integrate recent or future acquisitions successfully may lead to increased costs or losses for the Company.

The Company has recently expanded its operations significantly through acquisitions and expects to continue to do so in the future. The Company's most recent significant acquisitions were Azerigas in 2009, Azerikimya in 2010, SOCAR Energy Switzerland, the remaining interest in SOCAR Trading in 2012 and the remaining interest in SOCAR Petroleum CJSC in 2014. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Main Factors Affecting Results of Operations and Liquidity—Acquisitions*".

The integration of acquired businesses requires significant time and effort on the part of the Company's senior management and may require additional capital expenditures. Integration of new businesses can be difficult because the Company's operational and business culture may differ from the cultures of the businesses it acquires, cost cutting measures may be required and internal controls may be more difficult to maintain, including control over cash flows and expenditures. In addition, the Company does not and will not benefit from the same local government support in connection with its foreign operations as it does in Azerbaijan, and such operations may be in business areas that are new to the Company. Any failure to successfully integrate past or future acquisitions could adversely affect the Company's business, future operations or prospects and financial condition. Moreover, even if the Company is successful in integrating newly acquired businesses, expected synergies and cost savings may not materialise, resulting in lower than expected profit margins.

The Company may not be able to manage its growth and expansion effectively if it cannot hire a sufficient number of experienced managers and accounting personnel.

The Company has experienced rapid growth and development in a relatively short period of time, and the Company expects to continue to expand its business through internal growth in the future. The Company currently has several significant projects at various stages of development. The Company's management of such growth and projects will require, among other things, stringent control of financial systems and operations, the continued development of the Company's management and financial control, the ability to attract and retain sufficient numbers of qualified management and accounting and other personnel, the continued training of such personnel, the presence of adequate supervision and the continued consistency in the quality of its services. Failure to manage growth, development and these major projects effectively, including through the retention of qualified and experienced managers, could have a material adverse effect on the overall growth of the Company's business, prospects and profitability.

The Company may be required to record a significant charge to earnings if it must reassess goodwill or other intangible assets as a result of changes in assumptions underlying the recorded value in use of certain assets.

As at 31 December 2013, the Company had AZN 191 million of goodwill, as compared to AZN 203 million as at 31 December 2012, which mainly related to the acquisitions of Petkim, SOCAR Energy Switzerland and SOCAR Trading. Goodwill and other intangible assets with indefinite useful lives are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount of such goodwill may be impaired. Intangible assets with definite useful lives are tested for impairment if impairment indicators exist. The Company performed impairment tests on the carrying value of goodwill as at 31 December 2013 and identified no impairment.

In performing goodwill impairment tests, the Company is required to estimate the value in use of the related cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows of the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Accordingly, actual cash flows and values could vary significantly from the forecasted future cash flows and related values derived using discounted cash flow techniques. Although the Company believes its estimates and projections are appropriate based on currently available information, the actual operating performance of an asset or group of assets, which has been tested for impairment, may differ significantly from current expectations. Moreover, the Company may make changes in the assumptions used in estimating value in use of its cash generating units. In such an event, the carrying value of goodwill may be required to be reduced from amounts currently recorded. Any such reductions may materially affect asset values and the Company's financial condition and results of operations. No assurance can be given as to the absence of significant impairment charges in future periods.

The reported quantities or classifications of the Company's crude oil and gas reserves may be lower than estimated because of inherent uncertainties in the calculation of reserves.

There are numerous uncertainties inherent in estimating the quantity of reserves and in projecting future rates of production, including many factors beyond the Company's control. Estimating the quantity of reserves is a subjective process, and estimates made by different experts often vary significantly. In addition, the results of drilling, testing and production subsequent to the date of an estimate may result in revisions to that estimate. Accordingly, reserves estimates may be different from the quantity of crude oil and natural gas that is ultimately recovered and, consequently, the revenue therefrom could be less than that currently expected. The significance of such estimates is highly dependent upon the accuracy of the assumptions on which they are based, the quality of the information available and the ability to verify such information against industry standards.

The Company calculates its reserves using the "Perspective and Prognosis Oil and Gas Resources Fields Reserves Classification" methodology, which permits the inclusion of highly speculative reserve quantities attributable to highly speculative acreage, and reserves estimates calculated according to this methodology may be substantially higher than those calculated in accordance with PRMS. As a result, the methodology used by the Company differs in significant ways from PRMS standards. In addition, under this methodology, stated reserves do not necessarily correspond to economically recoverable reserves and cannot be accurately reconciled with reserves calculations performed using different methodologies. See "*Presentation of Financial, Reserves and Certain Other Information—Certain Reserves Information*". The reserves figures included in this Prospectus have not been verified by an independent third party.

If the assumptions upon which the Company's estimates of reserves of crude oil or gas have been based are incorrect, the Company may be unable to produce the estimated levels of crude oil or gas set out in this Prospectus, and the Company's future production operations, prospects and financial condition could be materially and adversely affected.

Fluctuations in foreign currency exchange rates or a devaluation of the Manat may adversely affect the Company's business

The Company's principal exchange rate risk involves changes in the value of the U.S. Dollar and the Euro relative to the Manat and, to a much lesser extent, relative to other currencies, including the Turkish Lira. Most of the Company's cash inflows, as well as its accounts receivable balances, are denominated in U.S. Dollars, while a significant amount of the Company's costs of sales are denominated in Manat (or, in the case of Petkim, in Turkish Lira).

As at 30 June 2014, U.S.$5.6 billion (AZN 4.4 billion) of the Company's indebtedness was denominated in U.S. Dollars (representing 81.5% of the Company's total indebtedness of U.S.$6.9 billion (AZN 5.4 billion) as at that date). As at 31 December 2013, U.S.$5.2 billion (AZN 4.1 billion) of the Company's indebtedness was denominated in U.S. Dollars (representing 80.4% of the Company's total indebtedness of U.S.$6.5 billion (AZN 5.1 billion) as at that date). Depreciation of the U.S. Dollar relative to the Manat will reduce the value of the Company's U.S. Dollar denominated liabilities when measured in Manat, whereas appreciation of the U.S. Dollar relative to the Manat will increase the value

of the Company's U.S. Dollar denominated liabilities when measured in Manat. Because the Company's reporting currency is Manat, the Company suffers foreign currency translation losses when the U.S. Dollar appreciates against the Manat.

In addition, declining oil prices and the depreciation of the Russian Rouble over the course of 2013 and 2014 have put increased pressure on the Manat and the Central Bank has announced that, as of 16 February 2015, it was no longer targeting the Manat/U.S. Dollar exchange rate and had moved to targeting a currency basket comprising Euros and U.S. Dollars. On 21 February 2015, the Central Bank devalued the Manat by 33.5% against the U.S. Dollar and by 30% against the Euro in response to such pressures, stating that the devaluation was made in order to "support diversification of Azerbaijan's economy, strengthen its international compatibility and export potential as well as to provide balance of payments sustainability".

While the Company may benefit from this devaluation by virtue of its significant U.S. Dollar revenues and the fact that the majority of its costs and borrowings are also denominated in U.S. Dollars, the Company's financial condition is sensitive to currency exchange rate fluctuations and the devaluation of the Manat against the U.S. Dollar may have an overall adverse effect on the Company. In addition, the Company sells oil and gas to the domestic market at fixed tariffs established by the Tariff Council in Manats. There can be no assurance that such tariffs will be amended to reflect currency exchange rate fluctuations, including the devaluation of the Manat, in a timely manner or at all.

Any further devaluation of the Manat may have a material adverse effect on the Company's business, financial condition and results of operations and would increase the Company's debt servicing costs.

The Company is subject to interest rate risk.

The Company is exposed to interest rate risk on its indebtedness that bears interest at floating rates and, to a lesser extent, on its indebtedness that bears interest at fixed rates. As at 30 June 2014, the Company had loans and borrowings outstanding in an aggregate principal amount of AZN 5.4 billion of which AZN 3.3 billion bears interest at fixed rates and AZN 2.1 billion bears interest at floating rates, largely determined by reference to LIBOR for U.S. Dollar deposits. As at 31 December 2013, the Company had loans and borrowings outstanding in an aggregate principal amount of AZN 5.1 billion, of which AZN 3.1 billion bears interest at fixed rates and AZN 2.0 billion bears interest at floating rates, largely determined by reference to LIBOR for U.S. Dollar deposits. Any failure by the Company to manage its exposure to interest rate risk may have a material adverse effect on the Company's business, financial position, results of operations and financial condition.

The Turkish Government holds a "golden share" in Petkim.

The Turkish Government holds a "golden share" in Petkim that carries special rights, including, *inter alia*, pre-emptive and blocking rights on sales of a controlling interest in Petkim and the right to require Petkim to maintain certain production levels. If the Turkish Government were to exercise its pre-emptive or blocking rights on a prospective sale of the Company's indirect controlling interest in Petkim, the Company may not be able to sell its interest at a market price or at any price. In addition, as Petkim is the sole domestic supplier of petrochemical products in Turkey, the Turkish Government can require Petkim to maintain certain production levels, whether or not such production is economical or profitable. See "*Business—Petkim*". If the Turkish Government were to exercise any of the rights conferred to it as a result of its holding of the golden share in Petkim, it could have a material adverse effect on the Company's petrochemicals business, prospects and financial condition.

Environmental concerns, such as international policy initiatives to address climate change or direct action by activist groups may hamper the Company's operations

International initiatives to address climate change, such as policy and regulatory actions to reduce greenhouse gas emissions, could affect the Company's business and the balance of demand and supply for various types of fuels. The Company's business, particularly its oil producing and refining segments, could be adversely affected by such environmental initiatives. Policy approaches that promote the use of alternative energy sources, including renewables, biofuels, hydro-electric power, wind power and nuclear power in Europe and provide incentives for the consumption of energy generated from such sources could have an adverse impact on the Company's sales and financial results, business, results of operations, cash flows and financial condition.

There is a risk that demand for, and prices of, petrochemical products will decline as a result of economic slowdown.

The global demand for, and prices of, petrochemical products has historically fluctuated, recently in large part due to the sovereign debt crisis in Europe, as well as the slowdown of economic growth in China and Europe, which has adversely affected the Company's revenue from the sales of such products. In particular, this led to a deterioration in the

profit margins of Petkim in 2011. As a result of this, SOCAR & Turcas Petrokimya A.Ş. ("**SOCAR-Turcas Petro**", which was renamed SOCAR Turkey Petrokimya A.Ş ("**SOCAR-Turkey Petro**") in 2011) was not in compliance with certain financial ratios under the facility agreements entered into with Credit Suisse as facility agent to finance the acquisition of Petkim. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Borrowings—Principal Borrowings of the Company and its Material Subsidiaries*". Although waivers were obtained in respect of this, there can be no assurance that such waivers would be granted if SOCAR-Turkey Petro were to breach any of its financial covenants in the future. If SOCAR-Turkey Petro, or any other member of the Group, defaults under any of its financial indebtedness, such default could trigger cross-default provisions under other facility agreements entered into by members of the Group, as well as under the Notes, which would have a material, adverse effect on the Company's business and financial condition.

Risk Factors Relating to the Republic of Azerbaijan

Investors in emerging markets such as Azerbaijan should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies, such as Azerbaijan's, are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Prospective investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

The disruptions recently experienced in the international capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in countries in the emerging markets may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs, which could result in them experiencing financial difficulty.

In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and so any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in one market) could affect the price or availability of funding for entities within any of these markets.

Most of the Company's operations are conducted in Azerbaijan. Accordingly, the Company's overall financial position and the results of its operations are substantially dependent on the economic, legal and political conditions prevailing in Azerbaijan.

Most of the Company's operations are conducted, and a substantial part of its assets are located, in Azerbaijan; therefore the Company is largely dependent on the economic and political conditions prevailing in Azerbaijan.

Azerbaijan became an independent, sovereign state in 1991, just before the dissolution of the Soviet Union. Since then, Azerbaijan has experienced significant change. At the time of its independence, Azerbaijan was in the midst of a military conflict with Armenia, which began in 1988, over the western Azerbaijan region of Nagorno-Karabakh, as well as considerable civil unrest among various political factions in a struggle for power. A cease-fire was signed between Azerbaijan and Armenia in 1994, although a large percentage of Azerbaijani territory remains under occupation and tensions remain high. Talks to end the conflict within an international peace process known as the Minsk Group are continuing. Over the past few years, there have been a number of cease-fire violations and skirmishes.

In 1993, following a succession of weak governments, Heydar Aliyev, a popular, long-time political leader and former member of the Politburo of the Soviet Union became President of Azerbaijan. President Aliyev succeeded in creating a period of political and economic stability in Azerbaijan, overseeing a privatisation drive and various economic reforms geared to the transition to a market economy and closer integration with the international financial system. During his tenure the ACG PSA was concluded with a BP-led consortium in 1994. A separate PSA soon followed over the Shah Deniz deposit, also located offshore, which led to a discovery of natural gas in 1999. The opening of the BTC Pipeline in 2006 and the opening of the SCP in 2007 provide the means for the export of large quantities of hydrocarbons to international markets. President Aliyev was succeeded by his son, Ilham Aliyev, the current President of Azerbaijan, who was first elected in 2003 and was elected to a second and third term in 2008 and 2013, respectively. The next presidential elections are scheduled to take place in 2018.

The Company's credit ratings are dependent on the credit ratings assigned to the Republic of Azerbaijan and any downgrade of the sovereign rating is likely to result in a downgrade of the Company's rating. For example, on 9 February 2015, S&P revised its outlook on the Company's long-term corporate rating from stable to negative, in line with a similar revision to the outlook of the rating assigned by S&P to the Republic of Azerbaijan in January 2015.

Azerbaijan's economy and the state budget are dependent on oil and gas production and global demand for and prices of oil and gas.

Countries in the Caspian Sea region, such as Azerbaijan, whose economies and state budgets rely in significant part on the export of oil and gas and other commodities, the import of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by any volatility in oil and gas and other commodity prices and by any sustained fall in them. In 2013, the hydrocarbon sector accounted for an estimated 43.4% of GDP, 92.6% of export earnings and 73.2% of fiscal revenue, according to the Ministry of Energy of the Republic of Azerbaijan (the "**Ministry of Energy**"). According to statistics published by the Azerbaijani State Statistical Committee, in the first six months of 2014, the hydrocarbon sector accounted for an estimated 41% of GDP. Reductions in oil and gas revenues could have a material adverse effect on Azerbaijan's economy. In addition, if the Government maintains its current fiscal policies, then falling oil and gas revenues may lead to increased Government borrowing or the utilisation of state reserves in order to finance the budget deficit. Azerbaijan's oil and gas revenues depend on of the level of oil and gas production in the country and prevailing world hydrocarbon prices and, since the state budget has historically been dependent on transfers from SOFAZ, a decline in its income from oil and gas could place substantial strains on its ability to make those transfers without prejudicing its primary function, which is to act as an inter-generational reserve of the proceeds of the country's oil and gas reserves.

World hydrocarbon prices are subject to wide fluctuations. See "*—Risk Factors Relating to the Company's Business—The Company's revenue and net profits fluctuate significantly with changes in crude oil, which are historically volatile and are affected by a variety of factors beyond the Company's control."* If oil and gas prices were to continue at a low level or further decline in the medium term, this could have an adverse effect on Azerbaijan's economy.

Many developed countries are also actively trying to develop alternative sources of energy or alternative methods of increasing domestic oil and gas production to reduce their dependence on imported oil and gas. Any significant development of either of these alternatives to imported oil and gas could adversely affect oil and gas prices and demand and the resulting oil and gas revenues of Azerbaijan. Any such unplanned reduction in revenues could negatively affect economic growth and have a material adverse effect on Azerbaijan's affairs, political and economic condition, which may, in turn, have a material adverse effect on the Company's business, financial condition and results of operations.

According to estimates by the Company and the Ministry of Energy, Azerbaijan's proven oil reserves are estimated at seven billion barrels as of January 2014 and, in the absence of future discoveries or modernisation of current oil fields, production is currently expected to start trending downwards by 2018, with reserves exhausted in approximately 30 years. Oil exports are also expected to decline over the same period. Maintaining current oil production levels requires substantial investment in exploration and development from oil companies, which Azerbaijan may not be able to attract. Furthermore, future exploration for oil and gas may have to be in zones, such as deepwater fields, where extraction may prove more difficult and expensive than in the current coastal fields. Such exploration may only be economically viable on the basis of continuing elevated oil prices.

Azerbaijan's oil and gas exports are dependent on the BTC and SCP pipelines.

Although Azerbaijan utilises other means of transport to export its hydrocarbon products, the ability of Azerbaijan to export its oil and gas to international markets will continue to be largely dependent on the BTC Pipeline and the SCP. There is a risk that the BTC pipeline and the SCP, or any alternative export route, may be subject to shutdowns due to technical reasons, accidents, armed conflict or political tensions in the countries they pass through (including Georgia and Turkey). Any disruption to or shutdown of the pipelines may have a material adverse effect on Azerbaijan's ability to export its hydrocarbon products and, by extension, the Azerbaijan economy and this may have a material adverse effect on the Company's business, financial condition and results of operations.

Dispute with Armenia.

Azerbaijan was involved in armed conflict with Armenia in the Nagorno-Karabakh region of Azerbaijan from the late 1980s to 1994 and tensions over the area remain high. A ceasefire between Azerbaijan and Armenia was signed in 1994. As part of the international peace process, the Minsk Group was established by the Organisation for Security and Co-operation in Europe to negotiate a political settlement. Azerbaijan has repeated its commitment to peaceful settlement of the conflict through this process. Talks are ongoing, but no settlement has been reached, and rhetoric from both sides remains hostile. Over the last few years, a number of skirmishes between Armenian and Azerbaijani forces have taken place along the line of contact, with some serious escalation in recent weeks. As a result, there can be no guarantee that a major armed confrontation will not break out again. In addition, the conflict has resulted in approximately one million refugees and internally displaced persons fleeing to Azerbaijan, most of whom rely on the Azerbaijani government for food, shelter and other necessities. An outbreak of armed conflict, which in turn could lead to an increased number of displaced persons reliant on state welfare, could have a material adverse effect on

Azerbaijan's economy, which may, in turn, have a material adverse effect on the Company's business, financial condition and results of operations.

There are regional tensions.

Like other countries in the region, Azerbaijan could be affected by political unrest both within its borders and in surrounding countries, and any resulting military action may have an effect on the world economy and political stability of other countries. Azerbaijan is bordered by Russia to the north, Georgia to the north-west, Armenia to the west and Iran to the south. Each of these countries has been involved in political and military disputes in recent years.

For example, in August 2008, the conflict in the Tskhinvali Region/South Ossetia of Georgia escalated as Georgian troops engaged with local militias and Russian forces that crossed the international border. In the days that followed the initial outbreak of hostilities, Georgia declared a state of war as Russian forces launched bombing raids deep into Georgia, targeted and destroyed Georgian infrastructure, blockaded part of the Georgian coast, took control of Tskhinvali and the Abkhazia region and landed marines on the Abkhaz coast. After five days of heavy fighting, the Georgian forces were defeated, enabling the Russians to enter Georgia uncontested and occupy the cities of Poti, Gori, Senaki and Zugdidi. During this period, transit through the pipelines crossing Georgia was temporarily stopped, which cut off one of the Company's principal export routes. Future such occurrences whether in Georgia, in one of the Republic's other neighbours or in the region generally could have a material adverse effect on the ability of the Company to conduct its business, which could, in turn, have a material adverse effect on the Company's prospects and financial condition.

The countries adjoining the Caspian Sea have historically disagreed as to their territorial rights over the Caspian. The Caspian Sea continues to be a source of oil and gas and therefore ownership and exploration rights are valuable assets. To avoid such disputes, Azerbaijan has signed bilateral agreements with the Russian Federation and Kazakhstan regarding ownership and exploration rights in the Caspian Sea. To date, all parties have complied with the terms of such agreements. However, there is no guarantee that territorial disputes with other adjoining countries will not occur in the future which could impact on either the production from Azerbaijan's oil and gas deposits or the development of new reserves.

Recent tensions between the United States and Iran and between Russia and Georgia and the potential for insurrection by regional militant groups could likewise lead to instability in the region. Furthermore, Azerbaijan and other countries in the region could be affected by terrorism and by military or other action taken against sponsors of terrorism in the region, which could, in turn, have an adverse effect on Azerbaijan's economy, the Company's production and the Company's export routes, resulting in a material adverse effect on the Company's business, financial condition and results of operations.

In addition, the recent significant civil disturbances and political instability in Ukraine, including the annexation of Crimea in March 2014 and the ongoing military action in the Donetsk, Debaltseve and Luhansk regions of Eastern Ukraine have led to instability in the region. In connection with such instability and unrest in Ukraine, the EU and the United States have imposed sanctions on certain individuals and companies in Russia and Russia has, in turn, imposed trade embargoes on certain goods and services originating in the EU and the United States. Such sanctions have negatively affected the Russian economy which could, in turn, have a "contagion effect" on economies in the region, including, in particular, Azerbaijan, which is a close trading partner of Russia, particularly in the hydrocarbons sector. If the instability in Ukraine continues, tensions between Russian and Ukraine escalate further or new tensions between Russia and other countries emerge, or if further economic or other sanctions, such as further limitations on trade, are imposed on Russia in response to such instability and tensions, this could have a further adverse effect on the economies in the region, including the Azerbaijan economy, as well as on companies active in the region, including the Company.

Macroeconomic considerations concerning Azerbaijan impose risks.

Since Azerbaijan is heavily dependent upon export trade and commodity, particularly hydrocarbon, prices, it has been affected by changes in hydrocarbon prices. Azerbaijan's economy would be negatively affected by low oil prices and economic instability elsewhere in the world. Low oil prices and weak demand in its export markets may adversely affect Azerbaijan's economy in the future and which might in turn adversely affect the Company's financial performance. An oversupply of oil or other commodities in world markets or a general downturn in the economies of any significant markets for oil or other commodities might have a material adverse effect on the Company's business, financial condition and results of operations.

According to figures compiled by the Central Bank, Azerbaijan's GDP has over the period of 2008 to 2014 continued to grow in real terms, increasing by 10.8% in 2008, 9.3% in 2009, 5.0% in 2010, 0.1% in 2011, 2.2% in 2012, 5.8% in 2013 and 2.8% in 2014. However, there can be no assurance that GDP will continue to grow and any decrease in GDP

or in the rate of GDP growth in subsequent years could adversely affect Azerbaijan's development. In addition, a significant portion of Azerbaijan's non-oil GDP growth is dependent on public infrastructure spending. Any reduction in public infrastructure spending would negatively impact growth and would, in turn, exacerbate any decline from a recession in the oil sector. At the same time, inflation has fluctuated significantly in recent years, partly as a result of strong increases in government revenues and, thus, spending, lack of competition and growing reliance on food imports. According to figures compiled by the Central Bank, Azerbaijan's inflation rate was 20.8% in 2008, 1.5% in 2009, 5.7% in 2010, 7.9% in 2011, 1.1% in 2012, 2.4% in 2013 and 1.4% in 2014. It is possible that Azerbaijan's inflation rate will continue to fluctuate or increase in the near future. A high rate of inflation, which would be exacerbated if combined with an appreciation of the Manat, could reduce the competitiveness of the domestic economy and could adversely affect the overall economy, which may have a material adverse effect on the Company's business, financial condition and results of operations. The Central Bank has announced that, as of 16 February 2015, it was no longer targeting the Manat/U.S. Dollar exchange rate and had moved to targeting a currency basket comprising Euros and U.S. Dollars, primarily as a result of pressures from the declining oil prices and fluctuations in the value of the Russian Rouble. On 21 February 2015, the Central Bank devalued the Manat by 33.5% against the U.S. Dollar and by 30% against the Euro in response to such pressures. There can be no assurance that, by itself, or coupled with other inflationary pressures, this devaluation will not lead to an increase in inflation in coming periods. Any increase in inflation could have a material adverse effect on the Company's business, financial condition and results of operations and would increase the Company's domestic operating costs and debt servicing costs.

The implementation of further market-based economic reforms involves risks.

The Government continues to implement economic and financial system reforms in order to improve the legal and regulatory environment, promote the private sector, diversify the economy and facilitate access to credit. The Government is also pursuing various fiscal reforms to control expenditure and improve the tax system.

The need for substantial investment in many enterprises has driven the Government's privatisation programme, although the Company is not aware of any plans to privatise SOCAR or any of its subsidiaries, joint ventures or associates. The programme has excluded certain enterprises deemed strategically significant by the Government, although major privatisations in key sectors have taken place, such as full or partial sales of certain industrial producers, financial institutions and service companies.

However, there remains a need for substantial investment in many sectors of Azerbaijan's economy and there are areas in which economic performance in the private sector is still constrained by an inadequate business infrastructure. Further, the considerable amount of non-cash transactions in the economy and the significant size of the shadow economy (including underreporting of income) adversely affect the implementation of reforms and hamper the efficient collection of taxes.

Although the Government intends to proceed with its economic, financial and fiscal reforms, there can be no assurance that these reforms will be implemented or if they are so implemented that they will have the expected consequences. Failure to implement economic, financial and fiscal reforms or unexpected consequences resulting from implementation may have a negative effect on Azerbaijan's economy, affairs and political condition, which may, in turn, have a material adverse effect on the Company's business, financial condition and results of operations.

Official data may be unreliable.

Although the Azerbaijani State Statistics Committee, along with the Central Bank, produce statistics on Azerbaijan, its economy and the energy sector, there can be no assurance that these statistics are completely accurate or as reliable as those compiled in more developed countries. Assumptions on which certain statistical data, such as expected GDP growth rates, future oil prices, oil production levels and exchange rates, are based may also be imprecise. As a result, such data may prove to be incorrect or imprecise. These statistics may also be limited in scope and published less frequently than those in more developed countries, such that adequate monitoring of key fiscal and economic indicators may be difficult.

In addition, comparing national and international data sources can yield inconsistencies. Prospective investors should be aware that figures relating to Azerbaijan's GDP and many other aggregate figures cited in this Prospectus may be subject to some degree of uncertainty. Furthermore, standards of accuracy, methodology and underlying assumptions may vary from ministry to ministry and from period to period. Prospective investors should be aware that none of these statistics has been independently verified by any party.

Corruption or allegations of corruption in Azerbaijan could adversely affect the Company's business and prospects.

The political and economic changes in Azerbaijan following the fall of the Soviet Union have resulted in reduced policing of society and increased crime. Although Azerbaijan was a pioneer in joining the Extractive Industries Transparency Initiative, a coalition of governments, companies, civil society groups, investors and international organisations established to strengthen governance by improving transparency and accountability in resource-rich countries and has organised the State Oil Fund of the Republic of Azerbaijan ("**SOFAZ**") in a manner that increases transparency in the accumulation and use of state oil revenues, Azerbaijan continues to be regarded by some independent observers, including Transparency International, as having problems with corruption. Of the 175 countries and territories included in the 2014 Corruption Perceptions Index published by Transparency International, Azerbaijan ranked number 126, indicating that a perception of public sector corruption occurring within the country remains widespread.

The international press has reported corruption of officials in Azerbaijan and other former Soviet Union countries. Press reports have also described instances in which state officials have engaged in selective investigations and prosecutions to further commercial interests of select constituencies. Allegations of corruption in Azerbaijan or in respect of the Company, whether justified or otherwise, could potentially have a negative effect on the ability of Azerbaijan and the Company to attract foreign investment and thus have a negative effect on the economy of Azerbaijan and on the Company's business and prospects.

Azerbaijan's physical infrastructure is in poor condition, which could disrupt normal business activity.

Azerbaijan's physical infrastructure largely dates back to the Soviet era and has not been adequately funded and maintained. Therefore, some of Azerbaijan's physical infrastructure is in poor condition, which could disrupt normal business activity and constrain parts of Azerbaijan's socio-economic development plans. Particularly affected are pipeline, rail networks, and power transmission systems. The condition and continued deterioration of Azerbaijan's physical infrastructure could harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Azerbaijan and adversely affect the economy's competitive ranking and may interrupt the normal business operations of the Company and its customers and could have a material adverse effect on the Company's customers' ability to purchase the Company's products.

There are risks associated with the underdevelopment and evolution of the legislative, tax and regulatory framework in Azerbaijan.

Since the break-up of the Soviet Union, the Government has introduced laws, regulations and legal structures to foster the development of a market system and integration with the world economy. However, the legislation is frequently contradictory, inadequate or incomplete and is susceptible to conflicting interpretations and overlapping jurisdictions between government bodies. In certain cases, legislation or implementing regulations may be unpublished or unavailable. Moreover, the absence of definitive interpretations of many of the provisions of these new laws, and the absence of a tradition in Azerbaijan of a judiciary that is insulated from current political or other considerations, can make the application of laws uncertain. In addition, Azerbaijan may introduce legislation relating to corporate governance or otherwise affecting the oil and gas sector, which could result in higher compliance and other costs for the Company. Such compliance costs could be material.

The commitment of Government officials and agencies to comply with legal obligations and negotiated agreements has not always been reliable, and there is a tendency for the authorities to take arbitrary action. Legal redress for breach or unlawful action may not be readily available, or may be subject to significant delays. These factors, which are not uncommon to transitional legal systems, make an investment in the Notes subject to higher risks and greater uncertainties than would be the case for an investment in securities of a company from a more developed legal system.

In addition, the judicial system, judicial officials and other Government officials in Azerbaijan may not be fully independent of external social, economic and political forces. Therefore, judicial or administrative decisions could be unduly influenced. The possible lack of judicial and administrative independence may adversely affect the willingness of foreign investors to make investments in Azerbaijan. These and other factors that have an impact on Azerbaijan's judicial system may also make an investment in the Notes subject to greater risks and uncertainties than an investment in a country with a more mature judicial system.

Azerbaijan's banking sector remains highly concentrated and underdeveloped.

Azerbaijan's banking system remains highly concentrated and underdeveloped, with weak governance and underwriting standards. The International Bank of Azerbaijan, a state controlled bank, accounts for approximately 35% of the assets of the banking sector and if it were to encounter liquidity problems there could be severe economic effects for Azerbaijan's financial system and calls for state support, which may, in turn, have a material adverse effect on the Company's business, financial condition and results of operations.

The banking sector is at present focused primarily on corporate banking. Retail and small or medium enterprise banking accounts for only a small proportion of the sector. As a result, banks are prone to cyclical performance driven by their exposure to corporate banking, and a downturn in the cycle has the potential to impact the quality of banks' assets particularly given the high concentration of deposits and loans. Dollarisation remains a problem with approximately 50% of deposits held in foreign currency.

In addition, poor governance of the banking sector has been an issue in the past and if difficulties in the banking sector re-emerge, or there is a prolonged or sharp economic downturn, the state may be required to provide support to the banking sector.

Foreign judgments and arbitral awards may not be enforceable in Azerbaijan.

In the absence of reciprocity of enforcement of court judgments with foreign countries (including by virtue of bilateral treaties, of which very few are in force), Azerbaijani courts exercise a great degree of discretion in, and can refuse, enforcement of a judgment of a court established in a country other than Azerbaijan, invoking statutory grounds for setting aside foreign judgments by asserting, for example, that the matter is subject to the exclusive jurisdiction of Azerbaijani courts or the courts of the country where the foreign or non-Azerbaijani judicial decision was adopted do not enforce the judicial decisions of Azerbaijani courts on a reciprocal basis. Although Azerbaijan is a signatory to certain conventions on the recognition and enforcement of foreign arbitral awards, the enforcement of such awards in local courts remains largely untested. Azerbaijani courts can be arbitrary in their decisions and the possibility cannot be excluded that judges may misapply Azerbaijani laws (including, *inter alia*, those concerning grounds for declining enforcement).

It may be difficult to effect service of legal process and enforce arbitration awards and judgments obtained outside of Azerbaijan against the Company and its management.

The Company is a company organised and existing under the laws of Azerbaijan and most of its businesses, assets and operations are located in Azerbaijan. In addition, its executive officers reside in Azerbaijan and substantially all of their assets are located in Azerbaijan. As a result, it may not be possible to effect service of process within the United Kingdom or elsewhere outside Azerbaijan upon the Company or such directors or executive officers. Moreover, Azerbaijan has not entered into treaties or other agreements providing for the reciprocal recognition and enforcement of judgments of courts with the United Kingdom or many other countries. As a result, recognition and enforcement in Azerbaijan of judgments of a court in the United Kingdom or other jurisdictions in relation to any matter may be difficult. In addition, the courts in Azerbaijan may not enforce any arbitration awards obtained in a country other than Azerbaijan or may enforce the awards only in limited circumstances. Therefore, recognition and enforcement in Azerbaijan of arbitration awards obtained in the United Kingdom or other jurisdictions may be difficult. In addition, it is difficult to predict how Azerbaijan's courts would interpret such notions as "public policy", "general principles of the laws" and "sovereignty" which could each be used as grounds for rejecting enforcement of arbitral awards.

Risk Factors Relating to the Notes

The Notes may be subject to optional redemption by the Company prior to their maturity date for tax reasons.

In the event that the Company would be obliged to increase the interest amounts payable in respect of the Notes due to any change in or amendment to the laws or regulations of Azerbaijan or any political sub division thereof or of any authority therein or thereof having the power to tax or in the interpretation or administration thereof, the Company may redeem all outstanding Notes in accordance with the Conditions. See "*Terms and Conditions of the Notes—Condition 9(b). Redemption for Taxation Reasons*". It may not be possible to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and this may only be possible at a significantly lower rate.

Provisions of the Notes permit defined majorities to bind all Noteholders and permit the Trustee to take certain action without Noteholder consent.

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or (ii) determine without the consent of the Noteholders that any Event of Default or Potential Event of Default (each as defined in the Trust Deed) shall not be treated as such in the circumstances described in Condition 14 (Meetings of Noteholders; Modification and Waiver) of the Notes.

The EU Savings Directive may impose withholding tax.

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**"), EU Member States are required, from 1 July 2005, to provide to the tax authorities of another EU Member State details of payments of interest (or similar income) paid by a person established within its jurisdiction to (or for the benefit of) an individual resident, or certain types of entity established, in that other EU Member State. However, for a transitional period, Austria will (unless during that period it elects otherwise) instead operate a withholding system in relation to such payments. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to exchange information procedures relating to interest and other similar income.

The Council of the EU has adopted a Directive (the "**Amending Directive**") which will, when implemented, amend and broaden the scope of the requirements of the EU Savings Directive described above. The Amending Directive will expand the range of payments covered by the EU Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the EU Savings Directive) which indirectly benefits an individual resident in an EU Member State, may fall within the scope of the Savings Directive, as amended. The Amending Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

A number of non-EU countries and certain dependent or associated territories of certain EU Member States have adopted similar measures to the EU Savings Directive.

If a payment were to be made or collected through an EU Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the EU Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26/27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directive, neither the Issuer nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. Furthermore, once the Amending Directive is implemented and takes effect in EU Member States, such withholding may occur in a wider range of circumstances than at present, as explained above. The Issuer is, however, required to maintain a paying agent in an EU Member State, if any, that will not be obliged to withhold or deduct tax pursuant to the EU Savings Directive. Noteholders should consult their own tax advisers regarding the implications of the EU Savings Directive in their particular circumstances.

The Notes may be subject to withholding due to FATCA.

Under certain circumstances, the Company and financial institutions through which payments on the Notes are made may be required, pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder ("**FATCA**"), to withhold U.S. tax at a rate of 30% on all or a portion of payments of principal and interest which are treated as "foreign pass-thru payments" made on or after 1 January 2017 to an investor or any other non-U.S. financial institution through which payment on the Notes is made that is not in compliance with FATCA. The application of FATCA to interest, principal or other amounts paid on or with respect to the Notes is not currently clear. However, payments on Notes issued on or after 1 January 2013 may be subject to withholding under FATCA. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of a Noteholder's failure to comply with FATCA, neither the Company, any Paying Agent or any other person would pursuant to the terms and conditions of the Notes be required to pay additional amounts as a result of the deduction or withholding of such tax.

Payments made in respect of the Notes will be subject to withholding tax and have other tax consequences for investors.

Payments made in respect of Notes will be subject to withholding tax and may have other tax consequences for investors. Generally, payments of interest on borrowed funds made by an Azerbaijan entity to a non-resident are subject to Azerbaijan withholding tax at the rate of 10%, unless such withholding tax is reduced or eliminated pursuant to the terms of an applicable double tax treaty. Given that payment of interest will be made through the Paying Agents and Euroclear and Clearstream, Luxembourg and that there are very few international capital markets transactions by Azerbaijani issuers, it could be difficult for holders of Notes to prove to the local tax authorities that a withholding tax has been applied to interest payments and, therefore, to obtain the benefit of any applicable double tax treaty relief.

Payments in respect of the Notes are subject to withholding of Azerbaijan tax, and the Company is obliged to increase payments as may be necessary so that the net payments received by holders of the Notes will not be less than the amounts they would have received in the absence of such withholding. It should be noted, however, that gross-up provisions are untested and may not be enforceable under Azerbaijan law where such provisions may be viewed by the Azerbaijan tax authorities as constituting payments of taxes on behalf of third parties. Although the existing practice is that the Azerbaijan authorities have not challenged the enforceability of gross-up provisions, there is no precedent for the judicial enforcement of such gross-up provisions.

An active trading market for the Notes may not develop.

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Notes.

Application has been made for the listing of the Notes on the Official List and for trading on the Regulated Market of the London Stock Exchange. There can be no assurance that either such listing or declaration will be obtained or, if such listing or declaration is obtained, that an active trading market will develop or be sustained. In addition, the liquidity of any market for the Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and other factors. Accordingly, there can be no assurance as to the development or liquidity of any market for the Notes.

The market price of the Notes may be volatile.

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Company's operating results and those of its competitors, adverse business developments, changes to the regulatory environment in which the Company operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of the Notes, as well as other factors. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations, which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Company's results of operations, prospects or financial condition. Factors including increased competition, fluctuations in commodity prices or the Company's operating results, the regulatory environment, availability of reserves, general market conditions, natural disasters, terrorist attacks and war may have an adverse effect on the market price of the Notes.

Volatility in capital markets may adversely affect the price of the Notes and may reduce the availability of financing.

The market price of the Notes is influenced by economic and market conditions in Azerbaijan and, to a varying degree, economic and market conditions in other CIS countries and the international capital markets generally. Volatility in the international capital markets in the past has adversely affected market prices for companies that operate in those and other developing economies. Even if Azerbaijan's economy remains stable, financial turmoil in the international capital markets could materially adversely affect the market price of the Notes.

Disruptions in the international capital markets may lead to reduced liquidity and increased credit risk for certain market participants and could result in a reduction of available financing. Companies located in emerging market countries such as Azerbaijan may be particularly susceptible to these reductions in the availability of credit or to increased financing costs, which could result in financial difficulties for them. In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in these markets and, as such, any factors that impact market confidence, for example, a decrease in credit ratings or state or central bank intervention in one market could affect the price or availability of funding for entities within any of these markets.

Exchange rate risks and exchange controls exist to the extent payments in respect of the Notes are made in a currency other than the currency in which an investor's activities are denominated.

The Company will pay principal and interest on the Notes in U.S. Dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. Dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. Dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. In addition, such risks generally depend on economic and political events over which the Company has no control. An appreciation in the value of the Investor's Currency relative to U.S. Dollars would decrease: (i) the Investor's Currency equivalent yield on the Notes; (ii) the Investor's Currency equivalent value of the principal payable on the Notes; and (iii) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Changes in market interest rates may adversely affect the value of the Notes.

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes, since the Notes have a fixed rate of interest and prevailing interest rates in the future may be higher than that fixed rate of interest.

Credit ratings may not reflect all risks associated with the Notes.

The Company's credit ratings are an assessment by the relevant rating agencies of its ability to pay its debts when due. Consequently, real or anticipated changes in its credit ratings will generally affect the market value of the Notes. One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to the structure and marketing of the Notes and additional factors discussed in this Prospectus or any other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Insolvency laws in Azerbaijan may not be as favourable to holders of Notes as English or United States insolvency laws or those of another jurisdiction with which the Noteholders may be familiar.

The Company is organised in Azerbaijan and is subject to the insolvency laws of Azerbaijan. Since Azerbaijan's courts are not experienced with complex commercial issues and the insolvency laws of Azerbaijan are largely untested, there is no way to predict the outcome of insolvency proceedings.

Return on an investment in Notes will be affected by charges incurred by investors.

An investor's total return on an investment in any Notes will be affected by the level of fees charged by any agent, nominee service provider or clearing system used by the investor. Such a person or institution may charge fees for the opening and operation of an investment account, transfers of Notes, custody services and on payments of interest and principal. Potential investors are, therefore, advised to investigate the basis on which any such fees will be charged on the relevant Notes.

There is a risk that the choice of English law as the governing law of the Notes might not be applied by the courts of Azerbaijan.

The Notes are expressed in the Terms and Conditions of the Notes to be governed by English law. Whilst the choice of English law to govern the Notes is explicitly allowed under Azerbaijani law, the Law on International Private Law of the Republic of Azerbaijan provides for certain restrictions in the application of foreign law, namely:

- Article 4 prohibits the application of foreign law where it contradicts the Constitution of Azerbaijan or laws of Azerbaijan adopted by referendum;
- Article 5.1 provides for "imperative" rules of Azerbaijani law to be applied irrespective of the applicable governing law; and
- Article 24.4 invalidates choices of law designed to avoid, *inter alia*, the application of Azerbaijan's "imperative" rules.

Whilst the Company believes that neither the Terms and Conditions of the Notes nor the Trust Deed or Paying Agency Agreement contain any provisions which contradict the Constitution of Azerbaijan or its laws adopted by referendum as currently in force, there can be no assurance that this will continue to be the case in the event of future amendments to the Constitution of Azerbaijan or its laws adopted by referendum. As regards "imperative" rules, the most likely general meaning of the term is the "mandatory rules of Azerbaijan laws and regulations" as used in Article 390.2 of the Civil Code of the Republic of Azerbaijan. However, due to the lack of clear guidance as to the application and interpretation of "imperative" rules there can be no assurance that any applicable provisions of English law or the provisions of the Terms and Conditions of the Notes, the Trust Deed and the Paying Agency Agreement will not be overridden by relevant provisions of the laws of the Republic of Azerbaijan which could be deemed to be "imperative" rules. By way of example, certain provisions of the Terms and Conditions of the Notes dealing with waivers and the binding nature of determinations by a single party might not be enforceable in Azerbaijan. However, the Company is of the view that its obligation to pay principal and interest, and its covenants and the Events of Default and Noteholder put contained in the Terms and Conditions of the Notes do not contravene the "imperative" rules of Azerbaijani law.

Furthermore, although the Terms and Conditions of the Notes, the Trust Deed and the Paying Agency Agreement also provide that any non-contractual obligations arising out of or in connection with them shall be governed by English law, the Law on International Private Law would require a court in Azerbaijan to apply Azerbaijani law to certain non-contractual obligations, such as claims for compensation for damage caused in Azerbaijan or unjust enrichment that occurred in Azerbaijan.

OVERVIEW

This section contains an overview of the detailed information included elsewhere in this Prospectus. This overview does not contain all of the information that may be material to prospective investors and, therefore, should be read in conjunction with, and is qualified in its entirety by, the more detailed information appearing elsewhere in this Prospectus, as well as related documents referred to herein. Prospective investors should also carefully consider the information set forth in "Risk Factors" prior to making an investment decision. Any decision to invest in the Notes should be based on the consideration of this Prospectus as a whole by prospective investors.

General Description of the Company

The Company is the State Oil Company of Azerbaijan and is wholly-owned by the state. A Presidential Decree established the Company in September 1992. As at 30 June 2014, the charter capital of the Group was AZN 1,485 million.

The Company comprises vertically-integrated upstream, midstream and downstream operations, located principally in Azerbaijan, as well as in Turkey, Georgia, Romania, Switzerland and Ukraine. Crude oil has been produced in Azerbaijan since 1847, and the Company controls nearly 20% of Azerbaijan's total crude oil production. The Company has a stake in a number of PSAs with international oil companies, including the ACG and Shah Deniz PSAs, each of which contain fields operated by BP and are further described below. The Company has an 11.65% share in the ACG PSA and a 10% share in the Shah Deniz PSA (which it holds through its wholly-owned subsidiary AzSD (as defined below)). It also has a 49% share in South Gas Corridor Closed Joint Stock Company ("**SGC**"), which has a 6.7% interest in the Shah Deniz PSA and the South Caucasus Pipeline Company, as well as a 100% share in the Trans-Anatolian Natural Gas Pipeline ("**TANAP**") and a 20% share in the Trans Adriatic Pipeline ("**TAP**"). The other 51% interest in SGC is owned by the Ministry of Economy and Industry (the "**MEI**").

The Company has significant interests in several other international pipelines, including the BTC Pipeline, the primary export route for oil produced at the ACG fields, and the SCP, the primary export route for natural gas produced from the ACG and Shah Deniz fields. The Company also operates two refineries in Azerbaijan (one of which is being merged into the other and will be dismantled) and a number of retail stations in countries in Eastern Europe and Switzerland. In addition, the Company has a controlling interest in Petkim, which is Turkey's sole petrochemical producer. In October 2011, the Company, through its wholly-owned subsidiary STEAŞ (as defined below), commenced site preparation work for a major new refinery to be located adjacent to Petkim's facilities and is developing a new port on the site.

In the six months ended 30 June 2014, the Company's total production of crude oil was 4.2 million tonnes and consolidated production (excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) was 3.4 million tonnes. In the year ended 31 December 2013, the Company's total production of crude oil was 8.3 million tonnes and consolidated production was 6.8 million tonnes. The Company's total production of crude oil represented 20% of the total crude oil production in Azerbaijan for the six months ended 30 June 2014 and 19% of the total crude oil production in Azerbaijan and for the year ended 31 December 2013, based on the Company's estimates.

In the six months ended 30 June 2014, the Company's total production of gas was 3.8 bcm and consolidated production was 3.4 bcm. The Company also received 1.2 bcm of associated gas from the ACG fields at no cost pursuant to the ACG PSA in the six months ended 30 June 2014. In the year ended 31 December 2013, the Company's total production of gas was 7.1 bcm and consolidated production was 6.6 bcm. The Company also received 2.2 bcm of associated gas from ACG in 2013.

According to the Company's estimates, as at 1 January 2014, the Company's total A+B+C1 reserves of crude oil were 136.2 million tonnes and its total C2 reserves were an additional 55.8 million tonnes. According to the Company's estimates, as at 1 January 2014, the Company's total A+B+C1 gas reserves were 79.7 bcm and its total C2 reserves were an additional 64.9 bcm. As a result, according to the Company's estimates, the Company's wholly-owned A+B+C1 reserves represented over 19.9 times crude oil production levels in 2013 and 12.1 times gas production levels in 2011.

As at 1 January 2014, the ACG fields had estimated recoverable reserves of crude oil of 680 million tonnes and were considered to be the largest oil fields under development in the Azerbaijani sector of the Caspian Sea. In the six months ended 30 June 2014, the ACG fields produced 16.0 million tonnes of crude oil (of which 0.7 million tonnes were transferred to the Company under the ACG PSA). The ACG fields produced 32.7 million tonnes in 2013 (of which 1.4 million tonnes were transferred to the Company under the ACG PSA). In the six months ended 30 June 2014, the ACG fields produced 6.8 bcm of associated gas (of which 1.2 bcm were transferred to the Company under the ACG PSA).

The ACG fields produced 12.5 bcm of gas in 2013 (of which 2.2 bcm, were transferred to the Company under the ACG PSA).

The Shah Deniz field was discovered in 1999 and is considered one of the world's largest gas condensate fields, with over 784 bcm of gas as at 1 January 2014. In the six months ended 30 June 2014, the Shah Deniz field produced 1.1 million tonnes of crude oil (of which 0.1 million tonnes were transferred to the Company under the Shah Deniz PSA). The Shah Deniz field produced 2.5 million tonnes of crude oil in 2013 (of which 0.2 million tonnes were transferred to the Company under the Shah Deniz PSA). In the six months ended 30 June 2014, the Shah Deniz field produced 4.7 bcm of gas (of which 0.4 bcm were transferred to the Company under the Shah Deniz PSA). The Shah Deniz field produced 9.8 bcm of gas in 2013 (of which 0.7 bcm were transferred to the Company under the Shah Deniz PSA).

Most of the mature oil fields in Azerbaijani territory are in a stage of declining production, although typically the decline is gradual and the Company is mitigating the effect by endeavouring to rehabilitate and modernise its fields. However, two major gas discoveries have been made in the past few years. In November 2010, a large gas field in the Umid structure in the Caspian Sea was discovered. Initial estimates suggest that it has reserves of 200 bcm of natural gas and 40 million tonnes of condensate. In August 2011, a large gas field was discovered in the Absheron field in the Caspian Sea. The Company's initial estimates suggest the Absheron field contains reserves of 350 bcm of gas and 45 million tonnes of condensate. Drilling has commenced in both of these fields. The Company also has several other exploration projects at various stages of development.

The Company owns two crude oil refineries in Baku, which are in need of modernisation. The refineries, as well as Azerikimya, the Company's petrochemical producer in Azerbaijan, primarily serve the domestic market. The Company's principal refining, gas processing and petrochemical facilities are in need of modernisation. As a result and at the direction of the Government, the Company established an internal working group in 2009, headed by the vice-president of strategic development and assisted by international and local advisors, to prepare a feasibility study for a proposed refinery, gas processing and petrochemical complex, the Oil-Gas processing and Petrochemical Complex (OGPC) to be located outside Baku. The plan was presented to the Government in August 2012. OGPC is intended to meet Azerbaijan's long-term domestic demand for strategically important natural gas and petrochemical products. In addition, the Company believes that OGPC will have further social, environmental and developmental benefits. OGPC will be comprised of two principal elements: a gas processing plant, which is expected to commence operations in early 2020 and a petrochemical plant, which is expected to commence operations by the end of 2020. A refinery is also expected to be constructed and commence operations after 2030.

The Company currently estimates that the project will cost U.S.$7 billion. The Company, the Government and SOFAZ are currently engaged in discussions in respect of the financing required for the project, although no agreement has been reached. It is expected, however, that the Company will contribute 10% of the equity for OGPC, with the remaining 90% to be contributed by the State. The Company does not yet have an estimate for the costs of decommissioning the existing facilities, but it is expected that the Company will be responsible for financing the decommissioning costs.

The Company exported 24.2 million tonnes of crude oil in 2013 and 20.7 million tonnes of crude oil in the ten months ended 31 October 2014. Oil exported by the Company is sold at one port in each of Georgia, Turkey and Russia via tenders and long-term contracts. The Company also conducts sales activities through SOCAR Trading, which is 100% owned by the Company.

The Company owns and operates the domestic oil and gas pipeline networks in Azerbaijan. As at 30 June 2014, the total length of the Company's oil pipeline system was 771 km and the total length of its natural gas pipeline system was 46,178 km. The Company accounted for approximately 66% of Azerbaijan's crude oil exports in 2013, as compared to 68% in 2012 (which figures include oil exported by the Company on behalf of SOFAZ and other parties). The Company also has interests in other international pipelines, through which it exports oil and gas to several neighbouring countries.

The Company owns and operates an expanding network of retail stations in Azerbaijan, Georgia, Romania, Ukraine and Switzerland.

The Company's total revenue increased from AZN 19,795 million in the six months ended 30 June 2013 to AZN 20,404 million in the six months ended 30 June 2014, an increase of AZN 609 million, or 3.1%. The Company's profit increased from AZN 573 million for the six months ended 30 June 2013 to AZN 611 million for the six months ended 30 June 2014, an increase of AZN 38 million, or 6.6%. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Six Months Ended 30 June 2014 compared to the Six Months Ended 30 June 2013*".

The Company's total revenue increased from AZN 17,139 million in the year ended 31 December 2012 to AZN 38,433 million in the year ended 31 December 2013, an increase of AZN 21,294 million, or 124.2%. The Company's profit increased from AZN 955 million for the year ended 31 December 2012 to AZN 977 million for the year ended 31 December 2013, an increase of AZN 22 million, or 2.3%.

The Company's total assets were AZN 24,442 million as at 30 June 2014, AZN 23,046 million as at 31 December 2013 and AZN 21,866 million as at 31 December 2012. The Company's total equity was AZN 10,762 million as at 30 June 2014, AZN 10,229 million as at 31 December 2013 and AZN 9,853 million as at 31 December 2012.

Relationship with the Government

Since it is wholly-owned by the state, the Company has a strong relationship with the Government, as a result of which the Government has historically provided significant financial and strategic support. The Government has played an important role in helping the Company expand its operations, reserves, production levels and transportation and refining networks. The Company is the largest contributor to the state budget and in the years ended 31 December 2013 and 31 December 2012, paid AZN 1.574 billion and AZN 1.425 billion, respectively, in income and other taxes (or 7.8% and 8.7% of budgeted total budget receipts, respectively). In the year ended 31 December 2013, the Company also paid AZN 237 million in social expenses. In addition, the Company is the largest employer in the country, with over 61,000 employees as at 31 December 2013. In March 2014, SGC was incorporated in Azerbaijan, in which the Company holds 49% of the shares and the remaining 51% of the shares are held by the MEI. The purpose of SGC is to finance the Government's and the Company's share in the projects related to the Shah Deniz project and related pipelines.

Subsidiaries and Divisions

The following table sets forth the Company's principal subsidiaries and divisions, as well as certain joint ventures, their principal lines of operations and certain information related thereto.

Name and Line of Operation	Interest	Description of Operations
	(%)	
Upstream Assets		
Azneft Production Union ("**Azneft**")	100.00	Azneft is engaged in the research, exploration, development and equipping of both offshore and onshore oil and gas fields, the production of oil and gas and maintenance and overhaul repairs of the Company's wells. Azneft comprises 12 enterprises, including the Company's oil and gas production departments. Azneft extracts oil and gas principally from 30 oil and gas fields located in Azerbaijan. As at 1 January 2014, Azneft's reserves constituted 51.9% of the Company's reserves of crude oil. In the six months ended 30 June 2014, Azneft produced 3.4 million tonnes of crude oil (or 82.1% of the total crude oil produced by the Company) and 3.4 bcm of gas (or 88.9% of the total gas produced by the Company) and, in 2013, Azneft produced 6.8 million tonnes of crude oil (or 81.9% of the total crude oil produced by the Company) and 6.6 bcm of gas (or 92.1% of the total gas produced by the Company). See "*Business—Exploration and Production*".
Azerbaijan (ACG) Limited ("**AzACG**")	100.00	AzACG holds the Company's 11.65% share in the ACG PSA. The ACG fields are operated by BP, which holds a 35.78% share in the ACG PSA. Chevron, Statoil, Inpex, Exxon, the Turkish state-owned oil company ("**TPAO**"), Itochu and ONGC Videsh hold the balance of the participating interests in the ACG PSA. See "*Business—Exploration and Production—Significant Production Fields of the Company's Joint Ventures and Associates—Azeri-Chirag-Gunashli fields*".
Azeri-Shah Deniz ("**AzSD**")	100.00	AzSD holds the Company's 10% share in the Shah Deniz PSA. The Company also has a 49% share in SGC, which has a 6.7% interest in the Shah Deniz PSA. The Shah Deniz field is operated by BP, which holds a 28.8% share, and Statoil, which holds a 15.5% share. Lukoil, Naftiran Intertrade Company ("**NICO**") and TPAO also hold participating interests in the Shah Deniz PSA. In July 2014, AzSD and AzSCP entered into a deferred sales agreement with SGC Upstream (as defined below) and SGC Midstream (as defined below) to sell AzSD's 10% interest in the Shah Deniz PSA and AzSCP's 10% interest in the South Caucasus Pipeline Company. This sale is expected to close in 2023. See "*Business—Exploration and Production—Significant Production Fields of the Company's Joint Ventures and Associates—Shah Deniz*".

Name and Line of Operation	Interest	Description of Operations
	(%)	
Geophysics and Geology Department	100.00	The Geophysics and Geology Department's principal operations involve the exploration of oil and gas fields, well logging and engineering geological research works in Azerbaijan. The Department has three units.
Complex Drilling Works Trust	100.00	The Complex Drilling Works Trust is responsible for drilling in the Company's offshore and onshore oil and gas fields.
Midstream Assets		
Oil Pipelines Department	100.00	The Oil Pipelines Department is responsible for the pipeline transmission of oil to the Company's oil refinery plants. The department operates a network of oil pipelines, of various diameters (from 200 to 700 mm), with an aggregate length of 771 km. In the six months ended 30 June 2014, the Oil Pipelines Department's pipeline network transported 4.1 million tonnes of crude oil and in 2013, the Oil Pipelines Department's pipeline network transported 8.3 million tonnes of crude oil. See "*Business—Transportation—Transportation of Crude Oil*".
AzBTC	100.00	AzBTC holds a 25% share in the Baku-Tbilisi-Ceyhan Pipeline Company, which owns the BTC Pipeline. The remaining 75% of BTC is owned by BP, Chevron, Statoil, Inpex, TPAO, Itochu, Conoco-Philips, Total, ENI and ONGC Videsh. See "*Business—Transportation—Transportation of Crude Oil—BTC Pipeline*".
Azerbaijan South Caucasus Pipeline Ltd. ("**AzSCP**")	100.00	AzSCP holds the Company's 10% share in the SCP, which was built mainly to transport gas produced from the Shah Deniz field. In July 2014, AzSD and AzSCP entered into a deferred sales agreement with SGC Upstream and SGC Midstream to sell AzSD's 10% interest in the Shah Deniz PSA and AzSCP's 10% share in the South Caucasus Pipeline Company. See "*Business—Transportation—Transportation and Storage of Gas—South Caucasus Pipeline*".
Downstream Assets		
Petkim Petrokimya Holding A.Ş.	66.00	The Company holds a controlling stake in Petkim, the only petrochemical producer in Turkey, directly and through STEAŞ and SOCAR Izmir Petrokimya A.Ş. ("**SOCAR Izmir**"), which is 100% owned by the Company. See "*Business—Petkim*". In October 2011, STEAŞ commenced site preparation work for a major new refinery that is expected to be built at the Petkim site. See "*Business—Petkim—STAR Project*". SOCAR has a 60% interest in this project, while the remaining interest is held by the MEI.
Heydar Aliyev Baku Oil Refinery	100.00	The Heydar Aliyev Baku Oil Refinery is located in Baku. As at 30 June 2014, the refinery had a design capacity of 6.0 million tonnes of crude oil per annum and its actual processing capacity was 4.2 million tonnes of crude oil per annum, or 120,000 bopd. In the six months ended 30 June 2014, it refined 1.9 million tonnes of crude oil and produced 1.6 million tonnes of refined oil products, and, in 2013, it refined 4.2 million tonnes of crude oil and produced 4.0 million tonnes of refined oil products. In January 2015, the Azerneftyag Oil Refinery was merged into the Heydar Aliyev Baku Oil Refinery to form a single subsidiary, which is 100% owned by the Company. The Azerneftyag Oil Refinery is located in Baku. As at 30 June 2014, the refinery had a design capacity of 10 million tonnes of crude oil per annum and its actual refining capacity was 2.3 million tonnes of crude oil per annum. In 2013, it refined 2.3 million tonnes of crude oil and produced 2.2 million tonnes of refined oil products. The Company is in the process of closing the Azerneftyag Oil Refinery and integrating its refinery assets with those of the Heydar Aliyev Baku Oil Refinery. Certain other obsolete assets at the Azerneftyag Oil Refinery will also be dismantled. See "*Business—Refining, Marketing and Trading—Refining Facilities*".

Name and Line of Operation	Interest	Description of Operations
	(%)	
Azerikimya Production Union	100.00	Azerikimya was previously directly owned by the state. In April 2010, the Company acquired the entire share capital of Azerikimya from the Government for no consideration. Azerikimya is involved in the production of petrochemicals in Azerbaijan and has one production unit, namely Ethylene-Polythylene. Azerikimya's production activities include the production of low-density polyethylene, purified isopropyl, propylene, heavy tar, caustic soda and hydrochloric acid. In the six months ended 30 June 2014, Azerikimya produced 150,094 tonnes of petrochemical products and, in 2013, Azerikimya produced 320,177 tonnes of petrochemical products. See "*Business—Refining, Marketing and Trading—Azerikimya*".
SOCAR Polymer	71.00	In order to improve efficiency and increase production of polypropylene and high-density polyethylene, the Company established SOCAR Polymer as a separate entity. SOCAR Polymer intends to build polypropylene and high-density polyethylene plants in Sumgayit Petrochemical Complex near Baku. Construction of the polypropylene and high-density polyethylene plants is expected to be completed in the first half of 2017 and the first half of 2018, respectively. Following completion of the project, the plants will allow the production of polypropylene (up to 200,000 tonnes per annum) and pipe-grade polyethylene (up to 120,000 tonnes per annum) for the first time in Azerbaijan. See "*Business—Refining, Marketing and Trading—SOCAR Polymer*".
Marketing and Operations Department	100.00	The Marketing and Operations Department's principal operations include the sale of oil, oil products and other products (including industrial services) relating to the oil industry, both in Azerbaijan and abroad. The department manages the sale of hydrocarbons produced by the Company's joint ventures and operating companies. The Marketing and Operations Department exports crude oil for its own account and as an agent for the sale of crude oil from SOFAZ (some of which is purchased by SOCAR Overseas LLC ("**SOCAR Overseas**")) and others. See "*Business—Refining, Marketing and Trading—Sales of Crude Oil*" and "*Relationship with the Government—SOFAZ*".
SOCAR Trading Holding Limited ("**STHL**")	100.00	The Company owns 100% of STHL, which is incorporated in Malta and in turn owns 100% of SOCAR Trading, which is incorporated in Switzerland. SOCAR Trading delivers approximately 90% of the volume of crude oil sold by the Marketing and Operations Department to end users and is able to enter into arrangements common in the industry, including, *inter alia*, hedging, storage and shipping arrangements, that the Marketing and Operations Department does not enter into as a matter of practice.
Carlina Overseas Corporation ("**Carlina**")	100.00	Carlina is the holding company through which the Company owns an interest in Black Sea Terminal LLC, the direct owner of the Kulevi Oil Terminal in Georgia, which exports oil principally from Kazakhstan. SOCAR's share in Carlina is held by AzACG, its wholly-owned subsidiary. See "*Business—Transportation—Transportation of Crude Oil—Kulevi Oil Terminal*".
Gas Export Department	100.00	The Gas Export Department's principal responsibility is the export of natural gas extracted by the Company's operating companies and joint ventures to foreign markets. It also manages the export of gas from the Company's interests in the ACG fields and Shah Deniz field. The Gas Export Department exported 0.7 bcm and 2.4 bcm of natural gas in each of the six months ended 30 June 2014 and the year ended 31 December 2013, respectively. See "*Business—Refining, Marketing and Trading—Sales of Natural Gas*".
SOCAR Overseas	100.00	SOCAR Overseas is a limited liability company established in the Dubai International Financial Centre. Since September 2011, SOCAR Overseas has purchased SOFAZ's crude oil through the Marketing and Economic Operations Department (as agent) for sale to the international markets. See "*Business—Refining, Marketing and Trading—Sales of Crude Oil*".

Name and Line of Operation	Interest	Description of Operations
	(%)	
SOCAR Energy Switzerland	100.00	In July 2012, the Company acquired 100% of Esso Schweiz GmbH from Exxon, which has since been rebranded as SOCAR Energy Switzerland. SOCAR Energy Switzerland operates, *inter alia*, a retail network with more than 148 service stations, of which 63 are company-owned. All service stations have been rebranded and operate under the SOCAR name.
SOCAR Petroleum CJSC	100.00	In December 2013, the Company acquired the 49% of SOCAR Petroleum CJSC that was previously held by AP International for consideration of AZN 47 million. SOCAR Petroleum CJSC is engaged in the storage, distribution and retail sale of oil products in Azerbaijan and is made up of 23 petrol storage depots and 17 petrol stations in Baku and the regions of Azerbaijan. The Company acquired SOCAR Petroleum CJSC to expand its presence in the sale of wholesale and retail oil products in Azerbaijan.
SGC		
SGC	49.00	In March 2014, SGC was incorporated in Azerbaijan pursuant to a Presidential Decree on financing the Government's share in the southern gas corridor project issued in February 2014. The Company holds 49% of the shares of SGC, with the remaining 51% being held by the MEI. The purpose of SGC is to finance the Government's and the Company's share in the projects related to the Shah Deniz project and related pipelines. See "*Relationship with the Government—South Gas Corridor Closed Joint Stock Company*".
SGC Upstream LLC ("**SGC Upstream**")	100.00	SGC Upstream holds a 6.67% interest in the Shah Deniz PSA, which the Company purchased from Statoil in December 2013 and subsequently transferred to SGC Upstream for U.S.$1.4 billion. SGC Upstream also holds a 5.34% interest in Azerbaijan Gas Supply Company, which is a marketing vehicle of the Shah Deniz PSA parties, which were acquired as part of SGC Upstream's purchase of its interest in the Shah Deniz PSA.
SGC Midstream LLC ("**SGC Midstream**")	100.00	SGC Midstream holds a 6.67% interest in the SCP, which it also acquired as part of SGC Upstream's purchase of its interest in the Shah Deniz PSA.
AzTAP GMBH ("**AzTAP**")	100.00	AzTAP holds a 20% interest in the TAP project.
TANAP	100.00	In July 2014, the Company sold its shares in TANAP to SGC for U.S.$166 million. In May 2014, SOCAR signed a share purchase agreement to sell 30% of the TANAP shares to BOTAŞ, the Turkish state-owned gas company, which was subsequently novated to refer to SGC as seller in July 2014. SGC announced its intention to enter into a share purchase agreement to sell 12% of the TANAP shares to BP. Following completion of these sales, which is expected in the second quarter of 2015, SGC will hold a 58% interest in TANAP.

Overview of Financial Information

The financial information of the Company set forth below as at, and for the years ended, 31 December 2013, 2012 and 2011 and as at and, for the six months ended, 30 June 2014 and 2013 has been extracted from, should be read in conjunction with, and is qualified in its entirety by, the Financial Statements, including the notes thereto, contained elsewhere in this Prospectus.

The Company made certain reclassifications to its 2013 interim consolidated statement of profit or loss and other comprehensive income and corresponding notes, in order to conform the presentation of the 2013 interim figures to the presentation of the 2014 interim figures. See "Presentation of Financial, Reserves and Certain Other Information—Reclassifications" and Note 2 to the Interim Financial Statements. Certain reclassifications were also made to the consolidated statement of financial position as at 31 December 2012 and the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows for the year ended 31 December 2012 and the corresponding notes thereto to conform to the presentation as at, and for the year ended 31 December 2013. See "Presentation of Financial, Reserves and Certain Other Information—Reclassifications" and Note 2 to the 2013 Financial Statements. Certain reclassifications were also made to the consolidated statement of financial position as at 31 December 2011 and the consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended 31 December 2011 and the corresponding notes thereto to conform to the presentation as at, and for the year ended 31 December 2012. See "Presentation of Financial, Reserves and Certain Other Information—Reclassifications" and Note 2 to the 2012 Financial Statements. Investors should be aware that (i) the financial data for the Company set out in this Prospectus for the six months ended 30 June 2013 are taken from the Interim Financial Statements, (ii) the financial data for the Company set out in this Prospectus as at and for the year ended 31 December 2012 are taken from the 2013 Financial Statements and (iii) the financial data for the Company set out in this Prospectus as at and for the year ended 31 December 2011 are taken from the 2012 Financial Statements. Accordingly, comparative data differ in certain respects from the corresponding data previously published.

Prospective investors should read the selected financial and other information in conjunction with the information contained in the "Risk Factors", "Management's Discussion and Analysis of Results of Operations and Financial Performance", "Business" and the Financial Statements, including the notes thereto, and other financial data appearing elsewhere in this Prospectus.

Consolidated Statement of Financial Position

	As at 30 June		As at 31 December				Change between 30 June 2014 and 31 December 2013	Change between 31 December 2013 and 2012
	2014[1] (unaudited)	**2014 (unaudited)**	**2013 (unaudited)[2]**	**2013[3]**	**2012[4]**	**2011[5]**		
	(U.S.$ millions)	*(AZN millions)*	*(U.S.$ millions)*		*(AZN millions)*		*(%)*	
ASSETS								
Current assets								
Cash and cash equivalents	1,534	1,203	1,559	1,223	1,223	1,158	(1.6)	0.0
Restricted cash	102	80	105	82	98	94	(2.4)	(16.3)
Deposits	46	36	32	25	79	—	44.0	(68.4)
Trade and other receivables	7,515	5,894	6,761	5,304	5,020	2,690	11.1	5.7
Inventories	1,655	1,298	1,526	1,197	1,273	786	8.4	(6.0)
Other current financial assets	130	102	148	116	142	—	(12.1)	(18.3)
Total current assets	**10,982**	**8,613**	**10,131**	**7,947**	**7,835**	**4,728**	**8.4**	**1.4**
Non-current assets								
Property, plant and equipment	15,452	12,119	14,869	11,665	10,777	9,065	3.9	8.2
Goodwill	241	190	243	191	203	104	(0.5)	(5.9)
Intangible assets other than goodwill	708	555	679	533	576	405	4.1	(7.5)
Investments in jointly-controlled entities	1,169	917	696	546	438	393	67.9	24.7
Investments in associates	1,552	1,217	1,693	1,328	1,157	1,186	(8.4)	14.8
Loans receivable from jointly-controlled entities	—	—	—	—	—	178	—	—
Deferred tax asset	613	481	581	456	492	484	5.5	(7.3)
Other long-term financial assets	189	148	175	137	187	88	8.0	(26.7)
Other long-term assets	258	202	310	243	201	310	(16.9)	20.9
Total non-current assets	**20,182**	**15,829**	**19,246**	**15,099**	**14,031**	**12,213**	**4.8**	**7.6**
TOTAL ASSETS	**31,164**	**24,442**	**29,377**	**23,046**	**21,866**	**16,941**	**6.1**	**5.4**

	As at 30 June		As at 31 December				Change between 30 June 2014 and 31 December 2013	Change between 31 December 2013 and 2012
	2014[1] (unaudited)	2014 (unaudited)	2013 (unaudited)[2]	2013[3]	2012[4]	2011[5]		
	(U.S.$ millions)	*(AZN millions)*	*(U.S.$ millions)*		*(AZN millions)*		*(%)*	
EQUITY								
Charter capital	1,893	1,485	1,676	1,315	1,085	1,059	12.9	21.2
Additional paid-in capital	1,113	873	1,217	955	1,015	785	(8.6)	(5.9)
Retained earnings	10,180	7,984	9,629	7,554	7,234	6,750	5.7	4.4
Cumulative currency translation differences	(130)	(102)	(137)	(108)	(40)	(78)	(5.6)	170.0
Equity attributable to the Group's equity holders	13,056	10,240	12,385	9,716	9,294	8,516	5.4	4.5
Non-controlling interest	666	522	654	513	559	733	1.8	(8.2)
TOTAL EQUITY	**13,722**	**10,762**	**13,039**	**10,229**	**9,853**	**9,249**	**5.2**	**3.8**
LIABILITIES								
Current liabilities								
Trade and other payables	7,998	6,273	7,133	5,596	5,142	2,807	12.1	8.8
Short-term and current portion of long-term borrowings	2,220	1,741	1,969	1,545	1,873	762	12.7	(17.5)
Taxes payable	552	433	794	623	601	434	(30.5)	3.7
Corporate income taxe payable	—	—	—	—	—	5	—	—
Other provisions for liabilities and charges	110	86	98	77	91	65	11.7	(15.4)
Deferred acquisition consideration payable	95	75	90	70	65	—	7.1	7.7
Total current liabilities	**10,976**	**8,608**	**10,084**	**7,911**	**7,772**	**4,073**	**8.8**	**1.8**
Non-current liabilities								
Long-term borrowings	4,614	3,619	4,488	3,521	2,618	2,219	2.8	34.5
Asset retirement obligations	621	487	473	371	621	468	31.3	(40.3)
Other provisions for liabilities and charges	201	158	208	163	229	247	(3.1)	(28.8)
Deferred income	102	80	107	84	91	95	(4.8)	(7.7)
Deferred tax liability	732	574	724	568	561	506	1.1	1.2
Other non-current liabilities	196	154	254	199	121	84	(22.6)	64.5
Total non-current liabilities	**6,466**	**5,072**	**6,254**	**4,906**	**4,241**	**3,619**	**3.4**	**15.7**
TOTAL LIABILITIES	**17,442**	**13,680**	**16,338**	**12,817**	**12,013**	**7,692**	**6.7**	**6.7**
TOTAL LIABILITIES AND EQUITY	**31,164**	**24,442**	**29,377**	**23,046**	**21,866**	**16,941**	**6.1**	**5.4**

Notes :

(1) For convenience, these figures have been translated into U.S.$ at the AZN/U.S.$ exchange rate published by the Central Bank as at 30 June 2014, which was AZN 0.7843 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the AZN amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) For convenience, these figures have been translated into U.S.$ at the AZN/U.S.$ exchange rate published by the Central Bank as at 31 December 2013, which was AZN 0.7845 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the AZN amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(3) Certain reclassifications have been made to the 2013 financial data contained in the Interim Financial Statements to conform to the presentation of the 2014 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the Interim Financial Statements.

(4) Certain reclassifications have been made to the 2012 financial data contained in the 2013 Consolidated Financial Statements to conform to the presentation of the 2012 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the 2013 Consolidated Financial Statements.

(5) Certain reclassifications have been made to the 2011 financial data contained in the 2012 Consolidated Financial Statements to conform to the presentation of the 2011 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the 2012 Consolidated Financial Statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the six months ended 30 June			For the year ended 31 December				Change between the six months ended 30 June 2014 and 2013	Change between the year ended 31 December 2013 and 2012
	2014[1] (unaudited)	**2014 (unaudited)**	**2013 (unaudited)**	**2013[2] (unaudited)**	**2013[3]**	**2012[4]**	**2011[5]**		
	(U.S.$ millions)	*(AZN millions)*		*(U.S.$ millions)*	*(AZN millions)*			*(%)*	
Revenue	26,012	20,404	19,795	48,990	38,433	17,139	8,133	3.1	124.2
Cost of Sales	(23,590)	(18,504)	(18,080)	(44,822)	(35,163)	(13,877)	(4,996)	2.3	153.4
Gross Profit	**2,422**	**1,900**	**1,715**	**4,168**	**3,270**	**3,262**	**3,137**	**10.8**	**0.2**
General and administrative expenses	(553)	(434)	(363)	(1,008)	(791)	(653)	(401)	19.6	21.1
Distribution expenses	(334)	(262)	(257)	(594)	(466)	(452)	(383)	1.9	3.1
Social expenses	(126)	(99)	(126)	(302)	(237)	(234)	(278)	(21.4)	1.3
Other operating expenses	(585)	(459)	(178)	(659)	(517)	(582)	(637)	157.9	(11.2)
Losses on disposal of property, plant and expenses and other losses, net	(6)	(5)	9	9	7	(24)	(26)	(155.6)	(129.2)
Exploration and evaluation expenses	(8)	(6)	(5)	(64)	(50)	(41)	(17)	20.0	22.0
Other operating income	235	184	102	554	435	117	149	80.4	271.8
Operating Profit	**1,045**	**819**	**897**	**2,104**	**1,651**	**1,393**	**1,543**	**(8.7)**	**18.5**
Finance income	34	27	18	61	48	34	72	50.0	41.2
Finance costs	(159)	(125)	(129)	(326)	(256)	(187)	(211)	(3.1)	36.9
Foreign exchange gains/(losses), net	(68)	(53)	(85)	(261)	(205)	36	(413)	(37.6)	669.4
Finance costs, net	**(193)**	**(151)**	**(196)**	**(526)**	**(413)**	**(117)**	**(552)**	**(23)**	**118.5**
Share of result of jointly-controlled entities	78	61	13	37	29	20	19	369.2	45.0
Share of result of associates	136	107	75	250	196	200	174	42.7	(2.0)
Profit before income tax for continuing operations	**1,066**	**836**	**789**	**1,865**	**1,463**	**1,496**	**1,185**	**6.0**	**(2.2)**
Income tax expense	(287)	(225)	(202)	(566)	(444)	(476)	(375)	11.4	(6.7)
Profit for the period from continuing operations	**779**	**611**	**587**	**1,299**	**1,019**	**1,020**	**810**	**4.1**	**(0.1)**
Loss after tax for the period from discontinued operations	—	—	(14)	(54)	(42)	(65)	—	—	(35.4)
Profit for the period	**779**	**611**	**573**	**1,245**	**977**	**955**	**810**	**6.6**	**2.3**
Currency translation differences	9	7	(79)	(205)	(161)	80	(112)	(108.9)	(301.3)
Total comprehensive income for the year	**788**	**618**	**494**	**1,040**	**816**	**1,035**	**698**	**25.1**	**(21.2)**
Profit attributable to:									
Equity holder of the Company	775	608	568	1,257	986	976	954	7.0	1.0
Non-controlling interest	4	3	5	(11)	(9)	(21)	(144)	(40.0)	(57.1)
Total comprehensive income attributable to:									
Equity holder of the Company	783	614	525	1,170	918	1,013	982	17.0	(9.4)
Non-controlling interest	5	4	(31)	(130)	(102)	22	(284)	(112.9)	(563.6)

Notes :

(1) For convenience, these figures have been translated into U.S.$ at the average AZN/U.S.$ exchange rate published by the Central Bank for the six months ended 30 June 2014, which was AZN 0.7844 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the AZN amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) For convenience, these figures have been translated into U.S.$ at the average AZN/U.S.$ exchange rate published by the Central Bank for 2013, which was AZN 0.7845 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the AZN amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(3) Certain reclassifications have been made to the 2013 financial data contained in the Interim Financial Statements to conform to the presentation of the 2014 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the Interim Financial Statements.

(4) Certain reclassifications have been made to the 2012 financial data contained in the 2013 Consolidated Financial Statements to conform to the presentation of the 2013 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the 2013 Consolidated Financial Statements.

(5) Certain reclassifications have been made to the 2011 financial data contained in the 2012 Consolidated Financial Statements to conform to the presentation of the 2012 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the 2012 Consolidated Financial Statements.

Key Financial Ratios

The following table sets forth key financial ratios used by the Company's management in assessing the Company's performance. The financial ratios set forth in this table reflect the operations of the Company.

	As at and for the six months 30 June		**As at end for the year ended 31 December**	
	2014 (unaudited)	**2013 (unaudited)** [1]	**2013**[2]	**2012**[3]
	(AZN millions)			
EBIT[4]	987	985	1,876	1,613
EBITDA[5]	1,563	1,533	2,880	2,593
Debt (including current portion)[6]	5,360	4,611	5,066	4,491
Equity[7]	10,762	10,294	10,229	9,853
Capitalisation[8]	16,122	14,905	15,295	14,344
Net capitalisation[9]	14,919	13,616	14,072	13,121
Net debt[10]	4,157	3,322	3,843	3,268
Debt/EBITDA	3.43	3.01	1.76	1.73
Net debt/Net capitalisation	0.28	0.24	0.27	0.25
Debt/Equity	0.50	0.45	0.50	0.46
Current liquidity[11]	1.00	1.09	1.00	1.01
EBIT/Interest expense	9.58	9.85	9.38	12.13

Notes :

(1) Certain reclassifications have been made to the 2013 financial data contained in the Interim Financial Statements to conform to the presentation of the 2014 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the Interim Financial Statements.

(2) Certain reclassifications have been made to the 2012 financial data contained in the 2013 Consolidated Financial Statements to conform to the presentation of the 2013 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the 2013 Consolidated Financial Statements.

(3) Certain reclassifications have been made to the 2011 financial data contained in the 2012 Consolidated Financial Statements to conform to the presentation of the 2012 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the 2012 Consolidated Financial Statements.

(4) The Company calculates EBIT for any relevant period as profit before income tax for such period plus finance costs, net for such period.

(5) EBITDA, for any relevant period, is EBIT for such period plus depreciation, depletion and amortisation and impairment for property, plant and equipment and accounts receivable for such period.

(6) Debt is current portion of the borrowings plus non-current portion of the borrowings as at 30 June or 31 December of the relevant period.

(7) Equity is the total equity as at 30 June or 31 December of the relevant period.

(8) Capitalisation is debt plus equity as at 30 June or 31 December of the relevant period.

(9) Net capitalisation is net debt plus equity as at 30 June or 31 December of the relevant period.

(10) Net debt is debt minus cash and cash equivalents as at 30 June or 31 December of the relevant period.

(11) Current liquidity is current assets as at 30 June or 31 December of the relevant period divided by current liabilities as at 30 June or 31 December of the relevant period.

Overview of the Offering

*The following is an overview of the Offering and the terms and conditions of the Notes. It does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus. Prospective investors should also carefully consider the information set forth in "Risk Factors" prior to making an investment decision. Capitalised terms not otherwise defined in this overview have the same meaning as in the terms and conditions of the Notes (the "**Conditions**"). See "Terms and Conditions of the Notes" and "Provisions Relating to the Notes while in Global Form" for a more detailed description of the Notes.*

Issuer.. State Oil Company of the Azerbaijan Republic

Joint Lead Managers...................................... Deutsche Bank AG, London Branch and J.P. Morgan Securities plc

Co-Managers... Natixis and SMBC Nikko Capital Markets Limited

Trustee... Deutsche Trustee Company Limited

Principal Paying and Transfer Agent........... Deutsche Bank AG, London Branch

Registrar.. Deutsche Bank Luxembourg S.A.

The Issue.. U.S.$750,000,000 6.95% Senior Unsecured Notes due 2030.

Issue Price.. 100% of the principal amount of the Notes.

Issue Date... 18 March 2015.

Maturity Date.. 18 March 2030.

Interest Rate.. The Notes will bear interest at the rate of 6.95% per annum from and including 18 March 2015 to but excluding the Maturity Date.

See "*Terms and Conditions of the Notes—Condition 7. Interest*".

Yield... 6.95%.

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

Interest Payment Dates.................................. Interest will be payable semi-annually in arrear on 18 March and 18 September in each year, commencing on 18 September 2015.

Ranking... The Notes constitute direct, general, unconditional, unsubordinated and (subject to Condition 6) unsecured obligations of the Issuer. The Notes will at all times rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured obligations of the Issuer.

See "*Terms and Conditions of the Notes—Condition 5. Status*".

Cross-Default.. The Notes will have the benefit of a cross-default clause.

See "*Terms and Conditions of the Notes—Condition 12(c). Cross-default*".

Negative Pledge... The Notes will have the benefit of a negative pledge.

See "*Terms and Conditions of the Notes—Condition 6(c). Limitations on Indebtedness; Negative Pledge*".

Covenants..	The Notes will have the benefit of the following covenants: (i) limitation on distributions of net income; (ii) limitation on disposals of Core Assets; (iii) negative pledge; (iv) minimum tangible net worth; (v) financial information; (vi) maintenance of authorisations; (vii) mergers and consolidations; and (viii) officer's certificates. See "*Terms and Conditions of the Notes—Condition 6. Covenants*".
Put Option upon a Change of Status.............	Notes may also be redeemed at the option of the Noteholders upon the occurrence of a Change of Status. See "*Terms and Conditions of the Notes—Condition 9(c). Redemption Upon a Change of Status*".
Tax Redemption..	The Issuer may at its option redeem the Notes, in whole but not in part, at their principal amount plus accrued interest in the event of certain changes affecting taxation in Azerbaijan. See "*Terms and Conditions of the Notes—Condition 9(b). Redemption for Taxation Reasons*".
Use of Proceeds	The net proceeds of the offering of the Notes will be used for general corporate purposes, including to refinance existing indebtedness and partially fund the Company's upstream and downstream activities. See "*Use of Proceeds*".
Form of the Notes..	The Notes will be issued in registered form in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes will be represented by the Global Certificate which will be registered in the name of BT Globenet Nominees Limited, as nominee for, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg on or around the Closing Date. Definitive Note Certificates evidencing holdings of Notes will be available only in certain limited circumstances. See "*Summary of Provisions Relating to the Notes in Global Form*".
Listing and Clearing.......................................	Application has been made to list the Notes on the London Stock Exchange. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with the following ISIN and Common Code: ISIN: XS1196496688 Common Code: 119649668
Governing Law	The Notes, including any non-contractual obligations arising out of or in connection with the Notes, will be governed by, and shall be construed in accordance with, English law. See "*Terms and Conditions of the Notes—Condition 19. Governing Law and Arbitration*".
Selling Restrictions	The offering and sale of Notes is subject to applicable laws and regulations including, without limitation, those of the United States, the United Kingdom and Azerbaijan. See "*Subscription and Sale*".

Ratings...	The Notes are expected to be rated BBB- by Fitch and BB+ by S&P. The Issuer's current long term rating by Fitch is BBB- (outlook stable), by Moody's is Ba1 (outlook stable) and by S&P is BB+ (outlook negative). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.
Risk Factors...	Investing in the Notes involves a high degree of risk. See "*Risk Factors*".

USE OF PROCEEDS

The net proceeds of the offering will be used for general corporate purposes, including to refinance existing indebtedness and partially fund the Company's upstream and downstream activities.

SELECTED FINANCIAL INFORMATION

The financial information of the Company set forth below as at, and for the years ended, 31 December 2013, 2012 and 2011 and as at and, for the six months ended, 30 June 2014 and 2013 has been extracted from, should be read in conjunction with, and is qualified in its entirety by, the Financial Statements, including the notes thereto, contained elsewhere in this Prospectus.

The Company made certain reclassifications to its 2013 interim consolidated statement of profit or loss and other comprehensive income and corresponding notes, in order to conform the presentation of the 2013 interim figures to the presentation of the 2014 interim figures. See "Presentation of Financial, Reserves and Certain Other Information—Reclassifications" and Note 2 to the Interim Financial Statements. Certain reclassifications were also made to the consolidated statement of financial position as at 31 December 2012 and the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows for the year ended 31 December 2012 and the corresponding notes thereto to conform to the presentation as at, and for the year ended 31 December 2013. See "Presentation of Financial, Reserves and Certain Other Information—Reclassifications" and Note 2 to the 2013 Financial Statements. Certain reclassifications were also made to the consolidated statement of financial position as at 31 December 2011 and the consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended 31 December 2011 and the corresponding notes thereto to conform to the presentation as at, and for the year ended 31 December 2012. See "Presentation of Financial, Reserves and Certain Other Information—Reclassifications" and Note 2 to the 2012 Financial Statements. Investors should be aware that (i) the financial data for the Company set out in this Prospectus for the six months ended 30 June 2013 are taken from the Interim Financial Statements, (ii) the financial data for the Company set out in this Prospectus as at and for the year ended 31 December 2012 are taken from the 2013 Financial Statements and (iii) the financial data for the Company set out in this Prospectus as at and for the year ended 31 December 2011 are taken from the 2012 Financial Statements. Accordingly, comparative data differ in certain respects from the corresponding data previously published.

Prospective investors should read the selected financial and other information in conjunction with the information contained in the "Risk Factors", "Management's Discussion and Analysis of Results of Operations and Financial Performance", "Business" and the Financial Statements, including the notes thereto, and other financial data appearing elsewhere in this Prospectus.

Consolidated Statement of Financial Position

	As at 30 June			As at 31 December			Change between 30 June 2014 and 31 December 2013	Change between 31 December 2013 and 2012
	2014[(1)] (unaudited)	2014 (unaudited)	2013 (unaudited)[(2)]	2013[(3)]	2012[(4)]	2011[(5)]		
	(U.S.$ millions)	*(AZN millions)*	*(U.S.$ millions)*		*(AZN millions)*		*(%)*	
ASSETS								
Current assets								
Cash and cash equivalents	1,534	1,203	1,559	1,223	1,223	1,158	(1.6)	0.0
Restricted cash	102	80	105	82	98	94	(2.4)	(16.3)
Deposits	46	36	32	25	79	—	44.0	(68.4)
Trade and other receivables	7,515	5,894	6,761	5,304	5,020	2,690	11.1	5.7
Inventories	1,655	1,298	1,526	1,197	1,273	786	8.4	(6.0)
Other current financial assets	130	102	148	116	142	—	(12.1)	(18.3)
Total current assets	**10,982**	**8,613**	**10,131**	**7,947**	**7,835**	**4,728**	**8.4**	**1.4**
Non-current assets								
Property, plant and equipment	15,452	12,119	14,869	11,665	10,777	9,065	3.9	8.2
Goodwill	241	190	243	191	203	104	(0.5)	(5.9)
Intangible assets other than goodwill	708	555	679	533	576	405	4.1	(7.5)
Investments in jointly-controlled entities	1,169	917	696	546	438	393	67.9	24.7
Investments in associates	1,552	1,217	1,693	1,328	1,157	1,186	(8.4)	14.8
Loans receivable from jointly-controlled entities	—	—	—	—	—	178	—	—
Deferred tax asset	613	481	581	456	492	484	5.5	(7.3)
Other long-term financial assets	189	148	175	137	187	88	8.0	(26.7)
Other long-term assets	258	202	310	243	201	310	(16.9)	20.9
Total non-current assets	**20,182**	**15,829**	**19,246**	**15,099**	**14,031**	**12,213**	**4.8**	**7.6**
TOTAL ASSETS	**31,164**	**24,442**	**29,377**	**23,046**	**21,866**	**16,941**	**6.1**	**5.4**

	As at 30 June		As at 31 December				Change between 30 June 2014 and 31 December 2013	Change between 31 December 2013 and 2012
	2014[1] (unaudited)	2014 (unaudited)	2013 (unaudited)[2]	2013[3]	2012[4]	2011[5]		
	(U.S.$ millions)	*(AZN millions)*	*(U.S.$ millions)*		*(AZN millions)*		*(%)*	
EQUITY								
Charter capital	1,893	1,485	1,676	1,315	1,085	1,059	12.9	21.2
Additional paid-in capital	1,113	873	1,217	955	1,015	785	(8.6)	(5.9)
Retained earnings	10,180	7,984	9,629	7,554	7,234	6,750	5.7	4.4
Cumulative currency translation differences	(130)	(102)	(137)	(108)	(40)	(78)	(5.6)	170.0
Equity attributable to the Group's equity holders	13,056	10,240	12,385	9,716	9,294	8,516	5.4	4.5
Non-controlling interest	666	522	654	513	559	733	1.8	(8.2)
TOTAL EQUITY	**13,722**	**10,762**	**13,039**	**10,229**	**9,853**	**9,249**	**5.2**	**3.8**
LIABILITIES								
Current liabilities								
Trade and other payables	7,998	6,273	7,133	5,596	5,142	2,807	12.1	8.8
Short-term and current portion of long-term borrowings	2,220	1,741	1,969	1,545	1,873	762	12.7	(17.5)
Taxes payable	552	433	794	623	601	434	(30.5)	3.7
Corporate income taxe payable	—	—	—	—	—	5	—	—
Other provisions for liabilities and charges	110	86	98	77	91	65	11.7	(15.4)
Deferred acquisition consideration payable	95	75	90	70	65	—	7.1	7.7
Total current liabilities	**10,976**	**8,608**	**10,084**	**7,911**	**7,772**	**4,073**	**8.8**	**1.8**
Non-current liabilities								
Long-term borrowings	4,614	3,619	4,488	3,521	2,618	2,219	2.8	34.5
Asset retirement obligations	621	487	473	371	621	468	31.3	(40.3)
Other provisions for liabilities and charges	201	158	208	163	229	247	(3.1)	(28.8)
Deferred income	102	80	107	84	91	95	(4.8)	(7.7)
Deferred tax liability	732	574	724	568	561	506	1.1	1.2
Other non-current liabilities	196	154	254	199	121	84	(22.6)	64.5
Total non-current liabilities	**6,466**	**5,072**	**6,254**	**4,906**	**4,241**	**3,619**	**3.4**	**15.7**
TOTAL LIABILITIES	**17,442**	**13,680**	**16,338**	**12,817**	**12,013**	**7,692**	**6.7**	**6.7**
TOTAL LIABILITIES AND EQUITY	**31,164**	**24,442**	**29,377**	**23,046**	**21,866**	**16,941**	**6.1**	**5.4**

Notes :

(1) For convenience, these figures have been translated into U.S.$ at the AZN/U.S.$ exchange rate published by the Central Bank as at 30 June 2014, which was AZN 0.7843 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the AZN amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) For convenience, these figures have been translated into U.S.$ at the AZN/U.S.$ exchange rate published by the Central Bank as at 31 December 2013, which was AZN 0.7845 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the AZN amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(3) Certain reclassifications have been made to the 2013 financial data contained in the Interim Financial Statements to conform to the presentation of the 2014 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the Interim Financial Statements.

(4) Certain reclassifications have been made to the 2012 financial data contained in the 2013 Consolidated Financial Statements to conform to the presentation of the 2012 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the 2013 Consolidated Financial Statements.

(5) Certain reclassifications have been made to the 2011 financial data contained in the 2012 Consolidated Financial Statements to conform to the presentation of the 2011 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the 2012 Consolidated Financial Statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the six months ended 30 June			For the year ended 31 December				Change between the six months ended 30 June 2014 and 2013	Change between the year ended 31 December 2013 and 2012
	2014[1] (unaudited)	**2014 (unaudited)**	**2013 (unaudited)**	**2013[2] (unaudited)**	**2013[3]**	**2012[4]**	**2011[5]**		
	(U.S.$ millions)	*(AZN millions)*		*(U.S.$ millions)*	*(AZN millions)*			*(%)*	
Revenue	26,012	20,404	19,795	48,990	38,433	17,139	8,133	3.1	124.2
Cost of Sales	(23,590)	(18,504)	(18,080)	(44,822)	(35,163)	(13,877)	(4,996)	2.3	153.4
Gross Profit	**2,422**	**1,900**	**1,715**	**4,168**	**3,270**	**3,262**	**3,137**	**10.8**	**0.2**
General and administrative expenses	(553)	(434)	(363)	(1,008)	(791)	(653)	(401)	19.6	21.1
Distribution expenses	(334)	(262)	(257)	(594)	(466)	(452)	(383)	1.9	3.1
Social expenses	(126)	(99)	(126)	(302)	(237)	(234)	(278)	(21.4)	1.3
Other operating expenses	(585)	(459)	(178)	(659)	(517)	(582)	(637)	157.9	(11.2)
Losses on disposal of property, plant and expenses and other losses, net	(6)	(5)	9	9	7	(24)	(26)	(155.6)	(129.2)
Exploration and evaluation expenses	(8)	(6)	(5)	(64)	(50)	(41)	(17)	20.0	22.0
Other operating income	235	184	102	554	435	117	149	80.4	271.8
Operating Profit	**1,045**	**819**	**897**	**2,104**	**1,651**	**1,393**	**1,543**	**(8.7)**	**18.5**
Finance income	34	27	18	61	48	34	72	50.0	41.2
Finance costs	(159)	(125)	(129)	(326)	(256)	(187)	(211)	(3.1)	36.9
Foreign exchange gains/(losses), net	(68)	(53)	(85)	(261)	(205)	36	(413)	(37.6)	669.4
Finance costs, net	**(193)**	**(151)**	**(196)**	**(526)**	**(413)**	**(117)**	**(552)**	**(23)**	**118.5**
Share of result of jointly-controlled entities	78	61	13	37	29	20	19	369.2	45.0
Share of result of associates	136	107	75	250	196	200	174	42.7	(2.0)
Profit before income tax for continuing operations	**1,066**	**836**	**789**	**1,865**	**1,463**	**1,496**	**1,185**	**6.0**	**(2.2)**
Income tax expense	(287)	(225)	(202)	(566)	(444)	(476)	(375)	11.4	(6.7)
Profit for the period from continuing operations	**779**	**611**	**587**	**1,299**	**1,019**	**1,020**	**810**	**4.1**	**(0.1)**
Loss after tax for the period from discontinued operations	—	—	(14)	(54)	(42)	(65)	—	—	(35.4)
Profit for the period	**779**	**611**	**573**	**1,245**	**977**	**955**	**810**	**6.6**	**2.3**
Currency translation differences	9	7	(79)	(205)	(161)	80	(112)	(108.9)	(301.3)
Total comprehensive income for the year	**788**	**618**	**494**	**1,040**	**816**	**1,035**	**698**	**25.1**	**(21.2)**
Profit attributable to:									
Equity holder of the Company	775	608	568	1,257	986	976	954	7.0	1.0
Non-controlling interest	4	3	5	(11)	(9)	(21)	(144)	(40.0)	(57.1)
Total comprehensive income attributable to:									
Equity holder of the Company	783	614	525	1,170	918	1,013	982	17.0	(9.4)
Non-controlling interest	5	4	(31)	(130)	(102)	22	(284)	(112.9)	(563.6)

Notes :

(1) For convenience, these figures have been translated into U.S.$ at the average AZN/U.S.$ exchange rate published by the Central Bank for the six months ended 30 June 2014, which was AZN 0.7844 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the AZN amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) For convenience, these figures have been translated into U.S.$ at the average AZN/U.S.$ exchange rate published by the Central Bank for 2013, which was AZN 0.7845 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the AZN amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(3) Certain reclassifications have been made to the 2013 financial data contained in the Interim Financial Statements to conform to the presentation of the 2014 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the Interim Financial Statements.

(4) Certain reclassifications have been made to the 2012 financial data contained in the 2013 Consolidated Financial Statements to conform to the presentation of the 2013 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the 2013 Consolidated Financial Statements.

(5) Certain reclassifications have been made to the 2011 financial data contained in the 2012 Consolidated Financial Statements to conform to the presentation of the 2012 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the 2012 Consolidated Financial Statements.

Key Financial Ratios

The following table sets forth key financial ratios used by the Company's management in assessing the Company's performance. The financial ratios set forth in this table reflect the operations of the Company.

	As at and for the six months 30 June		As at end for the year ended 31 December	
	2014 (unaudited)	2013 (unaudited)[1]	2013[2]	2012[3]
	(AZN millions)			
EBIT[4]	987	985	1,876	1,613
EBITDA[5]	1,563	1,533	2,880	2,593
Debt (including current portion)[6]	5,360	4,611	5,066	4,491
Equity[7]	10,762	10,294	10,229	9,853
Capitalisation[8]	16,122	14,905	15,295	14,344
Net capitalisation[9]	14,919	13,616	14,072	13,121
Net debt[10]	4,157	3,322	3,843	3,268
Debt/EBITDA	3.43	3.01	1.76	1.73
Net debt/Net capitalisation	0.28	0.24	0.27	0.25
Debt/Equity	0.50	0.45	0.50	0.46
Current liquidity[11]	1.00	1.09	1.00	1.01
EBIT/Interest expense	9.58	9.85	9.38	12.13

Notes :

(1) Certain reclassifications have been made to the 2013 financial data contained in the Interim Financial Statements to conform to the presentation of the 2014 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the Interim Financial Statements.

(2) Certain reclassifications have been made to the 2012 financial data contained in the 2013 Consolidated Financial Statements to conform to the presentation of the 2013 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the 2013 Consolidated Financial Statements.

(3) Certain reclassifications have been made to the 2011 financial data contained in the 2012 Consolidated Financial Statements to conform to the presentation of the 2012 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the 2012 Consolidated Financial Statements.

(4) The Company calculates EBIT for any relevant period as profit before income tax for such period plus finance costs, net for such period.

(5) EBITDA, for any relevant period, is EBIT for such period plus depreciation, depletion and amortisation and impairment for property, plant and equipment and accounts receivable for such period.

(6) Debt is current portion of the borrowings plus non-current portion of the borrowings as at 30 June or 31 December of the relevant period.

(7) Equity is the total equity as at 30 June or 31 December of the relevant period.

(8) Capitalisation is debt plus equity as at 30 June or 31 December of the relevant period.

(9) Net capitalisation is net debt plus equity as at 30 June or 31 December of the relevant period.

(10) Net debt is debt minus cash and cash equivalents as at 30 June or 31 December of the relevant period.

(11) Current liquidity is current assets as at 30 June or 31 December of the relevant period divided by current liabilities as at 30 June or 31 December of the relevant period.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL PERFORMANCE

The following management's discussion and analysis of the Company's results of operations and financial performance should be read in conjunction with the Financial Statements and the related notes thereto included elsewhere in this Prospectus. The Financial Statements have been prepared in accordance with IFRS. This management's discussion and analysis contains forward-looking statements, which involve risks and uncertainties. See "Forward-Looking Statements". The Company's actual results could differ materially from those anticipated in the forward-looking statements contained herein for several reasons, including those set forth under "Risk Factors" and elsewhere in this Prospectus.

Certain reclassifications have been made to (i) the financial data for the six months ended 30 June 2013 contained in the Interim Financial Statements; (ii) the financial data as at and for the year ended 31 December 2012 contained in the 2013 Financial Statements; and (iii) the financial data as at and for the year ended 31 December 2011 contained in the 2012 Financial Statements to conform to the presentation used in each of the Interim Financial Statements, the 2013 Financial Statements and the 2012 Financial Statements. See "Presentation of Financial, Reserves and Certain Other Information—Reclassifications" and Note 2 to each of the Interim Financial Statements, 2013 Financial Statements and 2012 Financial Statements. Investors should be aware that (i) the financial data for the Company set out in this Prospectus for the six months ended 30 June 2013 are taken from the Interim Financial Statements, (ii) the financial data for the Company set out in this Prospectus as at and for the year ended 31 December 2012 are taken from the 2013 Financial Statements and (iii) the financial data for the Company set out in this Prospectus as at and for the year ended 31 December 2011 are taken from the 2012 Financial Statements. Accordingly, comparative data differ in certain respects from the corresponding data previously published. The Company believes that these reclassifications have had no material impact on the financial position, results of operation or equity of the Company.

Critical Accounting Policies and Estimates

The Financial Statements have been prepared in accordance with IFRS. The preparation of consolidated financial statements in accordance with IFRS requires the Company's management to select appropriate accounting policies and to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities. For a full description of the Company's significant accounting policies, see Note 2 to the 2013 Financial Statements. Management's selection of appropriate accounting policies and the making of such estimates and assumptions involve judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts would have been reported under different conditions, or if different assumptions had been used, and actual amounts may differ from these estimates. Set forth below are summaries of certain of the most critical accounting estimates and judgments required of the Company's management. See Note 3 to the 2013 Financial Statements.

Estimation of oil and gas reserves

Oil and gas reserves are key elements in the Company's investment decision-making process. They are also an important element of testing for impairment. Changes in A+B+C1 reserves will affect unit-of-production depreciation charges in the statement of profit or loss and other comprehensive income. Estimates of oil and gas reserves are inherently imprecise, require the application of judgment and are subject to future revision. Accordingly, financial and accounting measures (such as depletion and amortisation charges and provision for asset retirement obligations) that are based on A+B+C1 reserves are also subject to change.

A+B+C1 reserves are estimated by reference to available reservoir and well information. All A+B+C1 reserves estimates are subject to revision, either upward or downward, based on new information, such as from drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, changes in the technical maturity of hydrocarbon reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions. In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are developed and being depleted. As a field goes into production, the amount of A+B+C1 reserves will be subject to future revision once additional information becomes available through, for example, the drilling of additional wells or the observation of long-term reservoir performance under producing conditions. As those fields are further developed, new information may lead to revisions.

The Company's A+B+C1 reserves information is based on work performed by its in-house geologists in conformity with the "Prognosis Oil and Gas Resources Fields Reserves Classification" methodology, a system employed in the former Soviet Union. See "*Presentation of Financial, Reserves and Certain Other Information*".

Asset retirement obligations

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

The Company assesses its asset retirement obligation liabilities in accordance with the guidelines of IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities. The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the statement of financial position date based on current applicable legislation and regulations and is also subject to changes because of modifications, revisions and changes in laws and regulations and respective interpretations thereof. Governmental authorities are continually considering applicable regulations and their enforcement. Consequently, the Company's ultimate asset retirement liabilities may differ from the recorded amounts. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of incurring such costs. Changes in any of these conditions may result in adjustments to provisions recorded by the Company. See Note 21 to the 2013 Financial Statements.

Environmental obligations

The Company records a provision in respect of estimated costs of remediation of the damage historically caused to the natural environment, primarily in the Absheron area, both by the activities of the Company and its legacy operations in periods preceding the formation of the Company. The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the statement of financial position date based on current applicable legislation and regulations and is also subject to changes due to modifications, revisions and changes in laws and regulations and respective interpretations thereof. Governmental authorities are continually considering applicable regulations and their enforcement. Consequently, the Company's ultimate liability for environmental remediation may differ from the recorded amounts. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of incurring such costs. Changes in any of these conditions may result in adjustments to provisions recorded by the Company. Management determines the discount rate used for discounting environmental remediation costs as a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability as at the reporting date. See Note 22 to the 2013 Financial Statements.

Impairment of non-financial assets

Management assesses whether there are any indicators of possible impairment of all non-financial assets at each reporting date based on events or circumstances that indicate that the carrying value of assets may not be recoverable. Such indicators include changes in the Company's business plans, changes in commodity prices leading to unprofitable performances, changes in product mixes, and for oil and gas properties, significant downward revisions of estimated proven reserves. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when impairment indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

Impairment provision for trade receivables

The impairment provision for trade receivables is based on management's assessment of the probability of collection of individual customer accounts receivable in accordance with IFRS. Significant financial difficulties of the customer, probability that the customer will suffer bankruptcy or financial reorganisation and default or delinquency in payments by the customer are considered indicators that the receivable is potentially impaired. Actual results could differ from these estimates if there is any deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates. When there is no expectation of recovering additional cash for an amount receivable, such amount receivable is written off against associated provision. Future cash flows of trade receivables that are evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Main Factors Affecting Results of Operations and Liquidity

The main factors that have affected the Company's results of operations during the six months ended 30 June 2014 and the years ended 31 December 2013 and 2012, as compared to previous periods, and that can be expected to affect the Company's results of operations in the future, are: (i) changes in crude oil and refined oil product prices; (ii) changes in production of crude oil, gas and petrochemicals; (iii) impact of changes in exchange rates on export sales and operating margins; (iv) changes in the share of income from jointly-controlled entities and associates; (v) acquisitions; (vi) taxation; and (vii) the current economic environment.

Changes in crude oil and refined oil product prices

The prices of crude oil and refined oil products internationally and in Azerbaijan have a significant impact on the Company's results of operations. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Company's revenue and net profits fluctuate significantly with changes in crude oil prices, which are historically volatile and are affected by a variety of factors beyond the Company's control*". World prices for crude oil are characterised by significant fluctuations that are determined by the global balance of supply and demand, which is entirely outside of the Company's control. The Company's revenue and net income fluctuate significantly with changes in crude oil prices. Crude oil prices have been particularly volatile in recent years, declining in mid-2010 before recovering later in the year and into 2011. While crude oil prices declined in June 2012, prices recovered in July 2012 and, according to the EIA, average crude oil prices in 2012 remained high for the second year in a row. According to the EIA, the average spot price of Brent crude oil declined to U.S.$109/bbl in 2013, as compared to an average of U.S.$112/bbl in 2012 and U.S.$111/bbl in 2011. In the six months ended 30 June 2014, the average spot price of Brent crude oil declined further to U.S.$103/bbl, according to data published by the EIA. International crude oil prices have continued to fall in 2014 and December 2014 marked the sixth consecutive month in which monthly average Brent prices had decreased, falling by U.S.$17/bbl, as compared to November 2014, to U.S.$62/bbl, the lowest since May 2009. Historically, high oil prices have had a considerable positive impact on the Company's business, prospects, financial condition, cash flows and results of operations and low oil prices are expected to have a corresponding negative effect. As at the date of this Prospectus, the price of crude oil is significantly below the record high average monthly price of U.S.$132.72/bbl recorded in July 2008. As at 23 February 2015, the spot price for Brent crude oil was U.S.$59.78/bbl. In its January 2015 report, the EIA forecasted that the Brent crude oil spot price will average U.S.$58/bbl in 2015 and U.S.$75/bbl in 2016.

Oil and gas commodity prices are one of the key factors affecting the Company's results of operations, and a decline in prices for crude oil has had and may continue to have a negative effect on the Company's results of operations. Generally, commodities prices fluctuate based on a number of factors beyond the Company's control and the Company's management cannot predict if or when the recent significant volatility in oil prices will be repeated; accordingly, the actual prices the Company realises may vary substantially from its current estimates.

A significant proportion of the Company's sales of refined oil products are sold in the domestic market at prices regulated by the Government and generally below international market prices, although the Government increased domestic prices in December 2013 and domestic prices have historically been above the cost of production. A future disparity between higher crude oil costs and lower prices of refined oil products would have an adverse impact on the financial results of the Company's refining segment.

The mix of exported crude oil and crude oil used by the Company domestically has affected, and is expected to continue to affect, the Company's results of operations. Historically, sales prices for exported oil products have been higher than domestic prices, as the Government sets the domestic price of oil products at below market rates, although the difference between domestic and international prices has decreased recently due to lower international oil prices and higher Government-set domestic prices. From time to time, the Government may issue such recommendations or mandates to prevent domestic price increases, particularly when there is not enough supply due to high demand, which would cause domestic prices to increase. The Company expects export sales prices to continue to remain at a higher level compared to domestic sales prices and thus seeks to maximise the percentage of its total crude oil sales that are export sales. Should the percentage of export sales increase, this may have a positive effect on the results of operations of the Company while, correspondingly, if the percentage of domestic sales increases, the Company's result of operations could be adversely affected.

Prior to August 2012, the Company did not use commodity price hedging arrangements. In November 2012, the Company began consolidating the results of operations of SOCAR Trading, which does use limited commodity price hedging arrangements in the ordinary course of its business.

Changes in production of crude oil, gas and petrochemicals

The Company's ability to generate revenue depends primarily on its production of crude oil, gas and petrochemicals. The Company produces crude oil, gas and refined oil products through its production subsidiaries, which it fully consolidates, as well as through its jointly controlled entities. However, because the Company accounts for its jointly-controlled entities under the equity method, the Company does not directly derive revenue or incur costs of sales from the production of crude oil, gas and refined oil products by its jointly controlled entities. Accordingly, in the context of the discussion of the Company's revenue and cost of sales, production data is provided only for the Company and its subsidiaries (excluding the production of jointly-controlled entities). The Company uses "consolidated production" to refer to production of the Company and its majority-owned subsidiaries (in other words, production from Azneft), and "total production" to refer to consolidated production plus production attributable to the Company through joint ventures and PSAs (*e.g*., under the ACG PSA).

Production of Crude Oil

Azneft accounted for 100% of the Company's consolidated production of crude oil in the six months ended 30 June 2014 and the year ended 31 December 2013, respectively, and 83.3% and 81.9%, respectively, of the Company's total oil production. In each of 2013 and 2012, the Company's consolidated production of crude oil was 6.8 million, while the Company's total production of crude oil was 8.3 million tonnes. In the six months ended 30 June 2014, the Company's consolidated production and total production of crude oil were 3.4 million tonnes and 4.2 million tonnes, respectively. In addition, in 2013, the Company received 2.2 million tonnes of crude oil from ACG through AzACG, its wholly-owned subsidiary that in turn holds an 11.65% share in the ACG PSA and 0.2 million tonnes of crude oil from the Shah Deniz PSA.

Production of Gas

Azneft accounted for 100% of the Company's consolidated gas production in the six months ended 30 June 2014 and the year ended 31 December 2013, respectively, and 89.5% and 93.0%, respectively, of the Company's total gas production. In 2013, the Company's consolidated gas production increased by 1.5% from 6.5 bcm in 2012 to 6.6 bcm in 2013. The Company's total gas production increased by 2.9% from 6.9 bcm in 2012 to 7.1 bcm in 2013. In the six months ended 30 June 2014, the Company's consolidated production and total production of gas were 3.4 bcm and 3.8 bcm, respectively. In addition, in 2013, the Company received 2.2 bcm of associated gas from its interest in the ACG PSA and 0.7 bcm of associated gas from its interest in the Shah Deniz PSA.

Production of Petrochemicals

The Company consolidates production from Azerikimya and Petkim. In 2013, Azerikimya and Petkim produced 0.2 million tonnes and 1.7 million tonnes of saleable petrochemical products, respectively, accounting for 11.9% and 88.1%, respectively, of the Company's production of petrochemicals. In 2013, the Company's consolidated production of petrochemicals increased from 0.19 tonnes in 2012 to 0.22 tonnes in 2013, while the Company's total production of petrochemicals decreased by 6.5% from 2.0 million tonnes in 2012 to 1.9 million tonnes in 2013. In the six months ended 30 June 2014, the Company's consolidated production and total production of petrochemicals were 0.1 million tonnes and 1.0 million tonnes, respectively.

Impact of changes in exchange rates on export sales and operating margins

The Manat/U.S. Dollar exchange rate and inflation trends in Azerbaijan affect the Company's results of operations principally because: (i) a majority of the Company's consolidated revenue from sales of crude oil and refined oil products is denominated in U.S. Dollars, while a substantial portion of the Company's expenses is denominated in Manat; and (ii) a significant majority of its borrowings and accounts payable is denominated in U.S. Dollars. In addition, it is expected that the STAR Rafineri A.S. ("**STAR**") will use U.S. Dollars as its functional currency. See "*Business—Petkim—STAR Project*". Accordingly, fluctuations in the Manat/U.S. Dollar exchange rate may significantly affect the Company's consolidated results of operations. Although the Manat/U.S. Dollar exchange rate has been fairly stable in recent years, the exchange rate has fluctuated significantly in the past.

A depreciation of the Manat would positively affect the Company's consolidated sales revenue in light of the breakdown of its transactional currency exposures. On the other hand, the Company has significant U.S. Dollar denominated liabilities and any depreciation of the Manat relative to the U.S. Dollar would result in foreign currency translation losses that are recognised in the Company's consolidated statement of comprehensive income. While certain of the Company's subsidiaries, such as Azneft and AzACG, which have significant U.S. Dollar revenues and have relatively minor amounts of U.S. Dollar denominated liabilities, may benefit from a devaluation of the Manat against the U.S. Dollar, because a significant majority of the Company's consolidated total borrowings is denominated in U.S.

Dollars, a devaluation of the Manat would have a net negative impact on the Company's financial condition and results of operations.

The Company does not use currency hedging arrangements.

The following table sets forth the year average and year-end Manat/U.S. Dollar exchange rates reported by the Central Bank (after rounding adjustment) for the years indicated:

Period	Year Average(1)	End of period
	(AZN per U.S.$1.00)	
Year ended 31 December 2011	0.7864	0.7865
Year ended 31 December 2012	0.7856	0.7850
Year ended 31 December 2013	0.7845	0.7845
Six months ended 30 June 2014	0.7844	0.7843

Note:

(1) The average of the rate reported by the Central Bank for each month during the relevant year.

The Manat/U.S. Dollar exchange rate reported by the Central Bank on 25 February 2015 was AZN 1.0502 per U.S.$1.00.

The Company is also exposed to the Manat/Turkish Lira exchange rate due to the fact that Petkim reports its results in Turkish Lira. See "*Business—Petkim*". In addition, the Company is exposed to the Manat/Swiss Franc exchange rate, in respect of its retail operations in Switzerland, the Manat/Ukrainian Hryvnia exchange rate, in respect of its retail operations in Ukraine and the Manat/Lari exchange rate, in respect of its operations in Georgia. See "*Business—Refining, Marketing and Trading—Refined Oil Products Sales and Distribution—Retail Station Network*".

The Company's operations in Turkey expose it to the U.S. Dollar/Turkish Lira exchange rate, primarily due to the fact that Petkim sells a majority of its products on the Turkish market, while substantially all of its borrowings are denominated in U.S. Dollars. See "*—Borrowings*".

See "*Risk Factors—Risks Relating to the Company's Business—Fluctuations in foreign currency exchange rates may create risk of loss*".

Changes in interests in joint operations and changes in results of associates and joint ventures

The Company holds significant interests, both directly and through its subsidiaries, in a number of jointly-controlled projects, including, *inter alia*, the ACG PSA, the Shah Deniz PSA, Surakhani PSA, Gobustan PSA, Mishovdag and Kelameddin PSA, Kursengi and Garabagli PSA, Binagadi PSA, Padar PSA, Pirsaat PSA, Zigh and Hovsan PSA, Kurovdag PSA, Neftchala PSA and Bahar PSA.

Certain of the Company's upstream activities, which are governed by PSAs, are conducted through joint arrangements whereby the parties that have joint control of the arrangement have the rights to the assets, and obligations for the liabilities, relating to the arrangement. Such activities are accounted for as joint operations. Accordingly, the Company recognises its share of the joint operations and its share in the liabilities, income and expenses related to joint operations in proportion to the Company's interest.

Associates are entities over which the Company directly or indirectly has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

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

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

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

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

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

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

The Company's profitability is materially affected by the results of operations of its jointly-controlled entities over which it does not exercise full control. In 2013, 2012 and 2011 total income after tax attributable to the Company's interests in jointly controlled entities was AZN 29 million, AZN 20 million and AZN 19 million, respectively, and total income after tax attributable to the Company's interests in associates was AZN 196 million, AZN 200 million and AZN 174 million, respectively.

Acquisitions

In March 2014, SGC was incorporated in Azerbaijan pursuant to a Presidential Decree on financing the Government's share in the southern gas corridor project issued in February 2014. The Company holds 49% of the share of SGC, with the remaining 51% being held by the MEI. See "*Relationship with the Government—South Gas Corridor Closed Joint Stock Company*".

In December 2013, the Company entered into an agreement to acquire a 66% interest for €400 million in DESFA, the Greek gas transmission system operator. This transaction is expected to be funded by the Government and is currently being investigated by the EU Commission, whose approval is required prior to completion of the transaction. The decision of the EU Commission is expected in the first half of 2015. As a result of this decision, the Company may be required to reduce its ownership interest to less than 50%. If the transaction completes, the Company will not have control of DESFA's operations. The Company estimates that its required contribution to DEFSA's 10-year development programme as a shareholder will be approximately €200 million. The Company does not anticipate that there will be a material adverse effect to its business in the event that this acquisition is delayed or is not completed or if it is required to reduce its ownership interest in DEFSA.

In December 2013, the Company acquired the 49% of SOCAR Petroleum CJSC that was previously held by AP International for consideration of AZN 34 million. SOCAR Petroleum CJSC is engaged in the storage, distribution and retail sale of oil products in Azerbaijan and is made up of 23 petrol storage depots and 17 petrol stations in Baku and the regions of Azerbaijan. The Company acquired SOCAR Petroleum CJSC to expand its presence in the sale of wholesale and retail oil products in Azerbaijan.

On 30 June 2012, SOCAR Overseas acquired 80% of the share capital of Star Gulf FZCO for nominal consideration. Star Gulf FZCO holds 50% of Bos Shelf LLC and, as a result of this transaction, Bos Shelf LLC also became a subsidiary of the Company. The remaining 50% of Bos Shelf LLC is held by the Company through its wholly-owned subsidiary, H. Aliyev Baku Deep Water Jacket Plant. In July 2013, the Company took control over Star Gulf FZCO and Bos Shelf LLC.

In August 2013, the Company acquired 50% of SOCAR International DMCC, previously an associate of the Company, for consideration of AZN 18 million. SOCAR International DMCC holds a 50% interest in the SOCAR Aurora oil terminals in Fujairah, which were constructed to handle and store oil transported through a pipeline from onshore oilfields of Abu Dhabi. The Company acquired SOCAR International DMCC to provide transportation and storage infrastructure to support its trading operations in the United Arab Emirates.

In August 2012, the Company acquired an additional 30% interest in Supra Holding Limited from Heritage General Trading FZE for U.S.$100 million, and, as part of a related transaction a further 10% interest for U.S.$3 million in

November 2012. In November 2012, the Company also acquired the remaining 10% interest (minus one share) in Supra Holding Limited from Renfrel Holding Limited for U.S.$30 million and Hoijare Investments Limited, a wholly-owned subsidiary of the Company, acquired the remaining share from Renfrel Holding Limited for a nominal consideration. Following the completion of these transactions, the Company changed the name of Supra Holding Limited to SOCAR Trading Holding Limited. STHL, in turn, owns 100% of SOCAR Trading. See "*Business—Refining, Marketing and Trading—Sales of Crude Oil*".

On 1 July 2012, the Company acquired 100% of the shares of SOCAR Energy Switzerland from Exxon for CHF 330 million. SOCAR Energy Switzerland operates, *inter alia*, a retail network with more than 148 service stations, of which 63 are company-owned. All service stations have been rebranded and operate under the SOCAR name. See "*Business—Refining, Marketing and Trading—Refined Oil Products Sales and Distribution—Retail Station Network*".

On 17 January 2012, AzACG acquired 75.5% of the shares of Carlina (representing shares previously held by the Company and Petro Trans FZCO) following the default by Carlina under its loan agreement with AzACG and the subsequent enforcement of the security under this loan by AzACG. The remaining 24.5% of the shares of Carlina (representing shares previously held by a Georgian individual) were transferred to AzACG on 12 June 2012. Prior to the enforcement of this security, Carlina was a jointly controlled associate of the Company, with the Company holding 51%.

On 22 July 2011, the Company acquired a 77.4% interest in Azerbaijan BTC Limited ("**AzBTC**") that was previously held by the then Ministry of Economic Development of the Republic (now, the MEI) for no consideration. As a result, the Company now owns 100% of the shares of AzBTC.

On 6 July 2011, AzACG acquired a further 1.65% participating interest in the ACG PSA from BP, which was financed by a local bond purchased by SOFAZ in July 2011 in an aggregate principal amount of U.S.$485 million and maturing in 2024. As a result, AzACG's interest in the ACG PSA increased to 11.65%.

Taxation

Corporate income taxes have been accounted for in the Financial Statements in accordance with the applicable legislation enacted or substantively enacted by the statement of financial position date. The income tax charge comprises current tax and deferred tax and is recognised in the statement of comprehensive income unless it relates to transactions that are recognised, in the same or a different period, directly in equity. Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

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 statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the Company controls the timing of the reversal of the temporary difference 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.

The current economic environment

The Azerbaijan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. See "*Risk Factors—Risk Factors Relating to the Republic of Azerbaijan—Macroeconomic considerations concerning Azerbaijan impose risks*". Azerbaijan is continuing to pursue economic reforms and development of its legal, tax and regulatory frameworks and the Government has introduced a range of measures aimed at managing domestic liquidity in the context of high oil prices. The future stability of the Azerbaijan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. Global economic circumstances and related developments in Azerbaijan have had, and may continue to have, a material adverse effect on the Company's financial position and results of operations.

In addition, the Company has activities in Ukraine, through its retail business. As a result of the unstable political situation in Ukraine, in 2014, the Ukrainian Hryvnia was devalued against most foreign currencies. The National Bank of Ukraine has imposed certain restrictions on the purchase of foreign currencies at the inter-bank market. The stability of the Ukrainian economy will be significantly impacted by the Ukrainian Government's policies and actions with regard to administrative, fiscal, legal and economic reforms and such actions could have an effect on the Company's activities in Ukraine. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Company has business activities in Ukraine*".

While the Company is unable to estimate reliably the effects on its consolidated financial position and its results of operations of any further deterioration in the financial markets or of any increased volatility in currencies in which the Company has significant dealings, commodities and equity markets for any periods subsequent to 30 June 2014, the Company's business activities may continue to be negatively impacted by the economic conditions resulting from the general economic downturn and the decline in prices of, and demand for, crude oil and other commodities. Such market conditions could have an impact on, among other things, the Company's production and volumes of crude oil and natural gas, the Company's cash balances at Azerbaijan banks, the cost of the Company's funding, the U.S. Dollar/Manat and U.S. Dollar/Turkish Lira exchange rates and, accordingly, could have a material adverse effect on the Company's business, prospects, financial condition, cash flows and results of operations. The Company intends to continue to evaluate the potential impact of these conditions, which could result in future reductions in its consolidated cash flows and results of operations.

Descriptions of Principal Income Statement Items

Descriptions of certain principal income statement items are set forth below.

Revenue

The Company principally derives revenue from the sale of goods and services in the ordinary course of business. The products include crude oil, natural gas and related products; the services include refining oil, agency services related to the wholesale of oil and petroleum products, transportation services and construction services.

Net Sales of Oil Products

Revenue from sales of oil products, stated net of excise tax.

Petrochemicals

Revenue from sales of petrochemical products.

Net Sales of Crude Oil

Revenue from sales of crude oil, stated net of the price margin tax, which is levied at a rate of 30% on the differences between the international market price and the internal, state regulated price of crude oil. Revenue from sales under PSAs is not subject to price margin taxes.

Natural Gas

Revenue from all domestic gas and related products, sold directly to customers. The Company sells gas and related products on the domestic market, at prices set by the Government. The Group also sells gas to Russia, Georgia and Turkey.

Other revenues

Other revenue includes revenues from providing services to joint ventures and third parties, as well as revenue from derivative transactions entered into by SOCAR Trading for hedging purposes and interest, dividends, royalties and Government grants.

Cost of Sales

Cost of sales are the costs of purchase, production, manufacturing and transportation incurred bringing the goods and services to a saleable condition and location, adjusted for opening and closing inventories.

Operating Expenses

All operating expenses incurred by the Company are classified by function and fall within one of the following areas: distribution expenses, general and administrative expenses, gains and losses on disposal of property, plant and equipment, social expenses, exploration and evaluation expenses and other expenses.

Distribution Expenses

Distribution expenses include selling and marketing costs and expenses incurred in relation to the handling, storage and transportation of finished products up to the point of sale.

General and Administrative Expenses

General and administrative expenses are the costs of administration management and of secretarial, accounting and administrative costs. They include administration payroll costs and the cost of central functions (such as audit, legal and consulting), which are not directly involved in the production of goods or the provision of services.

Social Expenses

Social expenses are based on *ad hoc* decisions of the Government, pursuant to which the Company is required to make direct cash contributions to various Government departments and contractors via the Company's social department, to sponsor Government entities or agencies and to finance Government-administered projects of construction or repair. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Government, which directly controls the Company, may cause the Company to engage in business practices that may not be in the interests of the Noteholders and may cause the appointment or removal of members of the Company's management team*".

Exploration and Evaluation Expenses

Exploration and evaluation expenses are the costs that are incurred during exploration and evaluation activities, *i.e.*, the identification and assessment of new or specific areas that are considered to have prospects of containing oil and gas reserves. Research and development expenses, including expenses relating to activities that may result in the development of a new product or service, a new process or technique, or bringing about a significant improvement to an existing product or process, are also included in this category.

Other Operating Income

Other operating income is income derived from sales of goods and services rendered other than in relation to the Company's core oil and gas business, for example rent.

Financing

Finance Income

Finance income includes interest income, both from deposits and bank accounts, and from loans to related and third parties.

Finance Costs

Finance costs include interest expense and provisions for asset retirement obligations, environmental obligations and disability payments.

Profit Before Income Tax

This figure represents total revenue less total expenses and consequently the total profit assessable to income tax.

Income Tax Expense

This includes both current tax expenses and deferred tax charges (see above).

Results of Operations for the Six Months Ended 30 June 2014 compared to the Six Months Ended 30 June 2013

The Interim Financial Statements are unaudited. The Company made certain reclassifications to its 2013 interim consolidated statement of profit or loss and other comprehensive income and corresponding notes, in order to conform the presentation of the 2013 interim figures to the presentation of the 2014 interim figures. See "*Presentation of Financial, Reserves and Certain Other Information—Reclassifications*" and Note 2 to the Interim Financial Statements.

Revenue

Total revenue increased from AZN 19,795 million in the six months ended 30 June 2013 to AZN 20,404 million in the six months ended 30 June 2014, an increase of AZN 609 million, or 3.1%, primarily as a result of a AZN 1,636 million, or 38.8%, increase in revenue from net oil products sales due to increased trading activities by SOCAR Trading in the six months ended 30 June 2014, as compared to the six months ended 30 June 2013, as well as an increase in the prices for oil products in the domestic market. This increase was partially offset by a AZN 625 million, or 4.8%, decrease in revenue from net crude oil sales, primarily due to decreased crude oil sales by SOCAR Trading, and a AZN 430 million, or 43.4%, decrease in other revenues, which was primarily as a result of reduced levels of hedging activities at SOCAR Trading. See "*—Net Sales of Crude Oil*", "*—Main Factors Affecting Results of Operations and Liquidity—Acquisitions*" and Note 15 to the Interim Financial Statements.

The following table sets forth the Company's revenue for the periods indicated:

	For the six months ended 30 June		
	2014	2013[1]	Change
	(AZN millions)		*(%)*
Crude oil, net[2][3]	12,300	12,925	(4.8)
Oil products, net[4]	5,849	4,213	38.8
Petrochemicals	957	914	4.7
Natural gas	737	752	(2.0)
Other revenue	561	991	(43.4)
Total	**20,404**	**19,795**	**3.1**

Notes:

(1) Certain reclassifications have been made to the 2013 financial data contained in the Interim Financial Statements to conform to the presentation of the 2014 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the Interim Financial Statements.

(2) Revenue from net crude oil sales is stated net of the price margin tax.

(3) Revenue from sales of crude oil produced under the AGC PSA and condensate produced under the Shah Deniz PSA is not subject to excise or price margin taxes. See "*Business—Exploration and Production—Significant Production Fields of the Company's Joint Ventures and Associates—Azeri-Chirag-Gunashli fields*".

(4) Revenue from net oil product sales is stated net of excise tax of AZN 206 million in the six months ended 30 June 2014 and AZN 249 million in the six months ended 30 June 2013.

Petrochemicals

Total revenue from petrochemical sales increased from AZN 914 million in the six months ended 30 June 2013 to AZN 957 million in the six months ended 30 June 2014, an increase of AZN 43 million, or 4.7%, primarily as a result of increased sales at Petkim.

The following table sets forth certain information regarding the Company's petrochemical sales revenue and volumes for the periods indicated:

	For the six months ended 30 June	
	2014	2013[1]
Petrochemicals revenue (*AZN millions*)[2]	957	914
Petrochemicals, net volumes (*millions of tonnes*)[3]	1.0	0.9
Average price per tonne (*AZN*)[4]	1,021	988

Notes:

(1) Certain reclassifications have been made to the 2013 financial data contained in the Interim Financial Statements to conform to the presentation of the 2014 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the Interim Financial Statements.

(2) After elimination of intra-group sales.

(3) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.

(4) Average price per tonne is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes).

Net Sales of Oil Products

Total revenue from net sales of oil products increased from AZN 4,213 million in the six months ended 30 June 2013 to AZN 5,849 million in the six months ended 30 June 2014, an increase of AZN 1,636 million, or 38.8%, primarily as a result of increased trading activities by SOCAR Trading, as well as an increase in the prices for oil products in the domestic market. See "*Risk Factors—Risks Relating to the Company's Business— The Government has imposed regulations and other requirements requiring the Company to sell oil, oil products and gas in the domestic market at below market prices.*".

The following table sets forth certain information regarding the Company's net sales revenue and volumes of oil products for the periods indicated:

	For the six months ended 30 June	
	2014	**2013**[(1)]
Oil products, net revenue (*AZN millions*)[(2)]	5,849	4,213
Oil products, net volumes (*millions of tonnes*)[(3)]	9.6	7.3
Average price per tonne of oil products (*AZN*)[(4)]	606.6	579.8

Notes:

(1) Certain reclassifications have been made to the 2013 financial data contained in the Interim Financial Statements to conform to the presentation of the 2014 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the Interim Financial Statements.

(2) After elimination of intra-group sales.

(3) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.

(4) Average price per tonne is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes).

Net Sales of Crude Oil

Total revenue from net sales of crude oil decreased from AZN 12,925 million in the six months ended 30 June 2013 to AZN 12,300 million in the six months ended 30 June 2014, a decrease of AZN 625 million, or 4.8%, primarily as a result of decreased crude oil sales by SOCAR Trading, which was partially offset by an increase in volumes of crude oil exported by Azneft, as well as an increase in the price of crude oil.

The following table sets forth certain information regarding the Company's net sales revenue and volumes of crude oil for the periods indicated:

	For the six months ended 30 June	
	2014	**2013**[(1)]
Crude oil, net revenue (*AZN millions*)[(2)]	12,300	12,925
Crude oil, net volumes (*millions of tonnes*)[(3)]	18.3	19.6
Average price per tonne of crude oil (*AZN*)[(4)]	673.3	661.0

Notes:

(1) Certain reclassifications have been made to the 2013 financial data contained in the Interim Financial Statements to conform to the presentation of the 2014 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the Interim Financial Statements.

(2) After elimination of intra-group sales.

(3) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.

(4) Average price per tonne is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes).

Net Sales of Natural Gas

Total revenue from net sales of natural gas decreased from AZN 752 million in the six months ended 30 June 2013 to AZN 737 million in the six months ended 30 June 2014, a decrease of AZN 15 million, or 2.0%, primarily as a result of decreases in volumes of gas exported to Russia as a result of increased supplies to the domestic market. See "*Risk Factors—Risks Relating to the Company's Business—The Government has imposed regulations and other requirements requiring the Company to sell oil, oil products and gas in the domestic market at below market prices.*" This decrease was partially offset by an increase in production by AzSD and increases in revenue from the Company's operations in Georgia.

The following table sets forth certain information regarding the Company's net sales revenue and volumes of natural gas for the periods indicated:

	For the six months ended 30 June	
	2014	2013[1]
Natural gas revenue (*AZN millions*)[2]	737	752
Natural gas volumes (*bcm*)[3]	7.7	8.0
Average price per m^3 of natural gas (*AZN*)[4]	0.1	0.1

Notes:

(1) Certain reclassifications have been made to the 2013 financial data contained in the Interim Financial Statements to conform to the presentation of the 2014 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the Interim Financial Statements.

(2) After elimination of intra-group sales.

(3) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.

(4) Average price per m^3 is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes).

Other Revenue

Other revenue decreased from AZN 991 million in the six months ended 30 June 2013 to AZN 561 million in the six months ended 30 June 2014, a decrease of AZN 430 million, or 43.4%, primarily as a result of reduced levels of hedging activities at SOCAR Trading. This increase was partially offset by an increase in other revenue from Caspian Drilling Company ("**CDC**") relating to the construction of a new semi-submersible drilling rig (see "*Business—Construction*").

Cost of Sales

Cost of sales increased from AZN 18,080 million in the six months ended 30 June 2013 to AZN 18,504 million in the six months ended 30 June 2014, an increase of AZN 424 million, or 2.3%, primarily as a result of increased trading activities by SOCAR Trading, as well as costs associated with the construction of the new semi-submersible drilling rig by CDC and maintenance works conducted at certain catalytic centres, as a result of which the Company was required to make certain purchases of gasoline to fulfil customer orders.

Gross Profit

As a result of the foregoing, gross profit increased from AZN 1,715 million in the six months ended 30 June 2013 to AZN 1,900 million in the six months ended 30 June 2014, an increase of AZN 185 million, or 10.8%.

Operating Expenses

Operating expenses increased from AZN 920 million in the six months ended 30 June 2013 to AZN 1,265 million in the six months ended 30 June 2014, an increase of AZN 345 million, or 37.5%, primarily as a result of a AZN 71 million, or 19.6%, increase in general and administrative expenses and a AZN 281 million, or 157.9%, increase in other operating expenses.

General and Administrative Expenses

General and administrative expenses increased from AZN 363 million in the six months ended 30 June 2013 to AZN 434 million in the six months ended 30 June 2014, an increase of AZN 71 million, or 19.6%, primarily due to the Company's acquisition of the shares of SOCAR Petroleum CJSC and Bos Shelf that were previously held by joint venture partners. See "*—Main Factors Affecting Results of Operations and Liquidity—Acquisitions*".

Distribution Expenses

Distribution expenses increased from AZN 257 million in the six months ended 30 June 2013 to AZN 262 million in the six months ended 30 June 2014, an increase of AZN 5 million, or 1.9%.

Social Expenses

Social expenses decreased from AZN 126 million in the six months ended 30 June 2013 to AZN 99 million in the six months ended 30 June 2014, a decrease of AZN 27 million, or 21.4%, primarily due to reduced spending requirements in the period. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Government, which directly*

controls the Company, may cause the Company to engage in business practices that may not be in the interests of the Noteholders and may cause the appointment or removal of members of the Company's management team".

Other Operating Expenses

Other operating expenses increased from AZN 178 million in the six months ended 30 June 2013 to AZN 459 million in the six months ended 30 June 2014, an increase of AZN 281 million, or 157.9%, primarily due to: (i) a revision in the discount rate used by the Company to calculate asset retirement obligations and disability and environmental provisions; and (ii) an increase in subcontractor costs incurred in connection with the construction of the Olympic Stadium in Baku.

Disposal of Property, Plant and Equipment

In the six months ended 30 June 2013, the Company recognised gains on disposals of property, plant and equipment of AZN 9 million. In the six months ended 30 June 2014, the Company recognised losses on disposals of property, plant and equipment of AZN 5 million.

Exploration and Evaluation Expenses

Exploration and evaluation expenses increased from AZN 5 million in the six months ended 30 June 2013 to AZN 6 million in the six months ended 30 June 2014, an increase of AZN 1 million, or 20.0%.

Other Operating Income

Other operating income increased from AZN 102 million in the six months ended 30 June 2013 to AZN 184 million in the six months ended 30 June 2014, an increase of AZN 82 million, or 80.4%, primarily related to re-imbursement by the Government of the Company's costs incurred in connection with the Company's construction of the Olympic Stadium in Baku, as well as revenues received under profit sharing arrangements.

Operating Profit

As a result of the foregoing, operating profit decreased from AZN 897 million in the six months ended 30 June 2013 to AZN 819 million in the six months ended 30 June 2014, a decrease of AZN 78 million, or 8.7%.

Financing

Finance Income

Finance income increased from AZN 18 million in the six months ended 30 June 2013 to AZN 27 million in the six months ended 30 June 2014, an increase of AZN 9 million, or 50.0%, primarily due to increased balances held with International Bank of Azerbaijan ("**IBA**").

Finance Costs

Finance costs decreased from AZN 129 million in the six months ended 30 June 2013 to AZN 125 million in the six months ended 30 June 2014, a decrease of AZN 4 million, or 3.1%. This decrease was primarily due to a AZN 5 million, or 26.3%, decrease in provisions for asset retirement obligations and a AZN 3 million decrease in environmental provisions, which were partially offset by a AZN 3 million increase in interest expense. See Notes 13 and 16 to the Interim Financial Statements.

The following table sets forth the Company's finance costs for the periods indicated:

	For the six months ended 30 June		
	2014	2013[1]	Change
	(AZN millions)		(%)
Interest expense	103	100	3.0
Provisions for asset retirement obligations	14	19	(26.3)
Environmental provision	4	7	(42.9)
Provisions for disability payments	4	3	33.3
Total	**125**	**129**	**(3.1)**

Note:

(1) Certain reclassifications have been made to the 2013 financial data contained in the Interim Financial Statements to conform to the presentation of the 2014 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the Interim Financial Statements.

Foreign Exchange Gains/Losses

Foreign exchange losses recognised by the Company decreased from AZN 85 million in the six months ended 30 June 2013 to AZN 53 million in the six months ended 30 June 2014, a decrease of AZN 32 million, or 37.6%. This decrease was primarily due to an appreciation of the Turkish Lira against the U.S. Dollar, which resulted in a AZN 10 million gain in the six months ended 30 June 2014, as compared to a AZN 99 million loss in the corresponding period in 2013. This gain was partially offset by the depreciation of the Ukrainian Hryvnia against the Euro and the U.S. Dollar, which resulted in a AZN 53 million loss in the six months ended 30 June 2014.

Net Finance Costs

As a result of the foregoing, net finance costs decreased from AZN 196 million in the six months ended 30 June 2013 to AZN 151 million in the six months ended 30 June 2014, a decrease of AZN 45 million, or 23.0%.

Share of Results of Joint Ventures

The Company's income from its share of the after-tax results of joint ventures increased from AZN 13 million in the six months ended 30 June 2013 to AZN 61 million in the six months ended 30 June 2014, an increase of AZN 48 million, or 369.2%. This increase was primarily due to (i) an increase in profitability (from AZN 16 million in the six months ended 30 June 2013 to AZN 40 million in the six months ended 30 June 2014) at the Company's 60%-owned joint venture Azfen, which is engaged in construction activities at Shah Deniz, and (ii) a deferred tax gain at the STAR Project. See "*Business—Petkim—STAR Project*".

Share of Results of Associates

The Company's income from its share of the after-tax results of associates increased from AZN 75 million in the six months ended 30 June 2013 to AZN 107 million in the six months ended 30 June 2014, an increase of AZN 32 million, or 42.7%, primarily due to a deferred tax gain of AZN 22 million recognised by STYAS, a subsidiary of STEAŞ, which participates in the construction of the STAR Project. In May 2014, STYAS became a joint venture of the Company.

Profit Before Income Tax

As a result of the foregoing, profit before income tax increased from AZN 789 million in the six months ended 30 June 2013 to AZN 836 million in the six months ended 30 June 2014, an increase of AZN 47 million, or 6.0%.

Income Tax Expense

Income tax expense increased from AZN 202 million in the six months ended 30 June 2013 to AZN 225 million in the six months ended 30 June 2014, an increase of AZN 23 million, or 11.4%. This increase is due to an increase in the Company's profit before income tax for the period and deferred tax expenses.

Profit for the Period from Continuing Operations

As a result of the foregoing, profit for the period from continuing operations increased from AZN 587 million in the six months ended 30 June 2013 to AZN 611 million in the six months ended 30 June 2014, an increase of AZN 24 million, or 4.1%.

Loss for the Period from Discontinued Operations

In the six months ended 30 June 2013, the Company recognised loss after tax for the period from discontinued operations of AZN 14 million relating to the transfer of Caspian Sea Oil Fleet from the Company to another government-controlled entity, Azerbaijan Caspian Shipping Closed Joint Stock Company. The Company did not recognise any losses after tax for the period from discontinued operations in the six months ended 30 June 2014, because there were no discontinued operations in the period.

Profit for the Period

As a result of the foregoing, profit for the period increased from AZN 573 million in the six months ended 30 June 2013 to AZN 611 million in the six months ended 30 June 2014, an increase of AZN 38 million, or 6.6%.

Results of Operations for the Year Ended 31 December 2013 compared to the Year Ended 31 December 2012

The Company made certain reclassifications to its consolidated statement of financial position as at 31 December 2012 and the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows for the year ended 31 December 2012 and the corresponding notes thereto to conform to the presentation as at, and for the year ended 31 December 2013. See "*Presentation of Financial, Reserves and Certain Other Information—Reclassifications*" and Note 2 to the 2013 Financial Statements.

Revenue

Revenue increased from AZN 17,139 million in the year ended 31 December 2012 to AZN 38,433 million in the year ended 31 December 2013, an increase of AZN 21,294 million, or 124.2%. This increase was primarily due to a AZN 15,193 million, or 150.0%, increase in net crude oil sales, primarily as a result of the effects of the consolidation of SOCAR Trading in November 2012, as well as a AZN 5,633 million, or 169.8%, increase in net oil products sales, primarily as a result of the effects of the consolidation of SOCAR Energy Switzerland from 1 July 2012 and SOCAR Trading from 1 November 2012, as well as the commencement of oil products trading activities in Turkey by SOCAR Turkey Petrol.

The following table sets forth the components of the Company's revenue for the years indicated:

	For the year ended 31 December		
	2013	**2012**[1]	**Change**
	(AZN millions)		*(%)*
Crude oil, net[2][3]	25,319	10,126	150.0
Oil products, net[4]	8,951	3,318	169.8
Petrochemicals	1,854	2,030	(8.7)
Natural gas	1,400	1,107	26.5
Other revenue	909	558	62.9
Total	**38,433**	**17,139**	**124.2**

Notes:

(1) Certain reclassifications have been made to the 2012 financial data contained in the 2013 Financial Statements to conform to the presentation of the 2013 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the 2013 Financial Statements.

(2) Revenue from net oil product sales is stated net of excise tax of AZN 570 million in 2013 and AZN 482 million in 2012.

(3) Revenue from net crude oil sales is stated net of the price margin tax.

(4) Revenue from sales of crude oil produced under the AGC PSA and condensate produced under the Shah Deniz PSA is not subject to excise taxes or price margin taxes.

Petrochemicals

Total revenue from petrochemical sales decreased from AZN 2,030 million in the year ended 31 December 2012 to AZN 1,854 million in the year ended 31 December 2013, a decrease of AZN 176 million, or 8.7%, primarily as a result of decreased volumes of sales by Petkim, which decreased from AZN 1,906 million in 2012 to AZN 1,713 million in 2013. See "*Business—Petkim*".

The following table sets forth certain information regarding the Company's petrochemical sales revenue and volumes for the years indicated:

	For the year ended 31 December	
	2013	**2012**
Petrochemicals revenue (*AZN millions*)[(1)]	1,854	2,030
Petrochemicals, net volumes (*millions of tonnes*)[(2)]	1.9	2.0
Average price per tonne (*AZN*)[(3)]	991	1,014

Notes:

(1) After elimination of intra-group sales.

(2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.

(3) Average price per tonne is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes).

Net Sales of Oil Products

Total revenue from net sales of oil products increased from AZN 3,318 million in the year ended 31 December 2012 to AZN 8,951 million in the year ended 31 December 2013, an increase of AZN 5,633 million, or 169.8%, primarily as a result of the effects of the consolidation of (i) SOCAR Energy Switzerland, which was acquired by the Company on 1 July 2012 and accounted for AZN 1,191 million in 2013, as compared to AZN 652 million in 2012, and (ii) SOCAR Trading, which was consolidated from 1 November 2012 and accounted for AZN 5,309 million in 2013, as compared to AZN 382 million in 2012. In addition, the commencement of oil products trading activities in Turkey by SOCAR Turkey Petrol contributed AZN 283 million in 2013, as compared to AZN 1 million in 2012. See "*—Main Factors Affecting Results of Operations and Liquidity—Acquisitions*". These gains were partially offset by decreases in oil products sales in Ukraine, due to a new market entrant at the end of 2012, and Georgia, due to increased competition in the market. Oil prices were generally stable in 2012 and 2013.

The following table sets forth certain information regarding the Company's net sales revenue and volumes of oil products for the years indicated:

	For the year ended 31 December	
	2013	**2012**
Oil products, net revenue (*AZN millions*)[(1)]	8,951	3,318
Oil products, net volumes (*millions of tonnes*)[(2)]	15.7	7.3
Average price per tonne of oil products (*AZN*)[(3)]	571.1	456.8

Notes:

(1) After elimination of intra-group sales.

(2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.

(3) Average price per tonne is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes).

In the year ended 31 December 2013, domestic sales of oil products accounted for AZN 1,151 million, or 12.9%, of total revenue from oil products. External sales accounted for AZN 7,800 million, or 87.1%, of total revenue from oil products. In the year ended 31 December 2012, domestic sales of oil products accounted for AZN 1,019 million, or 30.7%, of total revenue from oil products. External sales accounted for AZN 2,299 million, or 69.3%, of total revenue from oil products.

Net Sales of Crude Oil

Total revenue from net sales of crude oil increased from AZN 10,126 million in the year ended 31 December 2012 to AZN 25,319 million in the year ended 31 December 2013, an increase of AZN 15,193 million, or 150.0%, primarily as a result of the effects of the consolidation of SOCAR Trading, which was consolidated from 1 November 2012 and accounted for AZN 24,073 million in 2013, as compared to AZN 2,211 million in 2012. See "*—Main Factors Affecting Results of Operations and Liquidity—Acquisitions*". Since 2013, SOCAR Overseas has sold almost all its crude oil to SOCAR Trading for onward sale and, accordingly, SOCAR Overseas' crude oil sales (which accounted for AZN 6,495 million in 2012) are primarily accounted for in the sales by SOCAR Trading. Oil prices were generally stable in 2012 and 2013. See "*—Main Factors Affecting Results of Operations and Liquidity—Acquisitions*". This increase was partially offset by a AZN 150 million, or 53.4%, decrease in oil sales by Azneft, as a result of a decrease in exports of crude oil to address increased domestic demand.

The following table sets forth certain information regarding the Company's net sales revenue and volumes of crude oil for the years indicated:

	For the year ended 31 December	
	2013	**2012**
Crude oil, net revenue (*AZN millions*)[(1)]	25,319	10,126
Crude oil, net volumes (*millions of tonnes*)[(2)]	37.9	15.7
Average price per tonne of crude oil (*AZN*)[(3)]	667.8	645.4

Notes:

(1) After elimination of intra-group sales.

(2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.

(3) Average price per tonne is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes).

All of the Company's revenue in respect of crude oil sales is derived from external sales. No revenue in respect of crude oil is derived from domestic sales.

Natural Gas

Total revenue from natural gas sales increased from AZN 1,107 million in the year ended 31 December 2012 to AZN 1,400 million in the year ended 31 December 2013, an increase of AZN 293 million, or 26.5%, primarily as a result of the commencement of natural gas trading activities in Turkey by SOCAR Gaz Ticareti A.Ş., a subsidiary of STEAŞ. See "*Business— Refining, Marketing and Trading*".

The following table sets forth certain information regarding the Company's net sales revenue and volumes of natural gas for the years indicated:

	For the year ended 31 December	
	2013	**2012**
Natural gas revenue (*AZN millions*)[(1)]	1,400	1,107
Natural gas volumes (*bcm*)[(2)]	14.4	13.8
Average price per m^3 of natural gas (*AZN*)[(3)]	0.1	0.1

Notes:

(1) After elimination of intra-group sales.

(2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.

(3) Average price per m^3 is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes).

In the year ended 31 December 2013, domestic sales of natural gas accounted for AZN 539 million, or 38.5%, of total revenue from natural gas. External sales accounted for AZN 861 million, or 61.5%, of total revenue from natural gas. In the year ended 31 December 2012, domestic sales of natural gas accounted for AZN 492 million, or 44.4%, of total revenue from natural gas. External sales accounted for AZN 615 million, or 55.6%, of total revenue from natural gas.

Other Revenue

Other revenue increased from AZN 558 million in the year ended 31 December 2012 to AZN 909 million in the year ended 31 December 2013, an increase of AZN 351 million, or 62.9%, primarily as a result of (i) revenue from hedging activities at SOCAR Trading, which was consolidated with effect from 1 November 2012; (ii) revenue from sales at retail outlets of SOCAR Energy Switzerland, which was acquired by the Company on 1 July 2012, including revenue from sales of food and other consumables; (iii) increased other revenue from CDC relating to the construction of a new semi-submersible drilling rig (see "*Business—Construction*"); and (iv) the consolidation of Bos Shelf LLC.

Cost of Sales

Cost of sales increased from AZN 13,877 million in the year ended 31 December 2012 to AZN 35,163 million in the year ended 31 December 2013, an increase of AZN 21,186 million, or 153.4%, primarily as a result of a AZN 21,130 million, or 169.6%, increase in the cost of raw materials and consumables. This increase was primarily a result of the effects of the consolidation of (i) SOCAR Energy Switzerland, which was acquired by the Company on 1 July 2012 and accounted for AZN 1,234 million in 2013, as compared to AZN 662 million in 2012, and (ii) SOCAR Trading, which was consolidated from 1 November 2012 and accounted for AZN 29,377 million in 2013, as compared to AZN 2,610 million in 2012. In addition, the commencement of oil products trading activities in Turkey by SOCAR Turkey Petrol accounted for AZN 276 million in 2013, as compared to AZN 1 million in 2012. See "*—Main Factors Affecting Results*

of Operations and Liquidity—Acquisitions". This increase was partially offset by a AZN 49 million, or 3.0%, decrease in the cost of sales at STEAŞ, as a result in a change of sales strategy, pursuant to which STEAŞ focused on its business with its most profitable customers. Oil prices were generally stable in 2012 and 2013.

Gross Profit

As a result of the foregoing, gross profit increased from AZN 3,262 million in the year ended 31 December 2012 to AZN 3,270 million in the year ended 31 December 2013, an increase of AZN 8 million, or 0.2%.

Operating Expenses

Operating expenses increased from AZN 1,986 million in the year ended 31 December 2012 to AZN 2,054 million in the year ended 31 December 2013, an increase of AZN 68 million, or 3.4%. In 2013, wages, salaries and social security costs increased to AZN 893 million from AZN 771 million, an increase of AZN 122 million, or 15.8%, due to the aforementioned consolidations of subsidiaries and 10% salary increases awarded to the Company's employees in Azerbaijan.

Distribution Expenses

Distribution expenses increased from AZN 452 million in the year ended 31 December 2012 to AZN 466 million in the year ended 31 December 2013, an increase of AZN 14 million, or 3.1%. This increase was primarily due to distribution expenses at SOCAR Energy Switzerland, which was acquired by the Company on 1 July 2012.

General and Administrative Expenses

General and administrative expenses increased from AZN 653 million in the year ended 31 December 2012 to AZN 791 million in the year ended 31 December 2013, an increase of AZN 138 million, or 21.1%. This increase was primarily due to the effects of the aforementioned consolidations, increased salaries and a AZN 32 million increase in tax penalties imposed on Azneft in respect of tax interest calculated on the late payment of certain taxes.

Disposal of Property, Plant and Equipment

In the year ended 31 December 2013, the Company recognised gains on disposals of property, plant and equipment of AZN 7 million. In the year ended 31 December 2012, the Company recognised losses on disposals of property, plant and equipment of AZN 24 million.

Social Expenses

Social expenses increased from AZN 234 million in the year ended 31 December 2012 to AZN 237 million in the year ended 31 December 2013, an increase of AZN 3 million, or 1.3%. This increase was primarily due to increased expenditure on social projects. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Government, which directly controls the Company, may cause the Company to engage in business practices that may not be in the interests of the Noteholders and may cause the appointment or removal of members of the Company's management team*".

Exploration and Evaluation Expenses

Exploration and evaluation expenses increased from AZN 41 million in the year ended 31 December 2012 to AZN 50 million in the year ended 31 December 2013, an increase of AZN 9 million, or 22.0%. This increase was primarily due to increased exploration activities.

Other Operating Expenses

Other operating expenses decreased from AZN 582 million in the year ended 31 December 2012 to AZN 517 million in the year ended 31 December 2013, a decrease of AZN 65 million, or 11.2%. This decrease was primarily related to a revision in the discount rate used by the Company to calculate asset retirement obligations and disability and environmental provisions, which was partially offset by costs incurred in the construction of the Olympic Stadium in Baku, which amounted to AZN 285 million, pursuant to a contract with the Ministry of Youth and Sports.

Other Operating Income

Other operating income increased from AZN 117 million in the year ended 31 December 2012 to AZN 435 million in the year ended 31 December 2013, an increase of AZN 318 million, or 271.8%. This increase was primarily due to the re-imbursement by the Ministry of Youth and Sports of costs incurred in the construction of the Olympic Stadium in Baku, which amounted to AZN 285 million.

The following table sets forth the Company's other operating income for the years indicated:

	For the year ended 31 December		
	2013	**2012**	**Change**
	(AZN millions)		*(%)*
Sales of other goods and services rendered	320	41	680.5
Gain on release of payable	8	1	700.0
Other	107	75	42.7
Total	**435**	**117**	**271.8**

Operating Profit

As a result of the foregoing, operating profit increased from AZN 1,393 million in the year ended 31 December 2012 to AZN 1,651 million in the year ended 31 December 2013, an increase of AZN 258 million, or 18.5%.

Financing

Finance Income

Finance income increased from AZN 34 million in the year ended 31 December 2012 to AZN 48 million in the year ended 31 December 2013, an increase of AZN 14 million, or 41.2%, primarily as a result of the AZN 8 million, or 36.4%, increase in interest received by the Company on deposits and bank accounts.

The following table sets forth the Company's finance income for the years indicated:

	For the year ended 31 December		
	2013	**2012**	**Change**
	(AZN millions)		*(%)*
Interest income on deposits and bank accounts	30	22	36.4
Other	18	12	50.0
Total	**48**	**34**	**41.2**

Finance Costs

Finance costs increased from AZN 187 million in the year ended 31 December 2012 to AZN 256 million in the year ended 31 December 2013, an increase of AZN 69 million, or 36.9%. This increase was primarily due to a AZN 67 million, or 50.4%, increase in interest expense, as a result of the higher average amount of indebtedness in 2013, as compared to 2012, due, in part, to the Company's Eurobonds issued in March 2013 and the effect of the consolidation of SOCAR Trading. See "—*Borrowings*" and Note 19 to the 2013 Financial Statements.

The following table sets forth the Company's finance costs for the years indicated:

	For the year ended 31 December		
	2013	2012	Change
	(AZN millions)		(%)
Interest expense	200	133	50.4
Provisions for asset retirement obligations	36	29	24.1
Environmental provision	14	20	(30.0)
Provisions for disability payments	6	5	20.0
Total	**256**	**187**	**36.9**

Foreign Exchange Losses

In the year ended 31 December 2013, the Company recognised foreign exchange losses of AZN 205 million, primarily due to the depreciation of the Turkish Lira against the U.S. Dollar. In the year ended 31 December 2012, the Company recognised foreign exchange gains of AZN 36 million, primarily due to the appreciation of the Turkish Lira against the U.S. Dollar.

Share of Results of Jointly-Controlled Entities

The Company's income from its share of the after-tax results of jointly-controlled entities increased from AZN 20 million in the year ended 31 December 2012 to AZN 29 million in the year ended 31 December 2013, an increase of AZN 9 million, or 45.0%, primarily due to a AZN 3 million increase in the Group's share of profit from Azgerneft for 2013, as compared to 2012, and the recognition of AZN 10 million of the Group's share of profit from SOCAR AQS in 2013, as compared to the recognition of AZN 10 million of the Group's share of loss from SOCAR AQS in 2012, as well as continued profitability at a number of other jointly-controlled entities. See Note 16 to the 2013 Financial Statements.

Share of Results of Associates

The Company's income from its share of the after-tax results of associates decreased from AZN 200 million in the year ended 31 December 2012 to AZN 196 million in the year ended 31 December 2013, a decrease of AZN 4 million, or 2.0%, primarily due to the AZN 49 million decrease in the Group's share of profit from BTC Co in 2013, as compared to 2013, which was offset by continued profitability at a number of other associates. See Note 17 to the 2013 Financial Statements.

Profit Before Income Tax

As a result of the foregoing, profit before income tax decreased from AZN 1,496 million in the year ended 31 December 2012 to AZN 1,463 million in the year ended 31 December 2013, a decrease of AZN 33 million, or 2.2%.

Income Tax Expense

Income tax expense decreased from AZN 476 million in the year ended 31 December 2012 to AZN 444 million in the year ended 31 December 2013, a decrease of AZN 32 million, or 6.7%, primarily as a result of a AZN 73 million, or 14.5%, decrease in current tax expense, primarily due to lower profitability in 2013, as compared to 2012. This decrease was partially offset by the recognition of a AZN 13 million deferred tax charge in the year ended 31 December 2013, as compared to a AZN 28 million deferred tax benefit in the year ended 31 December 2012.

The following table sets forth the Company's income tax expenses for the years indicated:

	For the year ended 31 December		
	2013	2012	Change
	(AZN millions)		(%)
Current tax expense	431	504	(14.5)
Deferred tax (benefit)/charge	13	(28)	—
Total	**444**	**476**	**(6.7)**

Profit for the Year from Continuing Operations

As a result of the foregoing, profit for the year from continuing operations decreased from AZN 1,020 million in the year ended 31 December 2012 to AZN 1,019 million in the year ended 31 December 2013, a decrease of AZN 1 million, or 0.1%.

Discontinued Operations

On 22 October 2013, the President of Azerbaijan signed an order to transfer the Group's loss-making subsidiary Caspian Sea Oil Fleet from the Group to another government-controlled entity, Azerbaijan Caspian Shipping Closed Joint Stock Company. Management determined that the date the Group lost control of Caspian Sea Oil Fleet was 30 December 2013. The Group received no consideration for Caspian Sea Oil Fleet.

Loss after tax from discontinued operations decreased from AZN 65 million in the year ended 31 December 2012 to AZN 42 million in the year ended 31 December 2013, a decrease of AZN 23 million, or 35.4%.

Profit for the Year

As a result of the foregoing, profit for the year increased from AZN 955 million in the year ended 31 December 2012 to AZN 977 million in the year ended 31 December 2013, an increase of AZN 22 million, or 2.3%.

Results of Operations for the Year Ended 31 December 2012 compared to the Year Ended 31 December 2011

The Company made certain reclassifications to its consolidated statement of financial position as at 31 December 2011 and the consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended 31 December 2011 and the corresponding notes thereto to conform to the presentation as at, and for the year ended 31 December 2012. See "*Presentation of Financial, Reserves and Certain Other Information—Reclassifications*" and Note 2 to the 2012 Financial Statements.

Revenue

Revenue increased from AZN 8,133 million in the year ended 31 December 2011 to AZN 17,139 million in the year ended 31 December 2012, an increase of AZN 9,006 million, or 110.7%. This increase was primarily due to a 272.7% increase in net crude oil sales and a 59.7% increase in net oil products sales. These increases were primarily due to the expansion of the activities of SOCAR Overseas in 2012 and the recognition by SOCAR Overseas of revenue on a gross basis, as well as the cost of sales on a gross basis, relating to its sales of crude oil, as well as the effects of the consolidation of SOCAR Energy Switzerland, which was acquired by the Company on 1 July 2012, and SOCAR Trading, which was consolidated with effect from 1 November 2012. See "*—Net Sales of Crude Oil*" and "*—Main Factors Affecting Results of Operations and Liquidity—Changes in crude oil and refined oil product prices*".

The following table sets forth the components of the Company's revenue for the years indicated:

	For the year ended 31 December		
	2012	**2011**	**Change**
	(AZN millions)		*(%)*
Crude oil, net[(1)(2)]	10,126	2,717	272.7
Oil products, net[(3)]	3,318	2,077	59.7
Petrochemicals	2,030	2,002	1.4
Natural gas	1,107	967	14.5
Other revenue	558	370	50.8
Total	**17,139**	**8,133**	**110.7**

Notes:

(1) Revenue from net crude oil sales is stated net of the price margin tax.

(2) Revenue from sales of crude oil produced under the AGC PSA and condensate produced under the Shah Deniz PSA is not subject to excise taxes or price margin taxes. See "*Business—Exploration and Production—Mining Taxes*".

(3) Revenue from net oil product sales is stated net of excise tax of AZN 482 million in 2012 and AZN 441 million in 2011.

Net Sales of Oil Products

Total revenue from net sales of oil products increased from AZN 2,077 million in the year ended 31 December 2011 to AZN 3,318 million in the year ended 31 December 2012, an increase of AZN 1,241 million, or 59.7%, primarily as a

result of: (i) the effect of the consolidation of SOCAR Energy Switzerland, which was acquired by the Company on 1 July 2012; (ii) the effect of the consolidation of SOCAR Trading from 1 November 2012; (iii) the commencement of operations of SOCAR Petroleum in Romania in 2012; and (iv) the expansion of wholesale operations and its petrol station network in Ukraine. This increase was partially offset by a decrease in exports of oil products of oil products from Azerbaijan, as a result of increased domestic sales (which attract a lower price than international sales).

The following table sets forth certain information regarding the Company's net sales revenue and volumes of oil products for the years indicated:

	For the year ended 31 December	
	2012	**2011**
Oil products, net revenue (*AZN millions*)[1]	3,318	2,077
Oil products, net volumes (*millions of tonnes*)[2]	7.3	6.3
Average price per tonne of oil products (*AZN*)[3]	456.8	329.7

Notes:

(1) After elimination of intra-group sales.

(2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.

(3) Average price per tonne is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes).

In the year ended 31 December 2012, domestic sales of oil products accounted for AZN 1,019 million, or 30.7%, of total revenue from oil products. External sales accounted for AZN 2,299 million, or 69.3%, of total revenue from oil products. In the year ended 31 December 2011, domestic sales of oil products accounted for AZN 914 million, or 44.0%, of total revenue from oil products. External sales accounted for AZN 1,163 million, or 56.0%, of total revenue from oil products.

Petrochemicals

Total revenue from petrochemical sales increased from AZN 2,002 million in the year ended 31 December 2011 to AZN 2,030 million in the year ended 31 December 2012, an increase of AZN 28 million, or 1.4%, primarily as a result of increased prices of petrochemicals.

The following table sets forth certain information regarding the Company's petrochemical sales revenue and volumes for the years indicated:

	For the year ended 31 December	
	2012	**2011**
Petrochemicals revenue (*AZN millions*)[1]	2,030	2,002
Petrochemicals, net volumes (*millions of tonnes*)[2]	2.0	2.0
Average price per tonne (*AZN*)[3]	1,014	1,011

Notes:

(1) After elimination of intra-group sales.

(2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.

(3) Average price per tonne is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes).

Net Sales of Crude Oil

Total revenue from net sales of crude oil increased from AZN 2,717 million in the year ended 31 December 2011 to AZN 10,126 million in the year ended 31 December 2012, an increase of AZN 7,409 million, or 272.7%, primarily as a result of the purchase and sale by SOCAR Overseas of SOFAZ's crude oil, as well as crude oil from other producers, amounting to AZN 6,495 million. See "*Relationship with the Government—Related Party Transactions*" and "*Relationship with the Government—SOFAZ*". Previously, such oil was principally sold by SOCAR Trading, which was not a consolidated subsidiary of the Company. Accordingly, the Company did not recognise revenues or costs of sales of such transactions. Under applicable accounting rules, SOCAR Overseas, which commenced operations in September 2011 and is a wholly-owned subsidiary of the Company, has recognised both revenues and the cost of sales from such transactions on its income statement for the year ended 31 December 2012, which had a corresponding effect on the Company's consolidated statement of comprehensive income included in its Financial Statements. The increase in total revenue from net sales of crude oil was also as a result of the increase in international crude oil prices and the effect of the consolidation of SOCAR Trading from 1 November 2012, as well as a AZN 80 million increase in AzACG's entitlement to volumes of crude oil from the ACG fields in 2012. This increase was partially offset by a AZN 58 million, or 17.1%, decrease in net sales of crude oil by Azneft, as a result of decreased production of crude oil by

Azneft in 2012. See "*—Main Factors Affecting Results of Operations and Liquidity—Changes in crude oil and refined oil product prices*".

The following table sets forth certain information regarding the Company's net sales revenue and volumes of crude oil for the years indicated:

	For the year ended 31 December	
	2012	2011
Crude oil, net revenue (*AZN millions*)[(1)]	10,126	2,717
Crude oil, net volumes (*millions of tonnes*)[(2)]	15.7	5.4
Average price per tonne of crude oil (*AZN*)[(3)]	645.4	503.1

Notes:
(1) After elimination of intra-group sales.
(2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.
(3) Average price per tonne is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes).

All of the Company's revenue in respect of crude oil sales is derived from external sales. No revenue in respect of crude oil is derived from domestic sales.

Natural Gas

Total revenue from natural gas sales increased from AZN 967 million in the year ended 31 December 2011 to AZN 1,107 million in the year ended 31 December 2012, an increase of AZN 140 million, or 14.5%, primarily as a result of increased sales of natural gas to Gazprom, in terms of both volume and price, and increased volumes of sales of natural gas in Georgia.

The following table sets forth certain information regarding the Company's net sales revenue and volumes of natural gas for the years indicated:

	For the year ended 31 December	
	2012	2011
Natural gas revenue (*AZN millions*)[(1)]	1,107	967
Natural gas volumes (*bcm*)[(2)]	13.8	12.5
Average price per m^3 of natural gas (*AZN*)[(3)]	0.1	0.1

Notes:
(1) After elimination of intra-group sales.
(2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.
(3) Average price per m^3 is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes).

In the year ended 31 December 2012, domestic sales of natural gas accounted for AZN 492 million, or 44.4%, of total revenue from natural gas. External sales accounted for AZN 615 million, or 55.6%, of total revenue from natural gas. In the year ended 31 December 2011, domestic sales of natural gas accounted for AZN 449 million, or 46.4%, of total revenue from natural gas. External sales accounted for AZN 518 million, or 53.6%, of total revenue from natural gas.

Other revenues

Other revenues include revenues from providing services to joint ventures and third parties. Other revenues increased from AZN 370 million in the year ended 31 December 2011 to AZN 558 million in the year ended 31 December 2012, an increase of AZN 188 million, or 50.8%, primarily as a result of the consolidation of SOCAR Energy Switzerland, SOCAR Trading and Carlina in 2012, the commencement of activities at Baku Shipyard LLC in 2012 and an increase in other revenue as a result of the recognition of the Company's AZN 126 million share of cost recovery income from certain PSAs (primarily the Salyan, Bahar, Surakhani, Balakhani and Abseron PSAs) due to increased crude oil production.

Cost of Sales

Cost of sales increased from AZN 4,996 million in the year ended 31 December 2011 to AZN 13,877 million in the year ended 31 December 2012, an increase of AZN 8,881 million, or 177.8%, primarily due to the expansion of the activities of SOCAR Overseas in 2012 and the recognition by SOCAR Overseas of the cost of sales on a gross basis, as well as revenue on a gross basis, relating to its sales of crude oil, as well as the effects of the consolidation of SOCAR Energy

Switzerland, which was acquired by the Company on 1 July 2012, and the consolidation of SOCAR Trading with effect from 1 November 2012. An increase of AZN 89 million, or 15.9%, in cost of sales at Azneft, as a result of increased salaries of all employees at Azneft and an increase in depreciation expenses, as well as an increase of AZN 108 million, or 80%, in cost of sales at SOCAR Ukraine, as a result of increased purchases of petroleum and consumer products in line with SOCAR Ukraine's expansion of its wholesale operations and petrol station network also contributed to this increase.

Gross Profit

As a result of the foregoing, gross profit increased from AZN 3,137 million in the year ended 31 December 2011 to AZN 3,262 million in the year ended 31 December 2012, an increase of AZN 125 million, or 4.0%.

Operating Expenses

Operating expenses increased from AZN 1,743 million in the year ended 31 December 2011 to AZN 1,986 million in the year ended 31 December 2012, an increase of AZN 243 million, or 13.9%, primarily as a result of a 62.8% increase in general and administrative expenses and a 18.0% increase in distribution expenses, which was partially offset by a 15.8% decrease in social expenses and a 8.6% decrease in other operating expenses.

Distribution Expenses

Distribution expenses increased from AZN 383 million in the year ended 31 December 2011 to AZN 452 million in the year ended 31 December 2012, an increase of AZN 69 million, or 18.0%, primarily due to the consolidation of SOCAR Energy Switzerland in 2012, as well as the expansion of the Company's wholesale operations and network of petrol stations in Ukraine.

General and Administrative Expenses

General and administrative expenses increased from AZN 401 million in the year ended 31 December 2011 to AZN 653 million in the year ended 31 December 2012, an increase of AZN 252 million, or 62.8%. This increase was primarily due to increased salaries across the Group with effect from March 2012 and the costs of implementing SAP software, as well as the aforementioned consolidations and, to a lesser extent, expenses incurred in respect of the opening of the Company's representative office in Belgium and maintaining the Company's representative office in Switzerland.

Disposal of Property, Plant and Equipment

The company recognised losses on disposals of property, plant and equipment of AZN 26 million in the year ended 31 December 2011, as compared to AZN 24 million in the year ended 31 December 2012, a decrease of AZN 2 million, or 7.7%.

Social Expenses

Social expenses decreased from AZN 278 million in the year ended 31 December 2011 to AZN 234 million in the year ended 31 December 2012, a decrease of AZN 44 million, or 15.8%. This decrease was primarily due to a lower number of social projects undertaken by the Company in 2012, as compared to 2011. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Government, which directly controls the Company, may cause the Company to engage in business practices that may not be in the interests of the Noteholders and may cause the appointment or removal of members of the Company's management team*".

Exploration and Evaluation Expenses

Exploration and evaluation expenses increased from AZN 17 million in the year ended 31 December 2011 to AZN 41 million in the year ended 31 December 2012, an increase of AZN 24 million, or 141.2%. This increase was primarily due to increased exploration activity, including seismic research and exploration activities at the Narimanov, Kura Valley and Bahar fields.

Other Operating Expenses

Other operating expenses decreased from AZN 637 million in the year ended 31 December 2011 to AZN 582 million in the year ended 31 December 2012, a decrease of AZN 55 million, or 8.6%. This decrease was primarily due to an

impairment charge of AZN 500 million taken in 2011 related to inefficient oil wells. In 2012, the Company recognised a similar impairment charge of AZN 228 million.

Other Operating Income

Other operating income decreased from AZN 149 million in the year ended 31 December 2011 to AZN 117 million in the year ended 31 December 2012, a decrease of AZN 32 million, or 21.5%. This decrease was due to a 34.9% decrease in the sales of various goods and services that are individually insignificant and a 96.2% decrease in gains on release of payables.

The following table sets forth the Company's other operating income for the years indicated:

	For the year ended 31 December		
	2012	**2011**[(1)]	**Change**
	(AZN millions)		*(%)*
Sales of other goods and services rendered	41	63	(34.9)
Gains on release of payables	1	26	(96.2)
Other	75	60	25.0
Total	**117**	**149**	**(21.5)**

Note:

(1) Certain reclassifications have been made to the 2011 financial data contained in the 2012 Financial Statements to conform to the presentation of the 2012 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the 2012 Financial Statements.

Operating Profit

As a result of the foregoing, operating profit decreased from AZN 1,543 million in the year ended 31 December 2011 to AZN 1,393 million in the year ended 31 December 2012, a decrease of AZN 150 million, or 9.7%.

Financing

Finance Income

Finance income decreased from AZN 72 million in the year ended 31 December 2011 to AZN 34 million in the year ended 31 December 2012, a decrease of AZN 38 million, or 52.8%, primarily as a result of a the receipt of no interest on loans to related parties and a 58.5% decrease in interest on income on deposits and bank accounts in 2012, as compared to 2011.

The following table sets forth the Company's finance income for the years indicated:

	For the year ended 31 December		
	2012	**2011**[(1)]	**Change**
	(AZN millions)		*(%)*
Interest income on deposits and bank accounts	22	53	(58.5)
Interest on loans to related parties	—	16	—
Other	12	3	300.0
Total	**34**	**72**	**(52.8)**

Note:

(1) Certain reclassifications have been made to the 2011 financial data contained in the 2012 Financial Statements to conform to the presentation of the 2012 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the 2012 Financial Statements.

Finance Costs

Finance costs decreased from AZN 211 million in the year ended 31 December 2011 to AZN 187 million in the year ended 31 December 2012, a decrease of AZN 24 million, or 11.4%. This decrease was primarily due to a AZN 23 million, or 14.7%, decrease in interest expense, as a result of the offset of a loan due to IBA and Company deposits at IBA in 2011. See Note 34 to the 2012 Financial Statements.

The following table sets forth the Company's finance costs for the years indicated:

	For the year ended 31 December		
	2012	**2011**[(1)]	**Change**
	(AZN millions)		*(%)*
Interest expense	133	156	(14.7)
Provisions for asset retirement obligations	29	22	31.8
Environmental provision	20	28	(28.6)
Provisions for disability payments	5	4	25.0
Total	**187**	**211**	**(11.4)**

Note:

(1) Certain reclassifications have been made to the 2011 financial data contained in the 2012 Financial Statements to conform to the presentation of the 2012 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the 2012 Financial Statements.

Foreign Exchange Losses

The Company recognised foreign exchange gains of AZN 36 million in the year ended 31 December 2012, as compared to foreign exchange losses of AZN 413 million in the year ended 31 December 2011. The foreign exchange gains in 2012 were primarily due to the appreciation of the Turkish Lira against the U.S. Dollar. The foreign exchange losses in 2011 were primarily due to the depreciation of the Turkish Lira against the U.S. Dollar.

Share of Results of Jointly-Controlled Entities

The Company's income from its share of the after-tax results of jointly-controlled entities increased from AZN 19 million in the year ended 31 December 2011 to AZN 20 million in the year ended 31 December 2012, an increase of AZN 1 million, or 5.3%. See Note 16 to the 2012 Financial Statements.

Share of Results of Associates

The Company's income from its share of the after-tax results of associates increased from AZN 174 million in the year ended 31 December 2011 to AZN 200 million in the year ended 31 December 2012, an increase of AZN 26 million, or 14.9%, primarily due to the recognition of BTC Co. as an associate since July 2011. See Note 17 to the 2012 Financial Statements.

Profit before Income Tax

As a result of the foregoing, profit before income tax increased from AZN 1,185 million in the year ended 31 December 2011 to AZN 1,496 million in the year ended 31 December 2012, an increase of AZN 311 million, or 26.2%.

Income Tax Expense

Income tax expense increased from AZN 375 million in the year ended 31 December 2011 to AZN 476 million in the year ended 31 December 2012, an increase of AZN 101 million, or 26.9%, primarily a result of changes in the Company's accounting policies in 2011 and 2012 with respect to the classification of certain expenses as tax deductable expenses, as well as an increase in profit before income tax.

The following table sets forth the Company's income tax expenses for the years indicated:

	For the year ended 31 December		
	2012	**2011**[(1)]	**Change**
	(AZN millions)		*(%)*
Current tax expense	504	461	9.3
Deferred tax charge	(28)	(86)	(67.4)
Total	**476**	**375**	**26.9**

Note:

(1) Certain reclassifications have been made to the 2011 financial data contained in the 2012 Financial Statements to conform to the presentation of the 2012 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the 2012 Financial Statements.

Profit for the Period

As a result of the foregoing, profit for the year increased from AZN 810 million in the year ended 31 December 2011 to AZN 955 million in the year ended 31 December 2012, an increase of AZN 145 million, or 17.9%.

Operating Segments

Overview

For financial reporting purposes, the activities of the Company are divided into four operating segments: oil and gas; refining; construction; and sales and distribution. The remaining activities of the Company are aggregated and presented as the "other" operating segment due to their relative insignificance. The operating segments of the Company comprise the following activities:

- **Oil and Gas**. The Company is engaged in oil and gas exploration and production activities at locations in Azerbaijan, primarily offshore in the Caspian Sea. The Company's oil and gas segment is the largest and most profitable segment. See "*Business—Exploration and Production*". The results of operations of these activities are recorded as part of the oil and gas operating segment.

- **Refining**. The Company is active in refining oil products, including gasoline, jet fuel, diesel, fuel oil and others at two refineries in Baku, as well as at its Azerikimya facilities and through its controlling interest in Petkim. See "*Business—Refining, Marketing and Trading*". The results of operations of these activities are recorded as part of the refining segment.

- **Construction**. The Company provides construction services primarily for group companies in Azerbaijan and Georgia and, to a lesser extent, international oil and related industry companies in Azerbaijan. See "*Business—Construction*". The results of operations of these activities are recorded as part of the construction segment.

- **Sales and Distribution**. The Company is active in the sales and distribution of both the crude oil and natural gas it produces, as well as refined products. The Company also owns and operates an expanding network of retail stations in Azerbaijan, Georgia, Romania, Switzerland and Ukraine. It also sells crude oil internationally both directly and through its subsidiary, SOCAR Trading. It sells natural gas directly. See "*Business—Refining, Marketing and Trading*". The Company also owns and operates the domestic oil and gas pipeline network and has interests in several international pipelines. See "*Business—Transportation*". The results of operations of these activities are recorded as part of the sales and distribution operating segment.

The Company's segments are strategic business units that focus on different customers. Management monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and

performance assessment. Transfer prices between operating segments are agreed on an arm's-length basis, similarly to transactions with third parties.

The Company's management evaluates the performance of each segment based on the results of that segment.

Segment Information for the Six Months Ended 30 June 2014 and 30 June 2013

The following table sets forth the total revenue, segment result, reportable assets, reportable liabilities and capital expenditures of the operating segments of the Company for the six months ended 30 June 2014:

	Oil & Gas	Refining	Construction	Sales & Distribution	Unallocated[(1)]	Eliminations[(2)]	Total
				(AZN millions)			
External customers..........	1,423	1,056	229	17,685	11	—	**20,404**
Inter-segment	596	219	347	8,783	149	(10,094)	—
Total Revenue................	**2,019**	**1,275**	**576**	**26,468**	**160**	**(10,094)**	**20,404**
Segment profit / (loss) ...	**457**	**98**	**(25)**	**227**	**72**	**(218)**	**611**
Total Reportable Segment Assets	9,711	3,982	1,816	13,149	8,688	(12,904)	**24,442**
Total Reportable Segment Liabilities..........	(3,105)	(2,141)	(1,173)	(11,075)	(4,748)	8,562	**(13,680)**
Total Capital Expenditures[(3)]	613	160	196	292	42	—	**1,303**

Notes:

(1) "Unallocated" includes revenues, expenses, assets and liabilities related to research and development, IT, security and other functions that are managed at the group level.

(2) Inter-segment revenues and balances are eliminated on consolidation. Amounts included in eliminations consist of inter-company transactions and balances.

(3) "Capital expenditures" includes additions to non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets.

The following table sets forth the total revenue, segment result, reportable assets, reportable liabilities and capital expenditures of the operating segments of the Company for the six months ended 30 June 2013[(1)]:

	Oil & Gas	Refining	Construction	Sales & Distribution	Unallocated[(2)]	Eliminations[(3)]	Total
				(AZN millions)			
External customers..........	1,540	1,017	119	17,081	38	—	19,795
Inter-segment	240	244	366	5,809	171	(6,830)	—
Total Revenue................	**1,780**	**1,261**	**485**	**22,890**	**209**	**(6,830)**	**19,795**
Segment profit / (loss) ...	**483**	**(11)**	**44**	**234**	**(50)**	**(127)**	**573**
Total Reportable Segment Assets[(4)]	9,056	3,528	1,585	11,463	8,021	(11,502)	22,150
Total Reportable Segment Liabilities[(4)].......	(2,989)	(2,232)	(910)	(10,019)	(3,830)	8,124	(11,856)
Total Capital Expenditures[(5)]	572	146	160	256	96	—	1,230

Notes:

(1) Certain reclassifications have been made to the 2013 financial data contained in the Interim Financial Statements to conform to the presentation of the 2014 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the Interim Financial Statements.

(2) "Unallocated" includes assets and liabilities related to research and development, IT, security and other functions that are not managed at the group level.

(3) Inter-segment revenues and balances are eliminated on consolidation. Amounts included in eliminations consist of inter-company transactions and balances.

(4) Data taken from the Company's unaudited consolidated financial statements as at, and for the six months ended, 30 June 2013.

(5) "Capital expenditures" includes additions to non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets.

See Note 3 to the Interim Financial Statements.

Oil & Gas Segment

Of the Company's oil and gas segment's revenue, 70.5% and 86.5% were derived from external customers in the six months ended 30 June 2014 and 2013, respectively, with the remainder being derived from internal customers. The revenue attributable to this segment, before eliminations, accounted for 6.6% and 6.7% of the Company's total revenue

for the six months ended 30 June 2014 and 2013, respectively, and increased by AZN 239 million, or 13.4%, in the six months ended 30 June 2014, as compared to the six months ended 30 June 2013, primarily due to an increase in the domestic sales price for oil products. The Company's profits attributable to the oil and gas segment, before elimination, accounted for 55.1% and 69.0% of the Company's total profits for the six months ended 30 June 2014 and 2013, respectively, and decreased by AZN 26 million, or 5.4%, in the six months ended 30 June 2014, as compared to the six months ended 30 June 2013, primarily due to a revision in the discount rate used by the Company to calculate asset retirement obligations and disability and environmental provisions.

Refining Segment

Of the Company's refining segment's revenue, 82.8% and 80.7% were derived from external customers in the six months ended 30 June 2014 and 2013, respectively, with the remainder being derived from internal customers. The revenue attributable to this segment, before eliminations, accounted for 4.2% and 4.7% of the Company's total revenue for the six months ended 30 June 2014 and 2013, respectively, and increased by AZN 14 million, or 1.1%, in the six months ended 30 June 2014, as compared to the six months ended 30 June 2013, primarily due to higher sales of petrochemical products. The Company's profits attributable to the refining segment, before elimination, accounted for 11.8% of the Company's total profits for the six months ended 30 June 2014, while the Company recognised a loss of AZN 11 million for the six months ended 30 June 2013. The profits attributable to the refining segment for the six months ended 30 June 2014 were primarily due to increases in the sale price of petrochemicals.

Construction Segment

Of the Company's construction segment's revenue, 60.2% and 75.5% were derived from internal customers in the six months ended 30 June 2014 and 2013, respectively, with the remainder being derived from external customers. The revenue attributable to this segment, before eliminations, accounted for 1.9% and 1.8% of the Company's total revenue for the six months ended 30 June 2014 and 2013, respectively, and increased by AZN 91 million, or 18.8%, in the six months ended 30 June 2014, as compared to the six months ended 30 June 2013, primarily due to the continuing construction of a new rig by CDC. See "*Business—Construction*". The Company recognised a loss attributable to the construction segment of AZN 25 million for the six months ended 30 June 2014, as compared to profits attributable to the construction segment, of AZN 44 million for the six months ended 30 June 2013, which, before eliminations, accounted for 6.3% of the Company's total profits for the six months ended 30 June 2013. The losses attributable to the construction segment for the six months ended 30 June 2014 were primarily due to reduced drilling activities in 2013. The profits attributable to the construction segment for the six months ended 30 June 2013 were primarily due to the construction of a new rig by CDC.

Sales & Distribution

Of the Company's sales and distribution segment's revenue, 66.8% and 74.6% were derived from external customers in the six months ended 30 June 2014 and 2013, respectively, with the remainder being derived from internal customers. The revenue attributable to this segment, before eliminations, accounted for 86.8% and 86.0% of the Company's total revenue for the six months ended 30 June 2014 and 2013, respectively, and increased by AZN 3,578 million, or 15.6%, in the six months ended 30 June 2014, as compared to the six months ended 30 June 2013, primarily due to increased trading activities conducted by SOCAR Trading, as well as the commencement of oil products trading activities in Turkey by SOCAR Turkey Petrol. The Company's profits attributable to the sales and distribution segment, before elimination, accounted for 27.4% and 33.4% of the Company's total profits for the six months ended 30 June 2014 and 2013, respectively, and decreased by AZN 7 million or 3.0%, in the six months ended 30 June 2014, as compared to the six months ended 30 June 2013.

Segment information for the years ended 31 December 2013 and 31 December 2012

The following table sets forth the total revenue, segment result, reportable assets, reportable liabilities and capital expenditures of the operating segments of the Company for the year ended 31 December 2013:

	Oil & Gas	Refining	Construction	Sales & Distribution	Unallocated[1]	Eliminations[2]	Total
				(AZN millions)			
External customers	2,914	2,085	327	33,077	30	—	38,433
Inter-segment	641	488	708	13,407	364	(15,608)	—
Total Revenue	**3,555**	**2,573**	**1,035**	**46,484**	**394**	**(15,608)**	**38,433**
Net profit / (loss) for the year	**907**	**(35)**	**30**	**444**	**172**	**(541)**	**977**
Total Reportable Segment Assets	9,146	3,587	1,754	11,266	8,180	(10,887)	23,046
Total Reportable Segment Liabilities	(3,063)	(1,970)	(1,089)	(9,182)	(4,059)	6,546	(12,817)
Total Capital Expenditures[3]	1,232	218	536	829	298	(8)	3,105

Notes:

(1) "Unallocated" includes assets and liabilities related to research and development, IT, security and other functions that are not managed at the group level.

(2) Inter-segment balances are eliminated on consolidation. Amounts shown as eliminations include inter-company balances.

(3) "Capital expenditures" includes additions to non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets.

The following table sets forth the total revenue, segment result, reportable assets, reportable liabilities and capital expenditures of the operating segments of the Company for the year ended 31 December 2012[1]:

	Oil & Gas	Refining	Construction	Sales & Distribution	Unallocated[2]	Eliminations[3]	Total
				(AZN millions)			
External customers	3,068	2,039	205	11,797	30	—	17,139
Inter-segment	676	462	694	1,239	311	(3,382)	—
Total Revenue	**3,744**	**2,501**	**899**	**13,036**	**341**	**(3,382)**	**17,139**
Net profit / (loss) for the year	**768**	**91**	**46**	**434**	**388**	**(772)**	**955**
Total Reportable Segment Assets	8,140	3,528	1,660	10,919	7,219	(9,600)	21,866
Total Reportable Segment Liabilities	(2,964)	(2,230)	(1,034)	(9,565)	(3,093)	6,873	(12,013)
Total Capital Expenditures[4]	1,559	196	338	1,033	252	(152)	3,226

Notes:

(1) Certain reclassifications have been made to the 2012 financial data contained in the 2013 Financial Statements to conform to the presentation of the 2013 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the 2013 Financial Statements.

(2) "Unallocated" includes assets and liabilities related to research and development, IT, security and other functions that are not managed at the group level.

(3) Inter-segment balances are eliminated on consolidation. Amounts shown as eliminations include inter-company balances.

(4) "Capital expenditures" includes additions to non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets.

See Note 5 to the 2013 Financial Statements.

Oil & Gas Segment

Of the Company's oil and gas segment's revenue, 82.0% and 81.9% were derived from external customers in the year ended 31 December 2013 and 2012, respectively, with the remainder being derived from internal customers. The revenue attributable to this segment, before eliminations, accounted for 6.6% and 18.2% of the Company's total revenue for the year ended 31 December 2013 and 2012, respectively, and decreased by AZN 189 million, or 5.0%, in the year ended 31 December 2013, as compared to the year ended 31 December 2012, primarily due to a decrease in crude oil exported by Azneft as a result of increased domestic demand for which the Company receives less revenue. The Company's profits attributable to the oil and gas segment, before elimination, accounted for 59.7% and 44.5% of the Company's total profits for the year ended 31 December 2013 and 2012 respectively, and increased by AZN 139 million, or 18.1%, in the year ended 31 December 2013, as compared to the year ended 31 December 2012 primarily as

a result of a revision in the discount rate used by the Company to calculate asset retirement obligations and disability and environmental provisions.

Refining Segment

Of the Company's refining segment's revenue, 81.0% and 81.5% were derived from external customers in the year ended 31 December 2013 and 2012, respectively, with the remainder being derived from internal customers. The revenue attributable to this segment, before eliminations, accounted for 4.8% and 12.2% of the Company's total revenue for the year ended 31 December 2013 and 2012, respectively, and increased by AZN 72 million, or 2.9%, in the year ended 31 December 2013, as compared to the year ended 31 December 2012, primarily due to increased activities in the refinery segment, including the import and sale of Azerbaijani natural gas to Turkey, which was partially offset by a decrease in petrochemical sales by volume. The Company's losses attributable to the refining segment, before elimination, for the year ended 31 December 2013 accounted for (2.3)% of the Company's total profits for the year ended 31 December 2013. The Company's profits attributable to the refining segment for the year ended 31 December 2012 accounted for 5.3% of the Company's total profits for the year ended 31 December 2012. The losses attributable to the refining segment for the year ended 31 December 2013 were primarily due to a foreign exchange loss in 2013 due to the depreciation of the Turkish Lira against the U.S. Dollar and the corresponding effect of such depreciation on the Company's subsidiary, STEAŞ, whose functional currency is the Turkish Lira but has liabilities denominated in U.S. Dollars. The profits attributable to the refining segment for the year ended 31 December 2012 were primarily due to a foreign exchange gain in 2012 due to the appreciation of the Turkish Lira against the U.S. Dollar and the corresponding effect on STEAŞ.

Construction Segment

Of the Company's construction segment's revenue, 68.4% and 77.2% were derived from internal customers in the year ended 31 December 2013 and 2012, respectively, with the remainder being derived from external customers. The revenue attributable to this segment, before eliminations, accounted for 1.9% and 4.4% of the Company's total revenue for the year ended 31 December 2013 and 2012, respectively, and increased by AZN 136 million, or 15.1%, in the year ended 31 December 2013, as compared to the year ended 31 December 2012, primarily due to the construction of a new rig by CDC. The Company's profits attributable to the construction segment, before elimination, accounted for 2.0% and 2.7% of the Company's total profits for the year ended 31 December 2013 and 2012 respectively, and decreased by AZN 16 million, or 34.8%, for the year ended 31 December 2013, as compared to the year ended 31 December 2012, due to generally increased costs.

Sales & Distribution

Of the Company's sales and distribution segment's revenue, 71.2% and 90.5% were derived from external customers in the year ended 31 December 2013 and 2012, respectively, with the remainder being derived from internal customers. The revenue attributable to this segment, before eliminations, accounted for 86.0% and 63.5% of the Company's total revenue for the year ended 31 December 2013 and 2012, respectively, and increased by AZN 33,448 million, or 256.6%, in the year ended 31 December 2013, as compared to the year ended 31 December 2012, primarily due to the consolidation of (i) SOCAR Energy Switzerland, which was acquired by the Company on 1 July 2012, and (ii) SOCAR Trading, which was consolidated with effect from 1 November 2012. The Company's profits attributable to the sales and distribution segment, before elimination, accounted for 29.2% and 25.1% of the Company's total profits for the year ended 31 December 2013 and 2012, respectively, and increased by AZN 10 million, or 2.3%, for the year ended 31 December 2013, as compared to the year ended 31 December 2012, primarily due to increased trading activities.

Liquidity and Capital Resources

Cash Flows for the Six Months Ended 30 June 2014 and 30 June 2013

The following table sets forth the principal items of the statement of cash flows for the periods indicated:

	For the six months ended 30 June 2014	For the six months ended 30 June 2013[1]	Change
	(AZN millions)	*(AZN millions)*	*(%)*
Net cash flows from operating activities	800	1,039	(23.0)
Net cash used in investing activities	(1,006)	(1,068)	(5.8)
Net cash flows provided by financing activities	189	103	83.5

Note:

(1) Certain reclassifications have been made to the 2013 financial data contained in the Interim Financial Statements to conform to the presentation of the 2014 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the Interim Financial Statements.

Net Cash Flows from Operating Activities

In the six months ended 30 June 2014, net cash flows from operating activities were AZN 800 million, as compared to AZN 1,039 million in the six months ended 30 June 2013, a decrease of AZN 239 million, or 23.0%. This decrease was primarily attributable to AZN 566 million used for trade and other receivables, partially offset by increased cash from trade and other payables.

Net Cash Flows from Investing Activities

Net cash flows used in investing activities principally reflects acquisitions and dispositions of subsidiaries, joint ventures and associates, purchases and sales of property, plant and equipment and intangible property, distributions received from jointly-controlled entities and associates and placements of term deposits.

In the six months ended 30 June 2014, net cash flows used in investing activities were AZN 1,006 million, as compared to AZN 1,068 million in the six months ended 30 June 2013, a decrease of AZN 62 million, or 5.8%. This decrease was primarily attributable to decreases in purchases of property, plant and equipment.

Net Cash Flows from Financing Activities

In the six months ended 30 June 2014, net cash flows provided by financing activities were AZN 189 million, as compared to AZN 103 million in the six months ended 30 June 2013, an increase of AZN 86 million, or 83.5%. This increase was primarily attributable to a decrease in the repayment of borrowings.

Cash Flows for the Years Ended 31 December 2013, 2012 and 2011

The following table sets forth the principal items of the statement of cash flows for the years indicated:

	For the year ended 31 December 2013	For the year ended 31 December 2012[1]	For the year ended 31 December 2011[2]	Change 2012-2013	Change 2011-2012
	(AZN millions)	*(AZN millions)*	*(AZN millions)*	*(%)*	*(%)*
Net cash flows from operating activities	1,871	2,155	2,032	(13.2)	6.1
Net cash used in investing activities	(2,318)	(2,255)	(2,424)	2.8	(7.0)
Net cash flows provided by/(used in) financing activities	410	156	642	162.8	(75.7)

Notes:

(1) Certain reclassifications have been made to the 2012 financial data contained in the 2013 Financial Statements to conform to the presentation of the 2013 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the 2013 Financial Statements.

(2) Certain reclassifications have been made to the 2011 financial data contained in the 2012 Financial Statements to conform to the presentation of the 2012 figures. See "*Presentation of Financial, Reserves and Certain Other Information*" and Note 2 to the 2012 Financial Statements.

Net Cash Flows from Operating Activities

In the year ended 31 December 2013, net cash flows from operating activities were AZN 1,871 million, as compared to AZN 2,155 million in the year ended 31 December 2012, a decrease of AZN 284 million, or 13.2%. This decrease was primarily attributable to negative changes in asset retirement obligations and decreases in trade and other receivables.

In the year ended 31 December 2012, net cash flows from operating activities were AZN 2,155 million, as compared to AZN 2,032 million in the year ended 31 December 2011, an increase of AZN 123 million, or 6.1%. This increase was primarily attributable to increased cash from operations.

Net Cash Flows from Investing Activities

In the year ended 31 December 2013, net cash flows used in investing activities were AZN 2,318 million, as compared to AZN 2,255 million in the year ended 31 December 2012, an increase of AZN 63 million, or 2.8%. The increase in net cash flows used in investing activities in 2013, as compared to 2012, was primarily attributable to increases in purchases of property, plant and equipment.

In the year ended 31 December 2012, net cash flows used in investing activities were AZN 2,255 million, as compared to AZN 2,424 million in the year ended 31 December 2012, a decrease of AZN 169 million, or 7.0%. The decrease in net cash flows used in investing activities in 2012 as compared to 2011 was primarily attributable to an increase in dividends received and less cash used in the acquisitions of subsidiaries, which was partially offset by increases in purchases of property, plant and equipment.

Net Cash Flows from Financing Activities

In the year ended 31 December 2013, net cash flows provided by financing activities were AZN 410 million, as compared to AZN 156 million in the year ended 31 December 2012, an increase of AZN 254 million, or 162.8%. The increase in net cash flows provided by financing activities in 2013, as compared to 2012, was primarily attributable to proceeds received from the U.S.$1,000,000,000 4.75% Senior Unsecured Notes due 2023 issued by the Company in March 2013 (the "**2013 Bonds**"). See "—*Borrowings*".

In the year ended 31 December 2012, net cash flows from financing activities were AZN 156 million, as compared to AZN 642 million in the year ended 31 December 2011, a decrease of AZN 486 million, or 75.7%. This decrease was primarily due to a decrease in proceeds from borrowings as a result of the proceeds received from SOFAZ in an amount of the U.S.$485 million in 2011 in connection with the acquisition of an additional 1.65% interest in the ACG PSA.

Capital Expenditures

The Company's total capital expenditures by segment for the years indicated are set forth in the table below, which also reflects acquisitions through business combinations:

	For the year ended 31 December		
	2013	**2012**	**2011**
		(AZN millions)	
Oil & Gas	1,232	1,559	1,594
Refining	218	196	192
Construction	536	338	284
Sales & Distribution	829	1,033	1,422
Other	298	252	319
Eliminations	(8)	(152)	(62)
Total capital expenditures	**3,105**	**3,226**	**3,749**

The principal acquisitions of the Company during the past two years are described under "*—Main Factors Affecting Results of Operations and Liquidity—Acquisitions*".

Oil & Gas Segment

The oil and gas business is capital intensive and, as a result, capital expenditures in the Company's oil and gas segment generally account for a significant proportion of the Company's overall capital expenditures for any given period. The Company's capital expenditures in this segment are generally in the ordinary course of business in the exploration and production of oil and gas.

In 2013, AZN 707 million, or 57.4%, of capital expenditures in this segment were incurred by Azneft in the ordinary course of business. A further AZN 262 million was attributable to the Company's capital expenditures through ACG in respect of maintenance and drilling at the Guneshli and Central Azeri fields in the period.

In 2012, AZN 892 million, or 57.2%, of capital expenditures in this segment were incurred by Azneft in the ordinary course of business. A further AZN 241 million was attributable to the Company's capital expenditures through ACG in respect of maintenance and drilling at the Guneshli and Central Azeri fields in the period.

In 2011, AZN 813 million, or 53.1%, of capital expenditures in this segment were incurred by Azneft in the ordinary course of business. A further AZN 635 million was attributable to the Company's capital expenditures through ACG in respect of maintenance and drilling at the Guneshli and Central Azeri fields in the period.

Refinery Segment

Capital expenditures in the Company's refinery segment since 2009 have largely been related to the Company's acquisition of its controlling interest in Petkim in 2008. See "*Business—Petkim*".

In 2013, the Company incurred AZN 218 million in capital expenditures due to the modernisation of certain production facilities and machinery completed in 2013 by certain group companies of STEAŞ.

In 2012, the Company incurred AZN 196 million in capital expenditures due to the modernisation of certain production facilities and machinery completed in 2012 by certain group companies of STEAŞ.

In 2011, the Company incurred AZN 192 million in capital expenditures mainly due to the modernisation of production facilities at STEAŞ group companies.

Construction Segment

Capital expenditures in the Company's construction segment relate primarily to the purchase of drilling and other equipment and the construction of shipyard facilities at Baku Shipyard LLC.

Sales & Distribution Segment

Capital expenditures in the Company's sales and distribution segment are primarily due to the expansion of the Company's business.

In 2013, the Company incurred AZN 829 million in capital expenditures primarily due to the gasification programme at Azerigas, the acquisition of SOCAR Petroleum CJSC and the commencement of the TANAP project.

In 2012, the Company incurred AZN 1,033 million in capital expenditures primarily due to the gasification programme at Azerigas, the acquisition of SOCAR Energy Switzerland and the expansion of the Company's activities in Ukraine.

In 2011, the Company incurred AZN 1,422 million in capital expenditures primarily due to the gasification programme at Azerigas. (See "*—Commitments*").

Budgeted Capital Expenditures

The following table sets forth the Company's budgeted capital expenditures for the years indicated:

	For the year ended 31 December			
	2015(E)	**2016(E)**	**2017(E)**	**2018(E)**
		(*AZN millions*)		
SOCAR	584	606	629	651
AzACG	242	251	260	269
Other	270	370	300	100
Total capital expenditures	**1,096**	**1,227**	**1,189**	**1,020**

The above figures include cash calls in respect of the Company's upstream activities. See also "*—Commitments*".

Commitments

At 30 June 2014, the Company and its subsidiaries and affiliates had outstanding commitments as follows:

- STEAŞ agreed, as part of its acquisition of its controlling interest in Petkim in April 2008, to assume responsibility for all operations, unrecorded receivables, payables and liabilities that are related to the period prior to its acquisition of Petkim. STEAŞ has certain other commitments in respect of Petkim, including in respect of its employees and certain investment and production requirements. See Note 19 to the Interim Financial Statements.

- Pursuant to a Presidential Decree of 14 April 2009, Azerigas is required to participate in a gasification project in certain areas in Baku and the regions of the Republic. After Azerigas became part of the Group on 1 July 2009, this duty has been transferred to the Company according to the Presidential Decree of 10 November 2009. As part of this project, the Company is engaged in the restoration of pipelines, gasification of unserved areas, renewal of metres and certain other activities. The Company expects that this project will cost approximately AZN 1.2 billion and be funded by Government contributions of equity to the Company.

- On 17 December 2013, the Shah Deniz consortium announced the final investment decision for the Stage 2 development of Shah Deniz and signed certain addendums to the Shah Deniz PSA according to which the parties agreed to extend the development and production period to 40 years from 7 March 2001. At least U.S.$25 million (AZN 20 million) is expected to be spent by the consortium parties by 2018 in order to undertake a long-term Shah Deniz Stage 2 appraisal plan. According to the Shah Deniz work programme, capital expenditures are expected to total U.S.$33.0 million (AZN 25.9 million). The Company has a 10% share in such commitments through its subsidiary, AzSD, and an effective share of 3.283% through its associate, SGC. The Company has certain other commitments in respect of the Shah Deniz PSA, including in respect of capital commitments and operating leases. The Company expects that its commitments will be funded by the Government. See Note 19 to the Interim Financial Statements.

- AzACG estimated that its share of the capital commitments under the ACG PSA, as at 31 December 2013, was U.S.$654 million (AZN 513 million) in respect of capital commitments and U.S.$21 million (AZN 17 million) in respect of operating leases. There were no material changes in the capital commitments and operating leases in the six months ended 30 June 2014.

- With effect from 17 December 2013, South Caucasus Pipeline Company committed to the transportation of Shah Deniz Stage 2 natural gas through an expansion of the SCP. The SCP expansion is expected to cost U.S.$5,296 million (AZN 4,155 million). The Company has a 10% share in such commitments through its subsidiary, AzSD, and an effective share of 3.283% through its associate, SGC. The Company expects that its commitments will be funded by the Government.

- SOCAR Energy Switzerland estimated that, as at 30 June 2014, it had capital commitments of CHF 4.3 million (AZN 3.8 million) and operating leases of CHF 70.4 million (AZN 62 million).

- SOCAR Trading estimated that, as at 30 June 2014, it had operating leases of U.S.$72 million (AZN 57 million).

- Azerbaijan Gas Supply Company and AzACG have certain other commitments. See Note 19 to the Interim Financial Statements.

Borrowings

Over the past few years, the Company has raised significant amounts through short-term and long-term borrowings to supplement the net cash generated by its operating activities in order to fund the capital expenditures required to develop its operations and to acquire new businesses and assets.

The following table sets forth the total borrowings of the Company and its subsidiaries (excluding obligations of non-consolidated jointly-controlled entities and associates except to the extent guaranteed by the Company or its subsidiaries) and certain rate and currency denomination information related thereto as at the dates indicated:

	As at 30 June	As at 31 December		
	2014	2013	2012	2011
		(AZN millions)		
Short-term borrowings	1,741	1,545	1,873	761
of which:				
Current portion of long-term borrowings	*408*	*464*	*569*	*486*
Long-term borrowings	3,619	3,521	2,618	2,219
Total borrowings	**5,360**	**5,066**	**4,491**	**2,980**
U.S. Dollar-denominated borrowings	4,429	4,069	3,484	2,033
Manat-denominated borrowings	637	685	686	712
Japanese Yen-denominated borrowings	100	99	125	144
Swiss Franc-denominated borrowings	19	19	26	0
Georgian Lari-denominated borrowings	21	22	26	28
Euro-denominated borrowings	114	134	110	53
Other currencies	40	38	34	10

The Company's total borrowings increased to AZN 5,360 million as at 30 June 2014 from AZN 5,066 million as at 31 December 2013, an increase of AZN 294 million, or 5.8%, primarily due to the borrowing of a U.S.$150 million loan from Sberbank in March 2014 and a U.S.$150 million loan from Deutsche Bank in May 2014.

The Company's long-term borrowings (excluding the current portion of long-term debt) increased to AZN 3,619 million as at 30 June 2014 from AZN 3,521 million as at 31 December 2013, an increase of AZN 98 million, or 2.8%, primarily for the same reasons. See "*—Principal Borrowings of the Company and its Material Subsidiaries*".

The Company's total borrowings increased to AZN 5,066 million as at 31 December 2013 from AZN 4,491 million as at 31 December 2012, an increase of AZN 575 million, or 12.8%, primarily due to the issuance of the 2013 Bonds in March 2013.

The Company's long-term borrowings (excluding the current portion of long-term debt) increased to AZN 3,521 million as at 31 December 2013 from AZN 2,618 million as at 31 December 2012, an increase of AZN 903 million, or 34.5%, primarily for the same reason.

The Company's total borrowings increased to AZN 4,491 million as at 31 December 2012 from AZN 2,980 million as at 31 December 2011, an increase of AZN 1,510 million, or 50.7%, primarily due to the issuance of U.S.$500 million 5.45% Senior Unsecured Notes due 2017 in February 2012 (the "**2012 Bonds**"), partially offset by the repayment of certain amounts due to IBA and the repayment of loans extended by Deutsche Bank and Xalqbank. The Company's long-term borrowings (excluding the current portion of long-term debt) increased to AZN 2,618 million as at 31 December 2012 from AZN 2,219 million as at 31 December 2011, an increase of AZN 399 million, or 18.0%, primarily for the same reason.

The following table sets forth the estimated scheduled maturities of the Company's long-term debt outstanding as at 30 June 2014:

Year Due	Amount Due
	(U.S.$ millions)
2014	309
2015	747
2016	569
2017	925
2018	424
2019	313
2020	127
2021	125
2022	124
2023	1,116
2024 onwards	311

The weighted average interest rate on the Company's fixed interest rate borrowings was 3.66% as at each of 30 June 2014 and 2013, while the weighted average interest rate on the Company's variable interest rate borrowings decreased to LIBOR +2.54% as at 30 June 2014 from LIBOR +2.7% as at 30 June 2013.

Principal Borrowings of the Company and its Material Subsidiaries

The following describes the principal borrowings of the Company and its material subsidiaries as at 30 June 2014:

- In May 2014, SOCAR entered into a U.S.$150 million loan facility with Deutsche Bank for a period of five years. The loan facility bears interest at a rate of LIBOR +2.2% per annum. As at 30 June 2014, the total amount outstanding under this loan facility was U.S.$150 million.

- In March 2014, SOCAR entered into a U.S.$150 million loan facility with Sberbank for a period of five years. The loan facility bears interest at a rate of LIBOR +2.5% per annum. As at 30 June 2014, the total amount outstanding under this loan facility was U.S.$150 million.

- In February 2014, the Group issued a local bond in an aggregate principal amount of U.S.$250 million. The bond was purchased principally by SOFAZ. The bond matures on 1 March 2015 and bears interest at a rate of 2.0% per annum. In July 2014, the Company prepaid an amount of U.S.$181 million in respect of this bond.

- In December 2013, SOCAR entered into a U.S.$50 million loan facility with Société Générale for a period of three years. The loan facility bears interest at a rate of LIBOR +2.4% per annum. As at 30 June 2014, the total amount outstanding under this loan facility was U.S.$50 million.

- In November 2013, SOCAR entered into a U.S.$150 million loan facility with Sberbank for a period of five years. The loan facility bears interest at a rate of LIBOR +2.5% per annum. As at 30 June 2014, the total amount outstanding under this loan facility was U.S.$150 million.

- In November 2013, the Group issued a local bond in an aggregate principal amount of U.S.$70 million. The bond was purchased principally by SOFAZ. The bond matured on 15 November 2014 and bore interest at a rate of 2.0% per annum.

- In October 2013, SOCAR entered into a U.S.$100 million loan facility with Natixis for a period of three years. The loan facility bears interest at a rate of LIBOR +2.2% per annum. As at 30 June 2014, the total amount outstanding under this loan facility was U.S.$100 million.

- In July 2013, the Group issued a local bond in an aggregate principal amount of U.S.$250 million. The bond was purchased principally by SOFAZ. The bond matured on 15 August 2014 and bore interest at a rate of 2.0% per annum.

- In July 2013, Baku Shipyard LLC issued a local bond in an aggregate principal amount of U.S.$78 million. The bond was purchased principally by Azerbaijan Investment Company. The bond matures on 30 December 2027 and bears interest at a rate of 4.0% per annum.

- In June 2013, the Group issued a local bond in an aggregate principal amount of U.S.$485 million. The bond was purchased principally by SOFAZ. The bond matures on 31 December 2024 and bears interest at a rate of LIBOR +1% per annum.

- In May 2013, Azerigas entered into a AZN 60 million loan facility with Xalqbank for a period of three years. The loan facility bears interest at a rate 5% per annum. As at 30 June 2014, the total amount outstanding under this loan facility was AZN 37.5 million.

- In April 2013, SOCAR entered into a U.S.$35 million loan export credit facility with Dassault Aviation for a period of seven years. The loan facility bears interest at a rate of LIBOR +2.35% per annum. As at 30 June 2014, the total amount outstanding under this loan facility was U.S.$30 million.

- In March 2013, the Company issued the 2013 Bonds, which are listed on the London Stock Exchange. The 2013 Bonds mature on 13 March 2023.

- In December 2012, SOCAR Energy Ukraine entered into a €40 million loan facility with Sociéte Générale for a period of three years. The loan facility bears interest at a rate of Six Month EURIBOR +2.25% per annum. As at 30 June 2014, the total amount outstanding under this loan facility was €40 million.

- In November 2012, SOCAR entered into a U.S.$100 million loan facility with ING Bank for a period of three years. The loan facility bears interest at a rate of LIBOR +3% per annum. As at 30 June 2014, the total amount outstanding under this loan facility was U.S.$75 million.

- In October 2012, SOCAR entered into a U.S.$100 million loan facility with JP Morgan for a period of three years. The loan facility bears interest at a rate of LIBOR +3% per annum. As at 30 June 2014, the total amount outstanding under this loan facility was U.S.$75 million.

- In October 2012, SOCAR entered into a U.S.$100 million loan facility with SMBC Bank for a period of three years. The loan facility bears interest at a rate of LIBOR +2.4% per annum. As at 30 June 2014, the total amount outstanding under this loan facility was U.S.$48 million.

- In August 2012, SOCAR entered into a U.S.$110 million loan facility with Deutsche Bank for a period of three years. The loan facility bears interest at a rate of LIBOR +3% per annum. As at 30 June 2014, the total amount outstanding under this loan facility was U.S.$82.5 million.

- In August 2012, the Azneft IB entered into a AZN 100 million loan facility with Xalqbank for a period of three years. The loan facility bears interest at a rate 4% per annum. As at 30 June 2014, the total amount outstanding under this loan facility was AZN 68.8 million.

- In August 2012, SOCAR Energy Georgia entered into a U.S.$20 million loan facility with Yapi Kredi Bank for a period of three years. The loan facility bears interest at a rate of LIBOR +4% per annum. As at 30 June 2014, the total amount outstanding under this loan facility was U.S.$13.3 million.

- In July 2012, the Group issued a local bond in an aggregate principal amount of U.S.$200 million to finance shipyard plant construction. The bond was purchased principally by SOFAZ. The bond matures on 31 December 2027 and bears interest at a rate of LIBOR +1.335% per annum.

- In February 2012, the Company issued the 2012 Bonds, which are listed on the London Stock Exchange. The 2012 Bonds mature on 9 February 2017.

- In December 2011, SOCAR Energy Georgia entered into a €30 million loan agreement with Natixis S.A. Bank for a period of three years. The loan bore interest at a rate of EURIBOR +3.5% per annum. As at 30 June 2014 the amount outstanding under this loan agreement was €7.4 million. This loan has since been repaid in accordance with its terms.

- In September 2011, Société Générale provided a loan to SOCAR Energy Georgia of €20 million for the period of 36 months until September 2014. The loan bore interest at a rate of LIBOR +3.5% per annum. This loan was repaid in June 2014.

- In July 2011, AzACG issued a local bond in an aggregate principal amount of U.S.$485 million to finance the purchase by AzACG of a 1.6461% participating interest in ACG PSA from BP. The bond was purchased by SOFAZ. The bond matures on 31 December 2024, and bears interest at a rate of 6-month LIBOR +1%. The principal amount shall be repaid in 14 annual instalments.

- In May 2011, SOCAR-Turcas Petro (now SOCAR-Turkey Petro) entered into three loan facilities with Credit Suisse in an aggregate principal amount of U.S.$1 billion, which were subsequently amended in August 2011, consisting of an A1 Loan Facility of U.S.$500 million, an A2 Loan Facility of U.S.$300 million and a B Loan Facility of U.S.$200 million. These facilities were used primarily to finance the final instalment of the purchase price owed to the Republic of Turkey Prime Ministry Privatisation Administration for the shares in Petkim Petrokimya Holding AS and to refinance a U.S.$625 million syndicated loan from Turkiye Garanti Bankasi A.Ş. and Akbank T.A.Ş. entered into in May 2008. SOCAR-Turcas Petro has made two drawdowns from these facilities. SOCAR-Turcas Petro borrowed U.S.$375 million in May 2011 and the remaining balance of U.S.$625 million in August 2011. The A1 Loan bears interest at a rate of LIBOR +4.88% per annum and matures in August 2019, the A2 Loan bears interest at a rate of 2.30% per annum and matures in August 2018, and the B Loan bears interest at a rate of 2.50% per annum and matures in August 2016. The A1 and A2 Loans are secured by a pledge of Petkim shares and benefit from a top-up obligation of the Company and the B Loan benefits from a guarantee of the Company. On 9 January 2012 and 16 January 2012, Credit Suisse, as facility agent, granted

SOCAR-Turkey Petro a waiver in relation to the A and B Loan Facilities, respectively, with respect primarily to the non-compliance by SOCAR-Turkey Petro with the consolidated interest cover ratio and the debt service cover ratio contained in the facility agreements and the delay in the submission of a budget and business plan for 2012. The ratios were breached primarily due to (i) the deterioration of Petkim's profit margins from the second quarter of 2011 caused by the decline in demand for petrochemical products resulting from the economic slowdown in Europe and the decrease in economic growth in China and (ii) one-off financing charges related to the execution of the facility agreements. Since being granted these waivers, SOCAR-Turkey Petro has been in compliance with all of the ratios contained in the A and B Loan Facilities. On 18 September 2014, the deed of guarantee relating to these loans was amended in order to modify certain covenants, including by increasing the total financial indebtedness to EBITDA ratio from 2:5:1 to 3.5:1. As at 30 June 2014, the total amount outstanding under the loan facilities was U.S.$925 million.

- In July 2009, SOCAR entered into a AZN 750 million loan agreement with IBA for a period of 84 months until July 2016. The loan bears interest at a rate of 3.15% per annum. As at 30 June 2014, the amount outstanding under this loan agreement was AZN 508 million.

- In November 2003, the Ministry of Finance provided a loan facility for AZN 9.4 million to Azerikimya for a period of four years until 20 November 2007. However, it was not repaid on due date, although no penalty was applied and the Ministry of Finance does not consider this loan in default. The loan bears no interest. As at 30 June 2014, the amount outstanding under this facility was AZN 9.4 million. The Company is in negotiation with the Ministry of Finance to restructure or cancel this loan facility and expects a favourable outcome.

- In February 2003, the Ministry of Finance provided a loan facility for AZN 12.4 million to Azerikimya for a period of three years until 1 January 2008. However, it was not repaid on the due date, although no penalty was applied and the Ministry of Finance does not consider this loan in default. The loan bears interest at a rate of 1% per annum. As at 30 June 2014, the amount outstanding under this facility was AZN 12.4 million. The Company is in negotiation with the Ministry of Finance to restructure or cancel this loan facility and expects a favourable outcome.

- In April 2000, Azerigas CJSC, which became a part of the Group on 1 July 2009, entered into a loan agreement with Japan Bank for International Corporation for a total amount of ¥15.5 billion bearing an interest rate of 1.5% per annum. The loan matures on 20 September 2039. As at 30 June 2014, the amount outstanding under this facility was ¥12.9 billion.

The following describes the principal borrowings of the Company and its material subsidiaries entered into since 30 June 2014:

- In December 2014, the Company entered into a U.S.$150 million loan facility with Natixis for a period of five years. The loan facility bears interest at a rate of LIBOR +1.8% per annum. As at 31 December 2014, the total amount outstanding under this loan facility was U.S.$150 million.

- In December 2014, the Company entered into a U.S.$50 million loan facility with SMBC Bank for a period of five years. The loan facility bears interest at a rate of LIBOR +1.8% per annum. As at 31 December 2014, the total amount outstanding under this loan facility was U.S.$50 million.

- In November 2014, the Company entered into a U.S.$50 million loan facility with Société Générale for a period of five years. The loan facility bears interest at a rate of LIBOR +1.8% per annum. As at 31 December 2014, the total amount outstanding under this loan facility was U.S.$50 million.

- In November 2014, the Company entered into a U.S.$150 million loan facility with ING Bank for a period of five years. The loan facility bears interest at a rate of LIBOR +1.8% per annum. As at 31 December 2014, the total amount outstanding under this loan facility was U.S.$150 million.

- In October 2014, the Company entered into a AZN 473 million loan facility with IBA for a period of ten years. The loan facility bears interest at a rate of 3.65% per annum. As at 31 December 2014, the total amount outstanding under this loan facility was AZN 120 million.

- In July 2014, the Company made a U.S.$501 million prepayment in respect of three local bonds issued by Group.

SOCAR Trading enters into letters of credit and other trade finance facilities in the ordinary course of its business in order to finance its operations. As at 31 December 2013, STHL, which owns 100% of SOCAR Trading, had

outstanding letters of credit of U.S.$194 million, as compared to U.S.$343 million as at 31 December 2012. The letters of credit are issued in favour of SOCAR Trading for the purchase of oil and oil products. See "*Business—SOCAR Trading*".

Principal Borrowings of Non-Consolidated Jointly-Controlled Entities and Associates

In addition, although these are not consolidated with the borrowings of the Company, certain jointly controlled entities and associates of the Company and its subsidiaries have significant borrowings, which are described below.

Carlina

In 2006, SOCAR established Carlina, which is incorporated in the British Virgin Islands and is 100.0% owned by SOCAR through its wholly-owned subsidiary AzACG. Prior to 17 January 2012, Carlina was a jointly controlled associate of the Company, with the Company holding 51%, Petro Trans FZCO holding 24.5% and a Georgian individual holding the remaining 24.5%. Carlina, in turn, acquired the Kulevi Oil Terminal in Georgia, which exports oil principally from Kazakhstan.

In order to finance Carlina's acquisition of the Kulevi Oil Terminal and to fund certain improvements to the terminal, in October 2006 AzACG provided a U.S.$265 million loan to Carlina, maturing in December 2014. The principal amount of this loan was gradually increased to U.S.$369.7 million in 2007 and 2008. The loan bore interest at a rate of LIBOR +4.5% (LIBOR +2% until April 2010) per annum. However, Carlina did not have sufficient cash flow to enable it to make any payments of interest or principal under this loan, and, accordingly, in June 2011, AzACG declared Carlina to be in default under the loan. Under the loan agreement with AzACG, the shareholders of Carlina, including the Company, pledged their shares in Carlina to AzACG as security for the loan. Following the enforcement of this security, AzACG acquired 75.5% of Carlina in January 2012 (representing the shares previously owned by the Company and Petro Trans FZCO) and 24.5% of Carlina in June 2012 (representing the shares previously owned by the Georgian individual) and, accordingly, Carlina is now wholly-owned by the Company.

Certain Provisions and Terms of Borrowings

The borrowings of the Company contain standard market terms, including certain financial and other restrictive covenants. By way of example, under the Credit Suisse facilities described above, the Company must comply with a number of financial covenants, including maintaining a ratio of consolidated indebtedness (excluding loans from the state) of the Company to EBITDA of not more than 3.5:1 and a minimum tangible net worth of U.S.$3 billion. Certain other facilities to which the Company is a party have similar financial covenants, including a covenant to maintain a ratio of EBITDA to interest cover of not less than 3:1.

Off Balance Sheet Arrangements

As at 31 December 2013, the Company had no off balance sheet arrangements. The Company reports all recognised contingent liabilities and commitments as provisions, or otherwise discloses them in its consolidated financial statements. Credit risk for off balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract.

Quantitative and Qualitative Disclosures about Market Risk

The Company operates in a highly competitive industry, and faces intense competition for new contracts, qualified staff and markets for its crude oil exports and its refined oil products.

The Company is subject to risks relating to reserves and production, evaluation of oil and gas reserves, Azerbaijan environmental legislation, prices for crude oil, gas and refined oil products, foreign currency, liquidity, credit, interest rates, taxation and other risks. The Company does not use financial instruments, such as foreign exchange forward contracts, foreign currency options, interest rate swaps and commodity agreements, to manage these market risks.

Reserves and Production

The Company's ability to acquire oil and gas reserves is one of the key factors to its success. New exploration acreage must be acquired through acquisitions or by obtaining additional contracts. The Company is actively pursuing acquisitions while adhering to its investment criteria. The Company believes it is well positioned to continue to succeed as it has a continual involvement in the oil and gas industry and the financial capacity to execute transactions.

The Company's ability to develop its reserves is another key to its success. The Company has introduced and continues to utilise Western technology in developing reserves. The Company has the financial capacity to acquire and implement this technology but it competes for properly qualified and trained staff necessary to fully utilise this technology. The Company has addressed this through offering competitive compensation packages to its employees and recruiting on a worldwide basis.

Evaluation of Oil and Gas Reserves

The process of estimating the Company's oil and gas reserves is complex and requires significant assumptions and decisions in the evaluation of engineering, geological, geophysical and financial information. The Company regularly obtains evaluations of reserves from the Company's professional engineering staff. These reserve evaluations may change from year to year. See "*Risk Factors—Risks Factors Relating to the Company's Business—The reported quantities or classifications of the Company's crude oil and gas reserves may be lower than estimated because of inherent uncertainties in the calculation of reserves.*" and "*Presentation of Financial, Reserves and Certain Other Information*".

Azerbaijan Environmental Legislation

The enforcement of environmental regulation in Azerbaijan is evolving and subject to ongoing changes. Penalties for violations of Azerbaijan's environmental laws can be severe. Although as at 31 December 2014, the Company had not had penalties imposed, potential liabilities, which may arise as a result of the enforcement of existing environmental regulations, civil litigation or changes in legislation, cannot be reasonably estimated. Other than those contingencies discussed here management believes that there are no probable or possible environmental liabilities, which could have a material adverse effect on the Company's financial position, statement of comprehensive income or cash flows based on the current state of the law. The Company does not have general insurance policy to cover environmental risks, but insurance may be put in place for individual projects.

Prices for Crude Oil, Gas and Refined Oil Products Risk

The Company's operating results and financial condition depend substantially upon prevailing prices of crude oil, gas and refined oil products. Historically, prices for crude oil have fluctuated widely for many reasons, including:

- global and regional supply and demand, and expectations regarding future supply and demand, for crude oil and refined oil products;
- changes in geopolitics and geopolitical uncertainty, particularly in Azerbaijan and the surrounding region;
- weather conditions and natural disasters;
- access to pipelines, railways and other means of transporting crude oil, gas and refined oil products;
- prices and availability of alternative fuels;
- the ability of the members of OPEC, and other crude oil producing nations, to set and maintain specified levels of production and prices;
- Azerbaijan and foreign governmental regulations and actions, including export restrictions and taxes;
- market uncertainty and speculative activities; and
- global and regional economic conditions.

A substantial amount of the Company's crude oil and refined oil products are sold on the spot market or under short-term contracts at market sensitive prices. Market prices for export sales of crude oil and refined oil products are subject to volatile trading patterns in the commodity futures market. Average selling prices can differ from quoted market prices due to the effects of uneven volume distributions during the period, quality differentials, different delivery terms compared to quoted benchmarks, different conditions in local markets and other factors. The Tariff Council sets domestic prices for refined oil products at prices below international market prices. The Company does not use any derivative instruments to hedge its production in order to decrease its price risk exposure, although SOCAR Trading uses limited commodity hedging tools in the ordinary course of its business. See "*—Main Factors Affecting Results of Operations and Liquidity—Changes in crude oil and refined oil product prices*" and "*Risk Factors—Risk Factors*

Relating to the Company's Business—The Company's revenue and net profits fluctuate significantly with changes in crude oil prices, which are historically volatile and are affected by a variety of factors beyond the Company's control".

Foreign Exchange Risk

The Company's principal exchange rate risk involves changes in the value of the U.S. Dollar relative to the Manat and, to a much lesser extent, relative to other currencies, including the Turkish Lira. Most of the Company's cash inflows, as well as its accounts receivable balances, are denominated in U.S. Dollars, while a significant amount of the Company's costs of sales are denominated in Manat (or, in the case of Petkim, in Turkish Lira).

On the revenue side, all of the Company's export revenue, including the exports of crude oil and refined oil products, are denominated in U.S. Dollars or are correlated with U.S. Dollar denominated prices for crude oil and refined oil products.

As at 30 June 2014, U.S.$5.6 billion (AZN 4.4 billion) of the Company's indebtedness was denominated in U.S. Dollars (representing 81.5% of the Company's total indebtedness of U.S.$6.9 billion (AZN 5.4 billion) as at that date). As at 31 December 2013, U.S.$5.2 billion (AZN 4.1 billion) of the Company's indebtedness was denominated in U.S. Dollars (representing 80.4% of the Company's total indebtedness of U.S.$6.5 billion (AZN 5.1 billion) as at that date). Depreciation of the U.S. Dollar relative to the Manat will reduce the value of the Company's U.S. Dollar denominated liabilities when measured in Manat, whereas appreciation of the U.S. Dollar relative to the Manat will increase the value of the Company's U.S. Dollar denominated liabilities when measured in Manat. Because the Company's reporting currency is Manat, the Company suffers foreign currency translation losses when the U.S. Dollar appreciates against the Manat. See "*—Main Factors Affecting Results of Operations and Liquidity—Impact of changes in exchange rates on export sales and operating margins*" and "*Risk Factors—Risk Factors Relating to the Notes—Exchange rate risks and exchange controls exist to the extent payments in respect of the Notes are made in a currency other than the currency in which an investor's activities are denominated*".

The Company does not use foreign exchange or forward contracts to manage its exposure to changes in foreign exchange rates. The Company's management regularly monitors the Company's currency risk and monitors changes in foreign currency exchange rates and its effect on operations of the Company.

The Central Bank has historically managed the Manat/U.S. Dollar exchange rate through its intervention in the foreign exchange markets and by announcing the official exchange rate. In February 2015, the Central Bank announced that it was no longer targeting the Manat/U.S. Dollar exchange rate, but had moved to targeting a currency basket comprising Euros and U.S. Dollars, primarily as a result of the declining oil prices and fluctuations in the value of the Russian Rouble. On 21 February 2015, the Central Bank devalued the Manat by 33.5% against the U.S. Dollar and by 30% against the Euro in response to such pressures, stating that the devaluation was made in order to "support diversification of Azerbaijan's economy, strengthen its international compatibility and export potential as well as to provide balance of payments sustainability".

While the Company may benefit from this devaluation by virtue of its significant U.S. Dollar revenues and the fact that the majority of the Company's costs and borrowings are also denominated in U.S. Dollars, the Company's financial condition is sensitive to currency exchange rate fluctuations and the devaluation of the Manat against the U.S. Dollar may have an overall adverse effect on the Company. In addition, the Company sells oil and gas to the domestic market at fixed tarrifs established by the Tariff Council in Manats. There can be no assurance that such tariffs will be amended to reflect currency exchange rate fluctuations, including the devaluation of the Manat, in a timely manner or at all.

See "*Risk Factors—Risks Relating to the Company's Business—Fluctuations in foreign currency exchange rates may create risk of loss*".

Commodity Price Risk

The Company is exposed to certain price risk due to volatility of oil market prices. As a result of this risk, the Company has developed and enacted a risk management strategy regarding oil price risk and its mitigation. Based on forecasts about oil purchases and sales, the Company hedges the price using futures and sales contracts, options and contracts for difference.

Prior to August 2012, the Company did not use commodity price hedging arrangements. In November 2012, the Company began consolidating the results of operations of SOCAR Trading, which does use limited commodity price hedging arrangements in the ordinary course of its business. See "*Business—SOCAR Trading*".

Liquidity Risk

Liquidity risk arises when the maturities of assets and liabilities do not match, causing the Company difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. As at 31 December 2013, the Company had positive working capital, principally due to a high amount of cash and cash equivalents and a high amount of trade and other receivables. The Company's management monitors liquidity requirements on a regular basis and believes that the Company has sufficient funds available to meet its commitments as they arise.

Credit Risk

The Company's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash and cash equivalents (including restricted cash), trade receivables and loans receivable. While the Company may be subject to losses up to the contract value of the instruments in the event of non-performance by its counterparts, it does not expect any material losses to occur. No collateral is required by the Company to support financial instruments subject to credit risk. Although collection of these receivables could be influenced by economic factors affecting these entities, the Company believes there is no significant risk of loss to it beyond allowances already recorded.

Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers included in the Company's customer base and the use of letters of credit for most sales. Financial institutions operating in Azerbaijan do not offer insurance for deposits of legal entities. The Company's management periodically reviews the creditworthiness of the financial institutions with which it deposits cash.

In addition, the Company is also exposed to credit and liquidity risk from its investing activities, principally as regards its placing of deposits with Azerbaijan banks.

Interest Rate Risk

The Company is exposed to interest rate risk on its indebtedness that bears interest at floating rates and, to a lesser extent, on its indebtedness that bears interest at fixed rates. As at 30 June 2014, the Company had loans and borrowings outstanding in an aggregate principal amount of AZN 5.4 billion of which AZN 3.3 billion bears interest at fixed rates and AZN 2.1 billion bears interest at floating rates, largely determined by reference to LIBOR for U.S. Dollar deposits. As at 31 December 2013, the Company had loans and borrowings outstanding in an aggregate principal amount of AZN 5.1 billion, of which AZN 3.1 billion bears interest at fixed rates and AZN 2.0 billion bears interest at floating rates, largely determined by reference to LIBOR for U.S. Dollar deposits. See "*—Borrowings*".

The Company incurs debt for general corporate purposes including financing capital expenditures, financing acquisitions and working capital needs. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate borrowings. Fluctuations in interest rates can also lead to significant fluctuations in the fair value of the Company's borrowings. A hypothetical and instantaneous increase of ten basis points in the interest rate applicable to each category by currency of floating rate financial liability held as at 30 June 2014 would have resulted in additional net interest expense of approximately U.S.$2.1 million per annum. However, the Company's sensitivity to decreases in interest rates and corresponding increases in the fair value of the Company's debt portfolio would negatively affect results and cash flows only to the extent that the Company elected to repurchase or otherwise retire all or a portion of the Company's fixed rate debt portfolio at prices above carrying value.

See "*Risk Factors—Risks Relating to the Company's Business—The Company is subject to interest rate risk.*"

Taxation

The Company's effective tax rate as a percentage of profit before income tax was 26.9% and 25.6% for the six months ended 30 June 2014 and 2013, respectively. See "*—Main Factors Affecting Results of Operations and Liquidity—Taxation*".

Azerbaijan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions are not unusual. Because of the uncertainties associated with Azerbaijan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued as at 31 December 2013. As at 31 December 2013, the Company's management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Company's tax positions will be sustained.

BUSINESS

General

The Company is the State Oil Company of Azerbaijan and its capital is wholly-owned by the Republic. It was established by a Presidential Decree in September 1992. As at 30 June 2014, the charter capital of the Group was AZN 1,485 million.

The Company was established to consolidate Azerbaijan's state-owned oil companies, following the merger of Azerneft and Azerneftkimya, each of which was also 100% state-owned, and to manage Azerbaijan's oil and gas exploration activities, as well as its transportation and refining activities following the fall of the Soviet Union. The Company is comprised of 25 wholly-owned business units, seven wholly-owned special purpose companies and a large number of jointly-controlled entities and associates. The Company has representative offices in Austria, Belgium, Germany, Georgia, Iran, Kazakhstan, Romania, Switzerland, Turkey, Ukraine, the United Kingdom and the United States.

The business address of the Company is 73, Neftchilar Avenue, Baku, AZ1000, Republic of Azerbaijan, and its telephone number is +994 12 521 03 32.

Overview

The Company comprises vertically-integrated upstream, midstream and downstream operations, located principally in Azerbaijan, as well as in Turkey, Georgia, Romania, Switzerland and Ukraine. Crude oil has been produced in Azerbaijan since 1847, and the Company controls nearly 20% of Azerbaijan's total crude oil production. The Company has a stake in a number of PSAs with international oil companies, including the ACG and Shah Deniz PSAs, each of which contain fields operated by BP and are further described below. The Company has an 11.65% share in the ACG PSA and a 10% share in the Shah Deniz PSA (which it holds through its wholly-owned subsidiary AzSD). It also has a 49% share in SGC, which has a 6.7% interest in the Shah Deniz PSA and the South Caucasus Pipeline Company, as well as a 100% share in TANAP and a 20% share in TAP. The other 51% interest in SGC is owned by the MEI.

The Company has significant interests in several other international pipelines, including the BTC Pipeline, the primary export route for oil produced at the ACG fields, and the SCP, the primary export route for natural gas produced from the ACG and Shah Deniz fields. The Company also operates two refineries in Azerbaijan (one of which is being merged into the other and will be dismantled) and a number of retail stations in countries in Eastern Europe and Switzerland. In addition, the Company has a controlling interest in Petkim, which is Turkey's sole petrochemical producer. In October 2011, the Company, through its wholly-owned subsidiary STEAŞ (as defined below), commenced site preparation work for a major new refinery to be located adjacent to Petkim's facilities and is developing a new port on the site.

In the six months ended 30 June 2014, the Company's total production of crude oil was 4.2 million tonnes and consolidated production (excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) was 3.4 million tonnes. In the year ended 31 December 2013, the Company's total production of crude oil was 8.3 million tonnes and consolidated production was 6.8 million tonnes. The Company's total production of crude oil represented 20% of the total crude oil production in Azerbaijan for the six months ended 30 June 2014 and 19% of the total crude oil production in Azerbaijan and for the year ended 31 December 2013, based on the Company's estimates.

In the six months ended 30 June 2014, the Company's total production of gas was 3.8 bcm and consolidated production was 3.4 bcm. The Company also received 1.2 bcm of associated gas from the ACG fields at no cost pursuant to the ACG PSA in the six months ended 30 June 2014. In the year ended 31 December 2013, the Company's total production of gas was 7.1 bcm and consolidated production was 6.6 bcm. The Company also received 2.2 bcm of associated gas from ACG in 2013.

According to the Company's estimates, as at 1 January 2014, the Company's total A+B+C1 reserves of crude oil were 136.2 million tonnes and its total C2 reserves were an additional 55.8 million tonnes. According to the Company's estimates, as at 1 January 2014, the Company's total A+B+C1 gas reserves were 79.7 bcm and its total C2 reserves were an additional 64.9 bcm. As a result, according to the Company's estimates, the Company's wholly-owned A+B+C1 reserves represented over 19.9 times crude oil production levels in 2013 and 12.1 times gas production levels in 2011.

As at 1 January 2014, the ACG fields had estimated recoverable reserves of crude oil of 680 million tonnes and were considered to be the largest oil fields under development in the Azerbaijani sector of the Caspian Sea. In the six months ended 30 June 2014, the ACG fields produced 16.0 million tonnes of crude oil (of which 0.7 million tonnes were

transferred to the Company under the ACG PSA). The ACG fields produced 32.7 million tonnes in 2013 (of which 1.4 million tonnes were transferred to the Company under the ACG PSA). In the six months ended 30 June 2014, the ACG fields produced 6.8 bcm of associated gas (of which 1.2 bcm were transferred to the Company under the ACG PSA). The ACG fields produced 12.5 bcm of gas in 2013 (of which 2.2 bcm, were transferred to the Company under the ACG PSA).

The Shah Deniz field was discovered in 1999 and is considered one of the world's largest gas condensate fields, with over 784 bcm of gas as at 1 January 2014. In the six months ended 30 June 2014, the Shah Deniz field produced 1.1 million tonnes of crude oil (of which 0.1 million tonnes were transferred to the Company under the Shah Deniz PSA). The Shah Deniz field produced 2.5 million tonnes of crude oil in 2013 (of which 0.2 million tonnes were transferred to the Company under the Shah Deniz PSA). In the six months ended 30 June 2014, the Shah Deniz field produced 4.7 bcm of gas (of which 0.4 bcm were transferred to the Company under the Shah Deniz PSA). The Shah Deniz field produced 9.8 bcm of gas in 2013 (of which 0.7 bcm were transferred to the Company under the Shah Deniz PSA).

Most of the mature oil fields in Azerbaijani territory are in a stage of declining production, although typically the decline is gradual and the Company is mitigating the effect by endeavouring to rehabilitate and modernise its fields. However, two major gas discoveries have been made in the past few years. In November 2010, a large gas field in the Umid structure in the Caspian Sea was discovered. Initial estimates suggest that it has reserves of 200 bcm of natural gas and 40 million tonnes of condensate. In August 2011, a large gas field was discovered in the Absheron field in the Caspian Sea. The Company's initial estimates suggest the Absheron field contains reserves of 350 bcm of gas and 45 million tonnes of condensate. Drilling has commenced in both of these fields. The Company also has several other exploration projects at various stages of development.

The Company owns two crude oil refineries in Baku, which are in need of modernisation. The refineries, as well as Azerikimya, the Company's petrochemical producer in Azerbaijan, primarily serve the domestic market. The Company's principal refining, gas processing and petrochemical facilities are in need of modernisation. As a result and at the direction of the Government, the Company established an internal working group in 2009, headed by the vice-president of strategic development and assisted by international and local advisors, to prepare a feasibility study for a proposed refinery, gas processing and petrochemical complex, the Oil-Gas processing and Petrochemical Complex (OGPC) to be located outside Baku. The plan was presented to the Government in August 2012. OGPC is intended to meet Azerbaijan's long-term domestic demand for strategically important natural gas and petrochemical products. In addition, the Company believes that OGPC will have further social, environmental and developmental benefits. OGPC will be comprised of two principal elements: a gas processing plant, which is expected to commence operations in early 2020 and a petrochemical plant, which is expected to commence operations by the end of 2020. A refinery is also expected to be constructed and commence operations after 2030.

The Company currently estimates that the project will cost U.S.$7 billion. The Company, the Government and SOFAZ are currently engaged in discussions in respect of the financing required for the project, although no agreement has been reached. It is expected, however, that the Company will contribute 10% of the equity for OGPC, with the remaining 90% to be contributed by the State. The Company does not yet have an estimate for the costs of decommissioning the existing facilities, but it is expected that the Company will be responsible for financing the decommissioning costs.

The Company exported 24.2 million tonnes of crude oil in 2013 and 20.7 million tonnes of crude oil in the ten months ended 31 October 2014. Oil exported by the Company is sold at one port in each of Georgia, Turkey and Russia via tenders and long-term contracts. The Company also conducts sales activities through SOCAR Trading, which is 100% owned by the Company.

The Company owns and operates the domestic oil and gas pipeline networks in Azerbaijan. As at 30 June 2014, the total length of the Company's oil pipeline system was 771 km and the total length of its natural gas pipeline system was 46,178 km. The Company accounted for approximately 66% of Azerbaijan's crude oil exports in 2013, as compared to 68% in 2012 (which figures include oil exported by the Company on behalf of SOFAZ and other parties). The Company also has interests in other international pipelines, through which it exports oil and gas to several neighbouring countries.

The Company owns and operates an expanding network of retail stations in Azerbaijan, Georgia, Romania, Ukraine and Switzerland.

The Company's total revenue increased from AZN 19,795 million in the six months ended 30 June 2013 to AZN 20,404 million in the six months ended 30 June 2014, an increase of AZN 609 million, or 3.1%. The Company's profit increased from AZN 573 million for the six months ended 30 June 2013 to AZN 611 million for the six months ended 30 June 2014, an increase of AZN 38 million, or 6.6%. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Six Months Ended 30 June 2014 compared to the Six Months Ended 30 June 2013*".

The Company's total revenue increased from AZN 17,139 million in the year ended 31 December 2012 to AZN 38,433 million in the year ended 31 December 2013, an increase of AZN 21,294 million, or 124.2%. The Company's profit increased from AZN 955 million for the year ended 31 December 2012 to AZN 977 million for the year ended 31 December 2013, an increase of AZN 22 million, or 2.3%.

The Company's total assets were AZN 24,442 million as at 30 June 2014, AZN 23,046 million as at 31 December 2013 and AZN 21,866 million as at 31 December 2012. The Company's total equity was AZN 10,762 million as at 30 June 2014, AZN 10,229 million as at 31 December 2013 and AZN 9,853 million as at 31 December 2012.

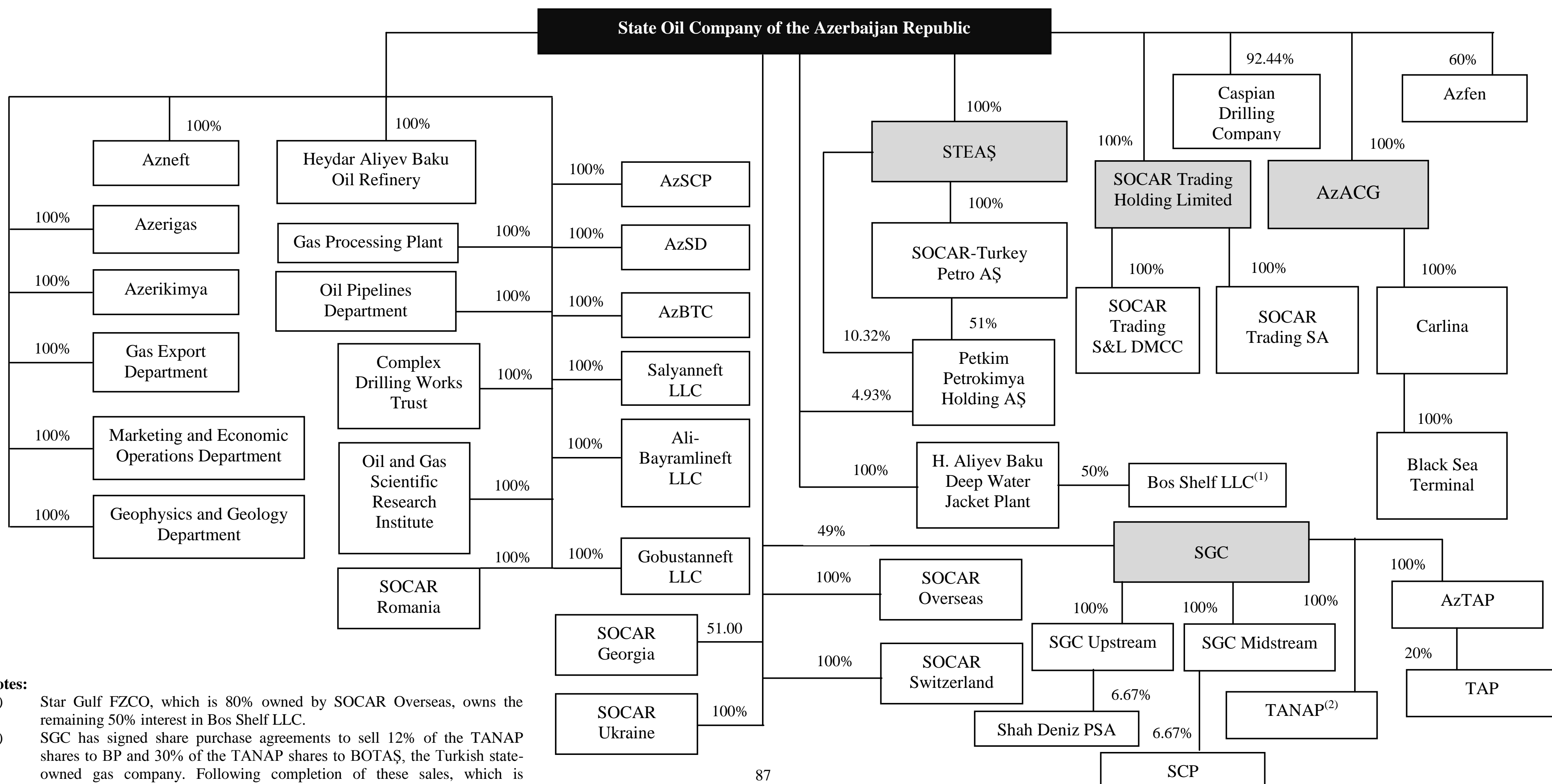
The following map illustrates the Company's principal export routes:

The following map illustrates the principal production fields in Azerbaijan:

Corporate Structure

The Company is comprised of 25 wholly-owned business units, seven wholly-owned special purpose companies and a large number of jointly-controlled entities and associates. In order to improve its operational efficiency, the Company has been restructured several times and its subsidiaries are structured as business units of the Company, responsible for specific areas of the upstream and downstream chain, including oil extraction, geophysics and geology, investments, oil pipelines, refineries, marketing and economic operations, gas operations and construction (including deep water jacket construction).

The organisational structure of the principal members of the Group is as follows:



Notes:

(1) Star Gulf FZCO, which is 80% owned by SOCAR Overseas, owns the remaining 50% interest in Bos Shelf LLC.

(2) SGC has signed share purchase agreements to sell 12% of the TANAP shares to BP and 30% of the TANAP shares to BOTAŞ, the Turkish state-owned gas company. Following completion of these sales, which is expected in 2015, SGC will hold a 58% interest in TANAP

Key Strengths

The Company believes that its key strengths are:

- ***A strong relationship with the Government.***

  As a 100% state-owned entity, the Company benefits from a strong relationship with the Government. Among other things, the Government historically has assisted the Company by providing significant financial and strategic support and has played an important role in helping the Company expand its operations, reserves, production levels, transportation and refining networks. The Company is the largest contributor to the state budget and in the years ended 31 December 2013 and 31 December 2012, paid AZN 1.574 billion and AZN 1.425 billion, respectively, in income and other taxes (or 7.8% and 8.7% of budgeted total budget receipts, respectively). In 2014, the Company contributed AZN 1.855 billion to the state budget. In the year ended 31 December 2013, the Company also paid AZN 237 million in social expenses. In addition, the Company is the largest employer in the country, with over 55,000 employees as at 30 June 2014. The Government and the Company are working together on the OGPC project, which is intended to meet Azerbaijan's long-term domestic demand for strategically important refined products and treated natural gas and petrochemical products, as well as to provide a number of additional social, environmental and developmental benefits. In addition, in March 2014, SGC was incorporated in Azerbaijan, in which the Company holds 49% of the shares and the remaining 51% of the shares are held by the MEI. The purpose of SGC is to finance the Government's and the Company's share in the projects related to the Shah Deniz project and related pipelines.

- ***It is a vertically integrated oil and gas company.***

  The Company is vertically integrated across the energy value chain and conducts prospecting, exploration and development, preparation, refining, transportation and retail activities, principally in Azerbaijan. Its exploration and development and transportation activities are conducted onshore and offshore (in the Caspian Sea). In addition to its domestic retail activities, it also conducts retail activities in Georgia, Romania and Ukraine, and, in 2012, the Company acquired a network of retail stations in Switzerland. It conducts petrochemical activities both domestically and through its controlling interest in Turkey's sole petrochemical producer, Petkim. With its 50-year track record of oil and gas production, the Company is well placed to strengthen its position in the region.

- ***Access to diversified sources of revenue.***

  The Company derives its revenue from a number of diversified sources, including domestic and international sales of crude oil, domestic and international sales of natural gas, transportation fees, revenue from its refining activities and domestic and international retail sales. The diversification of its revenue base limits the Company's exposure to fluctuations in international crude oil and other commodity prices. In addition, the Company's sales of natural gas are principally made under long-term sales contracts, which, in turn, creates predictable margins from the Company's natural gas sales activities and further limits the Company's exposure to natural gas prices.

- ***Its large scale asset base, including stakes in the ACG and Shah Deniz PSAs***

  In the year ended 31 December 2013, the Company's total production of crude oil was 8.3 million tonnes and consolidated production was 6.8 million tonnes. The Company's total production of crude oil represented 19.1% of the total crude oil production in Azerbaijan for the year ended 31 December 2013. In the year ended 31 December 2013, the Company's total production of gas was 7.1 bcm and consolidated production was 6.6 bcm. The Company also received 2.2 bcm of associated gas from ACG in 2013. According to the Company's estimates, as at 1 January 2014, the Company's total A+B+C1 reserves of crude oil were 136.2 million tonnes and its total C2 reserves were an additional 55.8 million tonnes. According to the Company's estimates, as at 1 January 2014, the Company's total gas reserves were 79.7 bcm, and its total C2 reserves were an additional 64.9 bcm.

- ***Its controlling interest in Petkim and STEAŞ.***

  In 2008, the Company made a strategic investment through STEAŞ to acquire a controlling interest in Petkim, the only petrochemical producer in Turkey, which was being privatised by the Turkish Government. This acquisition further diversifies the Company's holdings and increases the scope and scale of its downstream activities. In 2010, STEAŞ received permission from the Turkish Government to construct a refinery adjacent to Petkim's facilities. The site preparation work for the new refinery began in October 2011 and construction is

began in June 2014. The Company expects that this refinery will reduce the cost of raw materials for Petkim, which will enhance Petkim's profitability and market share. See "*Business—Petkim*".

- ***Limited exposure to exploration risks.***

  Under the Company's current PSAs, the Company generally does not bear exploration risks (with the exception of the ACG PSA and the Shah Deniz PSA). The Company generally enters into PSAs whereby any output is divided into "cost oil", which usually accounts for approximately 50% of production and is used to cover all expenses, including, *inter alia*, capital and operating expenses, and "profit oil", which is split in varying proportions among the Company, the Government and the other parties to the relevant PSA. See "*Regulation of the Oil and Gas Sector in Azerbaijan—PSAs*".

- ***Holding a dominant position in Azerbaijan's upstream and downstream oil and gas industry, with the ability to participate in all hydrocarbon projects in Azerbaijan.***

  The Company is a member of all international consortia that are developing new oil and gas projects in Azerbaijan. In this respect, the Company has entered into 33 PSAs since its establishment. In addition, the Company operates both of the refineries operating in Azerbaijan, which have a combined processing capacity of 16 million tonnes of crude oil per annum, and has significant interests in the pipeline system in Azerbaijan, including, *inter alia*, owning and operating the pipelines that deliver crude oil to the Company's refineries, as well as other pipelines in a domestic network totalling 771 km of pipelines, the Dubendi Oil Terminal, 14 oil injection stations and oil tank yards with total capacity of approximately 417 mcm.

Strategy

The Company's goal is to maintain its position as the only vertically integrated oil and gas company in Azerbaijan with vertically integrated upstream, midstream and downstream operations, by focusing on the following priorities:

- ***Increasing exports of natural gas.***

  The Company is focusing on increasing its natural gas reserves and production with the aim of increasing exports to Europe, where natural gas prices are higher than in the domestic or regional markets. To this end, the Company has increased its investment in upstream gas activities, contributing to two major gas discoveries in recent years. In November 2010, a large gas field in the Umid structure in the Caspian Sea was discovered. Initial estimates suggest that it has reserves of 200 bcm of natural gas and 40 million tonnes of condensate. In August 2011, a large gas field was discovered in the Absheron field in the Caspian Sea. Initial estimates suggest the Absheron field contains reserves of 350 bcm of gas and 45 million tonnes of condensate. Drilling has commenced in both of these fields. The Company also has several other exploration projects at various stages of development.

- ***Maintaining oil production levels.***

  Having made substantial efforts in building out its downstream activities in recent years, including through the acquisition and expansion of retail operations in Georgia, Turkey, Romania, Ukraine and Switzerland, the acquisition of Petkim and the development of the STAR Project, as well as the continuing development of the SCP, the Company is focusing on the development of new upstream activities. In furtherance of this strategy, the Company is drilling new wells in existing fields in order to maintain stable production levels at such fields and is developing new fields principally offshore in the Azerbaijani sector of the Caspian Sea.

- ***Developing the Company's activities in Turkey.***

  The Company has a strategic focus on midstream and downstream activities in Turkey due to its proximity to Azerbaijan and Europe, its relative stability and the historic ties between Azerbaijan and Turkey. In addition, the Company sees significant market opportunities in Turkey, which is generally underserved. The Company acquired Petkim in May 2008 and commenced construction works on the STAR refinery in 2014. The Company believes that Turkey provides a significant opportunity for growth due to its oil products deficit and the increasing demand for diesel, particularly in the western region of Turkey. In addition, the TANAP, which connect the SCP to the TAP will run principally through Turkey and provide Azerbaijani producers with further access to Turkish and European markets. The Company expects that 10 bcm of gas will be delivered to Turkish customers per year, which will reduce the gas deficit in Turkey.

- ***Increasing and consolidating domestic downstream refining and petrochemical activities.***

  The Company believes that it has significant opportunities to expand both the scope and profitability of its downstream activities by constructing new, modern facilities and locating them closer to customers. For example, the Company is planning on modernising its facilities at Azerikimya (see "*—Refining, Marketing and Trading—Azerikimya*") and has commenced construction of a fertiliser plant in Azerbaijan, to be funded by the Government, to serve the domestic market (see "*—Refining, Marketing and Trading—Fertiliser Plant Project*"). In addition, in January 2015, the Company merged the Azerneftyag Oil Refinery was merged into the Heydar Aliyev Baku Oil Refinery to form a single subsidiary, which remains 100% owned by the Company. The Company determined that a single entity would improve operational efficiency and decrease costs as it modernises its refinery infrastructure. In addition, the Company is in the process of closing the Azerneftyag Oil Refinery and integrating its refinery assets with those of the Heydar Aliyev Baku Oil Refinery. Certain other obsolete assets at the Azerneftyag Oil Refinery will also be dismantled. The merger process is expected to be completed within the next two years.

  The Company is also constructing a new, modern refinery, petrochemical and power generation complex to be built outside of Baku. The complex will be comprised of two principal elements: (i) a gas processing plant, which is expected to commence operations in early 2020; and (ii) a petrochemical plant, which is expected to commence operations by the end of 2020. A refinery is also expected to be constructed to replace the existing refineries and will commence operations after 2030.The complex is expected to be the anchor of a new industrial park that will use the products from the complex as feedstock. The Company believes that by consolidating these activities and locating them with end users, it will achieve savings in transportation and logistics costs. See "*—Refining, Marketing and Trading—OGPC*".

  In addition, Petkim and STEAŞ are seeking to further develop the petrochemicals industry in Turkey through the construction of the STAR refinery. See "*—STAR Project*". STAR is intended to provide feedstock security for Petkim, as well as to supply the local market with oil products, such as diesel and jet fuel. The current project cost estimates for the new refinery are U.S.$5.7 billion and the project is expected to be completed in 2017.

- ***Enhancing the efficiency of its operations.***

  The Company is engaged in a long-term effort to improve the efficiency of its operations, in particular its extraction activities, through the implementation of new technologies, processes and procedures, as well as through rehabilitation projects to extend the life of oil and gas producing assets. The Company is actively seeking to further improve the quality of its management staff through external recruitment and through its internal training programme.

  In addition, since 2013, the Company has been working with external advisors to identify cost-cutting measures that can be implemented. This process has been substantially completed at a number of Company entities, including with respect to the Company's construction, refining, drilling, pipelines and exploration activities, as well as at Azneft. As a result, the Company has prepared, or is preparing, action plans to cut identified costs over the short- and long-term and has established a monitoring team to oversee the implementation of this cost-cutting programme.

- ***Contributing to Azerbaijan's further development.***

  The Company plays a major role in the economy of Azerbaijan and in funding other sectors of the economy through tax payments, social expenses and other financial contributions. The Company is also planning to extend its supply of gas to unserved and underserved areas in Azerbaijan and has commenced construction of a fertiliser plant to improve food security in Azerbaijan. The Company believes that further development of other sectors of the economy will benefit it through increased sales of its products, in particular end-consumer products.

Reserves

According to the Company's estimates, as at 1 January 2014, the Company's total A+B+C1 reserves of crude oil were 136.2 million tonnes and its total C2 reserves were an additional 55.8 million tonnes. According to the Company's estimates, as at 1 January 2014, the Company's total A+B+C1 gas reserves were 79.7 bcm and its total C2 reserves were an additional 64.9 bcm. As a result, according to the Company's estimates, the Company's wholly-owned A+B+C1 reserves represented over 19.9 times crude oil production levels in 2013 and 12.1 times gas production levels in 2013. See "*Risk Factors—Risks Factors Relating to the Company's Business—The reported quantities or classifications of the Company's crude oil and gas reserves may be lower than estimated because of inherent uncertainties in the calculation of reserves.*" and "*Presentation of Financial, Reserves and Certain Other Information*". Reserves are measured only on an annual basis and, accordingly, no reserve information is available as at any date after 1 January 2014.

The following table sets forth certain data regarding the Company's A+B+C1 reserves as at 1 January 2014:

Company and Field	As at 1 January 2014 Ownership interest	Oil	Share of total Company reserves	Gas	Share of total Company reserves
	(%)	*(thousand tonnes)*	*(%)*	*(mcm)*	*(%)*
28 May OGPD	100	55,158	40.5%	33,006	41.4%
Neft Dashları OGPD	100	17,296	12.7%	1,227	1.5%
N.Narimanov OGPD	100	14,201	10.4%	31,083	39.0%
Absheronneft OGPD	100	8,983	6.6%	3,048	3.8%
Bibi-Heybetneft OGPD	100	8,816	6.5%	4,598	5.8%
A.C.Amirov OGPD	100	9,981	7.3%	2,011	2.5%
H.Z.Tagıyev OGPD	100	16,617	12.2%	4,221	5.3%
Muradxanlı INM	100	2,047	1.5%	101	0.1%
Siyazan OGPD	100	3,118	2.3%	451	0.6%
Total for Azneft	**100**	**136,217**	**100.0**	**79,746**	**100.0**
Salyan Oil OC	50	15,920	16.9%	5,336	10.6%
Shirvan Oil OC	20	4,427	4.7%	3,149	6.2%
Karasu OC	15	8,164	8.7%	2,604	5.2%
Azgerneft JV	40	6,424	6.8%	41	0.1%
Neftchala OC	20	8,738	9.3%	2,030	4.0%
Gobustan OC	20	1,020	1.1%	1,210	2.4%
Pirsaat Oil OC	20	1,732	1.8%	4,266	8.4%
Binagadi Oil OC	25	11,266	11.9%	718	1.4%
Surakhani OC	25	11,128	11.8%	3,512	6.9%
Absheron OC	25	10,848	11.5%	2,292	4.5%
Bahar Enerji OC	20	6,512	6.9%	15,075	29.8%
Balakhanyneft OC	25	6,858	70.%	342	0.7%
Umid LLC	80	1,556	1.6%	9,983	19.7%
Total for JVs and OCs	—	**94.320**	**100.0**	**50,558**	**100.0**
Total ACG[1]	11.65	**680,240**		**300,766**	
Total Shah Deniz[1]	10.0[2]	**110,166**[3]		**784,319**	

Notes:

(1) Reserves figures for ACG and Shah Deniz are calculated by BP, as operator under the respective PSAs. See "*—Exploration and Production—Significant Production Fields of the Company's Joint Ventures and Associates—Azeri-Chirag-Gunashli fields*" and "*—Exploration and Production—Significant Production Fields of the Company's Joint Ventures and Associates—Shah Deniz*".

(2) The Company has a 10% share in the Shah Deniz PSA (which it holds through its wholly-owned subsidiary AzSD) and a 49% share in SGC, which has a 6.7% interest in the Shah Deniz PSA. SGC is an associate of the Company and, accordingly, its results are not consolidated with the results of the Company.

(3) Condensate.

Exploration and Production

Overview of Crude Oil and Gas

Crude oil has been produced in Azerbaijan since 1847. Most of the oil fields controlled and operated by the Company are old and in a stage of declining production. In addition, the Company believes that recoverable oil reserves in Azerbaijan are generally declining. Re-development is required to maintain production levels and is being undertaken by the Company. One of such fields, the offshore shallow-water Gunashli field, located 100 km off Azerbaijan's Absheron Peninsula, yields 77% of the Company's offshore crude oil and 73% of the Company's total output. This field is included in 28 May OGPD, a department that comprises several fields. Most of these fields consist of wells, which became operational decades ago in the Soviet era and were developed with the old technology; as a result most of the fields, including the shallow-water Gunashli field, are expected to be re-developed if the required investments can be made. See *"—Oil Field Development and Rehabilitation"*. Most of the crude oil produced in Azerbaijan is referred to as "Azeri light" and has a medium gravity, 34-34.5 degree API and very low sulphur content of 0.15%. By contrast, Brent crude has 38.5 degree API and 0.8% sulphur content. Azeri light is quoted CIF Augusta (Italy) and has an historical average premium of 80¢ per barrel over Brent crude.

In the six months ended 30 June 2014, the Company's total production was 4.2 million tonnes (3.4 million tonnes excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of crude oil, as compared to total production of 4.2 million tonnes (3.4 million tonnes excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of crude oil in the six months ended 30 June 2013. In each of the years ended 31 December 2013 and 2012, the Company's total production of crude oil was 8.3 million tonnes (6.8 million tonnes excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates). The Company's production of crude oil (including the production of joint ventures and associates) represented 19.7%, 19.1% and 19.1% of the total crude oil production in Azerbaijan for the six months ended 30 June 2014 and for the years ended 31 December 2013 and 2012, respectively, based on the Company's internal information.

Since 2007, the Company has been increasing its focus on natural gas exploration and production. In addition, due to its increased focus on exploration activities, two significant discoveries have been made in the past few years in the Umid and Absheron fields in the Caspian Sea, which the Company currently estimates have reserves of 200 bcm of natural gas and 40 million tonnes of condensate, in the case of Umid, and 350 bcm of gas and 50 million tonnes of condensate, in the case of Absheron. The Company also has several other exploration projects at various stages of development. See "*—Exploration Projects*".

In the six months ended 30 June 2014, the Company's production was 3.8 bcm (3.4 bcm excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of gas compared to 3.4 bcm (3.2 bcm excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of gas in the six months ended 30 June 2013. The Company's major gas producing member is Azneft, which produced 89.5% of the Company's production of gas, or 3.4 bcm in the six months ended 30 June 2014. In the six months ended 30 June 2014, the Company also received 1.2 bcm of associated gas from AzACG at no cost to the Company pursuant to the ACG PSA. In the year ended 31 December 2013, the Company's production was 7.1 bcm (6.6 bcm excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of gas compared to 6.9 bcm (6.5 bcm excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of gas in the year ended 31 December 2012. Azneft accounted for 93% of the Company's production of gas, or 6.6 bcm in the year ended 31 December 2013. The Company also received 2.2 bcm of associated gas from ACG in 2013.

Production and Development Assets

The following tables set forth the Company's production for the periods indicated:

Company and Field	Ownership interest	Oil	Share of total	Gas	Share of total
	For the six months ended 30 June 2014				
	(%)	*(thousand tonnes)*	*(%)*	*(mcm)*	*(%)*
28 May OGPD	100	2,416	57.6	2,711	70.9
Neft Dashları OGPD	100	466	11.1	33	0.9
N.Narimanov OGPD	100	264	6.3	597	15.6
Absheronneft OGPD	100	134	3.2	24	0.6
Bibi-Heybetneft OGPD	100	56	1.3	7	0.2
A.C.Amirov OGPD	100	40	1	19.5	0.5
H.Z.Tagıyev OGPD	100	33	0.8	2.7	0.1
Siyazanneft OGPD	100	25	0.6	4.7	0.1
Muradxanlı INM	100	10	0.2	0,3	0.0
Total for Azneft	**100**	**3,444**	**82.1**	**3,400**	**88.9**
Salyan Oil OC	50	93	2,2	22	0.6
Shirvan Oil OC	20	75	1,8	8	0.2
Karasu OC	15	75	1,8	1	0.0
Azgerneft JV	40	46	1,1	0	0.0
Neftchala OC	20	23	0,6	1	0.0
Gobustan OC	20	2	0	7	0.18
Pirsaat Oil OC	20	3	0	—	—
Binagadi Oil OC	25	69	1,6	2	0.1
Kura Valley OC	20	0	0	—	—
Surakhani OC	25	103	2.5	3	0.0
Absheron OC	25	60	1.4	31	0.81
Balakhanıoil OC	25	139	3.3	1	0
Bahar Enerji OC	20	38	0.9	175	4.6
Umid LLC	80	27	0.6	171	4.5
Total for JVs and OCs		**753**	**17.8**	**422**	**11.1**
Total SOCAR		**4,197**		**3,822**	
ACG		15,996		6,823	
of which attributable to the Company	*11.65*				
Shah Deniz		1,122		4,748	
of which attributable to the Company	*10*[(1)]				
Total production in Azerbaijan		**21,315**		**15,393**	

Note:

(1) The Company has a 10% share in the Shah Deniz PSA (which it holds through its wholly-owned subsidiary AzSD) and a 49% share in SGC, which has a 6.7% interest in the Shah Deniz PSA. SGC is an associate of the Company and, accordingly, its results are not consolidated with the results of the Company.

Company and Field	Ownership interest	Oil	Share of total	Gas	Share of total
	For the year ended 31 December 2013				
	(%)	*(thousand tonnes)*	*(%)*	*(mcm)*	*(%)*
28 May OGPD	100	4,895	58.9	5,798	81.1
Neft Dashları OGPD	100	922	11.1	67	0.9
N.Narimanov OGPD	100	419	5	595	8.3
Absheronneft OGPD	100	242	2.9	46	0.6
Bibi-Heybetneft OGPD	100	121	1.5	15	0.2
A.C.Amirov OGPD	100	75	1	38	0.5
H.Z.Tagıyev OGPD	100	62	0.9	5	0.1
Siyazanneft OGPD	100	49	0.6	9.6	0.1
Muradxanlı INM	100	20	0.2	6	0.1
Total for Azneft	**100**	**6,805**	**82.1**	**6,580**	**91.9**
Salyan Oil OC	50	191	2,3	47	0.7
Shirvan Oil OC	20	154	1,8	17	0.2
Karasu OC	15	158	1,9	2	0.0
Azgerneft JV	40	93	1,1	0	0.0
Neftchala OC	20	42	0,5	2	0.0
Gobustan OC	20	3	0	18	0.2
Pirsaat Oil OC	20	5	0	—	—
Binagadi Oil OC	25	131	1,6	4	0.1
Kura Valley OC	20	0	0	—	—
Surakhani OC	25	209	2.5	8	0.1
Absheron OC	25	109	1.3	42	1.1
Balakhanıoil OC	25	289	3.5	6	0.1
Bahar Enerji OC	20	92	1.1	237	3.3
Umid LLC	80	30	0.3	183	2.5
Total for JVs and OCs		**1,506**	**17.9**	**566**	**8.1**
Total SOCAR		**8,311**		**7,146**	
ACG		32,718		12,529	
of which attributable to the Company	*11.65*				
Shah Deniz		2,451		9,787	
of which attributable to the Company	*10*[(1)]				
Total production in Azerbaijan		**23,4850**		**29,462**	

Note:

(1) The Company has a 10% share in the Shah Deniz PSA (which it holds through its wholly-owned subsidiary AzSD) and a 49% share in SGC, which has a 6.7% interest in the Shah Deniz PSA. SGC is an associate of the Company and, accordingly, its results are not consolidated with the results of the Company.

Company and Field	Ownership interest	Oil	Share of total	Gas	Share of total
	For the year ended 31 December 2012				
	(%)	*(thousand tonnes)*	*(%)*	*(mcm)*	*(%)*
28 May OGPD	100	5,011	60.7	6,022	87.1
Neft Dashları OGPD	100	927	11.2	67	1.0
N.Narimanov OGPD	100	340	4.1	310	4.5
Absheronneft OGPD	100	203	2.5	48	0.7
Bibi-Heybetneft OGPD	100	122	1.5	16	0.2
A.C.Amirov OGPD	100	70	0.8	40	0.6
H.Z.Tagıyev OGPD	100	59	0.7	5	0.1
Siyazanneft OGPD	100	49	0.6	10	0.1
Muradxanlı INM	100	24	0.3	1	0.0
Total for Azneft	**100**	**6,804**	**82.4**	**6,517**	**94.2**
Salyan Oil OC	50	196	2.4	42	0.6
Shirvan Oil OC	20	166	2.0	14	0.2
Karasu OC	15	171	2.1	3	0.0
Azgerneft JV	40	91	1.1	0	0.0
Neftchala OC	20	38	0.5	11	0.2
Gobustan OC	20	1.6	0.0	23	0.3
Pirsaat Oil OC	20	1.8	0.0		0.0
Binagadi Oil OC	25	133	1.6	5	0.1
Kura Valley OC	20	—	—	—	—
Surakhani OC	25	196	2.4	1.1	0.0
Absheron OC	25	132	1.6	48	0.7
Balakhanıoil OC	25	248	3.0	7	0.1
Bahar Enerji OC	20	69	0.8	169	2.4
Umid LLC	80	13	0.2	76.6	1.1
Total for JVs and OCs		**1,457**	**17.6**	**399**	**5.8**
Total SOCAR		**8,260**		**6,916**	
ACG		33,074		12,189	
of which attributable to the Company	*11.65*				
Shah Deniz		2,026		7,795	
of which attributable to the Company	*10*[(1)]				
Total production in Azerbaijan		**43,360**		**26,900**	

Note:

(1) The Company has a 10% share in the Shah Deniz PSA (which it holds through its wholly-owned subsidiary AzSD) and a 49% share in SGC, which has a 6.7% interest in the Shah Deniz PSA. SGC is an associate of the Company and, accordingly, its results are not consolidated with the results of the Company.

The following table sets forth certain information relating to the production activities and development activities of the Company and its subsidiaries, jointly-controlled entities and associates at their respective significant fields as at the dates and for the periods indicated:

					New production wells drilled	
Company and Field	Date Begun	Expiration of Agreement	Production wells[(1)]	Injection wells[(1)]	In the six months ended 30 June 2014	In the year ended 31 December 2013
Azneft......................................			3302	61	16	19
Salyan Oil OC..........................	15.12.98	15.12.23	252	6	0	
Shirvan Oil OC........................	03.02.09	03.02.34	283	9	0	0
Karasu OC	12.09.00	12.09.25	194	53	0	0
Azgerneft JV............................	1994	2019	254	10	1	2
Neftchala OC...........................	03.01.09	03.01.34	195	0	1	1
Gobustan OC	02.06.98	02.06.23	7	0	3	3
Pirsaat Oil OC..........................	04.06.03	04.06.28	11	0	5	
Binagadi Oil OC	29.09.04	29.09.29	743	38	3	3
Balkhanıoil OC........................	01.01.2012	01.01.2037	1,117	84		1
Surakhani Oil OC	16.08.05	16.08.30	425	0	1	4
Absheron OC...........................	03.11.06	03.11.31	23	0	0	1
Bahar Enerji OC	21.01.09	21.01.34	46	0	0	0
Umid LLC	13.08.2008	No termination date	1			
Total for JVs and OCs...........			**3,552**	**200**	**14**	**15**
Total ACG..............................	20.09.94	20.09.24	90	41	8	10
Total Shah Deniz....................	04.06.96	04.06.21	6	0	0	1
Total..			**6,949**	**302**	**38**	**45**

Note:
(1) As at 30 June 2014.

Azneft's Significant Production Fields

Azneft, which is wholly-owned by the Company, is the Company's largest subsidiary in terms of reserves of crude oil and gas, representing 59.1% of the Company's reserves of crude oil and 61% of the Company's reserves of gas at its own fields. Azneft is also the Company's largest subsidiary in terms of production volume, representing 82.1% and 81.9% of the Company's total oil production in the six months ended 30 June 2014 and the year ended 31 December 2013, respectively, and 89.0% and 92.1% of the Company's total gas production in the six months ended 30 June 2014 and the year ended 31 December 2013, respectively.

Many of Azneft's significant fields are mature; therefore, production levels are achieved by various field stimulation and rehabilitation projects, including drilling new wells, completing well workovers and introducing various secondary enhancement and well stimulation and recovery techniques. See "*—Oil Field Development and Rehabilitation*".

The principal operations and facilities at the Oil Rocks field are divided as follows:

- Oil Rocks. Oil Rocks is an offshore production field located 110 km from Baku and has been in operation since 1950. There are 363 wells in this field, of which 345 are production wells and 18 are injection wells. The average depth of the wells is 2,100 m and average daily production from the field is 2,300 tonnes. As at 30 June 2014, the facilities at Oil Rocks included gas and water injection equipment, as well as a pipeline to the shore.

- Palchiq Pilpasi. Palchiq Pilpasi is an offshore production field located 80 km from Baku and has been in operation since 1963. There are 137 wells in this field; all are production wells. The average depth of the wells is 1,362 m and average daily production of the field is 255 tonnes. As at 30 June 2014, the facilities at Palchiq Pilpasi included gas injection and fountain pumping equipment, as well as a pipeline to the shore.

The principal operations and facilities at the 28 May field are divided as follows:

- Guneshli. Guneshli is an offshore production field located 120 km from Baku and has been in operation since 1985. There are 257 operational wells in this field; 196 are oil wells, 61 are gas wells and 18 are water injection wells. The average depth of the wells is 2,800 m and average daily production of the field is 13,280 tonnes. As at 30 June 2014, the facilities at Guneshli included gas injection and fountain pumping equipment, as well as a pipeline to Oil Rocks and to the shore.

- Jilov. Jilov is an offshore production field located 62 km from Baku and has been in operation since 1951. There are 32 oil wells in this field, of which 30 are operating. The average depth of the wells is 750 m and the average daily production of the field is 117 tonnes. As at 30 June 2014, the facilities at Jilov included gas injection and fountain pumping equipment, as well as a pipeline to the shore.

The principal operations and facilities at the N. Narimanov field are divided as follows:

- Sangachal-Duvanni-Xara-Zira Island. Sangachal-Duvanni-Xara-Zira Island is an offshore production field located 50 km from Baku and has been in operation since 1969. There are 96 wells in this field. The average depth of the wells is 4,000 m and the average daily production of the field is 853 tonnes. As at 30 June 2014, the facilities at Sangachal-Duvanni-Xara-Zira Island included gas injection and fountain pumping equipment, as well as a pipeline to the shore.

- 8 Mart. 8 Mart is an offshore production field located 40 km from Baku and has been in operation since 1988. There are nine wells in this field. The average depth of the wells is 5,600 m and the average daily production of the field is 93 tonnes. As at 30 June 2014, the facilities at 8 Mart included a pipeline to the shore, as well as gas injection and fountain pumping equipment.

- Elet-Sea. Elet-Sea is an offshore production field located 50 km from Baku and has been in operation since 1986. There are 17 wells in this field. The average depth of the wells is 3,800 m and the average daily production of the field is 109 tonnes. As at 30 June 2014, the facilities at Elet-Sea included gas injection and fountain pumping equipment, as well as a pipeline to the shore.

- Bulla-Sea. Bulla-Sea is an offshore production field located 55 km from Baku and has been in operation since 1975. There are nine oil wells in this field. The average depth of the wells is 5,500 m and the average daily production of the field is 427 tonnes. As at 30 June 2014, the facilities at Bulla-Sea included gas injection and fountain pumping equipment, as well as a pipeline to the shore.

Significant Production Fields of the Company's Joint Ventures and Associates

Azeri-Chirag-Gunashli fields

AzACG is a wholly-owned subsidiary of the Company, incorporated in the Cayman Islands, which holds and manages the Company's 11.65% interest in the agreement (the "**ACG PSA**") on joint development and production sharing for the Azeri and Chirag fields and the deep water portion of the Gunashli field in the Azerbaijan sector of the Caspian Sea (the "**ACG fields**"). The ACG PSA has a thirty-year term, which started in 1994, and participating interests are also held by BP (which acts as operator and holds a 35.78% interest), Chevron (11.27%), Inpex (10.96%), Statoil (8.56%), ExxonMobil (8.00%), TPAO (6.75%), Itochu (4.30%) and ONGC Videsh (2.72%).

PSAs have a special legal status under Azerbaijan law. See "*Regulation of the Oil and Gas Sector in Azerbaijan—PSAs*".

As at 31 December 2013, the ACG fields had estimated recoverable reserves of crude oil of 680 million tonnes and was considered to be the largest oil field under development in the Azerbaijani sector of the Caspian Sea.

The ACG fields, located approximately 100 km offshore to the east of Baku in the South Caspian Sea region of Azerbaijan, were discovered in 1984. The ACG fields, which together are approximately 45 km long, cover an area of approximately 432.2 km^2 and lie in water depths of up to 400 m. Production began at the ACG fields in November 1997. The grade of crude oil produced at the ACG fields usually has a maximum density of 0.851 per m^3, sulphur content up to 1% and an average watercut of 4.3%. The ACG fields' wellstock consisted of 77 production and 31 injection wells as at 30 June 2014 and 76 production and 31 injection wells as at 31 December 2013.

In the six months ended 30 June 2014, the ACG fields produced 16.0 million tonnes of crude oil (of which 0.7 million tonnes were transferred to AzACG under the ACG PSA). The ACG fields produced 32.7 million tonnes in 2013,

33.0 million tonnes in 2012 and 35.5 million tonnes in 2011 (of which 1.4 million tonnes in 2013, 2.5 million tonnes in 2012 and 1.2 million tonnes in 2011 were transferred to the Company under the ACG PSA). In the six months ended 30 June 2014, production wells at the ACG fields produced an average of 86 thousand tonnes of crude oil per day and, in the year ended 31 December 2013, production wells at the ACG fields produced an average of 97 thousand tonnes of crude oil per day.

In the six months ended 30 June 2014, the ACG fields produced 6.8 bcm of associated gas (of which 1.4 bcm were transferred to the Company under the ACG PSA). The ACG fields produced 12.5 bcm of gas in 2013, 12.1 bcm of gas in 2012 and 11.9 bcm in 2011 (of which 2.1 bcm, 3.3 bcm and 3.3 bcm were transferred to the Company under the ACG PSA in 2013, 2012 and 2011, respectively).

Oil and gas from the ACG fields are transported via subsea pipelines to the Sangachal Terminal. Crude oil produced from the ACG fields is primarily exported via the BTC Pipeline. Gas produced from the ACG fields is exported via the SCP and via the Company's pipeline connecting the Sangachal Terminal's gas processing facilities to Azerigas' national grid system.

The principal operations and facilities at the ACG fields are divided as follows:

- Chirag. Chirag is an offshore production, drilling and quarters ("**PDQ**") platform located approximately 120 km from Baku in the Caspian Sea and has been in operation since the "Early Oil Project", which commenced in 1997. The Chirag platform has both producing and water injection wells and has an average oil production of 0.9 million bopd. As at 30 June 2014, the facilities at Chirag included a PDQ platform, an oil pipeline to the Sangachal Terminal, gas pipelines to the Oil Rocks and Central Azeri fields, as well as a compression and water injection platform.

- Central Azeri. Central Azeri is an offshore PDQ platform constructed to produce oil from the central portion of the Azeri field and is located in approximately 128 m of water, 100 km east of Baku in the Caspian Sea. The platform has been in operation since February 2005 and is designed to process 0.18 million bopd. As at 30 June 2014, the facilities at Central Azeri included a PDQ platform, an oil pipeline and a gas pipeline to the Sangachal Terminal, expansion of the existing onshore terminal at Sangachal, a compression and water injection platform and a bridge linked to the PDQ platform to create offshore accommodation, drilling, production, processing, compression and re-injection facilities.

- Compression and water injection platform. The compression and water injection platform is the bridge linked to Central Azeri, which provides water and gas injection services to the Central, West and East Azeri platforms, manages associated gas export and provides electrical power. As at 30 June 2014, the facilities included gas injection/lift capacity of one billion standard cubic feet per day using six gas injection wells, water injection capacity or one million bopd using one water injection well, gas export capacity of 250 million standard cubic feet per day and a collection of large water injection pumps and gas injection compressors.

- West Azeri. West Azeri is an offshore PDQ platform located in approximately 120 m of water, 100 km east of Baku in the Caspian Sea. West Azeri has been in operation since December 2005 and was constructed to produce oil from the western portion of the Azeri field. The facilities at West Azeri include a PDQ platform and an oil pipeline to the Sangachal Terminal.

- East Azeri. East Azeri is an offshore PDQ platform located 100 km east of Baku in the Caspian Sea. East Azeri has been in operation since November 2006 and was constructed to produce oil from the eastern part of the Azeri field. As at 30 June 2014, the facilities at East Azeri included a PDQ platform.

- Deepwater Gunashli. The deepwater Gunashli complex (the "**DWG**") is the third phase of development of the ACG fields and has been in operation since April 2008. The DWG is located in 175 m of water, on the east side of the Gunashli field. The DWG is expected to produce approximately 20,000 bopd. As at 30 June 2014, the facilities at the DWG included a drilling, utilities and quarters platform, gas compression, water injection and utilities platform, two oil pipeline tie-ins and a gas pipeline tie-in to the Azeri field subsea export pipeline to the Sangachal Terminal and three subsea water injection wells (the only such wells in the ACG fields). Production from DWG is expected to be increased by a subsea seawater injection to increase pressure.

Shah Deniz

AzSD is a wholly-owned subsidiary of the Company, incorporated in the Cayman Islands, to hold and manage the Company's interest in the PSA (the "**Shah Deniz PSA**") in relation to the development and exploitation of the Shah Deniz field (the "**Shah Deniz field**"). The Shah Deniz PSA runs to 2048, and participating interests are held by BP

(which acts as operator and holds a 28.8% interest), Statoil (15.5%), AzSD (10.0%), LUKOIL Overseas (10%), NICO (10%), TPAO (19%) and SGC (6.7%). See "*Regulation of the Oil and Gas Sector in Azerbaijan—PSAs*".

BP operates the Shah Deniz field on behalf of the other parties to the Shah Deniz PSA. The Shah Deniz field was discovered in 1999 and is considered to be one of the world's largest gas condensate fields, with over 1,000 bcm of gas. The Shah Deniz field is located in water depths ranging from 50 m to 500 m on the deep water shelf of the Caspian Sea, approximately 70 km south-east of Baku. Gas from the Shah Deniz field is transported via subsea pipelines to the Sangachal Terminal. Gas is then transported via the Company's pipeline connecting the Sangachal Terminal's gas processing facilities to Azerigas' national grid system and exported via the SCP.

In the six months ended 30 June 2014, the Shah Deniz field produced 1.1 million tonnes of crude oil (of which 0.9 million tonnes were transferred to the Company under the Shah Deniz PSA). The Shah Deniz field produced 2.5 million tonnes of crude oil in 2013, 2.0 million tonnes in 2012 and 1.8 million tonnes in 2011 (of which 0.2 million tonnes, 0.5 million tonnes and 0.1 million tonnes were transferred to AzSD under the Shah Deniz PSA in 2013, 2012 and 2011, respectively).

In the six months ended 30 June 2014, the Shah Deniz field produced 4.7 bcm of gas (of which 0.4 bcm were transferred to the Company under the Shah Deniz PSA). The Shah Deniz field produced 9.8 bcm of gas in 2013, 7.8 bcm in 2012 and 6.7 bcm in 2011 (of which 0.7 bcm, 1.8 bcm and 0.5 bcm were transferred to the Company under the Shah Deniz PSA in 2013, 2012 and 2011, respectively).

There are two stages to the Shah Deniz field's development. Stage 1 commenced in 2006 and the maximum production rate from Stage 1 is expected to be 8.9 bcm of gas and approximately 2 million tonnes of condensate per annum. As part of Stage 1, six wells were drilled and a platform, onshore terminal and 700 km of pipeline to Turkey were built. Stage 1 is now complete.

Stage 2 of the Shah Deniz field's development is the "Shah Deniz Full Field Development", together with the expansion of the SCP. Stage 2 is intended to deliver an additional 16 bcm of gas and up to 4 million tonnes of condensate per annum through the construction of new offshore platforms, wells, subsea pipelines, an expansion of the Sangachal Terminal and an expansion of the SCP to over 25 bcm per annum. This additional volume is expected to be exported to the European Union, as well as to existing markets in Georgia and Turkey. Further pipelines are expected to be built and expanded to transport gas from Shah Deniz to such markets.

The Shah Deniz consortium (including the Company) selected two pipeline options for the potential export of Stage 2 gas to Central Europe. The TAP project was selected by the consortium in February 2012 and is a route from the Caspian region via Greece and Albania, across the Adriatic Sea to southern Italy and further into western Europe. In August 2012, the existing shareholders of the project entered into a funding agreement with the consortium, which included an option for the consortium participants to obtain up to 50% of the equity interest in the project. The Nabucco West project was also selected by the consortium in June 2012 and comprised a route from the Turkish-Bulgarian border to Baumgarten in Austria. In January 2013, a joint declaration was signed between the existing shareholders in the project and the consortium, which provided for funding, as well as an option for the consortium participants to obtain up to 50% of the equity interest in the project. In February 2013, Albania, Italy and Greece entered into an intergovernmental agreement in support of TAP. The total length of the pipeline is expected to be 871 km and the initial capacity of the pipeline is expected to be 10 bcm, which can be expanded to 20 bcm. TAP is expected to become operational in 2020.

In July 2013, each of the Company, BP and Total exercised their option to join the TAP project. The Company and BP acquired a 20% interest in Trans Adriatic Pipeline AG, the project company for the TAP project, while Total acquired a 10% interest. The Company has since transferred this interest to its associate, SGC. See "*Relationship with the Government—South Gas Corridor Closed Joint Stock Company*". In September 2014, Total and E.ON sold their interests in the TAP project (10% and 9%, respectively) to Fluxys (increasing its ownership interest from 16% to 19%) and Enagás (which acquired a 16% ownership interest). The other participants in the TAP project are Statoil (20%) and Axpo (5%).

On 17 December 2013, the Shah Deniz consortium announced the final investment decision for the Stage 2 development of Shah Deniz and signed certain addendums to the Shah Deniz PSA, according to which the parties agreed to extend the development and production period to 40 years from 7 March 2001. At least U.S.$25 million (AZN 20 million) is expected to be spent by the consortium parties by 2018 in order to undertake a long-term Shah Deniz Stage 2 appraisal plan. According to the Shah Deniz work programme, capital expenditures are expected to total U.S.$33.0 million (AZN 25.9 million). The Company has a 10% share in such commitments through its subsidiary, AzSD, and an effective share of 3.283% through its associate, SGC. Pursuant to the final investment decision, once constructed, the TANAP will transport gas from Stage 2 of Shah Deniz to Europe from the Georgian/Turkish border through Turkey. See "*—Transportation—Transportation and Storage of Gas— Trans-Anatolian Natural Gas Pipeline*

Project". The SCP will be extended through Azerbaijan and Georgia and the TAP will be constructed across Greece, Albania and into Italy. See "*—Transportation—Transportation and Storage of Gas—South Caucasus Pipeline*".

In December 2013, the Company purchased a 6.7% interest in the Shah Deniz PSA and the South Caucasus Pipeline Company from Statoil and BP purchased a 3.3% interest in the Shah Deniz and SCP from Statoil. The Company subsequently transferred the 6.7% interest in the Shah Deniz PSA to SGC, an associate of the Company.

In July 2014, AzSD and AzSCP entered into a deferred sales agreement with SGC Upstream and SGC Midstream to sell AzSD's 10% interest in the Shah Deniz PSA and AzSCP's 10% interest in the South Caucasus Pipeline Company. This sale is expected to close in 2023.

See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Main factors Affecting Results of Operations and Liquidity—Acquisitions"* and "*Relationship with the Government—South Gas Corridor Closed Joint Stock Company*".

In October 2014, Statoil announced that it was selling its 15.5% participating interest in the Shah Deniz PSA, as well as its 15.5% share in South Caucasus Pipeline Company, its 15.5% share in the SCP Company holding company and its 12.4% share in Azerbaijan Gas Supply Company to PETRONAS for approximately U.S.$2.25 billion. The sales are expected to be completed in the first half of 2015 and will have an effective date of 1 January 2014.

In 2007, the governments of Azerbaijan and Turkey entered into an agreement for the sale and transit of gas across Turkey, under which the Company will supply 89.2 bcm of gas over a 15-year period. Sales and transit began in the first quarter of 2007. On 25 October 2011, several additional agreements were signed in Izmir, Turkey in respect of the transportation and export of gas produced at Shah Deniz, including, *inter alia*, an intergovernmental agreement between the Government and the government of the Republic of Turkey and gas sales and transit agreements between the Company and BOTAŞ, the Turkish state-owned pipeline company. The signing was attended by the President of the Republic and the Prime Minister of the Republic of Turkey, as well as other top officials from both countries. The agreements provide a legal framework to regulate the sale of Shah Deniz gas to Turkey and its transportation to European markets through Turkey.

Other Major Joint Venture Projects and PSAs

The block including the Mishovdag and Kelameddin oil fields (Karasu)

On 12 September 2000, the Company entered into a PSA with Global Investment Energy in relation to the block including the Mishovdag and Kelameddin oil fields. The Company holds its 15% participatory interest in this block through Ali-Bayramlineft LLC, a wholly-owned subsidiary. See "*Regulation of the Oil and Gas Sector in Azerbaijan—PSAs*".

The Mishovdag and Kelameddin oil fields are located in the Hajigabul district. The Mishovdag and Kelameddin oil fields were discovered in 1956 and 1978, respectively, and started producing in 1956 and 1980, respectively. As at 31 December 2013, the Mishovdag and Kelameddin oil fields had estimated reserves of crude oil of 8.1 million tonnes.

The wellstock consisted of 195 production wells and 57 injection wells as at 30 June 2014, with seven new wells drilled in the six months ended 30 June 2014 and 29 new wells drilled in 2013. The field produced 0.75 million, 0.158 million and 0.171 million tonnes of crude oil in the six months ended 30 June 2014 and in the years ended 31 December 2013 and 2012, respectively.

The block including Kursengi and Garabagli oil fields (Salyan)

On 15 December 1998, the Company entered into a PSA with Frontera Resources Azerbaijan Corporation and Delta Hess in relation to the block including the Kursengi and Garabagli oil fields. The interests of Delta Hess and Frontera were subsequently transferred to the China National Oil and Gas Exploration and Development Corporation and Fortunate, respectively. The Company holds its 50% participatory interest in this block through Salyanneft LLC, a wholly-owned subsidiary of the Company. See "*Regulation of the Oil and Gas Sector in Azerbaijan—PSAs*".

The Kursengi and Garabagli oil fields are located in the Salyan district. The Kursengi and Garabagli oil fields were both discovered in 1960 and started producing in 1962 and 1960, respectively. As at 31 December 2013, the Kursengi and Garabagli oil fields had estimated reserves of crude oil of 15.9 million tonnes.

The wellstock consisted of 334 production wells and 108 injection wells as at 30 June 2014, with no new wells drilled in the six months ended 30 June 2014 and one new well drilled in 2013. The field produced 0.92 million, 0.19 million

and 0.12 million tonnes of crude oil in the six months ended 30 June 2014 and in the years ended 31 December 2013 and 2012, respectively.

The block including the Binagadi, Girmaki, Chahnaglar, Sulutepe, Masazir, Fatmai, Shabandag and Sianshor oil fields

On 29 September 2004, the Company entered into a PSA with AZEN Oil (Netherlands) in relation to the block including the Binagadi, Girmaki, Chahnaglar, Sulutepe, Masazir, Fatmai, Shabandag and Sianshor oil fields. The Company holds a 25% participatory interest in this block. See "*Regulation of the Oil and Gas Sector in Azerbaijan—PSAs*".

These oil fields are located in the Baku and Binagadi districts. The fields were discovered and began producing at various times between 1896 and 1980. As at 31 December 2013, these oil fields had estimated reserves of crude oil of 11.26 million tonnes.

The wellstock consisted of 743 production wells and 38 injection wells as at 30 June 2014. The field produced 0.68 million, 0.130 million and 0.132 million tonnes of crude oil in the six months ended 30 June 2014 and in the years ended 31 December 2013 and 2012, respectively.

The block including the Surakhani oil field

On 16 August 2005, the Company entered into a PSA with Rafi Oil (UAE) in relation to the block including the Surakhani oil field. The Company holds a 25% participatory interest in this PSA. See "*Regulation of the Oil and Gas Sector in Azerbaijan—PSAs*".

The Surakhani oil field is located in the Surakhani district. The field was discovered and started producing in 2004. As at 31 December 2013, the Surakhani oil field had estimated reserves of crude oil of 11.1 million tonnes.

The wellstock consisted of 410 production wells and 23 injection wells as at 30 June 2014, with one new well drilled in the six months ended 30 June 2014 and 11 new wells drilled in 2013. The field produced 0.10 million, 0.20 million and 0.19 million tonnes of crude oil in the six months ended 30 June 2014 and in the years ended 31 December 2013 and 2012, respectively.

The block including the Kurovdag oil field (Shirvan)

On 3 February 2009, the Company entered into a PSA with Global Energy Azerbaijan Ltd (BVI) in relation to the block including the Kurovdag oil field. The Company holds a 20% participatory interest in this PSA directly without the involvement of an oil affiliate. See "*Regulation of the Oil and Gas Sector in Azerbaijan—PSAs*".

The Kurovdag oil field is located in Shirvan City. The fields were discovered and started producing in 1955. As at 31 December 2013, the Kurovdag oil field had estimated reserves of crude oil of 4.4 million tonnes.

The wellstock consisted of 456 production wells and 41 injection wells as at 30 June 2014. The field produced 0.75 million, 0.153 million and 0.166 million tonnes of crude oil in the six months ended 30 June 2014 and in the years ended 31 December 2013 and 2012, respectively.

The block including the Bahar Field and Gum-Deniz field

On 22 December 2009, the Company entered into a PSA with Bahar Energy Ltd (UAE) in relation to the block including the Bahar field and Gum-Deniz field in the Azerbaijan sector of the Caspian Sea. The Company holds its 20% participatory interest in this PSA. See "*Regulation of the Oil and Gas Sector in Azerbaijan—PSAs*".

The Bahar field and Gum-Deniz field are located in the Surakhani District and the Gum-Deniz offshore district, respectively. The Bahar field and Gum-Deniz field were discovered in 1968 and 1952 and started producing in 1969 and 1955, respectively. As at 31 December 2013, the Bahar field and Gum-Deniz field had estimated reserves of crude oil of 6.5 million tonnes.

The wellstock consisted of 69 production wells and 38 injection wells as at 30 June 2014, with no new wells drilled in the six months ended 30 June 2014 or in 2013. The field produced 0.37 million, 0.92 million and 0.031 million tonnes of crude oil in the six months ended 30 June 2014 and in the years ended 31 December 2013 and 2012, respectively.

Exploration Projects

The Company is a party to every international agreement aimed at developing new oil and gas projects in Azerbaijan and has signed 33 PSAs with foreign oil companies since 1994. Under a PSA, the Company generally does not bear exploration risk and does not participate in the development of the field. The Company does, however, undertake its own additional exploration projects at its own risk.

The following table sets forth the significant exploration activities of the Company, its subsidiaries and its and their joint ventures as at 30 June 2014:

	As at 30 June 2014				Interest in licence or contract	
Exploration area	**Owning entity**	**Aggregate project area**	**Period**	**Number of exploratory wells**	**Sole operations**	**Joint operations**
		(km)			*(%)*	
Offshore						
Bulla-deniz	SOCAR	30 km^2	Unlimited	1	100.0	—
Alat-deniz	SOCAR	6 km^2	Unlimited	1	100.0	—
Umid	SOCAR					80.0
	Nobel Oil	20 km^2	Unlimited	1	—	20.0
Absheron	SOCAR					40.0
	Total					40.0
	GdF Suez	400 km^2	2009-2034	0	—	20.0
Aghburun	SOCAR	30 km^2	Unlimited	1	100.0	—
Onshore						
Bayimdagh - Takchay	SOCAR	15 km^2	Unlimited	1	100.0	—
Tumbul	SOCAR	15 km^2	Unlimited	1	100.0	—

In addition, the Company has identified, among others, four prospective offshore fields, the Asiman, Babek, Nakhchivan and Shafag fields, and is conducting preliminary work on these fields. According to preliminary estimates of the Company, the four aforementioned fields have, collectively, as much as 2,500 bcm of gas and 350 million tonnes of condensate.

The Umid field

In 2009, the Company began deep-water exploratory drilling on the Umid structure in the Azerbaijani sector of the Caspian Sea. The project is a joint venture run by the Company, which has an 80% interest and Nobel Oil Exploration and Production Ltd., which holds the remaining 20% and is financing the exploration activities of the joint venture. In November 2010, a large field of gas condensate was discovered. Initial estimates suggest reserves of 200 bcm of natural gas and 40 million tonnes of condensate. A permanent offshore platform has been constructed and a well has been drilled at a depth of 6,006 m. Drilling has begun from the Umid platform on a second well, which has a target depth of 6,500 m. Production from the second well commenced in 2012. Preparations are underway for the drilling of a third well at the Umid field.

The Absheron field

The Absheron project is run by a consortium led by Total, a French oil company. In August 2011, a major discovery of gas was made in the Absheron field, which is a 747 km^2 area lying 100 km south-east of Baku under 350-550 m of water. Initial estimates suggest reserves of 350 bcm of gas and 45 million tonnes of condensate. In 2001, a first well was drilled to a depth of 6,500 m pursuant to an agreement concluded among the Company, SOCAR and Total. Production from this well was terminated as it was not considered to be likely to result in economical production. On 27 February 2009, an agreement was concluded between the Company and Total, who each have a 40% stake in the project; GDF-Suez have since joined the consortium and hold the remaining 20%. Under this agreement, a second well is to be drilled to a depth of 6,874 m within three years. Two further wells are planned during the following three-year period, with an estimated depth of 6,600 m. In 2011, the second well was drilled to a depth of 6,874 m. Production from this well is expected to commence in 2020.

In December 2014, the Company and BP entered into a PSA to jointly explore for and develop potential prospects in the shallow water area around the Absheron Peninsula in the Azerbaijan sector of the Caspian Sea.

Mining Taxes

The Company's production subsidiaries and joint ventures, except those operating under PSAs, are subject to a mining tax obligation under the Tax Code. The rate of the mining tax is 26% of the wholesale price of produced crude oil and 20% of the wholesale price of produced natural gas. The volumes of crude oil and natural gas that are pumped back into production wells due to technological processes are not taken into account for calculating mining tax. Production conducted under PSAs is subject to taxation pursuant to the terms of the relevant PSAs, which provide for a taxation regime that is different from the statutory regime and which does not require payment of mining tax.

Oil Field Development and Rehabilitation

The overall level of crude oil production from the fields described in this Prospectus has been and will continue to be affected by several key factors, including the relative age of the fields and, to a lesser degree, the characteristics of the oil and the complex geological formations of the reservoirs.

Most oil fields controlled and operated by the Company are in a stage of declining production. As at 31 December 2013, the depletion rate for the Company's onshore fields (for its operating companies) was 1% *per annum* and the depletion rate for its offshore fields was 0% *per annum*. The offshore shallow-water Gunashli field, located approximately 100 km from Azerbaijan's Absheron peninsula yields 74% of the Company's offshore oil and 59% of the Company's total output. According to the Company's internal estimates, the depletion rate of this field is 0% *per annum*.

The Company, its subsidiaries and its jointly-controlled entities apply a wide variety of field development and rehabilitation techniques, such as drilling new wells, drilling injection wells and utilising secondary, enhanced recovery and well stimulation techniques, including hydro-fracturing and various chemical and thermal methods. The primary objective of the development and rehabilitation of the fields is to try to maintain a stable level of production.

The following table sets forth the principal activities that were undertaken by the Company's subsidiaries, jointly-controlled entities and associates to develop and rehabilitate their fields during the year ended 31 December 2013 and the six months ended 30 June 2014:

Field Name	Number of well workovers	New Production wells	
		In the six months ended 30 June 2014	In the year ended 31 December 2013
Guneshli	79	1	12
Neft Dashları	122	11	9
Shimal qır.	533	1	—
Darvin kup.	770	9	9
Abşeron bankası	170	—	18
Balakhany	11	---	6
Pirallahı	1,120	7	9
Sedan	1,473	4	7
Ceferli	—	—	6
Qalmaz	211	5	3
Palchiq Pilpilesi	316	—	-
Qum Deniz	—	—	1
Bahar	—	—	—
Elet Deniz	455	—	1
Bibiheybet	5,229	—	7
Buzovna-Mashtaga	749	—	1
Qala	825	—	—
Zaglı-Zeyve	486	—	4
Lokbatan	3,100	—	—
Korgöz- Qızıltəpə	235	—	—
Şabandağ-Şubanı	732	—	—
Siyəzən-Nardaran	965	—	—
Əmirxanlı	720	—	4
Candahar-Zarat	782	—	—
Qaraçuxur	4	—	—
Hovsan	—	—	—
Suraxanı	4,501	—	—
Mishovdag	608	—	2
Kurovdag	844	—	1
Qarabaglı	276	1	—
Biinəqdi	30	—	—
Ramanı	2,957	—	—
Neftçala	1,233	1	1
Total	**29,536**	**40**	**101**

Transportation

Overview

The Company owns and operates the domestic pipeline network in Azerbaijan. As at 30 June 2014, the total length of the Company's oil pipeline system was 771 km and the total length of its natural gas pipeline system was 46,178 km. The Company accounted for approximately 66% of Azerbaijan's crude oil exports in 2013, as compared to 68% in 2012 and 71% in 2011 (which figures include oil exported by the Company on behalf of SOFAZ and other parties).

Oil and gas from the ACG fields and the Shah Deniz field are transported via subsea pipelines to the Sangachal Terminal, approximately 35 km south of Baku. As at 30 September 2014, the capacity of the terminal's processing systems was 1.2 million barrels of oil and 27.4 mcm of Shah Deniz gas per day and the terminal's overall processing and export capacity for gas, including ACG associated gas, was approximately 41.5 mcm per day. Gas is then exported via the SCP and via the Company's pipeline connecting the Sangachal Terminal's gas processing facilities to Azerigas' national grid system. As part of Shah Deniz Stage 2, the capacity of the Sangachal Terminal is expected to be increased to allow it to process an additional 16 bcm of gas per year. This expansion project is ongoing.

According to statistics published by BP, the Sangachal Terminal exported 227 million barrels of crude oil (198 million barrels of crude oil via BTC, 24 million barrels of crude oil via the WRE Pipeline, 4 million barrels of crude oil by rail and 1.4 million barrels via a condensate export line in the nine months ended 30 September 2014. On average, the Sangachal Terminal also transported 26.4 mcm of Shah Deniz gas per day during the nine months ended 30 September 2014, according to the same source. BP operates the Sangachal Terminal on behalf of four project parties, which are the

ACG investor group, Shah Deniz investor group, South Caucasus Pipeline Company and Baku-Tbilisi-Ceyhan Pipeline Company. The Sangachal Terminal facilities are designated as direct facilities (*i.e.*, no project party has the right to use another project party's direct facility except otherwise agreed between the parties) and shared facilities (*i.e.*, each project party's participation interest in each facility is equal to its interest in the relevant jointly-controlled entity).Oil and gas from Azneft and from the jointly controlled entities are transported via the domestic pipeline network.

The following table sets forth certain information with respect to the pipeline segments owned, operated and used by the Company as at 30 June 2014:

	As at 30 June 2014				
		Diameter of pipelines			
Pipeline	**Km of pipelines**	**Under 0.5 m**	**0.5 m to 1.4 m**	**Throughput capacity[1]**	**Primary source of gas or crude oil**
Transportation of Crude Oil					
Domestic network	771	243	527	63.4	Neft Dashlari
Baku-Novorossiysk (Northern Route Export Pipeline)[2]	1,330	0	1,330	9	Neft Dashlari
Western Route Export Pipeline[3]	833	0	833	6	ACG field
BTC Pipeline[4]	1,768	0	1,768	60	ACG field
Total	**4,702**				
Transportation of Gas					
Domestic network[5]	46,178	—	—	—	Mixture of different gas sources
SCP[6]	692	0	692	9	Shah Deniz field
Gas (Baku-Mozdok) Pipeline[2]	680	0	680	13	Shah Deniz field
Total	**47,550**				

Notes:

(1) bcm per annum for gas and millions of tonnes per annum for crude oil (annualised).
(2) The Company owns and operates the section of the pipeline in Azerbaijan.
(3) The Company holds a 0% interest.
(4) The Company holds a 25% interest and does not operate the pipeline.
(5) Includes the domestic and retail distribution network in Azerbaijan.
(6) The Company holds a 10% interest and does not operate the pipeline.

Transportation of Crude Oil

Overview

The Oil Pipeline Department coordinates the storage and transportation of oil in Azerbaijan. The Absheron Oil Pipeline Department, the Qaradag Oil Pipeline Department, the Dubendi Oil Terminal, the Export Oil Pipeline Department, the Transportation Department and the Supply Base support the Oil Pipeline Department. As at 30 June 2014, the total length of the Company's domestic oil pipeline network was 771 km. In 2013 and 2012, the Company transported through the domestic pipeline network a total of 8.6 and 8.2 million tonnes of crude oil, respectively. In the six months ended 30 June 2014, the Company transported a total of 4.1 million tonnes of crude oil.

The Company has also entered into a number of joint ventures with international operating companies and holds participatory interests in the NRE Pipeline (Baku-Novorossiysk) (as defined below), the BTC Pipeline and the WRE Pipeline (Baku-Supsa).

Crude oil from the Company's offshore and onshore production activities (not including the ACG fields and Shah Deniz field) is stored in the Dubendi tank farm, from where oil is pumped to the Boyuk Shore Terminal, a large storage terminal located near the Company's refineries in Baku. From this terminal, crude oil is either processed or pumped for export via the NRE Pipeline. Crude oil produced from the ACG fields is stored at the Sangachal Terminal from where it is exported via the BTC Pipeline and the WRE Pipeline.

The Company has a long-term sales contract with SOCAR Overseas for the sale of up to 25 million tonnes per annum of crude oil at Ceyhan Terminal. The Company also has two off-take contracts for the sale of crude oil at Supsa and Ceyhan Terminals with Petro Singapore Trading Pte Ltd. and Coral Energy Pte Ltd., both of which are trading companies organised under the laws of Republic of Singapore.

The following table sets forth certain information with respect to volumes of oil transported for the periods indicated:

Pipeline	For the year ended 31 December	
	2013	2012
	(millions of tonnes)	
Domestic Pipelines	8.6	8.2
Baku-Novorossiysk (NRE Pipeline)[1]	1.8	2.0
Baku-Supsa (WRE Pipeline)[2]	4.0	4.0
Baku-Tbilisi-Ceyhan (BTC Pipeline)[3]	33.6	33.4

Notes:

(1) The Company owns and operates the section of the pipeline located in Azerbaijan.

(2) Representing total supply of the pipeline, which is 0% owned by the Company.

(3) Representing total supply of the pipeline, which is 25% owned by the Company, and includes oil from sources other than Azerbaijan.

BTC Pipeline

AzBTC a limited liability company established in 2002, is wholly-owned by the Company and is the second largest shareholder in the Baku-Tbilisi-Ceyhan Pipeline Project. AzBTC owns 25% of the Baku-Tbilisi-Ceyhan Pipeline Company, the pipeline consortium consisting of 11 major international oil companies, which is responsible for the construction and operation of the BTC Pipeline. BP currently operates the pipeline on behalf of the Baku-Tbilisi-Ceyhan Pipeline Company in Azerbaijan and Georgia, and BOTAŞ International Limited, an affiliate of the Turkish Pipeline Corporation (BOTAŞ) operates the section of the pipeline in Turkey.

In the six months ended 30 June 2014, 15.0 million tonnes of oil and condensate produced in Azerbaijan were transported through the BTC Pipeline, representing 69.8% of the total oil and condensate produced in Azerbaijan, and, in the year ended 31 December 2013, 29.8 million tonnes of oil and condensate produced in Azerbaijan, were transported through the BTC Pipeline, representing 68.5% of the total oil and condensate produced in Azerbaijan. As at 30 June 2014, the BTC Pipeline had a throughput capacity of 1.2 mbd. As at 30 June 2014, the BTC Pipeline had a throughput capacity of 60 million tonnes per annum and was 1,768 km in length, with the segment in Azerbaijan totalling 443 km. The pipeline is buried along its entire length. As at 30 June 2014, the BTC Pipeline's facilities included eight pump stations (two in Azerbaijan, two in Georgia and four in Turkey), two intermediate pigging stations, one pressure reduction station and 101 small block valves.

The BTC Pipeline primarily transports crude oil extracted from the ACG fields, as well as oil from Kazakhstan and Turkmenistan. Oil produced in Azerbaijan is transported from the Sangachal Terminal near Baku, through Azerbaijan and Georgia and terminating in Turkey at the Ceyhan marine terminal on the Mediterranean Sea. The BTC Pipeline provides an alternative route for pipelines to the Black Sea from Central Asian states without travelling over Russian territory. The parties to the ACG PSA have the first right to use the capacity of the BTC Pipeline. See *"—Exploration and Production—Significant Production Fields of the Company's Joint Ventures and Associates—Azeri-Chirag-Gunashli fields"*. Since February 2014, the Company has transported its own oil through the BTC Pipeline.

The tariffs paid by ACG are comprised of three components: (i) the fuel cost tracker charge; (ii) the variable cost tracker charge; and (iii) the recovery charge. The recovery charge calculation is based on a transportation spreadsheet methodology. The purpose of this is to ensure that the recovery charge, paid by the shippers, provides the transporter with the agreed 12.5% real rate of return, taking into account the amount and timing of allowable costs and qualifying revenues.

The first oil to reach the Ceyhan Terminal through the line was in May 2006 and the first tanker export of crude oil that travelled through the line was in June 2006. Approximately 10 million barrels of oil were required to fill the BTC pipeline. In 2014, the BTC pipeline shipped its 2 billionth barrel of oil.

NRE Pipeline

The Northern Route Export Pipeline (the "**NRE Pipeline**") consists of two sectors and runs from the Sangachal Terminal in Baku to the Black Sea Port of Novorossiysk in Russia. The Azerbaijan section of the pipeline is owned and operated by the Company, and the Russian section of the pipeline is owned and operated by Transneft. In the six months ended 30 June 2014, 1.0 million tonnes of oil produced in Azerbaijan were transported through the NRE Pipeline, representing 4.7% of the total oil produced in Azerbaijan, and, in the year ended 31 December 2013, 1.8 million tonnes of oil produced in Azerbaijan, were transported through the NRE Pipeline, representing 4.1% of the total oil produced in Azerbaijan. As at 30 June 2014, the NRE Pipeline had a throughput capacity of nine million tonnes per annum and was 1,330 km in length, with the segment in Azerbaijan totalling 234 km. The entire length of the

pipeline is buried underground. As at 30 June 2014, the pipeline's facilities included two pumping stations located in Azerbaijan, one measurement station, one delivery station and 31 small block valves.

The first oil to reach the terminal in Novorossiysk through the line was in October 1997 and the first tanker export of crude oil that travelled through the line was in March 1998. Approximately 0.49 million barrels of oil were required to fill the NRE Pipeline. In May 2013, the Russian government terminated an agreement on the transportation of Azerbaijani oil through the territory of Russia that had been in place since 18 January 1996. Currently, an agreement is in place between the Company and Transneft for 2015.

Tariff payments are comprised of: (i) the Azerbaijan tariff of AZN 6 per tonne (plus VAT); (ii) the Russian tariff of 484.59 Russian Roubles per tonne; and (iii) an agency fee of U.S.$3.26 per tonne to be paid at Novorossiysk port.

WRE Pipeline

The WRE Pipeline was reconstructed by the Azerbaijan International Operating Company ("**AIOC**"), an operating company under the ACG PSA, and runs from the Sangachal Terminal near Baku through Azerbaijan and Georgia to the Supsa Terminal on the Georgian Black Sea coast. Crude oil is further shipped from there via tankers to the European markets. The WRE Pipeline is owned and operated by AIOC on the Company's behalf. In the six months ended 30 June 2014, 2.0 million tonnes of oil produced in Azerbaijan were transported through the WRE Pipeline, representing 9.3% of the total oil produced in Azerbaijan, and, in the year ended 31 December 2013, 4.0 million tonnes of oil produced in Azerbaijan, were transported through the WRE Pipeline, representing 9.2% of the total oil produced in Azerbaijan. As at 30 June 2014, the WRE Pipeline had a throughput capacity of 6 million tonnes per annum and was 833 km in length. The pipeline is buried underground along its entire length. As at 30 June 2014, the WRE Pipeline's facilities included six pump stations (three in Azerbaijan and three in Georgia) and two pressure reduction stations.

The first delivery of oil through the pipeline commenced in February 1999. In 2007, extensive repair and replacement works were undertaken on the pipeline, which was shut down until their completion in the first quarter of 2008. These works included section replacements in Georgia and Azerbaijan. While the WRE Pipeline was shut down, alternative routes were used to deliver oil to the world markets, thereby ensuring that there was no impact on the demand or production from the ACG fields. In 2008, the AIOC undertook a full re-commission programme for the WRE Pipeline. The Company estimates that it will transport 1,200,000 barrels of oil per annum via the WRE Pipeline.

The expected increase in production from the ACG fields will require increased capacity of the transportation infrastructure in Azerbaijan, including the WRE Pipeline.

The first oil to reach the Supsa Terminal after the repair and reconstruction of the pipeline was in April 1999 and the first tanker export of crude oil that travelled through the line was in April 1999.

Tariff payments are comprised of: (i) the Azerbaijan tariff of U.S.$0.35 per bbl for January 2014, U.S.$0.36 per bbl for the period from 1 February 2014 to 30 September 2014 and U.S.$0.36 per bbl for the period from 1 October 2014 to 31 December 2014; (ii) the Georgian tariff of U.S.$0.24 per bbl per bbl for January 2014, U.S.$0.24 per bbl for the period from 1 February 2014 to 30 September 2014 and U.S.$0.25 per bbl for the period from 1 October 2014 to 31 December 2014; and (iii) the OPEX tariff which varies from time to time (and which was an average of approximately U.S.$3.10 per bbl in 2014 and U.S.$3.32 per bbl in December 2014).

Kulevi Oil Terminal

The Kulevi Oil Terminal and port, from which oil, primarily from Kazakhstan, is shipped across the Black Sea, was indirectly acquired by the Company in 2006 for U.S.$265 million and, after two years of significant investment (resulting in further expenditures of approximately U.S.$105 million by the Company), started operations in May 2008. Although currently loss-making, the Company considers the Kulevi Oil Terminal to be a strategic asset, as the Kulevi Oil Terminal gives the Company an alternative export route. In addition, the Company expects increased shipment of oil from Central Asia in the medium-term to improve profitability. The terminal has annual processing capacity of 10 million tonnes of crude oil and refined products and processed 0.9 million tonnes in the six months ended 30 June 2014 and 2.4 million tonnes in 2013.

In 2014, several new facilities were constructed at the Kulevi Oil Terminal to increase its turnover and efficiency, including, the construction of import facilities to receive euro diesel and gasoline and the construction of methonal transhipment facilities. Construction of transhipment facilities for naphtha is also ongoing.

Black Sea Terminal LLC ("**Black Sea Terminal**") is a subsidiary of the Company, which operates the Kulevi Oil Terminal. In August 2007, Black Sea Terminal entered into a sale and purchase agreement to purchase five land plots,

from Black Sea Industry LLC. These land plots were originally sold to Black Sea Industry LLC pursuant to a privatisation agreement entered into with the Georgian Ministry of Economic Development in July 2007 (the "**Privatisation Agreement**"), for a total consideration of U.S.$7.25 million. The Georgian Ministry of Economic Development consented to the transfer of the land plots to Black Sea Terminal on the condition that Black Sea Terminal and Black Sea Industry LLC are jointly and severally liable under the Privatisation Agreement for the implementation of the investment programme relating to the land plots. The acquisition of title to the land plots is also contingent on the completion of the investment programme. This investment programme involves the investment of at least U.S.$250 million for the construction of: (i) a liquid natural gas plant; (ii) oil processing facilities; (iii) seaport facilities; and (iv) a railroad. The Privatisation Agreement also includes certain commitments in relation to the employment of personnel during the construction period. The Privatisation Agreement sets out certain financial penalties in the event that the investment programme is not implemented within five years. The original deadline for implementation was 16 July 2012. Due to a lack of available funding, as a result of the global financial crisis and economic conditions in Georgia, Black Sea Terminal had not implemented the investment programme by this deadline. The National Agency of Georgia on State Property agreed to extend the deadline to 1 August 2013, and the Company entered into negotiations with respect to the investment programme.

In December 2013, the Government of Georgia issued a decree, which stipulated that the Privatisation Agreement would be terminated and Black Sea Terminal and Black Sea Industry LLC would be released from all financial penalties accrued to the date of termination of the Privatisation Agreement, provided that SOCAR Georgia Gas LLC (i) invests U.S.$250 million to cover the liabilities on the balance sheet of the company, and (ii) commits to the gasification of a minimum of 250,000 subscribers, each within three years of the conclusion of the amendment agreement to the Privatisation Agreement. The amendment agreement was signed in December 2014 between SOCAR Georgia Gas LLC and the National Agency for State Property Management. Further negotiations regarding the termination of the Privatisation Agreement are underway.

Fujairah Oil Terminal

In March 2012, SOCAR AURORA Fujairah Terminal FZC ("**SAFT**"), the joint venture company owned by SOCAR Trading, AURORA Progress (the Swiss-based commodity trading house) and the Government of Fujairah (an emirate in the United Arab Emirates) announced the commencement of operations at the Fujairah Oil Terminal. The terminal is being constructed in three phases. Construction of the first and second phases of the terminal, which cost approximately U.S.$101 million, has been completed and the storage capacity of the terminal has been increased to 350,000 m^3. Once the third phase of construction is complete, the terminal is expected to have a total storage capacity of 645,000 m^3 across 22 storage tanks and will handle fuel oil, gasoline, naphtha, middle distillates and blending components. Construction of the third phase of the terminal has not yet been announced. The timing for the construction of third phase of the terminal is expected to cost approximately U.S.$52 million.

Transportation and Storage of Gas

Overview

The Gas Export Department manages the export of natural gas extracted by the Company. The Company's share of gas from Shah Deniz is sold jointly by the parties to the Shah Deniz PSA. The Company's domestic natural gas pipeline network is comprised of 44,372 km of pipelines and transported 15.2 bcm of gas in 2013 and 7.9 bcm during the six months ended 30 June 2014. The Company uses its domestic gas pipeline for the distribution of gas produced by the Company, AzACG (which produces associated gas that, pursuant to the ACG PSA, is given to the Company for free), Shah Deniz and others.

On 1 July 2009, the Company acquired 100% of the share capital of Azerigas, which was previously 100% state-owned. Azerigas is engaged in the transportation of gas via pipelines between manufacturers, customers and storage units in Azerbaijan, as well as the transit of gas for export to Russia, Georgia and Iran. As at 30 June 2014, Azerigas operated 44,372 km of gas pipelines, utilised nine compressor stations equipped with 43 gas compressor units, having a total capacity of 206,700 MW, operated four natural gas distribution stations and had a total active natural gas storage capacity of 20 bcm. The majority of the natural gas transportation system operated by Azerigas is above ground with diameters of 50-500 mm (domestic), 1,000-1,400 mm (export).

The domestic pipeline system was principally constructed during the Soviet era and has an estimated lifetime of 25 to 30 years. The pipelines are checked annually and repaired as required. The Company has also entered into a number of joint ventures with international operating companies and holds participatory interests in the SCP and the Gas (Baku-Mozdok) Pipeline, which enable it to export the gas produced by the Company to foreign markets.

South Caucasus Pipeline

The South Caucasus Pipeline Company is a joint venture that owns, operates and maintains the SCP and is itself owned by seven shareholders and operated by its two largest shareholders, BP (as the technical operator) and Statoil (as the commercial operator). The Company holds a 10% ownership interest in the SCP through its wholly-owned subsidiary, AzSCP, and an effective share of 3.283% through its associate, SGC. In the six months ended 30 June 2014, 4.7 bcm of natural gas was transported through the SCP, representing 30.5% of the total natural gas produced in Azerbaijan, and, in the year ended 31 December 2013, 9.7 bcm of natural gas was transported through the SCP, representing 32.8% of the total natural gas produced in Azerbaijan. In July 2014, AzSD and AzSCP entered into a deferred sales agreement with SGC Upstream and SGC Midstream to sell AzSD's10% interest in the Shah Deniz PSA and AzSCP's 10% share in the South Caucasus Pipeline Company.

The SCP transports gas from the Shah Deniz field in the Caspian Sea to Turkey and follows the route of the BTC Pipeline (See "—*Transportation of Crude Oil—BTC Pipeline*"). In March 2001, the Turkish Government agreed to purchase gas over a 15-year period, beginning with 2 bcm, 3 bcm and 5 bcm in 2004, 2005 and 2006, respectively, and 6.6 bcm over the remaining period from 2007 until 2019. The SCP is also connected to the Turkish internal gas pipeline system at the border with Turkey, allowing gas to be exported from Azerbaijan to Southern European countries by transportation towards the west of Turkey.

The first deliveries of gas through the pipeline commenced on 30 September 2006. As at 30 June 2014, the SCP was 690 km in length, with the segment in Azerbaijan totalling 442 km. The SCP is a 42-inch diameter pipeline and has a capacity of 7.4 bcm per annum. As at 30 June 2014, the SCP's facilities included a head compressor station in Sangachal Terminal, two intermediate pigging stations and off-take areas in Georgia and 11 block valves (five in Azerbaijan and six in Georgia).

With effect from 17 December 2013, South Caucasus Pipeline Company committed to the transportation of Shah Deniz Stage 2 natural gas through an expansion of the SCP to expand its throughput capacity to expansion to over 25 bcm per annum. The SCP expansion includes the construction of a new 48 inch pipeline along the existing Azerbaijan and Georgian pipelines, as well as the construction of two new compressor stations in Georgia. The SCP expansion is expected to cost U.S.$5,296 million (AZN 4,155 million). The Company has a 10% share in such commitments through its subsidiary, AzSD, and an effective share of 3.283% through its associate, SGC. See "—*Exploration and Production—Significant Production Fields of the Company's Joint Ventures and Associates—Shah Deniz*" and "*Relationship with the Government—South Gas Corridor Closed Joint Stock Company.*" The SCP will be linked to the TANAP at the Georgian-Turkey border, which is expected to enable the transportation of natural gas further to Turkey and Europe.

In October 2014, Statoil announced that it was selling its 15.5% interest in the South Caucasus Pipeline Company, as well as its 15.5% share in the Shah Deniz PSA, its 15.5% share in the SCP Company holding company and its 12.4% share in Azerbaijan Gas Supply Company to PETRONAS for approximately U.S.$2.25 billion. The sales are expected to be completed in the first half of 2015 and will have an effective date of 1 January 2014.

Gas (Baku-Mozdok) Pipeline

On 14 October 2009 the Company and Gazprom Export LLC entered into a sales purchase contract to supply natural gas from Azerbaijan to Russia via the gas pipeline between Baku and Mozdok (the "**Gas Pipeline**"). In the six months ended 30 June 2014, 0.1 bcm of natural gas was transported through the Gas Pipeline, representing 0.01% of the total natural gas produced in Azerbaijan, and, in the year ended 31 December 2013, 1.4 bcm of gas was transported, representing 4.7% of the total natural gas produced in Azerbaijan.

The Gas Pipeline transports gas from the Shah Deniz field in the Caspian Sea to Mozdok in southern Russia. The first deliveries of gas through the pipeline commenced on 1 January 2010. As at 30 June 2014, the Gas Pipeline was 680 km in length, with the segment in Azerbaijan totalling 224 km. The Gas Pipeline is a 42-inch diameter pipeline and has a capacity of up to 13 bcm per annum.

Trans-Anatolian Natural Gas Pipeline Project

In December 2011, the Government entered into a memorandum of understanding with the Government of Turkey in relation to the construction of the TANAP. Pursuant to this memorandum of understanding, the Company, as well as BOTAŞ and TPAO, will become the initial members of the consortium to construct the TANAP, which is expected to transport gas from Stage 2 of Shah Deniz to Europe from the Georgian/Turkish border through Turkey. In June 2012, further documentation was signed in connection with the TANAP, including an inter-governmental agreement between

the Government and the Government of Turkey, a preliminary agreement relating to organisational issues between the Company and BOTAŞ and a host country agreement between the Government of Turkey and the project company.

TANAP will transport natural gas from the Shah Deniz field in Azerbaijan to consumers in Turkey and Europe and will connect directly to the SCP on the Turkey-Georgia border and to TAP on the Turkish-Greek border. The total length of the pipeline is expected to be 1,810 km and the initial capacity of the pipeline is expected to be 16 bcm (of which 6 bcm to Turkey and 10 bcm to Europe), with expansion to 31 bcm planned by 2026. The total cost of the TANAP project is expected to be approximately U.S.$11.3 billion and TANAP is expected to become operational in 2018.

In July 2014, the Company sold its shares in TANAP to SGC for U.S.$166 million. In May 2014, SOCAR signed a share purchase agreement to sell 30% of the TANAP shares to BOTAŞ, the Turkish state-owned gas company, which was subsequently novated to refer to SGC as seller in July 2014. SGC announced its intention to enter into a share purchase agreement to sell 12% of the TANAP shares to BP. Following completion of these sales, which is expected in the second quarter of 2015, SGC will hold a 58% interest in TANAP. See "*Relationship with the Government—South Gas Corridor Closed Joint Stock Company*".

In October 2014, contracts for the supply of pipes for the construction of TANAP were signed and, in December 2014, Fernas Construction, Sicim-Yuksel-Akkord Consortium and Tekfen Construction were chosen as contractors for the overland construction of TANAP.

See "*—Exploration and Production—Significant Production Fields of the Company's Joint Ventures and Associates—Shah Deniz".*

Export gas supply agreements

On 14 October 2009, the Company and Gazprom Export LLC entered into a five-year gas supply contract to supply gas to Russia. The price of the gas under this contract was determined on a quarterly basis using a formula, which relied on a base price. The annual volume of gas to be delivered under this agreement was 0.5 bcm.

Pursuant to an addendum to this contract dated 3 September 2010, the volume of natural gas due to be delivered to Gazprom Export LLC was increased to 2.0 bcm in the year ended 31 December 2011 and to more than 2.0 bcm in the year ended 31 December 2012. Pursuant to a further addendum to this contract dated 24 January 2012, the volume of natural gas due to be delivered to Gazprom Export LLC was increased to 3.0 bcm in the year ended 31 December 2012 and to more than 3.0 bcm in the year ended 31 December 2013 and beyond. Pursuant to a further addendum to this contract dated 18 February 2014, the volume of gas due to be delivered to Gazprom Export LLC between 2012 and 2015 was set at 3.0 bcm. In the six months ended 30 June 2014 and the years ended 31 December 2013 and 31 December 2012, 0.09 bcm of gas, 1.38 bcm of gas and 1.55 bcm of gas was delivered under this contract, respectively. This contract expired in 2014 and has not been renewed.

As part of its obligation to supply natural gas to the entire country, the Company is bound to supply the Nakhchivan region of Azerbaijan, which is not contiguous with the rest of Azerbaijan's territory and is bordered by Iran and Armenia. In August 2004, Azerigas agreed to a gas swap arrangement with the National Iranian Gas Export Company ("**NIGEC**") for a 25-year period. Under this arrangement, the Company has agreed to ship gas to NIGEC and in return NIGEC has agreed to ship an equivalent volume (minus an amount in lieu of a transit fee) to the Nakhchivan region. The Company supplied 0.4 bcm in 2013 and 0.2 bcm in the first six months of 2014 under this arrangement. Volumes of gas sold under this arrangement (which exclude transported volumes deducted by way of a transport fee and volumes not sold to end users but retained in storage) were 0.3 bcm (approximately U.S.$12.5 million) in 2013 and 0.2 bcm (approximately U.S.$7.9 million) in the first six months of 2014.

Compressor Stations, Gas Distribution Stations and Storage Reservoirs

Natural gas is highly pressurised as it travels through pipelines, and compressor stations are required periodically along the pipe to ensure that the flow of gas is continuous. The Company has five compressor stations in the domestic network. In some pipelines, switching the input and output at the compressor stations can reverse the gas flow direction in the pipeline.

The Company operates 210 gas distribution stations, which are used to reduce pressure, deliver gas to consumer pipelines, purify gas, inject odorant and metre gas. Some of these stations date from 1970. The Company has installed additional facilities to improve its collection of revenue, in addition to performing continuous maintenance and general repairs on the stations.

Georgia

In August 2013, SOCAR Georgia Gas completed the construction of new gas pipelines in the Gachagan settlement of the Marneuli region and the Garmarly settlement of the Bamanisi region of Georgia. Between 2009 and 2013, SOCAR Georgia Gas constructed 3,663 km of gas pipelines in Georgia and provided 184,906 subscribers with access to natural gas.

In the six months ended 30 June 2014 and the year ended 31 December 2013, the Company provided approximately 0.63 bcm and 1.04 bcm of natural gas to Georgia, respectively.

Gas Transportation Tariffs

Under the Cabinet of Ministers resolution № 178 dated 28 September 2005, the Company's tariffs for domestic natural gas transportation are subject to regulation by the Tariff Council. On 2 February 2007, the Tariff Council set the tariff with effect from 1 February 2007 for domestic transportation of gas at AZN 2, including VAT, for 1,000 m^3 of natural gas transported over 100 km of pipeline. See "*Risk Factors—Risks Factors Relating to the Company's Business—The Government has imposed regulations and other requirements requiring the Company to sell oil, oil products and gas in the domestic market at below market prices*" and "*Regulation of the Oil and Gas Sector in Azerbaijan—Other regulatory requirements—Price regulation*".

Refining, Marketing and Trading

Overview

The Company conducts sales activities through its Marketing and Operations Department, SOCAR Trading and SOCAR Overseas. Crude oil from the Company's production operations, which is not exported, is transported for refining at the Heydar Aliyev Baku Oil Refinery and the Azerneftyag Oil Refinery, which are both wholly-owned and operated by the Company. These are the only two refineries in Azerbaijan and were constructed in 1953 and 1881, respectively. The Company has also made efforts to build a retail network in recent years in Azerbaijan, Georgia, Romania, Switzerland and Ukraine, which it seeks to expand.

The following tables set forth certain information with respect to amounts of crude oil, oil products and natural gas sold by the Company domestically and exported for the periods indicated:

	1 January – 30 June 2014				1 January – 30 June 2013			
	Domestic		Export		Domestic		Export	
		(%)		(%)		(%)		(%)
Crude oil[(1)(2)]	0	0	996.5	100.0	0	0	825.3	100
Oil products[(1)]	1,857.7	73.4	673.8	26.6	2,051.3	71	846.7	29
Gas[(3)]	5,177.0	87.8	721.4	12.2	4,868.6	78.6	1,324.6	21.4

Notes:

(1) Measured in thousands of tonnes.

(2) The Company does not sell crude oil domestically. The Company refines crude oil in Azerbaijan pursuant to tolling arrangements with its refineries.

(3) Measured in mcm.

	1 January – 31 December 2013				1 January – 31 December 2012				1 January – 31 December 2011			
	Domestic		Export		Domestic		Export		Domestic		Export	
		(%)		(%)		(%)		(%)		(%)		(%)
Crude oil[(1)(2)]	0	0.0	1,751	100.0			2,000.1	100	0	0.0	1,988.4	100.0
Oil products[(1)]	4,323.9	73.5	1,564.1	26.5	3,977.6	70.5	1,663.7	29.5	3,689.7	65.1	1,982.3	34.9
Gas[(3)]	9,288.4	79.4	2,412.4	20.6	8,918.3	77.8	2,540.2	22.2	8,020.7	77.9	2,274.9	22.1

Notes:

(1) Measured in thousands of tonnes.

(2) The Company does not sell crude oil domestically. The Company refines crude oil in Azerbaijan pursuant to tolling arrangements with its refineries.

(3) Measured in mcm.

Sales of Crude Oil

The Company exported 24.2 million tonnes of crude oil from Azerbaijan in the year ended 31 December 2013 and 20.7 million tonnes of crude oil in the ten months ended 31 October 2014. Oil produced by the Company is delivered to the market at Supsa terminal (Georgia), Ceyhan terminal (Turkey) and Novorossiysk terminal (Black Sea Port of Russia) via spot and long-term contracts. The Company conducts sales activities through its Marketing and Operations Department and SOCAR Trading (as the end seller of the Company's crude oil based in Geneva). In addition, to increase the efficiency of its oil sales, the Company established SOCAR Overseas in Dubai, which is 100% owned by the Company. The Marketing and Operations Department effects sales of the Company's exported crude oil through tenders and term agreements with SOCAR Overseas.

The Company's Marketing and Operations Department, which reports directly to the President of the Company, manages sales of oil products in the domestic market and to a large number of consumers outside of Azerbaijan. The Marketing and Operations Department is also primarily responsible for international sales of the Company's petroleum exports. In addition, the Marketing and Operations Department acts as agent in respect of the sales of the Company's share and the Government's share under PSAs, for which it is paid an agency fee.

The Marketing and Operations Department is required to operate under applicable regulations to sell crude oil pursuant to letters of credit and/or against advance payments. Accordingly, as a matter of practice, it does not enter into certain other arrangements common in the industry, including, *inter alia*, hedging, storage and shipping arrangements. SOCAR Trading in Geneva delivers approximately 90% of the volume of crude oil sold by the Marketing and Operations Department. It is then able to enter into the aforementioned arrangements.

SOCAR Trading

The Company owns 100% of STHL, which in turn owns 100% of SOCAR Trading. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Main Factors Affecting Results of Operations and Liquidity—Acquisitions*". In 2013, STHL had a consolidated profit of U.S.$24 million. In the six months ended 30 June 2014, STHL had a consolidated profit (unaudited) of U.S.$13 million.

The Company believes that SOCAR Trading has a strong position in the international crude oil trading market due to its access to Azerbaijani crude oil, principally from SOFAZ, which provides SOCAR Trading with other market opportunities in respect of both crude oil from third-party sources and refined oil products in regional and international markets, including in south-east Asia, where it conducts operations from Singapore. Crude oil from SOFAZ is sold to SOCAR Trading by the Company's Marketing and Operations Department, which acts as agent for SOFAZ and receives a fee, part of which is shared with SOCAR Trading. SOCAR Trading purchases crude oil and refined oil products from other sources either on term contracts or on a spot basis.

SOCAR Trading generally takes title from the time it takes delivery of the product until it passes title to the end customer. In order to reduce market risk, SOCAR Trading enters into ordinary-course hedging and derivative arrangements on the open market, including futures contracts and cleared swaps. SOCAR Trading also maintains market-standard insurance arrangements during the period that it has title to products.

SOCAR Trading engages in limited speculative trading, and its traders are subject to trading limits and monitoring by the market risk team both for the purposes of reporting daily profits and losses and ensuring that trading and other limits are not breached. SOCAR Trading also has a compliance team that conducts "know-your-customer" and background checks on counterparties, based on the risk profile of the counterparty and its country of origin.

SOCAR Trading's customers are a diverse group of trading companies, oil companies and refineries, including BP (UK), Total (France), ENI (Italy), Saras (Italy), Sunoco (USA), Glencore Energy UK Ltd, Shell (UK) and ERG (Italy), as well as other various international oil companies.

Since November 2012, the results of SOCAR Trading have been consolidated with the results of the Company. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Results of Operations for the Year Ended 31 December 2012 compared to the Year Ended 31 December 2011—Revenue—Net Sales of Crude Oil*", "*—Litigation—SOCAR Trading*" and "*—Transportation—Transportation of Crude Oil—Fujairah Oil Terminal*".

SOCAR Trading enters into letters of credit and other trade finance facilities in the ordinary course of its business in order to finance its operations. As at 31 December 2013, STHL had outstanding letters of credit of U.S.$194 million, as compared to U.S.$343 million as at 31 December 2012. The letters of credit are issued in favour of SOCAR Trading for the purchase of oil and oil products.

Sales of Natural Gas

The Company's Gas Export Department is responsible for exports of natural gas.

Refining Facilities

There are two crude oil refineries operating in Azerbaijan located in Baku, which are both wholly-owned and operated by the Company. As at 31 December 2013, the total actual refining capacity of these refineries was approximately 16 million tonnes of crude oil. Both refineries were constructed before independence and were designed to serve regional markets in the former Soviet Union that lacked their own refining capacities. As many of these markets have since developed, the utilisation rate for the Heydar Aliyev Baku Oil Refinery is over 70.7% and for the Azerneftyag Oil Refinery is up to 22.9%. The refineries are currently operated primarily to meet domestic demand, although some products are exported. The refineries operate on a tolling basis, primarily with Azneft.

In January 2015, the Azerneftyag Oil Refinery was merged into the Heydar Aliyev Baku Oil Refinery to form a single subsidiary, which remains 100% owned by the Company. The Company determined that a single entity would improve operational efficiency and decrease costs as it modernises its refinery infrastructure. In addition, the Company is in the process of closing the Azerneftyag Oil Refinery and integrating its refinery assets with those of the Heydar Aliyev Baku Oil Refinery. Certain other obsolete assets at the Azerneftyag Oil Refinery will be dismantled.

Following the merger, the Company plans to conduct a refurbishment and modernisation project at the Heydar Aliyev Baku Oil Refinery, which is expected to increase the design refining capacity of the Heydar Aliyev Baku Oil Refinery from 6.0 million tonnes to 7.5 million tonnes and modernise the refinery to comply with Euro 5 ecological standards.

According to the feasibility study for this project, the refurbishment and modernisation will take between four and five years and will cost approximately U.S.$1 billion. The cost of this project is expected to be funded through equity contributions by the Government.

Heydar Aliyev Baku Oil Refinery

As at 30 June 2014, the Heydar Aliyev Baku Oil Refinery was the smaller of the two oil refineries in Azerbaijan and had a design refining capacity of 6.0 million tonnes of crude oil per annum and an actual capacity of 4.2 million tonnes of crude oil per annum, or 120,000 bopd. In 2013, 4.2 million tonnes of crude oil was refined, and 4.0 million tonnes of refined products were produced, which satisfied domestic demand and left approximately 1.4 million tonnes available for export to Georgia and Turkey. Jet fuel is also produced at this refinery.

The Heydar Aliyev Baku Oil Refinery, which was constructed in 1953, is located in the city of Baku and is linked to the Boyukshor Terminal.

The following table sets forth the historical product mixture and volumes of refined oil products produced at the Heydar Aliyev Baku Oil Refinery for the periods indicated:

	For the six months ended 30 June		**For the year ended 31 December**	
	2014	**2013**	**2013**	**2012**
	(thousand tonnes)			
Crude oil	**1,911.0**	**2,147.5**	**4,241.3**	**4,002.5**
Naphtha	75.8	59.8	94.0	120.0
Gasoline	570.5	701.4	1,407.0	1,296.6
Kerosene	317.8	358.1	703.0	626.4
Diesel	1,042.6	1,174.1	2,307.5	2,193.6
Total light products	**2,006.7**	**2,293.4**	**4,511.5**	**4,236.6**
LPG	79.3	122.2	244.0	191.0
Petroleum coke	121.2	103.0	223.0	231.0
Processing depth *(%)*	89.5	91.0	90.0	90.0

Azerneftyag Oil Refinery

Constructed in 1881, the Azerneftyag Oil Refinery is the larger refinery of the two operating refineries in Azerbaijan. As at 30 June 2014, the Azerneftyag Oil Refinery had a design refining capacity of 10 million tonnes of crude oil per annum and an actual capacity of 2.3 million tonnes of crude oil per annum. In 2013, 2.3 million tonnes of crude oil was refined and 2.2 million tonnes of refined products were produced.

The Azerneftyag Oil Refinery is located in Baku and is linked to the Boyukshor Terminal. The Azerneftyag Oil Refinery refined 36.9% of the total oil refined in Azerbaijan in the six months ended 30 June 2014 and 35.1% and 35.2% in the years ended 31 December 2013 and 31 December 2012, respectively. Major parts of the products after the Crude Distillation Unit are delivered to the Heydar Aliyev Baku Oil Refinery for further processing.

The Azerneftyag Oil Refinery includes a lubeoil hydrotreatment oil plant, which was brought on-stream in 1981, which improves the colour and quality of the sulphuric and nitrogen compositions of basic oils by cleaning mercaptans and pyridines.

The Azerneftyag Oil Refinery has implemented a number of modernisation measures in recent years. In 1994-1995, two ELOU-AVT-2 plants, each with a capacity of two million tonnes per annum were constructed and brought on-stream. These plants have enabled the Azerneftyag Oil Refinery to increase its capacity and output of light oil products and to improve the quality of base oil for the production of lubricating motor oils. These plants also resulted in a decrease in the Azerneftyag Oil Refinery's energy consumption and the substantial reduction in the loss of oil and oil products.

In 2000, the Azerneftyag Oil Refinery's bitumen unit, which was constructed as a joint project with the Austrian company "Biturox" was opened, replacing the Azerneftyag Oil Refinery's previous bitumen unit, which had been in operation since 1934. The Azerneftyag Oil Refinery's bitumen producing activities now meet international quality control standards.

The following table sets forth the historical product mixture and volumes of refined oil products produced at the Azerneftyag Oil Refinery for the periods indicated:

	For the six months ended 30 June		For the year ended 31 December	
	2014	2013	2013	2012
	(thousand tonnes)			
Crude oil	**1,117.8**	**1,135.9**	**2,292.0**	**2,170.0**
Naphtha	122.5	122.3	249.6	233.9
Kerosene	135.0	142.9	288.2	266.6
Diesel	340.2	346.0	696.0	683.4
Total light products	**597.7**	**611.2**	**1,233.8**	**1,183.9**
Bitumen	144.1	154.5	312.7	288.1
Lubricating oil	21.0	22.6	46.6	62.7
Bunker oil	59.4	91.1	189.7	179.6
Processing depth *(%)*	95.6	98.2	98.5	98.1

Following the merger of the Azerneftyag Oil Refinery into the Heydar Aliyev Baku Oil Refinery in January 2015 to form a single subsidiary, the Company is in the process of closing the Azerneftyag Oil Refinery and integrating its refinery assets with those of the Heydar Aliyev Baku Oil Refinery. Certain other obsolete assets at the Azerneftyag Oil Refinery will also be dismantled.

Refined Oil Products Sales and Distribution

The Company sells and distributes its refined oil products internationally through its own Marketing and Operations Departments and SOCAR Trading, as well as directly from some refineries.

Refined products are typically not eligible to be shipped via pipelines and, accordingly, the transportation of refined products is mainly by train to Georgia and then by further transhipment through the Georgian Black Sea ports of Kulevi, Batumi and Poti to Turkey and other international markets. Shipments have also been made to Central Kazakhstan, Uzbekistan and Afghanistan and sometimes to Iraq. Shipments have been made to Iran in the past but are no longer being made and the Company has no plans to supply products to Iran in the future through subsidiaries, affiliates or agents.

Retail Station Network

The Company owns and operates an expanding network of retail stations in Azerbaijan, Georgia, Romania, Ukraine and Switzerland. The Company owned 18 retail stations located in Azerbaijan as at 30 June 2014 and 16 retail stations as at 31 December 2013, which, according to the Company's estimates and including sales to third party retailers, were responsible for 75.6% and 45.0% of gasoline sales in the domestic market for those periods, respectively. The Company owned six retail stations as at 31 December 2010.

As at 30 June 2014, the Company owned 112 gasoline and compressed natural gas ("**CNG**") stations located in Georgia, through its subsidiary SOCAR Georgia Petroleum LLC (which is wholly-owned by SOCAR Energy Georgia), as compared to 106 gasoline and CNG stations as at 31 December 2013 and 98 gasoline and CNG stations as at 31 December 2012, which, according to the Company's estimates, were responsible for 24.4%, 24.6% and 23.5% of retail gasoline sales in the Georgian market for those periods, respectively.

As at each of 30 June 2014 and 31 December 2013, the Company owned 72 retail stations located in Ukraine (of which 39 have been rebranded under the Company's brand), through its subsidiary SOCAR Energy Ukraine LLC and its affiliated companies in Ukraine (which is wholly-owned by Gacrux Investments and Finance B.V.), as compared to 65 retail stations as at 31 December 2012, which, according to the Company's estimates, were responsible for less than 1% of retail gasoline sales in the Ukraine market for those periods. The Company is currently rebranding its retail stations in Ukraine under the SOCAR name. The Company opened additional retail stations in Ukraine in July and October 2014.

The Company is expanding its retail presence in Romania through its subsidiary SOCAR Petroleum S.A. As at 30 June 2014, the Company owned 28 gasoline stations, as compared to 22 gasoline stations as at 31 December 2013 and 14 gasoline stations as at 31 December 2012. The Company currently plans to construct an additional two retail stations in Romania in 2015. Upon completion of this construction, the Company estimates that its retail stations will be

responsible for approximately 2.5% of retail gasoline sales in Romania. The Company opened additional gasoline stations in Romania in September and December 2014.

The Company is also expanding its retail operations in Georgia and Ukraine and is considering expanding its operations further in both countries and in neighbouring countries in south-eastern Europe. The Company believes that, if such expansions are undertaken, it would have a competitive advantage due to the proximity of these countries to its principal export routes and the activities of SOCAR Trading, which conducts a substantial portion of its business with counterparties in the region.

On 1 July 2012, the Company acquired 100% of the shares of Esso Schweiz GmbH (now, SOCAR Energy Switzerland) from Exxon for a total consideration of CHF 330 million. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Main Factors Affecting Results of Operations—Acquisitions*". As at 30 June 2014, the Company operates 148 service stations, of which 63 are company-owned. All service stations have been rebranded and operate under the SOCAR name.

Azerikimya

In April 2010, pursuant to a Presidential Decree, the Company acquired 100% of the share capital of Azerikimya OJSC from the Government and, following the acquisition, transformed the company into Azerikimya Production Union. Azerikimya is involved in the production of petrochemicals in Azerbaijan and has one unit for Ethylene-Polythylene and a repair and maintenance department. Azerikimya's production activities include the production of low-density polyethylene, purified isopropyl, propylene, heavy tar, caustic soda and hydrochloric acid.

In May 2013, Azerikimya commissioned a new nitrogen-oxygen unit and water-cooling complex.

In November 2014, Azerikimya launched a tender for engineering procurement and construction supervision services for a new industrial wastewater treatment plant.

SOCAR Polymer

In order to improve efficiency and increase production of polypropylene and high-density polyethylene, the Company established SOCAR Polymer as a separate joint venture with a number of local and foreign companies. The Company has a 71% ownership interest in SOCAR Polymer. SOCAR Polymer intends to build polypropylene and high-density polyethylene plants in Sumgayit Petrochemical Complex near Baku. Construction of the polypropylene and high-density polyethylene plants is expected to be completed in the first half of 2017 and the first half of 2018, respectively. Following completion of the project, the plants will allow the production of polypropylene (up to 200,000 tonnes per annum) and pipe-grade polyethylene (up to 120,000 tonnes per annum) for the first time in Azerbaijan.

In December 2014, the Company entered into a term sheet with Gazprombank, pursuant to which Gazprombank has agreed to grant a U.S.$420 million ten-year loan to the Company for the plants project. A definitive loan agreement is expected to be entered into in the first quarter of 2015.

OGPC

Background

The Company's principal refining, gas processing and petrochemical facilities are in need of modernisation. As a result and at the direction of the Government, the Company established an internal working group in 2009, headed by the vice-president of strategic development and assisted by international and local advisors, to prepare a feasibility study for a proposed refinery, gas processing and petrochemical complex, the Oil-Gas processing and Petrochemical Complex (OGPC) to be located outside Baku. The plan was presented to the Government in August 2012. The Company does not yet have an estimate for the costs of decommissioning the existing facilities, but it is expected that the Company will be responsible for financing the decommissioning costs.

OGPC is intended to meet Azerbaijan's long-term domestic demand for strategically important refined products and treated natural gas and petrochemical products. In addition, the Company believes that OGPC will have further social, environmental and developmental benefits.

Project Description

OGPC will be comprised of two principal elements: (i) a gas processing plant, which is expected to commence operations in early 2021; and (ii) a petrochemical plant, which is expected to commence operations by the end of 2021. A refinery is also expected to be constructed and commence operations after 2030.

The gas processing plant is expected to be comprised of two process trains that will treat and upgrade natural gas for domestic consumption and export. It will also deliver feedstock to the petrochemical plant. The plant is expected to have a capacity of 12 bcm per annum. The gas processing plant is expected to use natural and associated gas from the Company's own production, as well as associated gas from the ACG fields. It may also use feedstock from other fields in varying stages of development, including the Umid and Babek fields.

The petrochemical plant is intended to produce high value added products for domestic use and export, with the intention of increasing the overall potential profitability of OGPC. When completed, it is expected to have a production capacity of 700 kta of polyethylene products and 180 kta of polypropylene products. It will obtain ethane and propane feedstocks from the gas processing plant.

The power plant is intended to provide a reliable supply of electricity, as well as other utilities, to OGPC, as well as supply additional electricity to the national grid using natural gas from the same sources as the gas processing plant.

Financing, Ownership and Operation

The Company currently estimates that the project will cost U.S.$7 billion, divided as follows: (i) U.S.$2.6 billion for the gas processing plant; (ii) U.S.$2.3 billion for utilities and offsite facilities; (iii) U.S.$2.1 billion for the petrochemical plant; and (iv) U.S.$1.4 billion for interest and other soft costs during construction. The Company, the Government and SOFAZ are currently engaged in discussions in respect of the financing required for the project, including certain options for project financing. No agreement has been reached yet.

Fertiliser Plant Project

In July 2011, the Government and the Company announced plans to construct a fertiliser plant near the existing facilities of Azerikimya in order to ensure a reliable source of fertilisers in the Republic. The Government is financing the cost of constructing the new plant, which is estimated at between U.S.$870 million and U.S.$900 million, through contributions to the Company's share capital, of which approximately U.S.$140 million had been paid as at 30 June 2014 and approximately U.S.$77 million was paid in the second half of 2014. The Government and the Company have agreed that fertilisers produced at this plant will be purchased by the Government at international market prices, although the Government has indicated that it intends to sell such fertiliser to farmers in Azerbaijan at subsidised rates. The feedstock for the plant, natural gas produced by the Company, will be sold to the plant at the regulated domestic price. In March 2013, the Company appointed Samsung Engineering Co., Ltd as an Engineering, Procurement and Construction (EPC) contractor for the project. The construction of the plant is expected to be completed in late 2016 or early 2017.

Petkim

Overview

Petkim produces a variety of petrochemical products and markets them in the Turkish and international markets. It was established on 3 April 1965 by the Turkish Government and is currently the sole petrochemical producer in Turkey.

The Company has a 66% interest in Petkim, directly and indirectly. On 30 May 2008, the Company won a privatisation tender held by the Turkish government and acquired a 51% of the share capital of Petkim for U.S.$2.0 billion (through SOCAR-Turcas Petro (now SOCAR-Turkey Petro) acting in consortium with a Saudi-based investment company). STEAŞ subsequently purchased an additional 2.75% of Petkim's share capital in the open market during the period 2008-2012. The Company has also directly acquired a 4.925% stake in Petkim in a number of open market transactions. In June 2012, the Company, through SOCAR Izmir, acquired an additional 10.32% stake in Petkim from a non-controlling shareholder, by way of a privatisation, for U.S.$168.5 million. In August 2014, SOCAR Izmir was merged with STEAŞ.

The Turkish Government owns a single share of Petkim that carries special rights (a so-called "golden share"), including, *inter alia*, pre-emptive and blocking rights on sales of a controlling interest in Petkim and the right to require Petkim to maintain certain production levels. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Turkish Government holds a "golden share" in Petkim*".

Approximately 38.7% of the shares of Petkim are listed on the Borsa Istanbul (including shares held directly and indirectly by the Company). According to statistics published by the Borsa Istanbul, as at 31 December 2014, the market capitalisation of Petkim was YTL 3 billion.

On 5 February 2015, SOCAR Turkey Energy sold 34 million shares (approximately 3.4% of the share capital of Petkim) at a purchase price of YTL 4 per share to BCM Global Fund Ltd. The sale was conducted as an on-market transaction on the Borsa Istanbul. The shares were initially purchased by SOCAR Turkey Energy on the Borsa Istanbul in 2009 and 2010 for a purchase price of YTL 2.1 per share.

Petkim's production facilities

Petkim produces basic and intermediate petrochemical raw materials with a total core production capacity of 1.9 million tonnes. In 2013, Petkim operated at approximately 81% capacity, producing 1.5 million tonnes of saleable products from a total gross output of 2.8 million tonnes. The Petkim complex has 14 major petrochemical plants, including an LDPE (low density polyethylene plant), a polypropylene plant, an aromatics plant, an ethylene plant, a vinyl chloride monomer and a polyvinyl chloride plant, a dedicated waste water plant, an energy production unit, a dedicated port and the Güzel Hisar Dam, which has a total storage volume of 150 mcm. According to Petkim estimates, it has a direct domestic market share in Turkey of approximately 18% from its own production and additional access through third-party trading.

Petkim's facilities are located on a peninsula in Aliağa, Turkey on the coast of the Aegean Sea, approximately 30 km from Izmir, which is one of the few coastal areas in Turkey dedicated to industrial activity. Petkim and STEAŞ are both seeking to further develop the production capacity of the peninsula. See "*—STAR Project*". In addition, Petkim announced plans to invest a total of approximately U.S.$5.7 billion on the peninsula by 2015. In 2011, capacity expansion investments in the LDPE low-density polyethylene plant were completed and the plant started operations, such works increased production capacity by 20%. In 2012, capacity expansion investments in the polypropylene plant were also completed. Petkim is undertaking a number of capacity increasing projects

Petkim is also seeking to expand the existing port on the peninsula by constructing a container terminal. In February 2013, Petkim entered into an agreement with APM Terminals BV ("**APM**") for the development of this terminal. Pursuant to this agreement, APM has the right to operate the container terminal port for a period of 28 years. Pursuant to the agreement, the first phase of investment in the container terminal is expected to be completed in 2015 and the second phase is expected to be completed in 2016. Petlim Port, a holding company that is a subsidiary of Petkim, will arrange for financing of a total of U.S.$300 million in the development of the container terminal, while APM will purchase the necessary machinery and equipment for the terminal. Once completed, the port is expected to have an annual handling capacity of 1.5 million TEU (Twenty Foot Equivalent unit, a standard metric for measuring cargo capacity; one TEU represents the cargo capacity of a standard intermodal container). In December 2014, Goldman Sachs International purchased a 30% stake in the Petlim Port for consideration of U.S.$250 million.

SOCAR Power Energy Yatirim A.S., which is majority-owned by STEAŞ and 9.9% owned by Petkim, is planning to conduct the Petkojen plant project. The generation licence for this project is expected to be received from the Electricity

Market Regulatory Authority in the coming months and construction of the plant is expected to commence in late 2015. The Petkojen plant project is expected to reduce Petkim's steam and energy production costs. Following completion of the project, the Petkojen plant is expected to have a production capacity of approximately 1,660 tonnes of steam per hour and 294 MW of electricity. The project is expected to cost approximately U.S.$570 million, excluding costs in respect of a related coal import handling terminal. Although the funding arrangements have not yet been finalised, Petkim is expected to contribute 9.9% of any equity contribution required to fund the Petkojen plant (in proportion to its ownership interest). Total aggregate equity contributions are currently expected not to exceed 30% of the total cost of the project.

Results of Operations of Petkim

In the nine months ended 30 September 2014, Petkim's net profit was YTL 2.6 million, as compared to YTL 48.6 million in the nine months ended 30 September 2013, a decrease of YTL 46.0 million, or 94.7%. This decrease was principally due to a YTL 84.2 million, or 38.8%, decrease in gross profit, primarily as a result of a YTL 423.1 million, or 15.4%, increase in costs of sales principally due to higher costs for raw materials, which was partially offset by a YTL 339.0 million, or 11.4%, increase in revenue. The increase in costs for raw materials was primarily due to a shutdown of Petkim's facilities for maintenance for a period of 115 days in 2014, as a result of which Petkim had to purchase certain raw materials from third parties in order to fulfil customer orders.

In the year ended 31 December 2013, Petkim's net profit was YTL 48.9 million, as compared to YTL 24.6 million in the year ended 31 December 2012, an increase of YTL 24.3 million, or 98.8%. This increase was principally due to a YTL 188.5 million, or 231.9%, increase in gross profit, as a result of a YTL 378.9 million, or 8.9%, decrease in costs of sales principally due to lower costs for raw materials and lower costs of sold trade goods, which was partially offset by a YTL 190.2 million, or 4.4%, decrease in sales. There was also a decrease in Petkim's exports in 2013 to YTL 1,554.3 million from YTL 1,863.8 million in 2012, a decrease of YTL 309.5 million, or 16.6%. Petkim is generally able to command higher prices for its exported products than those used in the domestic Turkish market, and, as a result, is seeking to continue to increase exports.

The summary financial information of Petkim set forth below as at and for the six months ended 30 June 2014 and 30 June 2013 and as at 31 December 2013 has been summarised, without material adjustment and extracted from the translated Interim Condensed Consolidated Financial Statements for the Interim Period January 1 – September 30, 2014 and the summary financial information for the years ended 31 December 2013 and 2012 and as at 31 December 2012 has been summarised, without material adjustment and extracted from the translated Consolidated Financial Statements for the period between January 1 – December 31, 2013 (the "**Petkim Financial Statements**"). See "*Presentation of Financial, Reserves and Certain Other Information—Certain Third Party Information*".

Summary Petkim Consolidated Balance Sheet Data

	As at 30 September	As at 31 December		Change 30 September 2014 to 31 December 2013
	2014	**2013**	**2012**	
		(YTL millions)		*(%)*
ASSETS				
Current assets				
Cash and cash equivalents	354.7	279.0	292.0	27.1
Trade receivables				
Trade receivables from third parties	512.7	750.2	544.5	(31.7)
Trade receivables from related parties	0.0	—	—	—
Other receivables				
Other receivables from related parties	93.1	114.7	87.2	(18.8)
Other receivables from third parties	1.1	0.1	1.2	1,000.0
Inventories	490.1	464.2	462.5	5.6
Current prepaid expenses	57.7	17.4	29.7	231.6
Other current assets	23.3	74.0	25.1	(68.5)
Total current assets	**1,532.8**	**1,700.4**	**1,442.0**	**(9.9)**
Non-current assets				
Investment property	1.0	1.0	1.0	0.0
Property, plant and equipment(1)	1,698.8	1,485.4	1,322.1	14.4
Intangible assets	16.7	14.2	14.5	17.6
Non-current prepaid expenses	27.8	16.0	3.5	73.8
Deferred tax assets	0.4	9.6	1.5	(95.8)
Other non-current assets	33.6	19.1	14.7	75.9
Total non-current assets	**1,778.3**	**1,545.2**	**1,357.3**	**15.1**
TOTAL ASSETS	**3,311.1**	**3,245.6**	**2,799.4**	**2.0**
LIABILITIES				
Current liabilities				
Short term financial liabilities	145.4	165.4	250.2	(12.1)
Current portion of long term financial liabilities	51.5	24.0	13.6	114.6
Trade payables				
Trade payables to related parties	11.4	42.6	473.4	(73.2)
Trade payables to third parties	909.4	915.8	217.4	(0.7)
Short term liabilities for employee benefits	13.8	12.1	9.9	14.0
Other payables				
Other payables to related parties	0.1	0.1	0.1	0.0
Other payables to third parties	1.1	0.8	0.8	37.5
Deferred income				
Deferred income from related parties	5.6	7.4	7.0	(24.3)
Deferred income from third parties	21.3	34.9	27.3	(39.0)
Short-term provisions				
Provision for employee benefits	12.9	8.7	11.3	48.3
Other short-term provisions	3.3	2.7	3.9	22.2
Other current liabilities	6.0	5.1	4.3	17.6
Total current liabilities	**1,181.8**	**1,219.6**	**1,019.2**	**(3.1)**
Non-current liabilities				
Long term financial liabilities	331.9	165.9	25.3	100.0
Deferred income				
Deferred income from related parties	4.9	5.0	5.1	(2.0)
Deferred income from third parties	48.0	48.0	0.6	0.0
Long term provisions				
Provisions for employee benefits	78.0	88.3	84.8	(11.7)
Deferred tax liability	3.4	11.3	—	(69.9)
Total non-current liabilities	**466.2**	**318.5**	**115.8**	46.4
TOTAL LIABILITIES	**1,669.7**	**1,538.1**	**1,135.0**	**8.6**

	As at 30 September	As at 31 December		Change 30 September 2014 to 31 December 2013
	2014	2013	2012	
			(YTL millions)	(%)
EQUITY				
Share capital	1,000.0	1,000.0	1,000.0	0.0
Adjustment to share capital	486.9	486.9	486.9	0.0
Other comprehensive income / (expenses) not to be reclassified to profit of loss				
Actuarial loss arising from defined benefit plan	(12.9)	(12.9)	(7.2)	0.0
Restricted reserves	8.4	3.7	3.6	127.0
Retained earnings	178.2	181.0	156.5	(1.5)
Net profit for the period / year	2.6	48.9	24.6	(94.7)
TOTAL EQUITY	**1,663.1**	**1,707.5**	**1,664.3**	**(2.6)**
TOTAL LIABILITIES AND EQUITY	**3,311.1**	**3,245.6**	**2,799.4**	**2.0**

Sources: Petkim Interim Condensed Consolidated Financial Statements for the Interim Period January 1 – September 30, 2014 and Petkim Consolidated Financial Statements for the period between January 1 – December 31, 2013

Note:

(1) The net book value of property, plant and equipment as at 30 September 2014 was YTL 1.698.8 million, as compared to YTL 1,485.3 million as at 31 December 2013 and YTL 1,322.1 million as at 31 December 2012. Depreciation charges amounting to YTL 63.2 million were recognised in the nine months ended 30 September 2014. Depreciation charges amounting to YTL 77.2 million were recognised in the year ended 31 December 2013, as compared to YTL 70.1 million in the year ended 31 December 2012.

Summary Petkim Consolidated Statement of Profit or Loss and Other Comprehensive Income

	For the nine months ended 30 September			For the year ended 31 December		
	2014	2013	Change	2013	2012	Change
	(YTL millions)		(%)	(YTL millions)		(%)
Revenues / Sales	3,306.0	2,967.0	11.4	4,158.7	4,348.9	(4.4)
Cost of sales	(3,173.4)	(2,750.3)	15.4	(388.9)	(4,267.6)	(90.0)
Gross profit	**132.6**	**216.8**	**(38.8)**	**269.8**	**81.3**	**231.9**
General administrative expenses	(77.5)	(64.0)	21.1	(82.9)	(94.4)	(12.2)
Selling, marketing and distribution expenses	(19.6)	(19.3)	1.6	(25.9)	(28.6)	(9.4)
Research and development expenses	(10.0)	(8.7)	14.9	(8.6)	(7.4)	16.2
Other operating income	101.7	72.7	39.9	104.7	135.8	(22.9)
Other operating expense	(125.5)	(135.1)	(7.1)	(185.1)	(80.9)	128.8
Operating profit	**2.1**	**62.3**	**(96.6)**	**72.1**	**5.7**	**1,164.9**
Income from investment activities	0.0	0.0	—	0.1	22.2	(99.5)
Operating profit / (loss) before financial income / (expense)	**2.1**	**62.4**	**(96.6)**	**72.2**	**27.9**	**158.8**
Finance income	107.8	30.4	254.6	66.0	57.7	14.4
Finance costs	(106.0)	(46.8)	126.5	(84.6)	(55.5)	52.4
Profit before taxation	**3.8**	**46.0**	**(91.7)**	**53.5**	**30.1**	**77.7**
Current tax income / (expense)	—	—	—	—	—	—
Deferred tax income / (expense)	(1.2)	2.6	146.2	(4.6)	(5.5)	(16.4)
Net profit for the period/year	**2.6**	**48.6**	**94.7**	**48.9**	**24.6**	**98.8**

Sources: Petkim Interim Condensed Consolidated Financial Statements for the Interim Period January 1 – September 30, 2014 and Petkim Consolidated Financial Statements for the period between January 1 – December 31, 2013

STAR Project

In June 2010, STEAŞ received a licence from the Turkish Government to construct a 10 million tonne capacity refinery on a 138-hectare site on the same peninsula as the Petkim facilities in Aliağa. The refinery is being constructed by STAR, a joint venture company currently owned by the Company (60%) and the MEI (40%). The refinery is located on land leased to STAR by Petkim (see "—*STAR Project and Petkim*"). STAR is intended to provide feedstock security for Petkim, as well as to supply the local market with oil products, such as diesel and jet fuel.

In October 2011, ground was broken on the site preparation phase of the project, which was attended by the President of Azerbaijan, Ilham Aliyev, and the-then Prime Minister of Turkey, Recep Tayyip Erdogan. The new refinery is expected to have a process capacity of 10 million tonnes of crude oil per annum (214,000 bopd) and produce naphtha, diesel and jet fuel and other products. The naphtha is intended to be used as feedstock for Petkim under a 20-year purchase guarantee, and the diesel and jet fuel are intended to supply the domestic Turkish market. The project is expected to be completed in 2017.

The project will be comprised of a lump sum, turnkey EPC contract. The front-end engineering and design services for the project were conducted by Foster Wheeler. Following a tender process in 2012, in May 2013, STAR signed a lump sum, turnkey EPC contract with a consortium formed of Tecnicas Reunidas (Spain), Saipem (Italy), GS Engineering and Construction (Korea) and Itochy (Japan). Construction of the refinery is expected to take approximately four years from the issuance of the notice to proceed, which was issued in June 2014. Foster Wheeler has been appointed as the project management consultant for the project. Engineering and procurement works are currently underway and site preparation works are almost completed. Construction began in June 2014, and commercial operations are expected to begin in mid-2018.

In December 2012, the project was granted the first ever "Strategic Investment Incentive Certificate" in Turkey by the Turkish Ministry of Economy. The Company believes that the STAR project reflects the strategic partnership between Turkey and Azerbaijan and that the project will continue to have strong Turkish Government support during construction of the refinery. Current estimates predict that by increasing the domestic supply of diesel and jet fuel and reducing reliance on imports, the new refinery will cut Turkey's current account deficit by approximately 1.5%. STAR expects that as much as 70% of the expected revenue of the new refinery will be based on off-take contracts with local retailers of diesel and jet fuel. See "—*Litigation—Buhar Enerji*".

The current project cost estimates for the new refinery are U.S.$5.7 billion. In May 2014, STAR entered into a number of financing agreements with over 20 financial institutions (including export credit agencies and international and local commercial and development banks) to secure a financing package of U.S.$3.3 billion for the project. This financing package is comprised of: U.S.$2.1 billion in export credit agencies covered loans, with a maturity of 18 years; U.S.$630 million in export credit agencies direct loans, with a maturity of 18 years; and U.S.$600 million in commercial loans, with a maturity of 15 years. This financing is believed to be the largest project financing transaction with the longest tenor closed in Turkey to date, as well as the largest oil and gas transaction in the EMEA region in 2014. The remaining U.S.$2.4 billion has been or will be provided proportionately by STAR's shareholders. Approximately 55% (*i.e.,* U.S.$1.4 billion) has already been disbursed and the remaining funding is expected to be provided by the Company and the MEI during the four-year construction period through a combination of debt and equity finance.

STAR Project and Petkim

STAR expects that approximately 20% (by revenue) of the new refinery's products will be sold on-site to Petkim on long-term take or pay off-take contracts. By locating the new refinery on the same site as Petkim, STAR and Petkim believe that significant capital expenditure and transportation savings will be achieved and that Petkim's exposure to feedstock shortages and price volatility will be reduced. The Company has also agreed that it will supply all of the new refinery's crude oil feedstock requirements under a long-term contract, either from its own production or via its trading capacities.

By locating the refinery adjacent to Petkim, the Company expects to realise significant savings on capital expenditure and transportation costs. Petkim has granted a 49-year lease of the land required for the new refinery. Petkim has also agreed to provide several key utilities and services, such as steam, nitrogen, oxygen, water and electricity) to the new refinery on long-term use rate contracts.

Construction

The Company carries out all construction work relating to its oil and gas activities through two entities: Complex Drilling Work Trust and Oil and Gas Construction Trust. Although it is one of the Company's main operating segments, the work carried out by these entities is principally for other entities within the Company's Group and revenue from external customers is not significant.

In March 2007, the Company formed Complex Drilling Work Trust, which is responsible for drilling wells in the Company's onshore and offshore hydrocarbon fields, for example the Umid field. The Company also has a majority interest in CDC, a joint venture with Heritage General Trading FZE ("**Heritage**"). The joint venture was originally entered into in 1996 with Santa Fe, who sold its 45% share in 2009 to CDC, which, in turn, sold a 4.5% stake to Heritage. Following a capital reduction through which CDC's share was dissolved, the Company now owns 92.44% of CDC and Union Grand Energy PTE LTD (which acquired its interest from Heritage in 2011) owns 7.56%. The Oil and Gas Construction Trust is responsible for all construction work other than drilling wells, principally work relating to refineries and pipelines.

In 2013, CDC commenced construction of a 6th generation semi-submersible drilling rig to permit the exploration and development of oil and gas fields in line with international standards, as well as the development of deeper and more complex sections of oil and gas fields in the Caspian Sea. Construction of the rig is expected to be completed by the end of 2016. The Company is funding 10% of the costs of this project, with the remaining 90% of the costs being funded by SOFAZ. To date, the Company has contributed U.S.$42 million to the construction of the drilling rig. The rig will be jointly owned by SOCAR and SOFAZ upon completion of the construction.

Other Activities

Shipyard

In 2010, the Company entered into a joint venture agreement with Keppel Group of Singapore and Azerbaijan Investment Company, which is a state-owned fund, for the purpose of developing and operating a shipbuilding and ship repair facility near Baku. Construction of this project began in 2011 and was completed in the third quarter of 2013.

The shipbuilding facility produces various types of vessels, including oil tankers and service vessels, for the oil and gas industry.

In April 2014, Baku Shipyard LLC entered into a contract with BP to design and build a subsea construction vessel for an amount of U.S.$378 million. The vessel, to be used in the Shah Deniz Stage 2 development, is expected to be completed in April 2017.

Social Activities

In common with other oil and gas companies in the region, the Company constructs and has previously operated facilities designed to provide social services to employees and their families, such as hospitals and other healthcare facilities, accommodation, schools and recreation centres. Pursuant to a number of orders of the Cabinet of Ministers adopted in December 2011, most of these facilities have been transferred to various state authorities and state-owned companies. The Company no longer operates the transferred facilities. The Company is also involved in the construction of the Olympic Stadium in Baku, the costs of which are reimbursed by the Ministry of Youth and Sports.

In February 2014, the Company signed a memorandum on co-operation with the Ministry of Labour and Social Protection of the Population, which envisages the regulation of labour relations with employees in line with international standards and the provision of training and development.

See "*Risk Factors—Risk Factors Relating to the Company's Business—The Government, which directly controls the Company, may cause the Company to engage in business practices that may not be in the interests of the Noteholders and may cause the appointment or removal of members of the Company's management team*" and "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Descriptions of Principal Income Statement Items—Operating Expenses—Social Expenses*".

Competition

Exploration and Production

As the manager of the State's activities in the oil and gas sector in Azerbaijan, the Company has the exclusive right to participate in all domestic oil and gas exploration and production activities. See "*Regulation of the Oil and Gas Sector in Azerbaijan*".

Transportation

The Company owns the domestic oil and gas pipeline networks and has holdings in all of the international pipelines that run through Azerbaijan. No other domestic entities have holdings in the pipelines, but some external contractors have interests in the domestic pipelines as part of the PSA arrangements.

Refining, Marketing and Trading

The Company has a dominant position in Azerbaijan, as there is no competition in the domestic market, and the Company wholly-owns the two oil refineries in Azerbaijan. Although there are some petrol stations in Azerbaijan owned by third parties, these petrol stations buy their petrol from the Company. Petkim is the only petrochemicals producer in Turkey, but it does compete with producers outside of Turkey in the Turkish market. See "*—Refining, Marketing and Trading—Refining Facilities*".

Employees

The following table sets forth the approximate number of employees of the Company, by business unit or entity, as at the dates indicated:

	As at 30 June	As at 31 December	
	2014	2013	2012
SOCAR Head Office	495	555	518
Azneft	11,935	15,995	16,188
Azerigas	10,656	11,310	13,867
Azerikimya	3,134	3,499	3,811
Geophysics and Geology Department	1,538	1,474	1,591
Oil Pipelines Department	947	1,023	1,078
Marketing and Operations Department	336	345	347
Investments Department	60	59	44
Azerneftyag Oil Refinery	2,102	2,331	2,308
Heydar Aliyev Baku Oil Refinery	2,314	2,525	2,508
Heydar Aliyev Baku Deep Water Jacket Factory	120	148	677
Gas Processing Plant	619	701	665
Social Development Department	345	1,043	1,232
Security Department	1,713	3,669	3,832
Ecology Department	397	456	382
Gas Export Department	2,918	3,017	155
Information Technologies and Communications Department	1,120	1,085	1,068
Caspian Sea Oil Fleet	0	0	4,373
Oil and Gas Construction Trust	5,377	5,454	5,269
Complex Drilling Works Trust	2,787	3,869	3,929
Oil and Gas Research and Design Institute	1,098	1,198	1,214
"Development of Work condition norms" Department	106	107	107
Office of "Azerbaijan Oil Industry" magazine	22	22	22
Training, Education and Certification Department	295	303	217
Carbamide Plant	23	22	21
Baku High Oil Academy	67	64	42
Mines Rescue Militarised Service of Blowout Control	143	166	170
Emergency Response Department	551	567	535
Transportation Department	4,148	0	0
Oil and Gas Processing and Petrochemical Department	71	0	0
Companies involved in SOCAR's international projects			
AzACG	18	17	9
AzBTC	8	8	8
AzSD	9	9	8
SCP	23	24	167
Salyanoil	8	8	8
Alibayramlioil	7	7	7
Gobustanoil	8	8	8
Total	**55,518**	**61,088**	**66,234**

The Company is the largest corporate employer in Azerbaijan and the trans-Caucasus region.

The reduction in employee numbers since 31 December 2012 is primarily due to the introduction of policies at the Company to increase the efficiency of its staffing and operations.

The Company's trade union, the Union for Oil and Gas Industry Employees, was established in 23 May 1997. As at 30 June 2014, it had 55,518 members. The Company has experienced no material labour disputes or strikes and believes employee relations to be good.

Litigation

Except as set out under the headings "—*Buhah Enerji*", and "—*SOCAR Trading*" below, there are no governmental, legal or arbitration proceedings, including any such proceedings pending or threatened of which the Company is aware, during the last 12 months preceding the date of this Prospectus, which may have, or have had in the recent past, significant effects on the financial position or profitability of the Company or the Group.

Buhar Enerji

Buhar Enerji Yatırım ve Sanayi Ltd. Şti. ("**Buhar Enerji**"), a Turkish energy company primarily engaged in geothermal projects in Turkey, holds a licence for the production of sparkling mineral water issued by the Izmir Special Provincial Administration. Buhar Enerji claims that this licence includes land on which certain existing Petkim and planned STAR facilities are situated and has challenged certain licenses held by STAR.

The Company filed a lawsuit for the cancellation of Buhar Energi's licence and for a positive environment impact assessment to be conducted on the site. This was approved by the Administrative Court of Izmir but this decision has been appealed by Buhar Energy. The litigation is still in process and is being closely monitored by Company.

The Company holds a 66% interest in Petkim, which is currently the sole petrochemical producer in Turkey. STAR is a joint venture company ultimately co-owned by the Company and the MEI and was incorporated to construct the proposed STAR refinery. For a description of the existing Petkim and planned STAR facilities, as well as the Company's relationship with each of Petkim and STAR, see "*—Petkim*" and "*—Star Project*". The Company has no ownership interest in, or business relations with, Buhar Enerji.

As at the date of this Prospectus, it is not possible to quantify the potential costs related to Buhar Enerji's claim. The Company believes that this claim has no merit and will not result in the cancellation of any of STAR's licences.

SOCAR Trading

SOCAR Trading is a wholly-owned subsidiary of the Company through which the Company conducts its sales activities. For details of the activities of SOCAR Trading, see *"—Refining, Marketing and Trading—Sales of Crude Oil*".

In 2010, SOCAR Trading entered into a supply agreement with Petroexport Ltd. ("**Petroexport**"), a company incorporated in the Cayman Islands, to supply crude oil to Petroexport. Petroexport was, in turn, to supply crude oil to a third party under a processing agreement Petroexport was a trading counterpart of the Company and the Company has no ownership interest in Petroexport.

Following defaults by Petroexport under the supply agreement, SOCAR Trading terminated the supply agreement. Petroexport then assigned its rights and transferred its obligations under the processing agreement to SOCAR Trading. Following such assignment and transfer, SOCAR Trading supplied a quantity of crude oil directly to a third party customer. In 2010, Petroexport was put into liquidation.

Subsequently, in December 2012, Petroexport filed a claim against SOCAR Trading for a total amount of U.S.$97 million, challenging SOCAR Trading's right to contract directly with the third party and alleging that the supply of crude oil was made in breach of the supply agreement between SOCAR Trading and Petroexport. In line with the provisions of the supply agreement, the claim has been referred to arbitration in Cairo. The Company considers this claim to be without merit and has contested the claim vigorously. An arbitration hearing in respect of this case took place in November 2014 and a final decision from the arbitral tribunal is expected by the end of the second quarter of 2015.

Insurance

The terms of the Company's insurance coverage are similar to those that are generally accepted in the oil and gas industry and are tailored to address the specific activities of the Company. The Company's insurance coverage includes employer's liability insurance, hazardous object insurance and directors' and officers' liability insurance and also covers property. However, the Company's insurance does not include coverage for environmental damage caused by the Company's subsidiaries' operations, sabotage or terrorist attacks, which is not compulsory under Azerbaijani law.

Under the Law on Compulsory Insurance, which came into force in October 2011, the Company is also required to maintain immovable property insurance and related third party liability insurance. The new law has removed the legal requirement to maintain environmental insurance; however, it is expected that environmental damage will be covered by other types of insurance (such as liability insurance for damage caused by hazardous objects) and the new requirement for liability insurance for holders of immovable property. When entering into joint ventures or other partnerships, although the Company seeks to require partners to obtain the maximum amount of environmental liability insurance reasonably available, availability is often limited. The Company does not have a general insurance policy to cover environmental risks, but insurance may be acquired for individual projects. Implementation of the Law on Compulsory Insurance is being phased in and the Company has not yet obtained the new mandatory policies. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Company's insurance coverage may not be adequate*

to cover losses arising from potential operational hazards and unforeseen interruptions" and "*Regulation of the Oil and Gas Sector in Azerbaijan—Other regulatory requirements—Mandatory insurance*".

The Company also maintains liability insurance to cover certain assets with respect to fire, lightning, explosion and earthquake and medical insurance for its employees with Pasha Insurance.

Information Technology

The IT management of the Company is undertaken by the IT and Communications Department which provides the Company's telecommunication services; implements automatic processing control systems, develops integrated software, creates databases and organises management systems; develops and implements the IT network, which includes organising the tracking of documents and the exchange of information on the network; and provide network security. The IT systems of all of the Company's subsidiaries are integrated into one centralised IT framework, which services the Group. The Company spent U.S.$68.3 million in maintaining and further upgrading its IT systems in 2014. The Company has completed the installation of certain SAP software modules to improve its accounting functions and is the process of rolling out further SAP modules, including in respect of production control.

As part of its development of a disaster recovery plan, the Company is planning a separate disaster recovery centre or an off-site server located outside of the Company's main administrative premises.

Health and Safety

Further improvement of the Company's health and safety practices is a priority of the Company's senior management. In 2005, the Company adopted a unified policy on labour protection for Company employees in Azerbaijan based on International Labour Organisation standards. Since then, certain Company departments, such as the Gas Export Department and certain departments of Azneft, have directly applied international standards, which are more comprehensive in certain respects, to their activities. The Company expects further adoption of international standards in the future. While the Company itself does not hold an ISO certification, many of its production units and subsidiaries hold ISO 9001, ISO 14000 and other ISO and OHSAS Certifications.

Each department or SOCAR entity, prepares an annual health and safety improvement plan to upgrade health and safety conditions and requests funding from the Company. Recent programmes have focused on the improvement of working conditions, implementation of new technologies and annual medical check-ups. In addition, the vast majority of off-shore drilling facilities have received new safety and evacuation equipment, including new lifeboats; over 200 Company employees have undertaken training on the operation of the new lifeboats. The Company is also assessing the impact of new fire detection and suppression equipment for general deployment.

The Company has a central health and safety department comprised of three departments that oversee the Company's health and safety practices. The Company also has a specialised training certification department that organises health and safety training appropriate for employees' functions and certifies the successful completion of the various programmes. In addition, the Company operates a central industrial laboratory that conducts five-year reviews of all of the Company's operations and assesses areas that require improvement. Six other industrial laboratories conduct more frequent monitoring activities in higher risk areas.

Health and safety incidents, in particular those that risk human life, are responded to by the Company and the Ministry of Emergency Situations (the "**MES**"). The Company regularly co-ordinates and conducts regular training and drills with the MES.

In common with other major oil and gas companies, the Company, from time-to-time, experiences accidents, which may result in injuries or, in certain cases, fatalities. For example, in October 2014, certain structures collapsed at a faulty platform of the Narimanov oil and gas production unit during the carrying out of repair works due to faulty and outdated equipment. There were four fatalities as a result of the collapse, and the remaining 37 people working on the platform were evacuated by the Company and the MES. In response, the Company set up a special commission to investigate the accident. In addition, a new platform, located adjacent to the structures which collapsed in October 2014, was already in the process of being constructed and will replace the collapsed structure.

Environment

During Soviet times, little attention was paid to pollution and waste in oil and gas production. Accordingly, the most significant ecological issue currently facing the Company is historic pollution and landfill waste. In recent years, however, the Company has increased its focus on these issues and environmental issues are now a priority for the Company. In 2006, the Company established its Ecology Department. In 2008, the Company adopted its current

environmental policy. The Company's Vice President of Ecology manages the Ecology Department and is responsible for the Company's environmental policy.

The main principal of the Company's environmental policy is zero waste. The Company's intention is that it produces zero waste in the soil, water or air. The zero waste goal aims to further reduce gas flaring, reduce waste in the production cycle and increase recycling, for example, by treating water extracted during production at the 28 May OGPD, which is then re-injected to improve well pressure and thus production yield.

Since the environmental policy has been adopted, the Company has conducted several major remediation projects, such as the remediation and recultivation of the land at the Bibiheybat OGPD, a former brownfield site near Baku. As a result, the Company has developed significant internal expertise on remediation efforts and has improved approximately 1,400 hectares polluted during Soviet times. The Ecology Department has created an electronic database which it uses to assess and track polluted sites in the Company's production fields and to develop programmes to remediate such sites.

The Company's specialised training certification department has an environmental training programme in which every employee in the operating divisions of the Company participates.

In 2014, the Company adopted an oil spill prevention and response plan. As part of this policy, the Company is improving its risk assessment capabilities and has established new measures to reduce the risk of future spills.

The Company has significant environmental obligations under Azerbaijani law that are enforced by the MENR. See "*Regulation of the Oil and Gas Sector in Azerbaijan—Other Regulatory Requirements—Environmental Compliance and Ecological Permits*". In addition, each PSA has general environmental provisions and the steering committees of certain PSAs have adopted more comprehensive policies. *Regulation of the Oil and Gas Sector in Azerbaijan—PSAs".*

As part of its legal obligations, the Ecology Department prepares various annual and quarterly environmental reports submitted by the Company to the Government and various ministries.

See "*Risk Factors—Risk Factors Relating to the Company's Business—The Company's operations subject it to developing and uncertain environmental and operational health and safety regulations, non-compliance with which could result in severe fines and suspension or permanent shut down of activities."*

Anti-Bribery and Anti-Corruption

In 2013, the Company adopted its Anti-Bribery and Anti-Corruption Standards and Policies (the "**ABC Policy**"). The ABC Policy was prepared by the Company with the assistance of external advisors and is based on practices adopted by international companies, including, *inter alia*, international oil companies, international anti-corruption conventions and applicable laws, including Azerbaijani law. In addition, the Company's policy is to comply with foreign laws, when applicable, and it regularly agrees to abide by similar policies of its international counterparties.

The Company provides its managers and employees with periodic training on compliance with the ABC Policy. Pursuant to the ABC Policy, it has implemented a number of measures, including enhanced due diligence requirements in respect of contracts and counterparties, prohibitions and restrictions on accepting gifts and certain employment practices intended to reduce, among other things, close family members and other related parties from working in the same unit.

The Company's Procurement Department is responsible for the enforcement of the ABC Policy in respect of contracts, and the Human Resources department is responsible for the enforcement of the ABC Policy in respect of employment matters. In addition, each department and SOCAR entity is responsible for the enforcement of the ABC Policy internally.

In 2008, the Company adopted its procurement rules to (i) develop its own rule independent from the state procurement rules and (ii) modernise and streamline the procurement process. The procurement rules are based on those used by other international oil companies and World Bank standards.

See "*Risk Factors—Risk Factors Relating to the Republic of Azerbaijan—Change in the political, economic and legal climate could disrupt the Company's ability to conduct business and could adversely affect its business and prospects*."

MANAGEMENT

Governance Bodies

The Company's management structure consists of its president and its vice-presidents, who, together with other officers of the Company, constitute the Council and are responsible for the day-to-day management of the Company. See "*Relationship with the Government—Senior Management*", "*Risk Factors—Risk Factors Relating to the Company's Business—The Government, which directly controls the Company, may cause the Company to engage in business practices that may not be in the best interests of the Noteholders and may cause the appointment or removal of members of the Company's management team*".

President

The Company's president is appointed by the President of the Republic of Azerbaijan and has the following main responsibilities**:**

- ensuring the effective operation of the head office of the Company and of the entities within the Company's structure, including approving the structure and staff schedule of the Company's head office and appointing and dismissing employees;
- ensuring the implementation of the Company's decisions;
- appointing and dismissing heads of entities within the Company and their deputies and chief accountants, approving charters and regulations of such entities and determining the composition and duties of the Human Resources Committee;
- arranging and managing the work of the Council;
- representing the Company before state authorities, local and foreign institutions, and international organisations;
- executing contracts and other legal documents on behalf of the Company and ensuring their performance;
- approving internal regulations, issuing orders and decrees in connection with the management of the Company and signing the Council's resolutions; and
- other authorities provided for in the legislation (*e.g.*, certain authorities are granted by the President of the Republic of Azerbaijan empowering the Company to enter into PSA arrangements).

The term of office of the Company's president is not limited in time and he shall remain in office until dismissed by the President of the Republic of Azerbaijan.

The president of the Company is Rovnag Abdullayev. Mr. Abdullayev was born in Nakhchivan city on 3 April 1965. In 1982, he entered the Industrial and Civil Construction Engineering Department of Azerbaijan Construction Engineering Institute. After having served in the army, in 1985 he was transferred to the Construction Engineering Institute, from which he graduated in 1989. In 1989, Mr. Abdullayev started working at Neft Dashlari (Oil Rocks). In 1990, Mr. Abdullayev took a position as an engineer in the Construction Department of the 28th of May Oil and Gas Production Department. In 1991, Mr. Abdullayev became the Head of the Production Technology Department of the Construction and Assembling Management #3 of the Khazardenizneftgazinshaat (Caspian Sea Oil and Gas Construction) Trust. In 1997, Mr. Abdullayev became the Head of the Khazardenizneftgazinshaat Trust. On 31 March 2003, he was appointed Director of the Heydar Aliyev Baku Oil Refinery. In the elections held on 6 November 2005, he was elected to Parliament. Mr. Abdullayev was appointed President of the Company on 9 December 2005. On 14 March 2008, he was appointed President of the AFFA (Azerbaijan Football Federations' Association). On 7 November 2010, he was re-elected to Parliament.

Vice-presidents

The Company has 11 vice-presidents whose role is to manage the day-to-day operations of the Company. The vice-presidents of the Company are appointed and dismissed by the President of the Republic of Azerbaijan upon petition of the president of the Company. As at the date of this Prospectus, the Company's vice-presidents are:

Name	Age	Appointed	Current Position
Currently vacant	—	—	First vice-president
Khoshbakht Yusifzade	84	2004	First vice-president of geology, geophysics and field development issues
Suleyman Gasimov	53	2006	Vice-president of economic issues
Elshad Nasirov	54	2005	Vice-president of investments and marketing
David Mammadov	59	2005	Vice-president of refining
Mikayil Ismayilov	50	2005	Vice-president
Badal Badalov	53	2011	Vice-president of social issues
Khalik Mammadov	56	2007	Vice-president of human resources, information technology and regulations
Rahman Gurbanov	68	2010	Vice-president of oil and gas production and transportation
Tofik Gahramanov	61	2010	Vice-president of strategic development
Rafiga Huseyn-zade	62	2011	Vice-president of ecology

Under the Company's charter and the Council's regulations, in the instance of a tie in voting at Council meetings and in the absence of the president of the Company, the first vice-president has a casting vote. As at the date of this Prospectus, the position of first vice-president of the Company remains vacant, and the Company is not aware of any plan of the President of the Republic of Azerbaijan to appoint a new first vice-presdient.

Khoshbakht Yusifzade

Khoshbakht Yusifzade was born in Baku, Azerbaijan on 14 January 1930 and graduated from the Azerbaijan Industrial Institute in 1952 with a degree in geology. Mr Yusifzade started his career at The Oil Ministry in 1952. He worked as Deputy General Manager of the Geology department for Azdenizneft from 1952 to 1953. He worked as Chief Geologist at Azerneft from 1953 to 1960. He worked as Chief Geologist at Neft Dashlari from 1960 to 1963, then as Deputy Chief Geologist, Chief Geologist and Deputy General Manager at Caspian Sea Oil and Gas Production Union from 1963 to 1992. He worked as vice-president at Azerneft Concern in 1992 and as an adviser to the president of the Company from 1992 to 1994. He was vice-president of geology, geophysics and field development issues from 1994 to 2004 and in 2004 he became the first vice-president of geology, geophysics and field development refining. Mr Yusifzade became a member of the Council in 1992.

Suleyman Gasimov

Suleyman Gasimov was born in Bolnisi district, Georgia on 26 December 1961 and graduated from the Azerbaijan National Economic Institute in 1982 with a degree in accounting. Mr Gasimov started his career at Oil and Gas Production Union in 1982. He worked as an economist and Deputy Chief Accountant at Neft Dashlari offshore oil field from 1984 to 1991. He worked as the Chief Accountant at Khazardenizneftgas from 1991 to 1992. He worked as the Chief Accountant at Offshore Oil and Gas Production Union from 1994 to 2003. In 2006, he became the Company's vice-president of economic issues and a member of the Council.

Elshad Nasirov

Elshad Nasirov was born in Baku, Azerbaijan on 29 September 1960 and graduated from Moscow State Institute of International Relations in 1982. Mr. Nasirov started his career at the Academy of Sciences of Azerbaijan SSR in 1982. He worked in the Ministry of Foreign Affairs from 1992 to 2003. He worked as Chief Executive of the Company's Marketing and Operations Department from 2003 to 2005. In 2005, he became the Company's vice-president of investments and marketing and a member of the Council.

David Mammadov

David Mammadov was born in Kurdamir district, Azerbaijan on 28 September 1955 and graduated from the Azerbaijan Oil and Chemistry Institute in 1980 with a degree in chemical engineering. Mr Mammadov started his career at the Baku Oil Refinery in 1976. He worked as an operator, head of department and deputy to the general manager at the refinery from 1979 to 1994. He worked as a first Deputy General Manager at Azerneftyag Oil Refinery from 1994 to 2005. In 2005, he became the Company's vice-president of refining and a member of the Council.

Mikayil Ismayilov

Mikayil Ismayilov was born in Aghsu district, Azerbaijan on 9 June 1964 and graduated from Leningrad Finance Economics Institute in 1988 with a degree in financial accounting. Mr Ismayilov started his career at Caspian Oil and Gas Construction Trust in 1988. He worked as an accountant at the Caspian Oil and Gas Construction Trust from 1988 to 1992. He worked as the Chief Accountant at Offshore Oil and Gas Production Union from 1992 to 2003. He worked as the Deputy General Manager at Heydar Aliyev Baku Oil Refinery from 2003 to 2005. In 2005, he became a vice-president of the Company and a member of the Council.

Badal Badalov

Badal Badalov was born in Ismayilli district, Azerbaijan on 15 October 1961 and graduated from the Azerbaijan Construction Engineering Institute in 1987 with a degree in engineering. Mr Badalov started his career at the Caspian Sea Oil and Gas Construction Trust, where he worked from 1979 to 1997. He worked as an engineer, senior engineer and Chief of the Department at the Caspian Oil and Gas Construction Trust from 1997 to 2003. He worked as Deputy General Manager at Azerneftyag Oil Refinery from 2003 to 2005. He worked as General Manager at Heydar Aliyev Baku Oil Refinery from 2005 to 2007. He worked as General Manager at Social Development Department from 2007 to 2011. In 2011, he became the Company's vice-president of social issues and a member of the Council.

Khalik Mammadov

Khalik Mammadov was born in Astara district, Azerbaijan on 28 June 1958 and graduated from the Azerbaijan Oil and Chemistry Institute in 1984 with a degree in electrical engineering. Mr Mammadov started his career at Baku Oil Refinery in 1976. He worked as an electrician and Head of Department at Baku Oil Refinery from 1976 to 1991. He worked as Deputy Chairman at Nizami District Executive Power from 1991 to 1994. He worked as Head of HR department and Deputy Manager at Azerneftyag Oil Refinery from 1994 to 2005. In 2007, he became the Company's vice president of human resources, information technology and regulations and a member of the Council.

Rahman Gurbanov

Rahman Gurbanov was born in Baku, Azerbaijan on 11 September 1946 and graduated from the Oil and Chemistry Institute in 1968 with a degree in mining engineering. Mr Gurbanov started his career at Caspian Oil and Gas Production Union, and worked there from 1968 to 1986. He worked as a departmental chief at Khazardenizneftgas from 1986 to 1994 and was the General Manager at Khazardenizneftgas from 1994 to 2003. He worked as General Manager at SOCAR Oil and Gas Department from 2006 to 2010. In 2010, he became the Company's vice-president of gas and oil production and transportation and a member of the Council.

Tofik Gahramanov

Tofik Gahramanov was born in Baku, Azerbaijan on 21 December 1953 and graduated from the Azerbaijan Oil and Chemistry Institute in 1976 with a degree in electrical engineering. Mr Gahramanov started his career at Baku Oil Refinery, where he worked from 1976 to 1983. He worked as an instructor at Nizami District Party Committee from 1983 to 1990. He worked as general manager at Azinteroil JV from 1991 to 1998. He worked as Head of Department of investments and economic operations at Heydar Aliyev Baku Oil Refinery from 1998 to 2006. He worked as head of department of refinery at the Company's head office from 2006 to 2007. He worked as General Manager of the Company's Marketing and Operations Department from 2007 to 2010. In 2010, he became the Company's vice-president of strategic development and a member of the Council.

Rafiga Huseyn-zade

Rafiga Huseyn-zade was born in Baku, Azerbaijan on 25 July 1952 and graduated from the Azerbaijan Oil and Chemistry Institute in 1974 with a degree in geological engineering. Ms Huseyn-zade started her career at the Petrochemical Institute, where she worked from 1975 to 1985. She worked as a laboratory assistant and senior engineer at Baku State University from 1985 to 2001. She worked as General Manager at AzLab CJSC from 1999 to 2011. In 2011, she became the Company's vice-president of ecology and a member of the Council.

The Council

The Council is an advisory body of the Company chaired by the president of the Company and empowered to discuss the following matters:

- the annual work plans and annual reports of entities within the structure of the Company;
- the establishment and use of funds of the Company;
- the relations between entities within the structure of the Company and prices for their products and services;
- the complete or partial centralisation of production and economic functions of entities within the Company's structure;
- the necessity of establishing joint projects with foreign companies;
- disputes arising between the entities within the structure of the Company;
- the establishment of the Company's development strategy; and
- other issues relating to the Company's activities.

Resolutions of the Council enter into force and become binding on the Company once signed by the President of the Company. The Council is composed of vice-presidents and other officers of the Company appointed by the President of the Company. (See "—*Vice-presidents*".) The Council consists of the following members, other than vice-presidents of the Company:

Cahangir Aliyev

Cahangir Aliyev was born in Baku, Azerbaijan on 10 March 1955 and graduated from the Azerbaijan National Economic Institute in 1976 with a degree in industrial economics. Mr Aliyev started his career as an engineer and economist at Baku Machine-Building Plant, where he worked from 1976 to 1980. He worked as Head of Department at Azerbaijan Oil and Gas Industry from 1980 to 1992. He worked as Deputy General Manager at SOCAR-SDD from 1992 to 1996. He worked as Chairman of the trade union organisation, Trade Union Committee of the Azerbaijan Republic from 1996 until present. Mr Aliyev became a member of the Council in 2006.

Eldar Orujov

Eldar Orujov was born in Guba district in Azerbaijan on 2 August 1965 and graduate from Baku State University in 1992 with a degree in law. Mr Orujov started his career at Aynur LLC, where he worked from 1992 to 1995. He worked as Deputy Manager at Logoservice LLC from 1995 to 2000. He worked as a senior legal advisor at the Company from 2005 to 2006. He has worked as Head of the Legal Department at the Company since 2006. Mr Orujov became a member of the Council in 2006.

Agasef Aliyev

Agasef Aliyev was born in Salyan district, Azerbaijan on 10 May 1939 and graduated from the Azerbaijan Oil and Chemistry Institute in 1962 with a degree in chemical engineering. Mr Aliyev started his career at Qaradagh GasPetrol Factory, where he worked from 1962-1969. He worked as a mechanic and Head of Department at Azerdenizneftinshaat from 1969 to 1979. He worked as a senior technologist at Caspian Sea Oil and Gas Construction trust from 1979 to 1983. He worked as General Manager at Caspian Sea oil and gas construction trust from 1983 to 2003. He worked as Deputy General Manager at Azneft from 2003 to 2006. He has worked as General Manager at the Company's Capital Investments Division, at the Company's Head Office since 2006. Mr Aliyev became a member of the Council in 2006.

Yashar Nabiyev

Yashar Nabiyev was born in Baku, Azerbaijan on 11 April 1955 and graduated from the Azerbaijan National Economic Institute in 1976 with a degree in economics. Mr Nabiyev started his career at Baku Oil Refinery, where he worked from 1976 to 2006. He worked as first assistant to the president at the Company's head office from 2006 to 2008. He has worked as the Head of the Executive Office at the Company's head office since 2008. Mr Nabiyev became secretary of the Council in 2008.

The business address of the president, each vice-president and the other members of the Council is the registered office of the Company at 73, Neftchilar Avenue, Baku AZ1000, Republic of Azerbaijan.

Audit Committee

The Audit Committee is an advisory body within the Council established by a resolution of the Company's president dated 30 January 2008.

The Audit Committee consists of the following members:

Name	Position
Mikayil Ismayilov	Chairman of the Audit Committee
Suleyman Gasimov	Vice-president of economic issues
Eldar Orujov	Head of the Legal Department of the Company

The Audit Committee was established in furtherance of the Law on Internal Audit enacted on 22 May 2007, which requires the establishment of audit committees in entities such as the Company. Under this law the functions of an audit committee include, *inter alia*:

- determining Group audit policy and strategy and approving internal audit plans;
- approving regulations of internal auditors, internal audit reports and systems;
- making proposals to management on the establishment, implementation and improvement of internal control systems and risk management systems;
- making proposals to management bodies on external audits;
- determining financial risk and ensuring effective risk management;
- considering fraud, deficiencies and inadequacies revealed during external and internal audits or other examinations and providing relevant recommendations to management;
- reviewing legal matters that may significantly affect financial reporting and providing recommendations on these matters;
- supervising the preparation of annual and current financial reports and annual and current financial condition;
- ensuring discussion of and recommendations of internal auditors provided during the audit; and
- involving management in the implementation of recommendations of internal auditors.

Other Committees

The Company also has the following committees:

- Risks Management Committee;
- Procurement Committee;
- Human Resources Committee; and
- Information Safety Committee

The business address of each of the members of the Company's committees is the registered office of the Company at 73, Neftchilar Avenue, Baku AZ1000, Republic of Azerbaijan.

Management Remuneration

All of the Company's employees in Azerbaijan, including the members of the Council and the Audit Committee, are remunerated according to a pay grade scale set by the Company, which is similar to the system used in the public sector.

Total compensation to key management personnel of the Company amounted to AZN 0.2 million for the six months ended 30 June 2014 and AZN 0.4 million and AZN 0.5 million for the years ended 31 December 2013 and 2012, respectively.

Employment Contracts with Senior Executive Officers

In general, the Company enters into employment contracts of indefinite duration with its senior executive officers. Under these contracts, the senior executive officers of the Company are entitled, in addition to their regular salary, to discretionary annual bonuses based on the Company's annual performance. No bonuses were awarded in 2013 or 2012.

Conflicts of Interest

The Company believes there are no potential conflicts of interest between any duties owed to the Company by the president, vice-presidents, members of the Council and the Audit Committee and their private interests or other duties.

The president of SOCAR, Rovnag Abdullayev, and Mukhtar Babayev (chairman of the Supervisory Board of Azerikimya) are Members of the Parliament of the Republic. Under applicable Azerbaijani law, Members of Parliament are prohibited from receiving salaries or other remuneration tied to employment with a commercial entity, such as SOCAR. Accordingly, Mr. Abdullayev and Mr. Babayev are prohibited from receiving or accruing salaries from SOCAR. These individuals are paid in connection with their official responsibilities as Members of Parliament out of the state budget. The Company does not believe that these arrangements constitute a conflict of interest.

RELATIONSHIP WITH THE GOVERNMENT

State Oil Company of the Azerbaijan Republic is a 100% state-owned company organised and existing under the laws of the Republic of Azerbaijan. The Company was established under a Presidential Decree passed on 13 September 1992. The initial charter of the Company was approved by a Presidential Decree of 14 November 1992, which was replaced by a new charter on 5 April 1994. The latest charter of the Company was approved by a Presidential Decree of 24 January 2003, which clarified the management structure and status of the Company. A number of Presidential Decrees, including, most recently, the Presidential Decrees dated 24 February 2014 and 22 December 2014, introduced certain structural changes. The annual estimate of the Company's income and expenditure, as well as any investment programs to be undertaken by the Company, are subject to the review and approval of the Government.

Charter Capital

Under the Company's charter its charter capital is AZN 1,528 million, which was increased from AZN 600 million in accordance with Presidential Decree № 430 dated 22 December 2014. The increase of AZN 928 million is expected to be paid to the Company in instalments in 2015. Due to the Company's specific structure the charter capital of the Group is calculated separately from the charter capital of the Company. Thus, although not reflected in the Company's charter, the aggregate charter capital of the Group was increased in 2013 and 2014. These increases were allocated to charter capital of various Group companies.

In 2011, the Group's charter capital was increased by AZN 190 million, received from the state budget under the Order of the Cabinet of Ministers № 156S, dated 16 June 2011. A total of AZN 150 million from this increased charter amount was transferred to the Group for the purpose of gasification of Baku and other regions and AZN 40 million was transferred to the Group for the purpose of construction of a nitrogen fertilisers plant.

In 2012, the Group's charter capital was increased by AZN 230 million, received from the state budget under the Order of the Cabinet of Ministers № 24S, dated 06 June 2012, for the purposes of increasing the charter capital of Azerigas PU, the Group's subsidiary engaged in sales and distribution of natural gas in Azerbaijan. This increase in charter capital was registered in 2013.

In 2013, the Group's charter capital increased by AZN 170 million, received from the state budget under the Order of the Cabinet of Ministers № 374S, dated 30 December 2012, for the purposes of increasing the charter capital of Azerigaz PU and construction of a nitrogen fertilisers plant by AZN 156 million and AZN 14 million, respectively. This increase in charter capital was registered in the six months ended 30 June 2014.

In the six months ended 30 June 2014, the Group's charter capital increased by AZN 88 million, received from the state budget under the Order of the Cabinet of Ministers № 398S, dated 30 December 2013, for the purposes of increasing the charter capital of Azerigaz PU and construction of a nitrogen fertilisers plant by AZN 30 million and AZN 58 million, respectively. This increase in charter capital is in the process of being registered.

As at 30 June 2014, the charter capital of the Group was AZN 1,485 million.

See Note 14 to the Interim Financial Statements, Note 26 to the 2013 Financial Statements and Note 27 to the 2012 Financial Statements.

Senior Management

The Company's key management includes the president of SOCAR and its vice-presidents, who are appointed by the President of the Republic. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Government, which directly controls the Company, may cause the Company to engage in business practices that may not be in the best interests of the Noteholders and may cause the appointment or removal of members of the Company's management team*".

In addition, the president of SOCAR and another other member of the Company's senior management team are members of the Parliament of the Republic. Under applicable Azerbaijani law, members of Parliament are prohibited from receiving salaries or other remuneration tied to employment with a commercial entity, such as SOCAR. Accordingly, the president and the other member of the management team are prohibited from receiving or accruing salaries from SOCAR. These individuals are paid in connection with their official responsibilities as Members of Parliament out of the state budget. As a result, the performance of these individuals as employees of SOCAR is not tied to their salaries.

Related Party Transactions

In addition to the Company and its group members, the Azerbaijani state has direct and indirect interests in several companies operating in the Republic, with which the Company does business from time-to-time. Sales by the Company to related parties are made at prices regulated by the Government. Outstanding balances at period-end are unsecured and settlement occurs in cash. In general, such balances are not guaranteed by the Government. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Government has imposed regulations and requirements requiring the Company to sell oil, oil products and gas in the domestic market at below market prices*".

The following table sets forth the Company's outstanding balances with the Government and entities under Government control and with associates and joint ventures as at the dates indicated:

	As at 30 June 2014		As at 31 December 2013	
	The Government and entities under Government control	Associates and joint ventures	The Government and entities under Government control	Associates and joint ventures
	(AZN millions)			
Gross amount of trade receivables	564	73	420	90
Impairment provisions for trade and other receivables	(77)	—	(71)	—
Other receivables	4	27	6	42
Other long-term financial assets	—	34	—	30
Cash and cash equivalents[(1)]	301	—	222	—
Deposit	148	—	227	—
VAT and other taxes receivable	437	—	442	—
Prepayment to suppliers	5	—	—	—
Prepayment for corporate income tax	—	—	5	—
Receivables from joint ventures	10	—	—	—
Borrowings from IBA	(502)	—	(509)	—
Borrowings from the Ministry of Finance[(2)]	(124)	—	(127)	—
Trade and other payables	(267)	(707)	(272)	(720)
Taxes payable to SOFAZ	(123)	—	(123)	—
Bond payable to SOFAZ[(2)]	(913)	(19)	(742)	—
Trade payable to SOFAZ	(1,356)	—	(1,106)	—
Other taxes payable	(211)	—	(443)	—
Corporate income tax payable	(31)	—	(23)	—

Notes:

(1) Includes a call deposit with the IBA (AZN 195 million as at 30 June 2014 and AZN 206 million as at 31 December 2013). See Note 5 to the Interim Financial Statements and Note 8 to the 2013 Financial Statements.

(2) See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Borrowings—Principal Borrowings of the Company and its Material Subsidiaries*".

The following table sets for the Company's transactions with the Government and entities under Government control and with associates and joint ventures during the periods indicated:

	For the six months ended 30 June 2014		For the year ended 31 December 2013	
	The Government and entities under Government control	Associates and joint ventures	The Government and entities under Government control	Associates and joint ventures
	(AZN millions)			
Sales of natural gas[1]	191	61	119	54
Sales of oil products[1]	119	4	121	321
Sales of crude oil	—	1	—	—
Services rendered	29	12	88	65
Interest income on deposits	1	—	2	—
Interest income on loans from related parties	—	—	—	3
Corporate income tax[2]	(222)	—	(192)	—
Excise tax[3]	(206)	—	(249)	—
Price margin tax[3]	(139)	—	(178)	—
Mining tax[4]	(58)	—	(56)	—
Other taxes	(107)	—	(103)	—
Utilities costs	(25)	(1)	(27)	(2)
Other operating expenses	(34)	(8)	(17)	(15)
Interest expense on loans from related parties	—	—	(10)	—
Social security deductions	(46)	—	(64)	—
Social expenses[5]	(220)	—	(293)	—
Transportation expenses	(16)	(30)	—	(49)
Purchases of property, plant and equipment and inventory	(4,510)	(108)	(4,964)	(186)
Dividends received from jointly-controlled entities[6]	—	13	—	14
Dividends received from associates[7]	—	60	—	68

Notes:

(1) See "Risk *Factors—Risk Factors Relating to the Company's Business—The Government has imposed regulations and requirements requiring the Company to sell oil, oil products and gas in the domestic market at below market prices*".

(2) See Note 32 to the 2013 Financial Statements.

(3) See Note 15 to the Interim Financial Statements and Note 27 to the 2013 Financial Statements.

(4) See Note 28 to the 2013 Financial Statements.

(5) The Company is periodically required by the Government to make direct cash contributions or finance construction and repair works for the state budget, various Government agencies and projects administered by the Government. In 2013, such cash transfers and financing amounted to AZN 229 million and AZN 191 million, respectively. See "*Risk Factors—Risk Factors Relating to the Company—The Government, which directly controls the Company, may cause the Company to engage in business practices that may not be in the best interests of the Noteholders and may cause the appointment or removal of members of the Company's management team*".

(6) See Note 9 to the Interim Financial Statements and Note 16 to the 2013 Financial Statements.

(7) See Note 9 to the Interim Financial Statements and Note 17 to the 2013 Financial Statements.

The Government and the Company are also expected to have equity stakes and provide other financing in respect of the OGPC project, although no definitive agreement has yet been reached. See "*Business—Refining, Marketing and Trading—Financing, Ownership and Operation*".

Taxes

The Company is permitted to set-off tax obligations of entities within the Group against taxes overpaid by other Group entities and is exempt from profit tax for intra-Group transfer of assets.

Other State-owned Companies

Settlement terms with certain customers under Government control, including Azerenerji, the national electricity monopoly, and Azerbaijan Airlines JSC ("**Azal**"), the national airline, which are considered to be vital infrastructure assets of the state, are dictated by Government policy. For example, in 2009, the Company received no payments from either Azerenerji or Azal. In 2010, pursuant to a Presidential Decree, the Company was instructed to fully write off any amounts due to it from Azerenerji or Azal. As a result, the Company recognised impairment losses of AZN 1,555 million, with respect to trade and other receivables due from Azernerji, and AZN 99 million, with respect to trade and other receivables due from Azal.

SOFAZ

SOFAZ is the Republic's state oil fund and is an extra-budgetary fund that functions as a separate legal entity from the Government. The rules under which it operates are set forth in the Constitution and laws of the Republic, by Presidential Decrees and Resolutions and its own internal regulations. SOFAZ is, in the first instance, accountable to the President of the Republic of Azerbaijan.

SOFAZ receives its income primarily from the Republic's share of revenues under PSAs. It funds various social and other projects in the Republic, including, *inter alia*, building housing and other social amenities for internally-displaced persons and refugees as a result of the conflict with Armenia, constructing the Oguz-Qabala-Baku water supply system, modernising the Samur-Absheron irrigation system, improving the railways in Azerbaijan and financing the Republic's share in the BTC pipeline expansion project.

The Company and SOFAZ are managed independently. The Company and SOFAZ have entered into a number of transactions as counterparties (*e.g.*, SOFAZ purchased a single bond issued by AzACG to finance the acquisition of additional participating interest in the ACG PSA (see "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Borrowings—Principal Borrowings of the Company and its Material Subsidiaries*)) and in an agent-principal capacity (*e.g.*, in exchange for a fee, the Company sells the Government's share of crude oil received under PSAs on behalf of the Government and transfers revenue in respect of such sales to SOFAZ).

In 2013, CDC commenced construction of a 6th generation semi-submersible drilling rig, which is being jointly funded by SOCAR and SOFAZ. See "*Business—Construction*".

SOFAZ is also expected to provide a substantial portion of the funding for the OGPC, although no definitive agreement has yet been reached. See "*Business—Refining, Marketing and Trading—Financing, Ownership and Operation*".

South Gas Corridor Closed Joint Stock Company

In February 2014, SGC was incorporated in Azerbaijan pursuant to a Presidential Decree on financing the Government's share in the southern gas corridor project issued in February 2014. The Company holds 49% of SGC, with the remaining 51% being held by the MEI. Shareholder and board-level decisions at SGC are taken by a simple majority vote; accordingly, the Company does not have control over SGC. The purpose of SGC is to finance the Government's and the Company's share in the projects related to the Shah Deniz project and related pipelines. SGC's initial charter capital was U.S.$100 million, of which the Company was required to contribute 49%. See "*Business—Exploration and Production—Significant Production Fields of the Company's Joint Ventures and Associates—Shah Deniz*". In February 2015, SGC's charter capital was increased from U.S.$100 million to U.S.$300 million through capital contributions from the Government and the Company *pro rata* to their ownership interests. The Supervisory Board of SGC comprises the First Deputy Prime Minister (Chairman), the Minister of Energy, the Minister of Economy and Industry, the President of the Company and the Executive Director of SOFAZ. The State Commission, which was established in October 2013, overseas the activities of SGC.

SGC has three wholly-owned subsidiaries, SGC Upstream, SGC Midstream and AzTAP. In July 2014, the Company sold its shares in TANAP to SGC for U.S.$166 million and, accordingly, SGC holds 100% of the shares in TANAP. In May 2014, SOCAR signed a share purchase agreement to sell 30% of the TANAP shares to BOTAŞ, the Turkish state-owned gas company, which was subsequently novated to refer to SGC as seller in July 2014. SGC announced its intention to enter into a share purchase agreement to sell 12% of the TANAP shares to BP. Following completion of these sales, which is expected in the second quarter of 2015, SGC will hold a 58% interest in TANAP.

SGC Upstream holds a 6.67% interest in the Shah Deniz PSA, which the Company purchased from Statoil in December 2013 and subsequently transferred to SGC Upstream for U.S.$1.4 billion. SGC Upstream also holds a 5.34% interest in Azerbaijan Gas Supply Company, which is a marketing vehicle of the Shah Deniz PSA parties, which were acquired as part of SGC Upstream's purchase of its interest in the Shah Deniz PSA.

SGC Midstream holds a 6.67% interest in the SCP, which it also acquired as part of SGC Upstream's purchase of its interest in the Shah Deniz PSA.

AzTAP holds a 20% interest in the TAP project.

SGC has issued a number of U.S. Dollar-denominated unsecured bonds that are listed on the Baku Stock Exchange but have been subscribed for in full by SOFAZ amounting to U.S.$2.517 billion. These bonds have been the primary source of funding for SGC since its incorporation. Further funding is expected to be provided by way of further capital increases *pro rata* to the ownership interests of the Government and the Company. The Company's share of such capital

contributions are expected to be funded by Government contributions to the Company's share capital, which the Company will then contribute to SGC's share capital.

In July 2014, AzSD and AzSCP entered into a deferred sales agreement with SGC Upstream and SGC Midstream to sell AzSD's10% interest in the Shah Deniz PSA and AzSCP's 10% interest in the South Caucasus Pipeline Company. This sale is expected to close in 2023.

REGULATION OF THE OIL AND GAS SECTOR IN AZERBAIJAN

General

Regulation of the oil and gas sector in Azerbaijan, in particular in respect of the Company is developing. "See "*Risk Factors—Risk Factors Relating to the Company's Business—The regulatory regime in Azerbaijan is underdeveloped*" and "*Relationship with the Government*". The applicability of certain laws and regulations of general application to the Company is unclear, but, in general, the Company has not been required to comply with certain laws and regulations applicable to other companies and entities operating in the oil and gas sector in Azerbaijan. The Company is, however, subject to pricing regulations imposed by the Government. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Government has imposed regulations and other requirements requiring the Company to sell oil, oil products and gas in the domestic market at below market prices*."

Licensing Requirements in the Oil and Gas Sector

Special Permits and Consents

The Law on Energy of 24 November 1998 (the "**Energy Law**") requires that an individual or legal entity wishing to engage in the exploration, exploitation, production, processing, storage, transportation, distribution or use of energy raw materials and products, including, *inter alia*, oil and natural gas, must obtain a permit and enter into an energy contract with the Ministry of Energy of the Republic. Pursuant to the Subsoil Law, local and foreign legal entities and individuals are allowed to use subsoil resources only in accordance with the terms and conditions of a special permit or consent issued to such entities by Government authorities.

Pursuant to Presidential Decree № 782 "On Improvement of Rules on Issuance of Special Consent (Licenses) for Some Types of Activities", dated 2 September 2002, the following activities, *inter alia*, are subject to Government licensing: (i) the sale of oil and gas products; (ii) the installation and operation of facilities for liquid and natural gas; (iii) mining and drilling works; and (iv) the transportation of dangerous goods by vehicles, which includes the transport of oil, certain oil products and gas by sea or on land.

The Law "On the List of Goods with Limited Circulation" of 23 December 2003 limits ownership of certain equipment principally used in and for the production and processing of oil, oil products and natural gas to certain persons who have obtained a special permit from the Ministry of Energy. Pursuant to Presidential Decree № 292 "On Additional Measures for Regulation of Circulation of Goods with Limited Circulation" of 12 September 2005 ("**Decree 292**"), a special permit for the circulation of goods may also be issued to state-owned enterprises and joint-stock companies in which the state is a controlling shareholder, in certain circumstances which are not specified in either the aforementioned law or Decree 292. As a result, these provisions are subject to interpretation and a practice in respect thereof has not yet been established. There is also doubt as to whether such permits are required for state-owned enterprises and joint-stock companies controlled by the Government.

Under its charter, the Company and its subsidiaries are entitled to engage in certain specified activities including the exploration, exploitation, production, processing, storage, transportation, distribution and use of oil and gas and related products without obtaining licences. Since the Company's charter is approved by the President of Azerbaijan, who in turn is authorised by the Constitution of the Republic of Azerbaijan to determine licensing matters within Azerbaijan, the Company is deemed to be vested with all necessary licences without the need to obtain further licences.

Other Consents

The Law on Natural Monopolies of 15 December 1998 (the "**Monopolies Law**") governs relations among natural monopolies, consumers and Government authorities in relevant commodity markets. The Monopolies Law applies, *inter alia*, to entities, such as the Company, engaged in pipeline transportation of oil and natural gas, as well as to entities, such as the Company, engaged in the storage and distribution of natural gas. The Monopolies Law grants the regulator, the State Service for Antimonopoly Policy and Protection of Consumers' Rights of the MEI, the powers to limit the power of monopolies by controlling prices, requiring mandatory service to customers, setting minimum volumes and limiting the volumes of production or sales. In addition, the regulator can limit the extension of monopolies into other industries by requiring companies subject to the Monopolies Law to request a consent prior to engaging in certain classes of transactions, including the acquisition of certain property rights over fixed assets exceeding certain value and intended for the production of goods not otherwise regulated by the Monopolies Law and investments in other activities and industries.

Applicability of Licensing and Permit Requirements to SOCAR

The Constitution of the Republic of Azerbaijan dated 12 November 1995 states that, without prejudice to the rights and interests of any individuals or legal entities, natural resources belong to Azerbaijan. The same applies with regard to the state ownership over subsoil as provided for by the Subsoil Law. Under Azerbaijan law, the President of Azerbaijan has considerable powers over the Company and the President is authorised to decide on all issues which are not reserved to the exclusive authority of legislative and judicial branches of power.

The initial charter of the Company was approved by a Presidential Decree of 14 November 1992, which was replaced by a new charter, restructuring the Company, on 5 April 1994. The latest charter of the Company was approved by a Presidential Decree of 24 January 2003, which clarified the management structure and status of the Company. A number of Presidential Decrees, including, most recently, the Presidential Decrees dated 22 April 2010, 1 September 2011, 29 November 2011 and 22 December 2014, introduced certain structural changes and licence exemptions. These Decrees establish the Company's activities in respect of, among other things, the development, exploration and processing of oil and gas fields and the transportation, processing and sale of oil, gas, and condensate and related products. As a result, the Company's business activities are, both as a matter of Azerbaijani law and in practice, regulated by the content of the Decrees.

Provisions Not Currently Applicable to SOCAR

It is currently believed that a variety of other laws and regulations that may, on their face, appear to apply to the Company do not, in fact, apply to the Company as a result of its special status and authorities granted by Presidential Decree. See "*Risk Factors—Risk Factors Relating to the Company's Business—Legal provisions currently believed to be inapplicable to the Company may, in the future, be deemed applicable to the Company*". Given the special legal status of PSAs, however, it is unclear what immediate impact, if any, the Company would experience in the event that these provisions were to be deemed applicable to the Company. See "*—Other regulatory requirements—PSAs*".

Set forth below is a description of several provisions that may, among others, be deemed applicable to the Company in the future.

- Presidential Decree № 310 "On Measures for Improving Issuance of Special Consents (Licences) for Certain Business Activities in the Republic of Azerbaijan" of 28 March 2000 exempts entities established by a Presidential Decree and financed from the state budget and other entities as may be specified by law from certain licensing requirements.

- The Energy Law establishes certain permit requirements, and the Presidential Decree on the implementation of the Energy Law gives the Ministry of Energy the authority to issue permits and, together with the Company (each within the limits of its respective authority), to enter into energy contracts. However, no rules for the issuance of such permits have been published, and, as a result, the Company has never requested a permit under the Energy Law.

- The Presidential Decree implementing the Subsoil Law does not set out which Government authorities are responsible for the issuance of licenses or permits for the extraction of hydrocarbons. As a result, the Company has never requested a permit under the Subsoil Law.

PSAs

The exploration and production of oil and gas in Azerbaijan by entities other than the Company is conducted almost exclusively under PSAs concluded between private entities and the Company. Azerbaijani law does not regulate the procedure for entering into PSAs and does not set any requirements for the content of PSAs. However, in practice, all PSAs follow in general the same form, including provisions on the minimum obligatory work programme of contractors, project management, the duties of the operating company, personnel and training, use of land and facilities, taxation, production and sharing of petroleum, valuation of petroleum and natural gas and environmental protection, among other things. Upon conclusion, PSAs are ratified by the Parliament of the Republic and given the force of law prevailing over any conflicting provisions of current and future Azerbaijani law. In general, PSAs provide a favourable regime for contractors and sub-contractors allowing exemption from certain taxes and customs duties.

Allocation of Costs and Profits

Parties to a PSA are responsible for funding their participating interest share of costs related to operations in the contract area. The parties to a PSA agree to recover costs and participate in profits on a conventional production sharing basis.

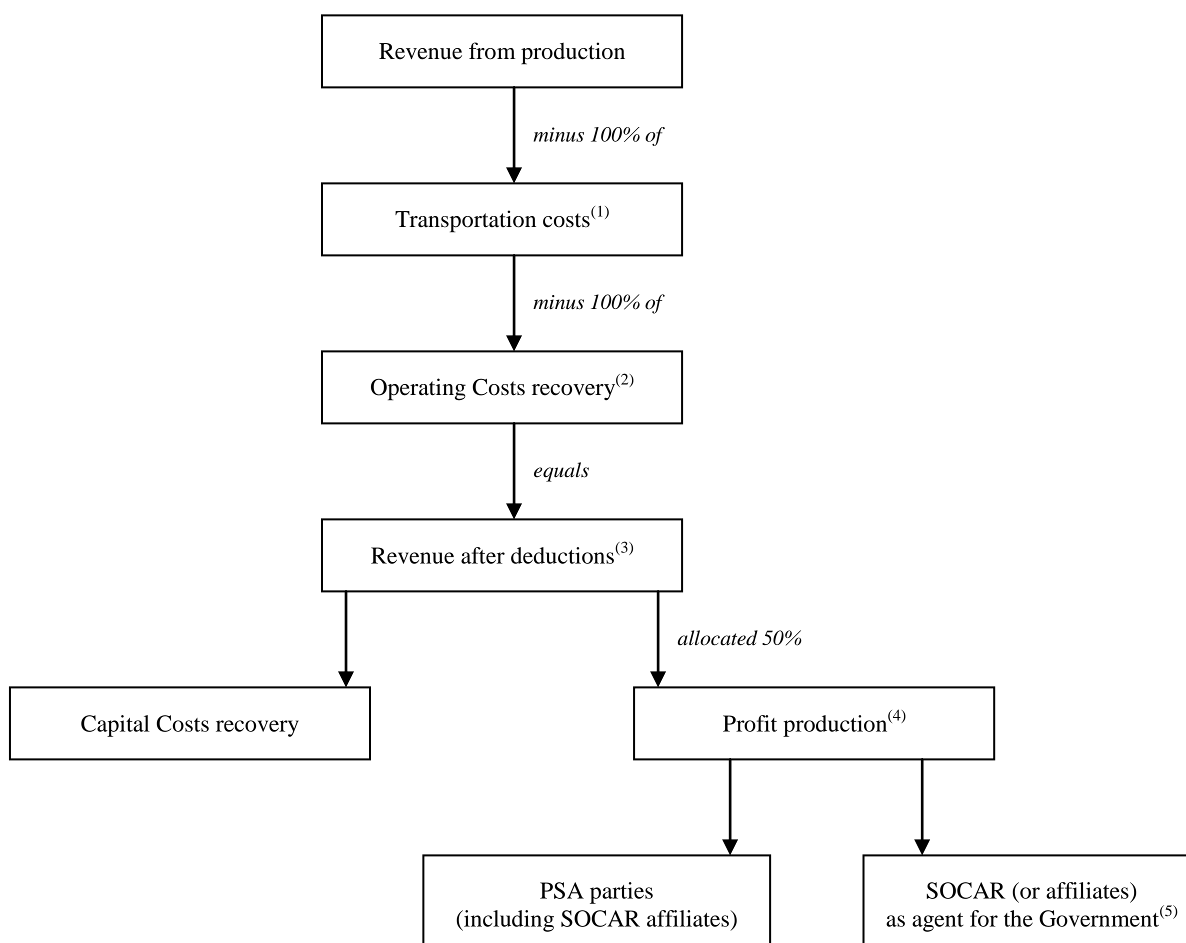
Production is divided into "cost recovery" production and "profit" production. The general formula is that the parties recover Operating Costs and Capital Costs (each, as defined below) out of a portion of production based on price, net of transportation costs, which is the cost recovery portion, and the remaining portion of production, the profit portion, is shared between the parties. The allocation of the profit portion amongst the various parties to a PSA, including SOCAR and the Government, varies according to, among other things, transportation costs and the parties' cumulative, after-tax real rate of return.

The amount of the cost recovery portion attributable to the parties' direct and indirect operating costs ("**Operating Costs**") and capital costs ("**Capital Costs**") is determined on a quarterly basis.

The total amount of production from a contract area less any production used in the operation of the project (the "**Total Production**") is first allocated to the recovery of the parties' Operating Costs. If Total Production is sufficient to cover 100% of the Operating Costs, then 50% of the remainder after recovery of operating costs is allocated to the recovery of Capital Costs. To the extent that the amount of cost recovery production in any single quarter is insufficient to allow recovery of the parties' cumulative, unrecovered Operating Costs and Capital Costs, the unrecovered balance of such costs is carried over into the next quarter together with financing charges calculated at an annual rate equal to the three-month LIBOR plus 4.0%.

For purposes of determining how profit production will be shared, the parties' cumulative rate of return is calculated on the basis of net cash flow, which is defined as total income from sales (adjusted for transportation costs) less the sum of all operating costs and capital costs, bonus payments made to SOCAR, as agent of the Government, and profit taxes paid under the PSA.

The following diagram illustrates the allocation of revenues under PSAs:



Notes:

(1) Includes transit fees, pipeline tariffs, quality adjustments and pipeline losses.

(2) Includes operational expenses for the current period, interest on unrecovered operational expenses for previous periods and unrecovered operational expenses from previous periods.

(3) Revenue is shared equally between capital cost recovery and profit oil.

(4) Distribution is according to the formula set out in the relevant PSA.

(5) Proceeds from these sales are transferred to SOFAZ.

Governance

All the parties to a PSA, except for AzACG under the ACG PSA, are referred to as "**Contractor Parties**". Pursuant to the relevant PSA, the Contractor Parties and the Company form a Steering Committee comprised of representatives of each of the Contractor Parties and an equal number of representatives of the Company. Generally, the relevant SOCAR entity does not have its own seat on a "**Steering Committee**". Each Steering Committee is charged with, among other things, oversight of operations and approval of annual work programmes and budgets. The Contractor Parties, as a group, for the relevant PSA and SOCAR are each entitled to one vote for decisions taken by the Steering Committee. All decisions of the Steering Committee require a unanimous vote. Deadlocked decisions, if not mutually resolved, are referred to arbitration. Each Steering Committee meets at least twice each year.

Operations are managed through annual work programmes and approved budgets, which must be submitted to a Steering Committee by the Contractor Parties at least three months prior to the beginning of each calendar year. The Annual Work Programmes and Budgets are subject to approval by the Steering Committee, failing which they are submitted to arbitration.

Under each PSA, the operator of the PSA may prepare and issue cash call invoices up to three times per month for periods covering, in general, ten days. Each request includes an estimate of cash requirements for the next two months. If any party fails to pay an invoice when due, then the party is in default. The operator must promptly give written notice of such default to such party and each of the non-defaulting parties. The amount not paid by the defaulting party

shall bear interest from the date due until paid in full. Interest is generally assessed at LIBOR plus 4%. In the event the defaulting party fails to cure its default within 90 days, such forfeiture shall constitute an automatic forfeiture of the defaulting party's participating interest, which shall be deemed to have been transferred to the Contractor Parties.

The Contractor Parties are required under the PSA to make certain bonus payments to the Company, as agent for the Government, which are subsequently transferred to the Government.

Joint Operating Agreements

Each PSA requires that the Contractor Parties form a joint operating entity to act as operator for the contract area under a joint operating agreement (a "**JOA**"). Each JOA also governs the relationship among the Contractor Parties for the development of the contract area. Under the terms of each JOA, the Contractor Parties form a jointly-managed operating entity and may appoint an operator to assume responsibility for operations and management, which, in the case of the ACG PSA and the Shah Deniz PSA, is BP. The operations of the ACG Contract Area are also governed by a contractor management committee that consists of representatives from each Contractor Party, which have voting rights equal to their respective participating interests in the JOA.

Other regulatory requirements

Pre-emptive Right

Under the Energy Law, the Republic has a pre-emptive right to purchase energy products (as set out in the Energy Law) under energy contracts in order to satisfy domestic demand. When exercising this pre-emptive right, the Republic is required to purchase the energy products at international market prices.

Price Regulation

Price regulation in Azerbaijan is conducted by the Tariff Council, which is chaired by the Minister of Economy and Industry and composed of various deputy ministers and deputy heads of various state authorities. Ordinary meetings of the Tariff Council are conducted on a quarterly basis but members of the Tariff Council may request the convening of extraordinary meetings. The quorum for a meeting of the Tariff Council is satisfied when at least three-quarter of members participate in the meeting. The decisions of the Tariff Council are adopted by a simple majority of votes and the chairman of the Tariff Council has a casting vote.

The Tariff Council has the authority to regulate, among other things, domestic wholesale and retail prices of oil, oil products and gas and tariffs for services relating to the transportation of oil and natural gas through pipelines as well as storage and distribution of natural gas. The prices and tariffs for these goods and services have been prescribed by the Tariff Council. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Government has imposed regulations and other requirements requiring the Company to sell oil, oil products and gas in the domestic market at below market prices*".

Special Regimes and Exemptions

The Company, as a company representing Azerbaijan in PSAs, pipeline agreements and other similar agreements, enjoys a number of exemptions from the regulatory requirements in connection with such projects, including VAT exempt supplies. Certain exemptions are also available to residents of industrial parks (including SOCAR Polymer).

Furthermore, to promote and strengthen domestic oil and gas infrastructure, expertise, manpower and capacity, a special economic regime, to be in force for at least 15 years with effect from 2009, has been set up in Azerbaijan concerning the export-orientated oil and gas services, which, however, specifically excludes any operations undertaken under PSAs, pipeline agreements and other similar agreements or operations carried on relating to domestic oilfields. On obtaining a permit from the Ministry of Energy, concerned entities (acting as contractors and subcontractors in the relevant operations and including, without limitation, joint ventures set-up with the participation of foreign investors) are entitled to a favourable tax regime with the right to apply either a 5% withholding tax or statutory profit tax to its profits and also to certain exemptions from VAT and customs duties. Additionally, such exporters are required to meet certain currency requirements (such as notification to the Central Bank of the offshore bank accounts) and local content obligations when staffing their operations.

Mandatory Insurance

The Company is required to obtain and maintain insurance under applicable law, including: (i) occupational health and safety insurance; (ii) social insurance (social security) for its employees; (iii) liability insurance for damage caused by

potentially hazardous objects and installations (including various installations for the production of oil and gas); (iv) immovable property insurance; (v) liability insurance for holders of immovable property; and (vi) liability insurance for holders of motor vehicles. See "*Business—Insurance*".

The Ministry of Energy

The Ministry of Energy is the chief regulator in the oil and gas sector. It supervises and issues permits to entities and individuals wishing to engage in exploration, exploitation, production, processing, storage, transportation, distribution and use of energy materials and products, including, *inter alia*, oil and natural gas. Upon instruction of the President of Azerbaijan, the Ministry has the authority to: (i) prepare draft agreements on production of hydrocarbon resources, such as PSA; (ii) conduct negotiations in respect of such agreements; (iii) sign such agreements on behalf of the Government; and (iv) supervise the implementation thereof.

The State Agency for Alternative and Renewable Energy Sources was established under the Ministry of Energy on 16 July 2009 and, after a number of transformations (including liquidation in June 2012), the agency was revived as a central executive authority. The agency is vested with the authority to promote the development of alternative and renewable energy in Azerbaijan. The exploration, production, transportation, distribution of alternative and renewable energy and setting up of necessary infrastructure all have been assigned to Azalternativenerji, a state-owned limited liability company controlled by the agency.

Environmental Compliance and Ecological Permits

The Company is subject to a variety of environmental laws in Azerbaijan, including, *inter alia*, regulations and requirements that govern air emissions, water use and disposal, waste management and impact on wildlife, as well as land use restrictions. A number of laws and codes regulate these areas of environmental protection. In addition, certain standards adopted in the Soviet era are still in force in Azerbaijan. The penalties for failing to comply with these obligations can be substantial, including fines or even suspension of permission to operate facilities that are not compliant with applicable environmental regulations.

The Law on Protection of Ambient Air of 2001 (the "**PAA Law**") provides that the emission of harmful substances into the air from stationary sources is permitted only if a special permit issued by the MENR has been obtained. Under the PAA Law, the special permit establishes the level of permissible emissions and required mitigating measures that the permit holder must take. The PAA Law further provides that any emissions (or other impact on ambient air) conducted without a special permit and violation of the conditions of a special permit may result in restriction, suspension or termination of the violating activities. The PAA Law also prohibits flaring without the use of purification equipment.

The MENR also has an authority to issue permits to drain waste water and prescribe maximum amount of waste water that can be drained by enterprises into water basins.

Azerbaijani law and various industry standards applicable in Azerbaijan also contain a number of requirements on the placement of drilling wells relative to various locations and objects such as water basins, roads, settlements, nature reserves, historical monuments and telecommunication lines and equipment.

Health and Safety Compliance

The Company's activities are subject to laws and regulations in Azerbaijan relating to health and safety matters, including industry specific health and safety requirements, and are regulated by various state bodies, including the Ministry of Emergency Situations, the Ministry of Labor and Social Protection and the Ministry of Health. Such laws and regulations include, among others: (i) Labour Code № 618-IQ, dated 1 February 1999; (i) Water Code № 418, dated 26 December 1997; (iii) Land Code № 695-IQ, dated 25 June 1999; (iv) Law on Technical Safety № 733-IQ, dated 2 November 1999; (v) Law on Safety of Hydrotechnical Devices № 412-IIQ, dated 27 December 2002; (vi) the Subsoil Law; (vi) the PAA Law; (vii) Law on Environmental Safety № 678-IQ, dated 8 June 1999; (viii) Law on Sanitary and Epidemiologic Health № 371, dated 10 November 1992; and (ix) various resolutions and regulations of the President, the Cabinet of Ministers and other state authorities.

The laws and regulations of Azerbaijan require an employer to provide its employees with safe and healthy working conditions, to train its employees on health and safety requirements, to provide special clothing, shoes and food, to obtain periodic third party attestations in respect of equipment and worksites, to perform examinations, certifications and registrations of certain equipment, to follow technical safety rules during operations, to maintain third party liability insurance and to comply with fire safety, sanitary and hygiene regulations.

Other Regulatory Authorities

Other governmental ministries and authorities which regulate aspects of hydrocarbon extraction in Azerbaijan include:

- *Ministry of Emergency Situations* — supervises safety of mining works and issues licenses for the installation and operation of liquid and natural gas facilities and the construction of, *inter alia*, drilling facilities, and is also responsible for the supervision of potentially hazardous objects including oil and gas extraction facilities;

- *MENR* — responsible for environmental protection and preservation of natural resources;

- *Ministry of Health* — responsible for ensuring compliance with health standards;

- *State Committee for Standardisation, Metrology and Patents* — responsible for supervision over compliance of various equipment with applicable standards;

- *Ministry of Labour and Social Protection of Population* — responsible for investigating labour disputes and complaints from individual employees and which monitors compliance with the labour protection regulations;

- *State Migration Service* — issues work permits for foreigners employed in Azerbaijan;

- *Ministry of Taxes and State Customs Committee* — these bodies, together with regulations in the respective fields of taxes and international trade, are responsible for issuing certificates on exemption from value added tax and import duties for entities operating under PSAs in Azerbaijan;

- *State Service for the Register of Immovable Property* — responsible for the registration of title to and rights in immovable property;

- *Local executive authorities and municipalities* — responsible for the allocation of land plots;

- *Cabinet of Ministers* — takes decisions on the requisition of land required for laying oil and gas pipelines; and

- *State Maritime Administration* — keeps a registry of ships and determines the rules for carrying dangerous cargoes by sea.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal or other amounts under the Notes and the consequences of such actions under the tax laws of those countries.

Except as otherwise indicated, this description only addresses tax legislation, as in effect and in force at the date hereof, without prejudice to any amendments introduced at a later date and implemented with or without retroactive effect.

Azerbaijan Taxation

The following is a summary of certain Azerbaijani tax considerations relevant to the purchase, ownership and disposition of Notes by non-resident and resident holders and does not purport to be a comprehensive discussion of the tax treatment of the Notes. The summary is based on the laws of Azerbaijan currently in effect. The summary does not seek to address the availability of double tax treaty relief in respect of the Notes, or practical difficulties involved in obtaining such double tax treaty relief.

Prospective investors should consult their own tax advisers regarding the tax consequences of investing in the Notes in their own particular circumstances. No representation with respect to the Azerbaijani tax consequences to any particular holder is made hereby.

Many aspects of Azerbaijani tax law are subject to significant uncertainty. Further, the substantive provisions of Azerbaijani tax law applicable to financial instruments may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets and taxation systems. In this regard, the interpretation and application of such provisions will in practice rest substantially with Azerbaijani tax authorities.

For the purposes of this summary, a "non-resident" means (a) an individual actually present in Azerbaijan for an aggregate period of not more than 182 days in a given calendar year and not treated as an Azerbaijani tax resident for other reasons such as having citizenship, habitual abode, centre of vital interests or a permanent residence in Azerbaijan or (b) a legal person which is not (i) organised and carrying on entrepreneurial activity under Azerbaijani law or (ii) managed from Azerbaijan, which purchases, holds and disposes of the Notes.

Non-resident Holders

Payments of interest in relation to securities made by an Azerbaijani entity to non-resident individuals or legal persons are subject to Azerbaijani withholding tax at the rate of 10%. Given that payment of interest will be made through the Paying Agents and Euroclear and Clearstream, Luxembourg and that there are very few international capital markets transactions by Azerbaijani issuers, it could be difficult for holders of Notes to prove to the local tax authorities that a withholding tax has been applied to interest payments and, therefore, to obtain the benefit of any applicable double tax treaty relief.

A non-resident holder generally should not be subject to any Azerbaijani taxes in respect of redemption, sale or other disposition of the Notes outside of Azerbaijan, provided that (i) the proceeds of such disposition are not received from a source within Azerbaijan or (ii) income in relation to the Notes is not received through the activities of a permanent establishment of a non-resident holder in Azerbaijan.

In the event that the proceeds of the disposition of the Notes are received from a source within Azerbaijan, a non-resident holder should not be subject to Azerbaijani withholding tax in respect of the proceeds to the extent such disposition is not deemed a sale of goods in the territory of Azerbaijan (with respect to such classification of the disposition of the Notes we generally note that Azerbaijani tax authorities can adopt a view that Azerbaijani withholding tax shall apply to the payment of any disposition proceeds from a source within Azerbaijan), provided that no portion thereof is attributable to accrued interest. If any portion of such proceeds can be shown to be attributable to accrued interest, Azerbaijani withholding tax will be applied at a rate of 10% to such portion. Non-resident holders should consult their own tax advisers with respect to the possibility of such apportionment.

Resident Holders

Payments of interest in relation to securities made by an Azerbaijani entity to resident individuals or legal persons are subject to Azerbaijani withholding tax at the rate of 10%. Tax so withheld can be credited against tax liability of resident legal entities; and in respect of individual residents shall fully discharge their tax liability. Given that payment of interest will be made through the Paying and Transfer Agents and Euroclear and Clearstream, Luxembourg and in the absence in international capital markets transactions of Azerbaijani issuers it could in practice, be difficult to prove to the local tax authorities that taxes in relation to interest have been withheld.

A Noteholder, who is an individual resident in Azerbaijan for tax purposes, or a resident legal entity, is subject to applicable Azerbaijani taxes in respect of gains from disposition of the Notes.

VAT

VAT is not applied to the rendering of financial services in relation to the Notes. Therefore, no VAT will be payable in Azerbaijan on any payment of interest or principal in respect of the Notes.

Inheritance Taxes

A resident individual pays Azerbaijani personal income tax in respect of his/her world-wide income. A non-resident individual is liable to pay Azerbaijani personal income tax only in respect of Azerbaijani source income. Inheritance of the Notes will not be deemed Azerbaijani source income (subject to any contradictory position that could be taken by the tax authorities). Accordingly, Azerbaijani personal income tax should not apply to an inheritance of the Notes by non-resident individuals but apply to any inheritance of the Notes by resident individuals (as such inheritance will be included into the worldwide income of a resident).

Azerbaijani law provides for the following exemptions in relation to inheritances: (i) the first AZN 20,000 of any inheritance and (ii) inheritances from family members are fully exempt from tax.

EU Directive on the Taxation of Savings Income (Directive 2003/48/EC)

Under the EU Savings Directive, EU Member States are required to provide to the tax authorities of another EU Member State details of payments of interest (or similar income) paid by a person established within its jurisdiction to (or for the benefit of) an individual resident, or certain types of entity established, in that other EU Member State. However, for a transitional period, Austria will (unless during that period it elects otherwise) instead operate a withholding system in relation to such payments. The current rate of withholding under the EU Savings Directive is 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to exchange information procedures relating to interest and other similar income.

A number of non-EU countries and certain dependent or associated territories of certain EU Member States have adopted similar measures to the EU Savings Directive.

The Council of the EU has adopted the Amending Directive, which will, when implemented, amend and broaden the scope of the requirements of the EU Savings Directive described above. The Amending Directive will expand the range of payments covered by the EU Savings Directive, in particular to include additional types of income payable on securities, and the circumstances in which payments must be reported or paid subject to withholding. For example, payments made to (or for the benefit of) (i) an entity or legal arrangement effectively managed in an EU Member State that is not subject to effective taxation, or (ii) a person, entity or legal arrangement established or effectively managed outside of the EU (and outside any third country or territory that has adopted similar measures to the EU Savings Directive) which indirectly benefit an individual resident in an EU Member State, may fall within the scope of the EU Savings Directive, as amended. The Amending Directive requires EU Member States to adopt national legislation necessary to comply with it by 1 January 2016, which legislation must apply from 1 January 2017.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes which, subject to amendment and completion and except for the paragraphs in italics, will be endorsed on each Definitive Note Certificate (if issued).

The U.S.$750,000,000 6.95% Senior Unsecured Notes due 2030 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 17 (*Further Issues*) and forming a single series therewith) of State Oil Company of the Azerbaijan Republic (the "**Issuer**") are (a) constituted by and subject to, and have the benefit of, a trust deed dated 18 March 2015 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and Deutsche Trustee Company Limited as trustee (the "**Trustee**", which expression includes all persons for the time being appointed as trustee for the holders of the Notes (the "**Noteholders**") under the Trust Deed) and (b) are the subject of a paying agency agreement dated 18 March 2015 (as amended or supplemented from time to time, the "**Paying Agency Agreement**") between the Issuer, the Trustee and Deutsche Bank AG, London Branch as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agents appointed from time to time in connection with the Notes), the other paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes), and Deutsche Bank Luxembourg S.A., in its capacity as Registrar (the "**Registrar**", which expression shall include any successor registrar appointed from time to time in connection with the Notes) and transfer agent (the "**Transfer Agent**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes).

Certain provisions of these Conditions are summaries of the Trust Deed and the Paying Agency Agreement and are subject to their detailed provisions. The Noteholders are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Paying Agency Agreement applicable to them. Copies of the Trust Deed and the Paying Agency Agreement are available for inspection during normal business hours at the Specified Offices (as defined in the Paying Agency Agreement) of the Principal Paying Agent and the Paying Agents. Copies are also available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the date hereof, Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom.

1. DEFINITIONS

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Agreements**" means the Paying Agency Agreement and the Trust Deed;

"**Audited Financial Statements**" means the audited consolidated financial statements of the Issuer as at and for the year ended 31 December 2013;

"**Auditors**" means Ernst & Young Holdings (CIS) B.V. or, if they are unable or unwilling to carry out any action requested of them under the Agreements, such other internationally recognised firm of accountants as may be nominated in writing by the Issuer and failing such nomination, as may be nominated by the Trustee;

"**Authorised Signatory**" means, in relation to the Issuer, any Person who is duly authorised and in respect of whom the Trustee has received a certificate or certificates signed by a director or another Authorised Signatory of the Issuer setting out the name and signature of such Person and confirming such Person's authority to act;

"**Azerbaijan**" means the Republic of Azerbaijan;

"business day" has the meaning ascribed to it in Condition 8(h) (*Business Days*);

"**Capital Stock**" of any Person means any and all shares, interests (including partnership interests), rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity;

"**Consolidated Tangible Net Worth**" means, at any date of determination, with respect to the Issuer and its Subsidiaries determined on a consolidated basis in accordance with IFRS, the aggregate of:

(i) the amount paid up or credited as paid up on the Issuer's charter capital; and

(ii) the amount otherwise standing to the credit of its equity, based on its latest consolidated balance sheet but adjusted by:

(A) adding any amount standing to the credit of its profit and loss account for the period ending on the date of the Original Financial Statements or, as the case may be, the financial statements delivered to the Trustee pursuant to Condition 6(e)(i) or 6(e)(ii) (Financial Information) to the extent not included in paragraph (ii) above;

(B) deducting any dividend or other distribution declared or payable by the Issuer;

(C) deducting any amount standing to the debit of its profit and loss account for the period ending on the date of the Original Financial Statements or, as the case may be, the financial statements delivered to the Trustee pursuant to Condition 6(e)(i) or 6(e)(ii) (Financial Information);

(D) deducting any amount attributable to goodwill and intangible assets;

(E) deducting any amount attributable to any upward revaluation of assets after the date of the Original Financial Statements;

(F) reflecting any variation in the amount of its charter capital, additional paid-in capital and retained earnings, by deducting the amount of any negative change and adding the amount of any positive change taking place during the period from the date of the Original Financial Statements or, as the case may be, the financial statements delivered to the Trustee pursuant to Condition 6(e)(i) or 6(e)(ii) (Financial Information); and

(G) excluding any amount attributable to deferred tax assets;

"**Consolidated Total Assets**" means, at any date of determination, the amount of the consolidated total assets of the Group, as shown in the Original Financial Statements or, as the case may be, the financial statements most recently delivered to the Trustee pursuant to Condition 6(e)(i) or 6(e)(ii) (*Financial Information*);

"**control**" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "**controlling**" and "**controlled**" have meanings correlative to the foregoing;

"**Core Assets**" has the meaning ascribed to such term in the Prospectus;

"**Event of Default**" has the meaning assigned to such term in Condition 12 (*Events of Default*) hereof;

"**Extraordinary Resolution**" has the meaning assigned to such term in the Trust Deed;

"**FATCA**" means section 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, as of the date of the Prospectus and any current or future regulations or agreements thereunder or official interpretations thereof;

"**FFI**" means a "foreign financial institution" as such term is defined pursuant to FATCA;

"**Group**" means the Issuer and its Subsidiaries from time to time taken as a whole and "**a member of the Group**" means the Issuer or any of its Subsidiaries, from time to time;

"**IFRS**" means International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time), consistently applied but ignoring any variation therefrom which is not material;

"**Incur**", "**Incurred**" and "**Incurrence**" means issue, assume, guarantee, incur or otherwise become liable for; *provided*, *however*, that any Indebtedness of a Person existing at the time such Person becomes a Subsidiary of the Issuer (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Person at the time it becomes a Subsidiary of the Issuer and the term "**Incurrence**" when used as a noun shall have a correlative meaning.

"**Indebtedness**" means any obligation (whether Incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;

"**Indebtedness for Borrowed Money**" means, any Indebtedness of any Person for or in respect of (i) moneys borrowed, (ii) amounts raised by acceptance under any acceptance credit facility, (iii) amounts raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or similar instruments, (iv) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with generally accepted accounting standards in the jurisdiction of incorporation of the lessee, be treated as finance or capital leases, (v) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred primarily as a means of raising finance or financing the acquisition of the relevant asset or service or (vi) amounts raised under any other transaction (including any forward sale or purchase agreement and the sale of receivables or other assets on a "with recourse" basis) having the commercial effect of a borrowing;

"**Indebtedness Guarantee**" means in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation) (i) any obligation to purchase such Indebtedness, (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness, (iii) any indemnity against the consequences of a default in the payment of such Indebtedness and (iv) any other agreement to be responsible for repayment of such Indebtedness;

"**Interest Period**" means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"**Material Adverse Effect**" means a material adverse effect on (a) the business, property, condition (financial or otherwise), operations or prospects of the Group (taken as a whole), (b) the Issuer's ability to perform its obligations under the Notes or the Agreements or (c) the validity, legality or enforceability of the Notes or any Agreement;

"**Material Subsidiary**" means any Subsidiary of the Issuer that has either (i) assets which constitute 5% or more of the total assets of the Issuer and its Subsidiaries on a consolidated basis as at the later of the date of the Original Financial Statements and the date of the financial statements most recently delivered to the Trustee pursuant to Condition 6(e)(i) or 6(e)(ii) (*Financial Information*) or (ii) adjusted profit which accounts for 5% or more of the consolidated adjusted profit of the Issuer for the period covered by the Original Financial Statements or as the case may be, the period covered by the financial statements most recently delivered to the Trustee pursuant to Condition 6(e)(i) or 6(e)(ii) (*Financial Information*) and for which purpose the adjusted profit of a Subsidiary or the Issuer, as the case may be, shall be its profit before income tax excluding extraordinary items, the cumulative effect of accounting changes and profit attributable to non-controlling interests;

"**Officer's Certificate**" means a certificate signed by an Authorised Signatory of the Issuer;

"**Original Financial Statements**" means the unaudited interim reviewed consolidated financial statements of the Issuer as at and for the six months ended 30 June 2014;

"**Participating FFI**" means an FFI that is a "participating foreign financial institution" as from the effective date of withholding on "passthru payments" (as such terms are defined pursuant to the FATCA);

"**Permitted Security Interest**" means:

(i) any Security Interest granted in favour of the Issuer or any Material Subsidiary;

(ii) any Security Interest on property acquired (or deemed to be acquired) under a financial lease, or claims arising from the use or loss of or damage to such property; provided, however, that any such Security Interest secures only rents and other amounts payable under such lease;

(iii) any Security Interest securing Indebtedness for Borrowed Money of a Person existing at the time that such Person is merged into or consolidated with the Issuer or a Material Subsidiary or becomes a Material Subsidiary; provided, however, that such Security Interest was not created in contemplation of such merger or consolidation or event and does not extend to any

assets or property of the Issuer already existing or any Material Subsidiary other than those of the surviving Person and its Subsidiaries or the Person acquired and its Subsidiaries;

(iv) any Security Interest already existing on assets or property acquired or to be acquired by the Issuer or any Material Subsidiary; provided, however, that such Security Interest was not created in contemplation of such acquisition and does not extend to any other assets or property (other than proceeds of such acquired assets or property);

(v) any Security Interest granted upon or with regard to any property hereafter acquired or constructed in the ordinary course of business by any member of the Group to secure the purchase price of such property or to secure Indebtedness for Borrowed Money Incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition and repairs related to such property; provided, however, that the maximum amount of Indebtedness for Borrowed Money thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness for Borrowed Money Incurred solely for the purpose of financing the acquisition of such property and related transactional expenses and the relevant Security Interest only extends to the property acquired;

(vi) any Security Interest arising by operation of law and in the ordinary course of business;

(vii) any Security Interest arising from any judgment, decree or other order which does not constitute an Event of Default under these Conditions;

(viii) a right of set-off, right to combine accounts or any analogous right which any bank or other financial institution may have relating to any credit balance of any member of the Group;

(ix) any Security Interest granted in favour of a Person providing Project Financing if the Security Interest is solely on the property, income, assets or revenues of the project for which the financing was Incurred provided, however, (i) such Security Interest is created solely for the purpose of securing Indebtedness for Borrowed Money Incurred by the Issuer or a Subsidiary of the Issuer in compliance with Condition 6(c) (*Negative Pledge*) and (ii) no such Security Interest shall extend to any other property, income assets or revenues of the Issuer or any Material Subsidiary or their respective Subsidiaries;

(x) any other Security Interest securing Indebtedness for Borrowed Money if at the time of Incurrence of such Indebtedness for Borrowed Money, such Indebtedness for Borrowed Money together with the aggregate principal amount of other Indebtedness for Borrowed Money secured by such Security Interest does not exceed in the aggregate 20% of the Consolidated Total Assets at any one time outstanding and for the avoidance of doubt, this paragraph (x) does not include any Security Interest referred to in paragraphs (i) to (ix) above; and

(xi) any Security Interest arising out of the refinancing, extension, renewal or refunding of any Indebtedness for Borrowed Money secured by a Security Interest permitted by any of the above exceptions, provided, however, that the Indebtedness for Borrowed Money thereafter secured by such Security Interest does not exceed the amount of the original Indebtedness for Borrowed Money and such Security Interest is not extended to cover any property not previously subject to such Security Interest;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or other judicial entity, including, without limitation, any state or agency of a state or other entity, whether or not having separate legal personality;

"**Potential Event of Default**" means any event or circumstance which would with the giving of notice, the expiry of a grace period, the making of any determination or any combination of the foregoing become an Event of Default;

"**Preferred Stock**" as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of any other class of Capital Stock of such Person;

“**Project Financing**” means any financing of all or part of the costs of the acquisition, construction or development of any asset or project if (i) the revenues derived from or the proceeds of insurance on such asset or project are the principal source of repayment for the monies advanced and (ii) the Person or Persons providing such financing have been provided with a feasibility study prepared by competent independent experts on the basis of which it is reasonable to conclude that such project would generate sufficient operating income to service the Indebtedness Incurred in connection with such project;

“**Prospectus**” means the Issuer’s prospectus relating to the Notes dated 17 March 2015;

“**Security Interest**” means any mortgage, pledge, encumbrance, easement, restriction, covenant, right-of-way, servitude, lien, charge or other security interest or adverse claim of any kind (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease in the nature thereof);

“**Stock Exchange**” means the London Stock Exchange plc or such other stock exchange on which the Notes may be listed;

“**Subsidiary**” means, in relation to any Person (the “**first Person**”) at any particular time, any other Person (the “**second Person**”) (i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise or (ii) whose financial statements are, in accordance with applicable law and IFRS, consolidated with those of the first Person; and

“**taxes**” means any taxes (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) which are now or hereafter imposed, levied, collected, withheld or assessed by any taxing authority.

2. FORM, DENOMINATION AND TITLE

(a) Form and denomination

The Notes are in registered form, serially numbered.

The Notes will be issued in minimum denominations of U.S.$200,000 or any amount in excess thereof which is an integral multiple of U.S.$1,000 (each, an “**Authorised Holding**”).

(b) Title

Title to the Notes will pass by transfer and registration as described in Conditions 3 (*Registration*) and 4 (*Transfer of Notes*). The holder (as defined in Condition 1 (*Definitions*)) of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or any other interest in it, any writing thereon by any Person (as defined in Condition 1 (*Definitions*)) (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous theft or loss thereof; and no Person will be liable for so treating the holder.

*A certificate in definitive form (a “**Definitive Note Certificate**”) will be issued to each Noteholder in respect of its registered holding.*

*The Notes will be represented by a global registered note certificate (the “**Global Certificate**”), interests in which will be exchangeable for Definitive Note Certificates in the circumstances specified in the Global Certificate. The Global Certificate will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank SA/NV and Clearstream Banking, société anonyme.*

(c) Third party rights

No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

3. REGISTRATION

The Issuer will cause a register (the "**Register**") to be kept at the Specified Office of the Registrar and maintained by the Registrar in accordance with the Paying Agency Agreement.

4. TRANSFER OF NOTES

(a) Transfer

Each Note may, subject to the terms of the Paying Agency Agreement and to Conditions 4(b) (*Formalities Free of Charge*), 4(c) (*Closed Periods*) and 4(d) (*Regulations Concerning Transfer and Registration*), be transferred in whole or in part in an Authorised Holding by lodging the relevant Definitive Note Certificate (with the endorsed form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the Specified Office of the Registrar or any Transfer Agent. A Note may be registered only in the name of, and transferred only to, a named person or persons. No transfer of a Note will be valid unless and until entered on the Register.

The Registrar will within five business days of any duly made application for the transfer of a Note, register the transfer and deliver a new Definitive Note Certificate to the transferee (and, in the case of a transfer of part only of a Note, deliver a Definitive Note Certificate for the untransferred balance to the transferor), at the Specified Office of the Registrar, or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Definitive Note Certificate by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

(b) Formalities Free of Charge

Such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar and the Trustee.

(c) Closed Periods

Neither the Issuer nor the Registrar will be required to register the transfer of any Note (or part thereof) during the period of 15 days immediately prior to the due date for any payment of principal or interest in respect of the Notes.

(d) Regulations Concerning Transfer and Registration

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Paying Agency Agreement. The regulations may be changed by the Issuer to reflect changes in legal requirements or in any other manner which is not prejudicial to the interests of Noteholders with the prior approval of the Registrar (such approval not to be unreasonably withheld or delayed) and the Trustee.

(e) Authorised Holdings

No Note may be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of the Notes not transferred are Authorised Holdings.

5. STATUS

The Notes constitute direct, general, unconditional, unsubordinated and unsecured obligations of the Issuer. The Notes will at all times rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

6. COVENANTS

So long as any amount remains outstanding under the Notes:

(a) **Limitation on Distributions of Net Income**

(i) The Issuer will not pay any dividends, in cash or otherwise, or make any other distribution of any sort (whether by way of redemption, acquisition or otherwise) in respect of its share capital or by way of management or other similar fees payable to its direct or indirect shareholders at any time when there exists an Event of Default or a Potential Event of Default or where such payment or other distribution would result in an Event of Default or a Potential Event of Default.

(ii) The Issuer will not permit any Material Subsidiary to pay any dividends or other distributions in respect of any series of charter or share capital of such Material Subsidiary unless such dividends or distributions are paid on a *pro rata* basis to all holders thereof or such dividends or distributions are paid on a basis that results in the Issuer or a Material Subsidiary receiving dividends or other distributions of greater value than would result from them being paid on a *pro rata* basis.

(b) **Limitation on Disposals of Core Assets**

The Issuer will not, and will not permit any Material Subsidiary to, sell, lease, transfer or otherwise dispose of any Core Asset (in a single transaction or in a series of related transactions (including any disposition by means of a merger, consolidation or similar transaction) and whether by a disposition of any shares of Capital Stock of a Material Subsidiary or a disposition of any other assets of the Issuer or any Material Subsidiary). This Condition 6(b) (Limitation on Disposals of Core Assets) shall not apply to (i) transfers of assets between or among the Issuer and any of its Subsidiaries or (ii) any upgrade of all or any part of a Core Asset or any replacement of all or any part of a Core Asset which is obsolete, in disrepair or otherwise due for replacement, in either case, with an asset of equivalent value and use or (iii) the transfer of any equity interest in Azerbaijan (Shah Deniz) Limited and/or Azerbaijan (South Caucasus Pipeline) Limited to South Gas Corridor Closed Joint Stock Company or any subsidiary thereof after the date on which both the U.S.$500,000,000 5.45% Senior Unsecured Notes due 2017 and the U.S.$1,000,000,000 4.75% Senior Unsecured Notes due 2023 issued by the Issuer have been redeemed in full or are otherwise no longer outstanding.

(c) **Negative Pledge**

The Issuer shall not, and shall not permit any of its Subsidiaries to, create, Incur, assume or permit to arise or subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of the undertakings, assets or revenues, present or future, of the Issuer or any Material Subsidiary to secure any Indebtedness for Borrowed Money or any Indebtedness Guarantee in respect of any Indebtedness for Borrowed Money unless, at the same time or prior thereto, the Issuer's obligations under the Trust Deed and the Notes are secured equally and rateably therewith (to the satisfaction of the Trustee) or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders or as the Trustee in its discretion shall deem to be not materially less beneficial to the Noteholders.

(d) **Minimum Tangible Net Worth**

The Issuer shall ensure that at all times the Consolidated Tangible Net Worth of the Group equals or exceeds U.S.$3,000,000,000.

(e) **Financial Information**

(i) The Issuer shall deliver to the Trustee as soon as they become available, but in any event within 190 days after the end of each of its financial years, a copy of the Issuer's consolidated financial statements for such financial year.

(ii) The Issuer shall as soon as the same become available, but in any event within 120 days following the end of each first half year of each of its financial years, deliver to the Trustee the Issuer's consolidated financial statements for such period.

(iii) The Issuer hereby undertakes that it will deliver to the Trustee, without undue delay, such additional information regarding the financial position or the business of the Issuer or any of its Subsidiaries as the Trustee may reasonably request, including providing certification according to the Trust Deed.

(iv) The Issuer shall ensure that each set of consolidated financial statements delivered by it pursuant to this Condition 6(e) is:

(A) in the case of the statements provided pursuant to Condition 6(e)(i) prepared generally on the same basis as was used in the preparation of the Audited Financial Statements (including with respect to presentation of prior periods) and in accordance with IFRS; or

(B) in the case of the statements provided pursuant to Condition 6(e)(ii) prepared generally on the same basis as was used in the preparation of the Original Financial Statements (including with respect to presentation of prior periods) and in accordance with IFRS; and

(C) accompanied by notes to the statements and in the case of the statements provided pursuant to Condition 6(e)(i), the audit opinion of the Auditors or, in the case of the statements provided pursuant to Condition 6(e)(ii), the review report of the Auditors and certified by an Authorised Signatory of the Issuer to the effect that the information with respect to the Group included in such statements presents fairly, in all material respects, in accordance with IFRS, the financial position of the Group as at the end of the period to which those statements relate and its financial performance and cash flows for the period then ended.

(v) The Issuer undertakes to furnish to the Trustee such information as the Regulated Market of the Stock Exchange (or any other or further stock exchange or stock exchanges or any relevant authority or authorities on which the Notes may, from time to time, be listed or admitted to trading) may require as necessary in connection with the listing or admission to trading on such stock exchange or relevant authority of such instruments.

(f) **Maintenance of Authorisations**

(i) The Issuer shall, and shall procure that each of the Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things necessary, in the opinion of the Issuer or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and/or operations; and

(ii) The Issuer shall, and shall procure that each of the Material Subsidiaries shall, take all necessary action to obtain, and do or cause to be done all things necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may in any such case at any time be required to be obtained or made in any relevant jurisdiction for the execution, delivery or performance of the Notes and the Agreements or for the validity or enforceability thereof.

(g) **Mergers and Consolidations**

The Issuer will not, directly or indirectly, in a single transaction or a series of related transactions, enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms are construed by applicable legislation or otherwise), participate in any other type of corporate reconstruction (in each case, a "**reorganisation**") unless:

(i) the Issuer will be the surviving or continuing Person; and

(ii) immediately prior to and immediately after giving effect to such reorganisation and the Incurrence of any Indebtedness to be Incurred in connection therewith, and the use of any net proceeds therefrom on a *pro forma* basis, no Event of Default or Potential Event of Default shall have occurred and be continuing; and

(iii) immediately prior to and immediately after giving effect to such reorganisation, the Issuer and its Subsidiaries would be permitted to Incur, directly or indirectly, further Indebtedness pursuant to and in accordance with Condition 6(c) (*Negative Pledge*).

(h) **Officer's Certificates**

(i) Within 14 days of any request by the Trustee, the Issuer shall deliver to the Trustee written notice in the form of an Officer's Certificate stating whether any Potential Event of Default or Event of Default or Change of Status has occurred and, if it has occurred and shall be continuing, what action the Issuer is taking or proposes to take with respect thereto and that the Issuer has complied with its obligations under the Trust Deed.

(ii) The Issuer will at the same time as delivering the financial statements pursuant to Condition 6(e)(i) and 6(e)(ii) (*Financial Information*) and within 30 days of a request from the Trustee, deliver to the Trustee an Officer's Certificate specifying those of its Subsidiaries which were, at a date no more than 20 days before the date of such Officer's Certificate, Material Subsidiaries.

(iii) Following the occurrence of any matter or event specified in Condition 12(h) (*Maintenance of Business*) or the Trust Deed where such Condition or the Trust Deed provide for a determination of whether such matter or event has or will have a Material Adverse Effect, the Issuer, at the request of the Trustee, shall provide the Trustee with an Officer's Certificate certifying whether such matter or event has or will have a Material Adverse Effect and setting out such additional information as may be required to support such determination. The Trustee shall be entitled to rely solely on an Officer's Certificate from the Issuer, certifying whether or not such matter has or will have a Material Adverse Effect.

7. INTEREST

(a) **Interest Accrual**

Each Note bears interest from 18 March 2015 (the "**Issue Date**") at the rate of 6.95% per annum (the "**Rate of Interest**") payable semi-annually in arrear on 18 March and 18 September in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 8 (*Payments*).

(b) **Cessation of Interest**

Each Note will cease to bear interest from the due date for final redemption unless, upon due surrender of the relevant Note, payment of principal is improperly withheld or refused. In such case it will continue to bear interest at such rate (after as well as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment) in accordance with Condition 15 (*Notices*).

(c) **Calculation of Interest for an Interest Period**

The amount of interest payable in respect of each Note for any Interest Period shall be calculated by applying the Rate of Interest to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

(d) **Calculation of Interest for any other period**

If interest is required to be calculated for any period other than an Interest Period, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

The determination of the amount of interest payable under Conditions 7(c) (*Calculation of Interest for an Interest Period*) and 7(d) (*Calculation of Interest for any other period*) by the Principal Paying Agent shall, in the absence of manifest error, be binding on all parties.

8. PAYMENTS

(a) Principal

Payment of principal in respect of each Note and payment of interest due other than on an Interest Payment Date will be made to the person shown in the Register at the close of business on the Record Date (as defined below) and subject to the surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificate at the Specified Office of the Registrar or of the Paying Agents.

(b) Interest

Payments of interest due on an Interest Payment Date will be made to the persons shown in the Register at close of business on the Record Date.

(c) Record Date

"**Record Date**" means the fifteenth day before the due date for the relevant payment.

(d) Payments

Each payment in respect of the Notes pursuant to Conditions 8(a) (*Principal*) and 8(b) (*Interest*) will be made by United States dollar cheque drawn on a branch of a bank in New York mailed to the holder of the relevant Note at his address appearing in the Register. However, upon application by the holder to the Specified Office of the Registrar or any Paying Agent not less than 15 days before the due date for any payment in respect of a Note, such payment may be made by transfer to a United States dollar account maintained by the payee with a bank in New York.

Where payment is to be made by cheque, the cheque will be mailed, on the business day preceding the due date for payment or, in the case of payments referred to in Condition 8(a) (*Principal*), if later, on the business day on which the relevant Definitive Note Certificate is surrendered (or endorsed as the case may be) as specified in Condition 8(a) (*Principal*) (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder).

Where payment is to be made by transfer to a United States dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated, in the case of principal, on the later of the due date for payment and the day on which the relevant Definitive Note Certificate is surrendered (or, in the case of part payment only, endorsed) and, in the case of interest and other amounts on the due date for payment.

(e) Agents

The names of the initial Paying Agents, Transfer Agents and Registrar and their Specified Offices are set out below. The Issuer reserves the right under the Paying Agency Agreement by giving to the Principal Paying Agent and any other Agent concerned at least 60 days' prior written notice, which notice shall expire at least 30 days before or after any due date for payment in respect of the Notes, to remove any Paying Agent or Transfer Agent or the Registrar (including in circumstances where the Paying Agent does not become or ceases to be, a Participating FFI at a time when the Issuer would be required to withhold or deduct any amount from any payment made by it to the Paying Agent pursuant to FATCA) and to appoint successor or additional Paying Agents or Transfer Agents or another Registrar, provided that it will at all times maintain:

(i) a Principal Paying Agent;

(ii) a Paying Agent and a Transfer Agent in at least one major European city approved by the Trustee;

(iii) a Paying Agent with a Specified Office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Union Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments or any law implementing or complying with, or introduced in order to conform to, such Directive;

(iv) a Paying Agent and a Transfer Agent in a jurisdiction other than Azerbaijan; and

(v) a Registrar.

Notice of any such removal or appointment and of any change in the Specified Office of any Paying Agent, Transfer Agent or Registrar will be given to Noteholders in accordance with Condition 15 (*Notices*) as soon as practicable.

(f) **Payments subject to Fiscal Laws**

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 10 (*Taxation*) and any withholding or deduction required pursuant to an agreement described in FATCA or any law implementing an intergovernmental approach thereto. In that event, the Issuer or such Paying Agent (as the case may be) shall make such payment after such withholding tax or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. Neither the Issuer nor the Paying Agent nor any other person will be obliged to make any additional payments to the Noteholders in respect of any amounts so withheld or deducted. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(g) **Delay in Payment**

Noteholders will not be entitled to any interest or other payment in respect of any delay in payment resulting from (i) the due date for payment not being a business day or (ii) a cheque mailed in accordance with this Condition 8 (*Payments*) arriving after the due date for payment or being lost in the mail.

(h) **Business Days**

In these Conditions, "**business day**" means any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in New York and, in the case of surrender of a Definitive Note Certificate, in the place of the Specified Office of the Registrar or relevant Paying Agent, to whom the relevant Definitive Note Certificate is surrendered.

9. REDEMPTION AND PURCHASE

(a) **Scheduled redemption**

Unless previously redeemed or purchased and cancelled as provided below, each Note will be redeemed at its principal amount on 18 March 2030, subject as provided in Condition 8 (*Payments*).

(b) **Redemption for Taxation Reasons**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable) at their principal amount, together with interest accrued to (but excluding) the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(i) it has or will become obliged to pay additional amounts as provided or referred to in Condition 10 (*Taxation*), to any greater extent than would have been required had such a payment been required to be made on 17 March 2015, as a result of any change in, or amendment to, the laws or regulations of Azerbaijan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 17 March 2015; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee an Officer's Certificate stating that the obligation referred to in (ii) above cannot be avoided by the Issuer taking reasonable measures available to it and an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above in which event it shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice as is referred to in this Condition 9(b) (*Redemption for Taxation Reasons*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 9(b) (*Redemption for Taxation Reasons*).

(c) **Redemption upon a Change of Status**

If at any time while any Note remains outstanding a Change of Status occurs, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer redeem such Note on the Change of Status Put Date (as defined below) at 100% of its principal amount together with (or, where purchased, together with an amount equal to) interest accrued to but excluding the Change of Status Put Date.

Such option (the "**Change of Status Put Option**") shall operate as set out below.

If a Change of Status occurs then, within 14 days of the occurrence of the Change of Status, the Issuer shall, and upon the Trustee becoming so aware (the Issuer having failed to do so) the Trustee may and, if so requested by the holders of at least one-fifth in principal amount of the Notes then outstanding, shall, give notice (a "**Change of Status Notice**") to the Noteholders in accordance with Condition 15 (*Notices*) specifying the nature of the Change of Status and the procedure for exercising the Change of Status Put Option.

To exercise the Change of Status Put Option, a holder of Notes must deliver at the Specified Office of any Paying Agent on any business day falling within the period commencing on the occurrence of a Change of Status and ending 90 days after such occurrence or, if later, 90 days after the date on which the Change of Status Notice is given to Noteholders as required by this Condition 9(c) (*Redemption upon a Change of Status*) (the "**Change of Status Put Period**"), a duly signed and completed notice of exercise in the form (for the time being current and which may, if the certificate for such Notes is held in a clearing system, be any form acceptable to the clearing system delivered in any manner acceptable to the clearing system) obtainable from any Specified Office of any Paying Agent (a "**Change of Status Put Option Notice**") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition accompanied by the certificate for such Notes or evidence satisfactory to the Paying Agent concerned that the certificate for such Notes will, following the delivery of the Change of Status Put Option Notice, be held to its order or under its control.

The Issuer shall at its option redeem or purchase (or procure the purchase of) the Notes the subject of each Change of Status Put Option Notice on the date (the "**Change of Status Put Date**") seven days after the expiration of the Change of Status Put Period unless previously redeemed or purchased and cancelled. A Change of Status Put Option Notice given by a holder of any Note shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the Change of Status Put Option Notice.

For the purposes of this Condition 9(c) (*Redemption upon a Change of Status*) a "**Change of Status**" will be deemed to have occurred upon the occurrence of any of the following:

(i) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that Azerbaijan and/or any state agencies of Azerbaijan

appropriately authorised to hold the shares of the Issuer ceases to own and control (directly or indirectly) all of the charter capital and any issued share capital of the Issuer; or

(ii) any change in applicable laws the result of which is that the Issuer ceases to act as the Government of the Republic of Azerbaijan's agent in relation to (A) existing domestic production sharing agreements or (B) future domestic production sharing agreements, *provided that* (in the case of (B) above only) a Change of Status will not be deemed to have occurred if the Issuer does not act as the Government of the Republic of Azerbaijan's agent in relation to one future domestic production sharing agreement per calendar year.

(d) **Purchase**

The Issuer may at any time purchase or procure others to purchase for its account Notes in the open market or otherwise and at any price. The Notes so purchased may be held or resold (provided that such resale is outside the United States and is otherwise in compliance with all applicable laws) or surrendered for cancellation at the option of the Issuer or otherwise, as the case may be in compliance with Condition 9(e) (*Cancellation of Notes*) below. The Notes so purchased, while held by or on behalf of the Issuer, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 14(a) (*Meetings of Noteholders*). Any purchase by tender shall be made available to all Noteholders alike.

(e) **Cancellation of Notes**

All Notes which are redeemed pursuant to Conditions 9(b) (*Redemption for Taxation Reasons*) or 9(c) (*Redemption upon a Change of Status*) or submitted for cancellation pursuant to Condition 9(d) (*Purchase*) will be cancelled and may not be reissued or resold. For so long as the Notes are admitted to trading on the Stock Exchange and the rules of such exchange so require, the Issuer shall promptly inform the Stock Exchange of the cancellation of any Notes under this Condition 9(e) (*Cancellation of Notes*).

10. TAXATION

(a) All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within Azerbaijan or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

(i) **Other Connection**

presented for payment by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Azerbaijan other than the mere holding of the Note;

(ii) **Presentation more than 30 days after the Relevant Date**

where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on surrendering such Definitive Note Certificate for payment on the last day of such period of 30 days;

(iii) **Payment to Individuals**

where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Union Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(iv) **Payment by another Paying Agent**

where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by surrendering the relevant Definitive Note Certificate to another Paying Agent in a Member State of the European Union.

For the purposes of this Condition 10(a):

"**Relevant Date**" means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received in New York by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which, the full amount plus any accrued interest having been so received, notice to that effect shall have been given to the Noteholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition or any undertaking given in addition to or substitution for it under the Trust Deed.

(b) **Taxing jurisdiction**

If the Issuer becomes subject at any time to any taxing jurisdiction other than Azerbaijan, references in this Condition 10 (*Taxation*) to Azerbaijan shall be construed as references to Azerbaijan and/or such other jurisdiction.

(c) **FATCA**

Notwithstanding anything to the contrary in this Condition 10, neither the Issuer nor any Paying Agent or any other person shall be required to pay any additional amounts with respect to any withholding or deduction imposed on or in respect of any Note pursuant to FATCA, any treaty, law, regulation or other official guidance enacted by any relevant taxing jurisdiction implementing FATCA, or any agreement between the Issuer and the United States or any authority thereof implementing FATCA.

11. PRESCRIPTION

Claims in respect of principal and interest will become void unless the relevant Definitive Note Certificate is surrendered for payment as required by Condition 8 (*Payments*) within a period of ten years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

12. EVENTS OF DEFAULT

The Trustee at its discretion may, and if so requested in writing by the holders of not less than one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (subject to being indemnified, prefunded or secured to its satisfaction) shall, give notice to the Issuer that the Notes are and they shall immediately become due and repayable in each case at their principal amount together with accrued interest if any of the following events (each, an "**Event of Default**") occurs and is continuing:

(a) **Non-payment**

The Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment when the same becomes due and payable either at maturity, by declaration or otherwise or the Issuer is in default with respect to the payment of interest or any additional amount payable in respect of any of the Notes; or

(b) **Breach of other obligations**

The Issuer defaults in the performance or observance of any of its other obligations under the Notes or the Trust Deed and such default is in the opinion of the Trustee, incapable of remedy or being a default which is, in the opinion of the Trustee, capable of remedy, remains unremedied for 30 days or such longer period as the Trustee may agree after the Trustee has given written notice thereof, addressed to the Issuer; or

(c) **Cross-default**

(i) Any Indebtedness of any member of the Group is not paid when due or (as the case may be) within any originally applicable grace period; or

(ii) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the relevant member of the Group or (provided that no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness; or

(iii) any member of the Group fails to pay when due any amount payable by it under any Indebtedness Guarantee;

provided that the amount of Indebtedness referred to in Conditions 12(c)(i) and/or 12(c)(ii) and/or the amount payable under any Indebtedness Guarantee referred to in Condition 12(c)(iii) individually or in the aggregate exceeds U.S.$50,000,000 (or its equivalent in any other currency or currencies); or

(d) **Judgment default**

One or more judgments or orders or arbitration awards for the payment of an amount in excess of U.S.$50,000,000 (or the equivalent in other currencies) is rendered or granted against any member of the Group and continue(s) unsatisfied and unstayed for a period of 30 days after the date thereof or, if later, the date therein specified for payment; or

(e) **Security Enforced**

A secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any substantial part of the undertaking, assets and revenues of any member of the Group individually or in the aggregate in an amount in excess of U.S.$50,000,000 (or the equivalent in other currencies) which is not discharged within 30 days; or

(f) **Bankruptcy**

(i) Any Person shall have instituted a proceeding or entered a decree or order for the appointment of a receiver, administrator or liquidator in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities, moratorium of payments or similar arrangements involving the Issuer or any Material Subsidiary or all or substantially all (in the opinion of the Trustee) of their respective properties and such proceeding, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 45 days; or

(ii) the Issuer or any Material Subsidiary shall institute proceedings under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect to be adjudicated a bankrupt or shall consent to the filing of a bankruptcy, insolvency or similar proceeding against it or shall file a petition or answer or consent seeking reorganisation under any such law or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver, administrator or liquidator or trustee or assignee in bankruptcy or liquidation of the Issuer or any Material Subsidiary, as the case may be, or in respect of its property, or shall make an assignment for the benefit of its creditors or shall otherwise be unable or admit its inability to pay its debts generally as they become due or the Issuer or any Material Subsidiary commences proceedings with a view to the general adjustment of its Indebtedness which event is, in the case of the Material Subsidiary, materially prejudicial (in the opinion of the Trustee) to the interests of the Noteholders; or

(g) **Invalidity or unenforceability**

(i) Any action, condition or thing at any time required to be taken, fulfilled or done in order (A) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Notes or the Agreements, (B) to ensure that those obligations are legal, binding and enforceable and (C) to make the Global Certificate, any Definitive Note Certificates and the Agreements admissible as evidence in the courts of Azerbaijan is not taken, fulfilled or done; or

(ii) it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Agreements; or

(h) **Maintenance of Business**

The Issuer fails to comply in any respect with any applicable laws or regulations (including any foreign exchange rules or regulations) of any governmental or other regulatory authority for any purpose to enable it to lawfully perform or comply with its obligations under the Notes or any Agreement or to ensure that those obligations are legally binding and enforceable or to ensure that all necessary agreements or other documents are entered into and that all necessary consents and approvals of, and registrations and filings with, any such authority in connection therewith are obtained and maintained in full force and effect or the Issuer or any Material Subsidiary fails to take any action to maintain any rights, privileges, titles to property, franchises or the like necessary or desirable in the normal conduct of its business, activities or operations and in the opinion of the Trustee such failure has had or is likely to have a Material Adverse Effect and is not remedied within 30 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to the Issuer or the relevant Material Subsidiary, as the case may be.

13. REPLACEMENT OF NOTES

If any Definitive Note Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the Specified Office of the Registrar or any Paying Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses Incurred in connection with such replacement and on such terms as to evidence security, indemnity and otherwise as the Issuer or the Registrar or Paying Agent may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Definitive Note Certificates must be surrendered before replacements will be issued.

14. MEETINGS OF NOTEHOLDERS; MODIFICATION AND WAIVER

(a) **Meetings of Noteholders**

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Trustee or the Issuer, or by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing a clear majority of the aggregate principal amount of the Notes for the time being outstanding, or, at any adjourned meeting, one or more persons being or representing Noteholders whatever the principal amount of the Notes for the time being outstanding so held or represented; provided, however, that certain proposals (including any proposal (i) to change any date fixed for payment of principal or interest in respect of the Notes, (ii) to reduce or cancel the amount of principal or interest or other amounts payable on any date in respect of the Notes or to reduce the rate of interest on the Notes, (iii) to change the currency of payment under the Notes, (iv) to amend this proviso or (v) to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present at the meeting(s) or not.

(b) **Written resolution**

A resolution in writing will take effect as if it were an Extraordinary Resolution if it is signed (i) by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed or (ii) if such Noteholders have been given at least 21 days' notice of such resolution, by or on behalf of persons holding three-quarters of the aggregate principal amount of the outstanding Notes. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(c) **Modification without Noteholders' consent**

The Trustee may agree, without the consent of the Noteholders, (a) to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and (b) to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or to correct a manifest error. In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby. Any such authorisation, waiver or modification shall be binding on the Noteholders and, if the Trustee so requires, shall be notified to the Noteholders as soon as practicable thereafter.

(d) **Entitlement of the Trustee**

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

15. NOTICES

Notices to Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. Notices to Noteholders will be valid if published, for so long as the Notes are admitted to trading on the Stock Exchange and the rules of such exchange so require, in a leading newspaper having general circulation in London (which is expected to be the *Financial Times* or, if, in the opinion of the Trustee, such publication is not practicable, in a leading English language daily newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

16. TRUSTEE

(a) **Indemnification**

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its Subsidiaries.

(b) **Exercise of power and discretion**

In the exercise of its powers and discretion under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual holders of Notes as a result of such holders being connected in any way with a particular territory or taxing jurisdiction.

(c) **Enforcement; Reliance**

The Trustee may at any time after the Notes become due and payable, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed and these Conditions in respect of the Notes, but it shall not be bound to do so unless:

(i) it has been so requested in writing by the holders of a least one-fifth in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(ii) it has been indemnified or provided with security to its satisfaction.

The Trustee may, in making any determination under these Conditions, act on the opinion or advice of, or information obtained from, any expert and will not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience which may result from it so acting.

The Trustee may rely without liability to Noteholders on any certificate or report prepared by any of the above mentioned experts, including specifically the Auditors (as defined in the Trust Deed), or any auditor, pursuant to the Conditions or the Trust Deed, whether or not the expert or auditor's liability in respect thereof is limited by a monetary cap or otherwise.

Until the Trustee has actual or express knowledge to the contrary, the Trustee may assume that no Event of Default or Potential Event of Default (as defined in the Trust Deed) has occurred.

The Trustee is not liable for any failure to monitor compliance by the Issuer with the Conditions (including Condition 12 (*Events of Default*)).

(d) **Failure to act**

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

(e) **Confidentiality**

Unless ordered to do so by a court of competent jurisdiction or unless required by the rules of the Stock Exchange, the Trustee shall not be required to disclose to any Noteholder any confidential financial or other information made available to the Trustee by the Issuer.

17. FURTHER ISSUES

The Issuer may from time to time, without notice to or the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the date for and amount of the first payment of interest) so as to be consolidated and form a single series with the Notes ("**Further Notes**"). The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed.

18. CURRENCY INDEMNITY

The Trust Deed provides that if any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Registrar or any Paying Agent with its Specified Office in London against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof. This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

19. GOVERNING LAW AND ARBITRATION

(a) **Governing law**

The Trust Deed and the Notes, including any non-contractual obligations arising out of or in connection with the Notes, are governed by, and shall be construed in accordance with, English law.

(b) **Arbitration**

The Issuer has agreed with the Trustee in the Trust Deed that any claim, dispute or difference of whatever nature arising under, out of or in connection with the Trust Deed or the Notes (including a claim, dispute or difference regarding its existence, termination or validity or any non-contractual

obligations arising out of or in connection with the Trust Deed or the Notes) (a "**Dispute**"), shall be referred to and finally settled by arbitration in accordance with the rules (the "**Rules**") of the LCIA as at present in force and as modified by this Condition, which Rules shall be deemed incorporated into this Condition. The number of arbitrators shall be three, one of whom shall be nominated by the Issuer, one by the Trustee and the third of whom, who shall act as Chairman, shall be nominated by the two party-nominated arbitrators, provided that if the third arbitrator has not been nominated within thirty days of the nomination of the second party-nominated arbitrator, such third arbitrator shall be appointed by the LCIA. The parties may nominate and the LCIA may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. The seat of arbitration shall be London, England and the language of arbitration shall be English. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

(c) **Service of Process**

The Issuer has agreed in the Trust Deed that the process by which any proceedings are commenced in the English courts in support of, or in connection with, an arbitration commenced pursuant to Condition 19(b) (*Arbitration*) may be served on it by being delivered to it at 7th Floor, 3 Shortlands, Hammersmith, London W6 8DA. If the Issuer ceases to have a place of business at 7th Floor, 3 Shortlands, Hammersmith, London W6 8DA, the Issuer shall immediately notify the Trustee with notice of the address of a current place of business in England where it agrees to accept service of process. If the Issuer ceases to have a place of business in England where it may be validly served or fails to notify the Trustee of a change of address in England in accordance with this Condition 19(c) *(Service of Process)*, the Issuer shall, on the written demand of the Trustee, appoint a person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Trustee shall be entitled to appoint such a person by written notice to the Issuer. Nothing in this paragraph shall affect the right of the Trustee and the Noteholders to serve process in any other manner permitted by law.

(d) **Waiver of Immunity**

To the extent that the Issuer may in respect of any Dispute be entitled to claim for itself or its assets immunity from jurisdiction, suit, execution, attachment (whether in aid of execution of a judgment, before judgment or award or otherwise) or other legal process, including in relation to the enforcement of any arbitration award, and to the extent that in any such jurisdiction there may be attributed to itself or its assets such immunity (whether or not claimed), the Issuer has in the Trust Deed irrevocably consented to the enforcement of any judgment or award, agreed not to claim and irrevocably waived such immunity subject to the provisions of the Trust Deed to the fullest extent permitted by the laws of the jurisdiction.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

Global Certificates

The Notes will be evidenced on issue by the Global Certificate (deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg).

Interests in the Global Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See "— *Book Entry Procedures*". By acquisition of an interest in a Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person, and that, if it determines to transfer such beneficial interest prior to the expiration of the 40 day distribution compliance period, it will transfer such interest only to a person whom the seller reasonably believes to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S.

Interests in the Global Certificate will be subject to certain restrictions on transfer set forth therein and in the Trust Deed, and the Notes will bear legends regarding such restrictions substantially to the following effect:

> *"The Notes represented hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."*

Except in the limited circumstances described below, owners of interests in the Global Certificate will not be entitled to receive physical delivery of certificated Notes in definitive form (the "**Definitive Note Certificates**"). The Notes are not issuable in bearer form.

Amendments to the Terms and Conditions of the Notes

The Global Certificate contains provisions that apply to the Notes that it represents, some of which modify the effect of the Terms and Conditions of the Notes. The following is a summary of those provisions:

Payments

Payments of principal and interest in respect of Notes evidenced by the Global Certificate will be made against presentation for endorsement by the Principal Paying and Transfer Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of the Global Certificate to or to the order of the Principal Paying and Transfer Agent or such other Paying and Transfer Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Certificate, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes.

Notices

So long as any Notes are represented by the Global Certificate and the Global Certificate is held on behalf of one or more clearing systems, notices to Noteholders required to be published in the *Financial Times* may be given by delivery of the relevant notice to such clearing systems for communication by it to entitled accountholders in substitution for delivery thereof as required by the Conditions of such Notes provided that for so long as the Notes are listed on the Official List and admitted to trading on the Market and the rules of that Exchange so require, notices shall also be published in a leading newspaper having general circulation in England (which is expected to be the *Financial Times*).

Meetings

The holder of the Global Certificate will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and, at any such meeting, as having one vote in respect of each U.S.$200,000 in principal amount of Notes for which the Global Certificate may be exchangeable.

Trustee Powers

In considering the interests of Noteholders while the Global Certificate is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity

(either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holders of the Global Certificate.

Prescription

Claims against the Company in respect of principal and interest on the Notes while the Notes are represented by the Global Certificate will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in *Terms and Conditions of the Notes—Condition 10. Taxation*).

Redemption Upon a Change of Status

Any Change of Status Put Option provided for in the Conditions may be exercised by the holder of the Global Certificate (i) giving notice to the Issuer within the time limits relating to the deposit of Notes set out in the Conditions substantially in the form of the notice available from any Paying Agent, the Registrar or any Transfer Agent stating the nominal amount of Notes in respect of which the option is exercised and (ii) at the same time depositing the Global Certificate with the Registrar or any Transfer Agent at its specified office.

Purchase and Cancellation

Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Global Certificate.

Exchange for Definitive Note Certificates

A Global Certificate will become exchangeable, free of charge to the holder, in whole but not in part, for Definitive Note Certificates if: (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so, or (b) an Event of Default (as defined and set out in *Terms and Conditions of the Notes—Condition 12. Events of Default* occurs. In such circumstances, such Definitive Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg shall direct in writing and the Issuer will procure that the Registrar notifies the Noteholders as soon as practicable after the occurrence of the relevant events specified.

Delivery

In such circumstances, a Global Certificate shall be exchanged in full for Definitive Note Certificates and the Issuer will, without charge to the holder or holders thereof, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange, cause sufficient Definitive Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Certificate must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes.

The holder of a Definitive Note Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Paying and Transfer Agent, together with the completed form of transfer thereon. The Registrar will not register the transfer of any Notes or exchange of interests in a Global Certificate for Definitive Note Certificates for a period of 15 calendar days ending on the due date for any payment of principal or interest in respect of the Notes.

Book Entry Procedures

Custodial and depository links are to be established between Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross market transfers of the Notes associated with secondary market trading. See "*—Book Entry Ownership*" and "*—Settlement and Transfer of Notes*".

Investors may hold their interests in a Global Certificate directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations, which are accountholders therein.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions, which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

Book Entry Ownership

A Global Certificate representing the Notes will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

The address of Euroclear is 1 Boulevard du Roi Albert 11, B 1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L 1855, Luxembourg.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear and Clearstream, Luxembourg as the holder of a Note evidenced by a Global Certificate must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of a Global Certificate and in relation to all other rights arising under a Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Certificate, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant Participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective interests in the principal amount of the Global Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of interests in a Global Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by a Global Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of a Global Certificate in respect of each amount so paid. None of the Issuer, the Trustee or any Paying and Transfer Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in a Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct Participants' and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in a Global Certificate held within a clearing system are exchanged for Definitive Note Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to

Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Certificate to such persons may be limited.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

SUBSCRIPTION AND SALE

The Managers have, pursuant to a Subscription Agreement dated 17 March 2015, agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Notes at 100% of their principal amount. The Issuer has agreed to pay to the Managers a combined management and underwriting commission upon the closing of the offering of the Notes and, subject to certain limitations, to reimburse the Managers for their expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Managers to terminate it in certain circumstances prior to payment being made to the Issuer. The Issuer has agreed in the Subscription Agreement to indemnify the Managers against certain liabilities incurred in connection with the issue of the Notes.

Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and their affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates. Certain of the Managers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Managers and their affiliates would hedge such exposure by entering into positions in securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

General

No action has been or will be taken in any jurisdiction by the Issuer or the Managers that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Issuer and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

United States

The Notes have not been and will not be registered under the Securities Act and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions in reliance on Regulation S under the Securities Act.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons substantially to the following effect:

> *The Notes covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S.*

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Managers; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State. The expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

Each Manager has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act (the "**FSMA**") received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Azerbaijan

Each Manager has represented, warranted and agreed that it has not offered or sold and will not offer or sell the Notes to any person in Azerbaijan, other than as permitted under the laws of Azerbaijan.

GENERAL INFORMATION

Clearing Systems

The Notes have been accepted for clearance through the Clearstream, Luxembourg and Euroclear systems with a Common Code of 119649668. The International Securities Identification Number for the Notes is XS1196496688.

Admission to Trading

The admission of the Notes to the Official List will be expressed as a percentage of their principal amount (exclusive of accrued interest). It is expected that admission of the Notes to the Official List and to trading on the Market will be granted on or around 20 March 2015, subject only to the issue of the Global Certificate. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in U.S. Dollars and for delivery on the third calendar day after the day of the transaction. The expenses in connection with the listing and admission are expected to be £7,175.

Authorisations

The Company has obtained all necessary consents, approvals and authorisations in Azerbaijan in connection with the issue and performance of the Notes. The issue of the Notes was authorised by an order of the President of the Company dated 9 January 2015.

Material Adverse Change

There has been no significant change in the financial or trading position of the Company or of the Group since 30 June 2014 and no material adverse change in the financial position or prospects of the Company or of the Group since 31 December 2013.

Documents on Display

For so long as any of the Notes is outstanding, copies of the following documents may be inspected in electronic format at the specified offices of each of the Paying and Transfer Agents during normal business hours:

(a) the Charter of the Company along with an extract from the state registry of commercial legal entities of Azerbaijan as respectively amended or replaced from time to time;

(b) the Financial Statements;

(c) the Trust Deed;

(d) the Paying Agency Agreement;

(e) this Prospectus and any supplements thereto; and

(f) the Petkim Financial Statements.

English translations of the documents listed at (a) above are also available for inspection as described above. Such translations are accurate/direct translations. In the event of any discrepancy, the Azerbaijani version shall prevail.

Auditors

The 2013 Financial Statements and the 2012 Financial Statements have been prepared in accordance with IFRS and have been audited by Ernst & Young Holdings (CIS) B.V. in accordance with ISA (without qualification) and Ernst & Young Holdings (CIS) B.V. rendered an unqualified audit report on such accounts of the Company for each of these years. The Interim Financial Statements were reviewed by Ernst & Young Holdings (CIS) B.V. Ernst & Young is regulated in the Republic by the Chamber of Auditors of the Azerbaijan Republic which has issued Ernst & Young with a license to practise as auditors. There is no other professional institute of auditors in the Republic.

Certificates

Any certificate of the Auditors (as defined in the Trust Deed) or any other person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts set out therein notwithstanding that such certificate or report or any engagement letter or other document entered into by the Trustee in connection therewith contains a monetary or other limit on the liability of the Auditors or such other person in respect thereof and notwithstanding that the scope and basis of such certificate or report may be limited by any engagement or similar letter or by the terms of the certificate or report itself.

Enforcement by the Trustee

The Conditions provide for the Trustee to take action on behalf of the Noteholders in certain circumstances, but only if the Trustee is indemnified to its satisfaction. It may not be possible for the Trustee to take certain actions in relation to the Notes and accordingly in such circumstances the Trustee will be unable to take action, notwithstanding the provision of an indemnity to it, and it will be for Noteholders to take the action directly.

APPENDIX I – GLOSSARY OF FREQUENTLY USED DEFINED TERMS

"**2012 Bonds**"..	The U.S.$500,000,000 5.45% Senior Unsecured Notes due 2017 issued by the Company in February 2012.
"**2012 Financial Statements**"........................	The Company's consolidated financial statements as at and for the year ended 31 December 2012.
"**2013 Bonds**"..	The U.S.$1,000,000,000 4.75% Senior Unsecured Notes due 2023 issued by the Company in March 2013
"**2013 Financial Statements**"........................	The Company's consolidated financial statements as at and for the year ended 31 December 2013.
"**ACG fields**"..	The Azeri and Chirag fields and the deep water portion of the Gunashli field in the Azerbaijan sector of the Caspian Sea.
"**ACG PSA**"	The agreement on the joint development and production sharing for the Azeri and Chirag Fields and the deep water portion of the Gunashli field in the Azerbaijan sector of the Caspian sea.
"**AzACG**"	Azerbaijan (ACG) Limited, the 100% subsidiary of the Company that holds an 11.65% share in the ACG PSA.
"**AzBTC**"...	Azerbaijan (BTC) Limited, a limited liability company that is the second largest shareholder in the BTC Pipeline project.
"**Azerbaijan**"...	The Republic of Azerbaijan.
"**Azerigas**"...	The Azerigas Production Union.
"**Azerikimya**"...	The Azerikimya Production Union.
"**Azgerneft JV**"...	The joint venture between the Company and Union Grand Energy PTE Ltc.
"**AZN**"	The Azerbaijan Manat, the lawful currency of Azerbaijan.
"**Azneft**"	The Azneft Production Union.
"**AzSCP**"	The subsidiary of the Company that holds a 10% share in the SCP.
"**AzSD**"..	The subsidiary of the Company that holds a 10% share in the Shah Deniz PSA.
"**AzTAP**"...	AzTAP GMBH.
"**BTC Pipeline**"...	The Baku-Tbilisi-Ceyhan pipeline which transports oil produced in the ACG fields to the Mediterranean passing through Azerbaijan, Georgia and Turkey.
"**Central Bank**"	The central bank of the Republic of Azerbaijan.
"**CHF**"	The Swiss Franc, the lawful currency of Switzerland.
"**CIS**"	The Commonwealth of Independent States.
"**Company's production**"	The crude oil and gas production of the Company and its subsidiaries and the Company's and the Company's subsidiaries proportionate share in their respective joint venture's crude oil and gas production, collectively, but not including AzACG or Shah Deniz.
"**Company**"...	The Company means, as the context requires, SOCAR itself or SOCAR together with its subsidiaries and joint ventures or SOCAR together with its subsidiaries, joint ventures and associates.
"**Core Assets**"..	The following assets of the Issuer and its Material Subsidiaries.

Issuer	*Core Assets*
	100% of equity in Azerbaijan (ACG) Limited

100% of equity in Azerbaijan (Shah Deniz) Limited

100% of equity in Azerbaijan (South Caucasus Pipeline) Limited

100% of equity in the Azneft Production Union

100% of the equity in the Marketing and Operations Department

100% of equity in the Oil Pipelines Department

Material Subsidiaries	*Core Assets*
—Azneft Production Union	The following fields which on the date of this Agreement account for at least 85% of 'proven' and 'proven *plus* probable' offshore oil reserves of the Azneft Production Union: (a) shallow-water Gunashli; (b) Neft Dashlari; and (c) Sangachal-Duvanni-Hara-Zirya. Infrastructure used in the operation and development of the above fields.
—Oil Pipelines Department	Pipelines network operated by the Oil Pipelines Department and related infrastructure.

"**EIA**" .... The Energy Information Agency, an independent agency of the U.S. Department of Energy.

"**EUR**", "**Euros**" or "**€**" .... The currency of the participating member states in the third stage of the Economic and Monetary Union of the Treaty establishing the European community.

"**GDP**" .... Gross domestic product.

"**GEL**" or "**Lari**" .... The Georgian Lari, the lawful currency of Georgia.

"**Government**" .... The Government of Azerbaijan.

"**IBA**" .... The International Bank of Azerbaijan.

"**IFRS**" .... The International Financial Reporting Standards as promulgated by the International Accounting Standards Board.

"**Interim Financial Statements**" .... The Company's consolidated financial statements as at and for the six months ended 30 June 2014.

"**Issuer**" .... The Company.

"**LIBOR**" .... The London Inter Bank Offered Rate.

"**LPG**" .... Liquefied petroleum gas.

"**Manat**" .... The Azerbaijani Manat, the lawful currency of Azerbaijan.

"**MEI**" .... Ministry of Economy and Industry.

"**MENR**" .... Ministry of Ecology and Natural Resources.

"**Notes**" .... The Notes of the Issuer offered pursuant to this Prospectus.

"**NRE Pipeline**" .... The Northern Route Export pipeline, which runs from the Company's Sangachal Terminal in Baku to the Black Sea Port of Novorossiysk in Russia.

"**OPEC**" .... The Organisation of Petroleum Exporting Countries.

"**PRMS**" .... The internationally accepted reserve estimation standards under the Petroleum Resources Management System sponsored by the Society for Petroleum Engineers, the American Association of Petroleum Geologists, World Petroleum Council and the Society for Petroleum Evaluation Engineers.

"**SCP**"	The South Caucasus pipeline, constructed to transport gas from the Shah Deniz field from Baku to the border of Azerbaijan and the Republic of Turkey.
"**Securities Act**"	The U.S. Securities Act of 1933, as amended.
"**SGC Midstream**"...	SGC Midstream LLC.
"**SGC Upstream**"...	SGC Upstream LLC.
"**SGC**"	South Gas Corridor Closed Joint Stock Company.
"**Shah Deniz PSA**"..	The production sharing agreement in relation to the Shah Deniz field.
"**Shah Deniz**"	The Shah Deniz gas and condensate producing field.
"**SOCAR Overseas**"	SOCAR Overseas LLC.
"**SOFAZ**"	The State Oil Fund of Azerbaijan.
"**TANAP**"...	Trans-Anatolian Natural Gas Pipeline.
"**TAP**"..	Trans Adriatic Pipeline.
"**Turkish Lira**", "**Lira**" or "**YTL**"	The Turkish Lira, the lawful currency of the Republic of Turkey.
"**U.S.$**" or "**U.S. Dollar**"................................	The lawful currency of the United States of America.
"**Ukrainian Hryvnia**"	The lawful currency of Ukraine.
"**WRE Pipeline**"	The Western Route Export pipeline, which runs from the Company's Sangachal Terminal near Baku through Azerbaijan and Georgia to the Supsa Terminal on the Georgian Black Sea coast.

APPENDIX II – GLOSSARY OF MEASUREMENT AND TECHNICAL TERMS

Certain Abbreviations and Related terms

bbl	barrels
bcm	billion cubic metres
bopd	barrels of oil per day
km	kilometre
km^2	square kilometres
m	metre
mcm	million cubic metres
mm	millimetres

Certain Terminology

2D seismic	Geophysical data that depicts the subsurface strata in two dimensions.
3D seismic	Geophysical data that depict the subsurface strata in three dimensions. 3D seismic typically provides a more detailed and accurate interpretation of the subsurface strata than 2D seismic.
API gravity	The industry standard method of expressing specific gravity of crude oils. Higher American Petroleum Institute ("***API***") gravities mean lower specific gravity and lighter oils.
CIF	"*Cost, Insurance and Freight.*" A shipping term used to quote a price for goods to a named overseas port including cost, insurance and freight. The seller quotes a price for the goods including insurance, all transportation, and miscellaneous charges to the point of debarkation from the vessel. The term is used only for ocean shipments.
Condensate	The heavier hydrocarbon fractions in a natural gas reservoir that condense into a liquid as they are produced. They are used as a chemical feedstock or for blending into gasoline.
Development well	A well drilled to obtain production from a proven oil or gas field. Development wells may be used either to extract hydrocarbons from a field or to inject water or gas into a reservoir in order to improve production.
Exploration well	A well drilled to find hydrocarbons in an unproven area or to extend significantly a known oil or natural gas reservoir.
Formation	A succession of sedimentary beds that were deposited under the same general geologic conditions.
Hydrocarbons	Compounds formed from the elements hydrogen and carbon and existing in solid, liquid or gaseous forms.

Hydrotreatment... The catalytic process in which hydrogen is contacted with petroleum intermediate or other product streams to remove impurities, such as oxygen, sulphur, nitrogen, or unsaturated hydrocarbons.

Mercaptans.. An organic compound containing sulphur.

Natural gas.. Hydrocarbons that are gaseous at one atmosphere of pressure at 20°C. Natural gas can be divided into lean gas, primarily methane, but often containing some ethane and smaller quantities of heavier hydrocarbons (also called sales gas), and wet gas, primarily ethane, propane and butane, as well as smaller amounts of heavier hydrocarbons that are partially liquid under atmospheric pressure.

Pyridines... Hygroscopic liquid with a characteristic odour used as a solvent and in preparing other organic chemicals.

Reservoir... A porous and permeable underground formation containing a natural accumulation of producible natural gas and/or oil that is confined by impermeable rock or water filled rock layers.

Seismic survey.. A method by which an image of the earth's subsurface is created through the generation of shockwaves and analysis of their reflection from rock strata. Such surveys can he done in two or three-dimensional form.

Vacuum distillation....................................... Distillation under reduced pressure (less than atmospheric), which lowers the boiling temperature of the liquid being distilled. This technique with its relatively low temperatures prevents cracking or decomposition of the charge stock.

Watercut.. The proportion of water produced, along with crude oil, from extracted reservoir liquids, usually expressed as a percentage.

Workover.. A maintenance or repair operation on a well after it has commenced production. Usually undertaken to maintain or increase production from the well.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited Interim Condensed Consolidated Financial Statements of the Company as at and for the six months ended 30 June 2014 including comparative figures as at for the six months ended 30 June 2013 ... F-2

Review report as dated 27 October 2014 ... F-4

Interim consolidated statement of financial position as at 30 June 2014 ... F-5

Interim consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2014 ... F-7

Interim consolidated statement of changes in equity as at 30 June 2014 ... F-8

Interim condensed statement of cash flows for the six months ended 30 June 2014 ... F-9

Notes to the Interim Condensed Consolidated Financial Statements for the six months ended 30 June 2014 ... F-10

Audited Consolidated Financial Statements of the Company as at and for the financial year ended 31 December 2013 including comparative figures as at and for the financial year ended 31 December 2013 .. F-33

Independent auditor's report dated 24 June 2014 ... F-35

Consolidated statement of financial position as at 31 December 2013 and 31 December 2012 ... F-37

Consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2013 and 31 December 2012 ... F-39

Consolidated statement of changes in equity as at 31 December 2013 ... F-40

Consolidated statements of cash flows for the years ended 31 December 2013 and 31 December 2012 ... F-41

Notes to the Audited Consolidated Financial statements for the year ended 31 December 2013 ... F-42

Audited Consolidated Financial Statements of the Company as at and for the financial year ended 31 December 2012 including comparative figures as at and for the financial year ended 31 December 2011 .. F-113

Independent auditor's report dated 25 June 2013 ... F-115

Consolidated statement of financial position as at 31 December 2012 and 31 December 2011 ... F-116

Consolidated statement of comprehensive income for the years ended 31 December 2012 and 31 December 2011 ... F-118

Consolidated statement of changes in equity as at 31 December 2012 ... F-119

Consolidated statements of cash flows for the years ended 31 December 2012 and 31 December 2011 ... F-120

Notes to the Audited Consolidated Financial statements for the year ended 31 December 2012 ... F-121

State Oil Company of the Azerbaijan Republic

Interim Condensed Consolidated Financial Statements

30 June 2014

Contents

Report on Review of Interim Condensed Consolidated Financial Statements

Interim Condensed Consolidated Financial Statements

Interim Consolidated Statement of Financial Position 1
Interim Consolidated Statement of Profit or Loss and Other Comprehensive Income 3
Interim Consolidated Statement of Changes in Equity 4
Interim Consolidated Statement of Cash Flows 5

Notes to the Interim Condensed Consolidated Financial Statements

1 The Group and its operations 6
2 Basis of preparation and significant accounting policies, critical accounting estimates and judgments 6
3 Operating segment information 8
4 Balances and transactions with related parties 10
5 Cash and cash equivalents and deposits 11
6 Restricted cash 12
7 Trade and other receivables 12
8 Property, plant and equipment 13
9 Investments in joint ventures and associates 13
10 Other long-term assets 14
11 Trade and other payables 14
12 Borrowings 14
13 Asset retirement obligation and other provisions for liabilities and charges 17
14 Charter capital, additional paid-in-capital and retained earnings 19
15 Revenue 19
16 Finance costs 20
17 Financial instruments 20
18 Discontinued operations 21
19 Contingences, commitments and operating risks 22
20 Events after reporting date 28

EY
Building a better working world

Ernst & Young Holdings (CIS) B.V.
Port Baku Towers Business Centre
South Tower, 9th floor
153, Neftchilar Ave.
Baku, AZ1010, Azerbaijan
Tel: +994 (12) 490 7020
Fax: +994 (12) 490 7017
www.ey.com/az

Ernst & Yanq Holdinqs (SiAyEs) Bi.Vi.
Port Baku Tauers Biznes Mərkəzi
Cənub Qülləsi, 9-cu mərtəbə
Neftçilər prospekti, 153
Bakı, AZ1010, Azərbaycan
Tel: +994 (12) 490 7020
Faks: +994 (12) 490 7017

Report on review of interim condensed consolidated financial statements to Management of the State Oil Company of the Azerbaijan Republic

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of the State Oil Company of the Azerbaijan Republic (the "Company") and its subsidiaries (the "Group") as at 30 June 2014, comprising of the interim consolidated statement of financial position as at 30 June 2014 and the related interim consolidated statements of profit or loss and comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young Holdings (CIS) B.V.

27 October 2014

A member firm of Ernst & Young Global Limited

	Note	30 June 2014 Unaudited	31 December 2013 Audited
ASSETS			
Current assets			
Cash and cash equivalents	5	1,203	1,223
Restricted cash	6	80	82
Deposits	5	36	25
Trade and other receivables	7	5,894	5,304
Inventories		1,298	1,197
Other current financial assets		102	116
Total current assets		**8,613**	**7,947**
Non-current assets			
Property, plant and equipment	8	12,119	11,665
Goodwill		190	191
Intangible assets other than goodwill		555	533
Investments in joint ventures	9	917	546
Investments in associates	9	1,217	1,328
Deferred tax asset		481	456
Other long-term financial assets		148	137
Other long-term assets	10	202	243
Total non-current assets		**15,829**	**15,099**
TOTAL ASSETS		**24,442**	**23,046**
EQUITY			
Charter capital	14	1,485	1,315
Additional paid-in capital	14	873	955
Retained earnings		7,984	7,554
Cumulative translation differences		(102)	(108)
Equity attributable to the Group's equity holders		**10,240**	**9,716**
Non-controlling interest		522	513
TOTAL EQUITY		**10,762**	**10,229**

	Note	30 June 2014 Unaudited	31 December 2013 Audited
LIABILITIES			
Current liabilities			
Trade and other payables	11	6,273	5,596
Short-term and current portion of long-term borrowings	12	1,741	1,545
Taxes payable		433	623
Other provisions for liabilities and charges	13	86	77
Deferred acquisition consideration payable		75	70
Total current liabilities		**8,608**	**7,911**
Non-current liabilities			
Long-term borrowings	12	3,619	3,521
Asset retirement obligations	13	487	371
Other provisions for liabilities and charges	13	158	163
Deferred income		80	84
Deferred tax liability		574	568
Other non-current liabilities		154	199
Total non-current liabilities		**5,072**	**4,906**
TOTAL LIABILITIES		**13,680**	**12,817**
TOTAL LIABILITIES AND EQUITY		**24,442**	**23,046**

Approved for issue and signed on behalf of the Group on 27 October 2014.

Mr Rovnag Abdullayev
President

Mr Suleyman Gasymov
Vice-President for Economic Affairs

	Note	Six months ended 30 June 2014 unaudited	Six months ended 30 June 2013 unaudited (reclassified)
Revenue	15	20,404	19,795
Cost of sales		(18,504)	(18,080)
Gross profit		**1,900**	**1,715**
General and administrative expenses		(434)	(363)
Distribution expenses		(262)	(257)
Social expenses		(99)	(126)
Other operating expenses		(459)	(178)
Losses/gains on disposals of property, plant and equipment and other losses, net		(5)	9
Exploration and evaluation expenses		(6)	(5)
Other operating income		184	102
Operating profit		**819**	**897**
Finance income		27	18
Finance costs	16	(125)	(129)
Foreign exchange losses, net		(53)	(85)
Finance costs, net		**(151)**	**(196)**
Share of result of joint ventures		61	13
Share of result of associates		107	75
Profit before income tax from continuing operations		**836**	**789**
Income tax expense		(225)	(202)
Profit for the period from continuing operations		**611**	**587**
Discontinued operations			
Loss after tax for the period from discontinued operations		–	(14)
Profit for the period		**611**	**573**
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Currency translation differences		7	(79)
Total comprehensive income for the period		**618**	**494**
Profit attributable to:			
Equity holders of the Group		608	568
Non-controlling interest		3	5
		611	**573**
Total comprehensive income attributable to:			
Equity holders of the Group		614	525
Non-controlling interest		4	(31)
		618	**494**

State Oil Company of the Azerbaijan Republic
Interim Condensed Consolidated Statement of Changes in Equity
(Amounts presented are in millions of Azerbaijani Manats)

	Note	Attributable to the equity holders of the parent						
	Note	Additional paid-in capital	Charter capital	Retained earnings	Currency translation difference	Total	Non-controlling interest	Total equity
Balance at 31 December 2012		**1,015**	**1,085**	**7,234**	**(40)**	**9,294**	**559**	**9,853**
Profit for the period		–	–	568	–	568	5	573
Other comprehensive loss		–	–	–	(43)	(43)	(36)	(79)
Total comprehensive income		**–**	**–**	**568**	**(43)**	**525**	**(31)**	**494**
Additional paid-in capital		91	–	–	–	91	–	91
Increase in charter capital		(230)	230	–	–	–	–	–
Increase in charter capital of subsidiary		–	–	–	–	–	46	46
Distributions to the Government		–	–	(184)	–	(184)	–	(184)
Dividends declared by subsidiary		–	–	–	–	–	(5)	(5)
Balance at 30 June 2013 (unaudited)		**876**	**1,315**	**7,618**	**(83)**	**9,726**	**569**	**10,295**
Balance at 31 December 2013		**955**	**1,315**	**7,554**	**(108)**	**9,716**	**513**	**10,229**
Profit for the period		–	–	608	–	608	3	611
Other comprehensive income		–	–	–	6	6	1	7
Total comprehensive income		**–**	**–**	**608**	**6**	**614**	**4**	**618**
Acquisition of non-controlling interest in subsidiary				(8)		(8)	8	–
Additional paid-in capital	14	88	–	–	–	88	–	88
Increase in charter capital	14	(170)	170	–	–	–	–	–
Increase in charter capital of subsidiary		–	–	–	–	–	10	10
Distributions to the Government	14	–	–	(170)	–	(170)	–	(170)
Dividends declared by subsidiary		–	–	–	–	–	(13)	(13)
Balance at 30 June 2014 (unaudited)		**873**	**1,485**	**7,984**	**(102)**	**10,240**	**522**	**10,762**

The accompanying notes are an integral part of these Interim Condensed Consolidated Financial Statements.

	Note	Six months ended 30 June 2014 unaudited	Six months ended 30 June 2013 unaudited
Cash flows from operating activities			
Profit before income tax		**836**	**789**
Loss before income tax from discontinued operations		-	(16)
Adjustments for:			
Depreciation of property, plant and equipment		439	391
Amortisation of intangible assets		11	12
Impairment of property, plant and equipment	8	118	136
Change in provision for trade and other receivables		8	9
Change in provisions		27	14
Change in asset retirement obligations recognized in profit or loss		31	(151)
Losses/(gains) on disposals of property, plant and equipment		5	(9)
Finance income		(27)	(18)
Finance costs	16	125	129
Foreign exchange rate differences		(2)	59
Share of result of associates and joint ventures		(168)	(88)
Other non-cash transactions		(14)	13
Operating cash flows before working capital changes		**1,389**	**1,270**
Change in trade and other receivables		(566)	249
Change in inventories		(94)	2
Change in trade and other payables		586	(98)
Change in taxes payable		(185)	(40)
Utilization of provisions		(30)	(29)
Change in other assets		11	(3)
Cash generated from operations		**1,111**	**1,351**
Income taxes paid		(245)	(229)
Interest paid		(66)	(83)
Net cash from operating activities		**800**	**1,039**
Cash flows from investing activities			
Purchase of property, plant and equipment		(939)	(1,145)
Purchase of intangible assets		(26)	–
Proceeds from sale of property, plant and equipment		62	43
Additional contribution in share capital of associates and joint ventures		(153)	(33)
Deposits		(11)	8
Collection of loans provided to third parties		–	2
Financing provided to third parties		(9)	(18)
Interest received		8	8
Prepayment for acquisition of subsidiaries		(10)	(16)
Dividends received from associates and joint ventures		72	83
Net cash used in investing activities		**(1,006)**	**(1,068)**
Cash flows from financing activities			
Proceeds from borrowings	12	1,131	1,246
Repayment of borrowings	12	(875)	(1,135)
Increase in additional paid-in capital	14	88	91
Distributions to the Government	14	(155)	(170)
Dividends paid to non-controlling interests		(12)	(5)
Change in restricted cash related to borrowings		2	30
Contribution in subsidiary by non-controlling shareholder		10	46
Net cash provided by financing activities		**189**	**103**
Net foreign exchange translation differences		(3)	(9)
Net (decrease)/increase in cash and cash equivalents		**(20)**	**65**
Cash and cash equivalents at the beginning of period		**1,223**	**1,223**
Cash and cash equivalents at the end of period		**1,203**	**1,288**

The accompanying notes are an integral part of these Interim Condensed Consolidated Financial Statements.

1 The Group and its operations

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

SOCAR's registered address is 73 Neftchiler Avenue, AZ 1000 Baku, the Azerbaijan Republic.

2 Basis of preparation and significant accounting policies, critical accounting estimates and judgments

Basis of preparation. This interim condensed consolidated financial statements of SOCAR and its subsidiaries, associates and joint ventures (collectively referred to as "the Group") for the six-month period ended 30 June 2014 ("interim financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34 *Interim Financial Reporting*. These interim financial statements should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Accounting policies. The accounting policies are consistent with those of the annual consolidated financial statements for the year ended 31 December 2013, except as described below.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Standards effective for annual periods beginning on or after 1 January 2014

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements*. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact to the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32. These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Group.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39. These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments have no impact to the Group as the Group has not novated its derivatives during the current or prior periods.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36. These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the period.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Presentation currency. All amounts in these interim financial statements are presented in millions of Azerbaijani Manats ("AZN"), unless otherwise stated.

2 Basis of preparation and significant accounting policies, critical accounting estimates and judgments (continued)

Exchange rates. At 30 June 2014 the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 0.7843, EUR 1 = AZN 1.0701, CHF 1 = AZN 0.8802, GEL 1 = AZN 0.4444, UAH 1 = AZN 0.0667, TRY 1 = AZN 0.3693, JPY 100 = AZN 0.7742 (31 December 2013: USD 1 = AZN 0.7845, EUR 1 = AZN 1.078, CHF 1 = AZN 0.8792, GEL 1 = AZN 0.4521, UAH 1 = AZN 0.0952, TRY 1 = AZN 0.3642, JPY 100 = AZN 0.7449).

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

Interim consolidated statement of profit or loss and other comprehensive income	30 June 2013 as previously reported	Reclassification	30 June 2013 (reclassified)
Reclassification from cost of sales, general and administrative expenses and exploration and evaluation expenses to other operating expenses and distribution expenses			
Cost of sales	18,117	(9)	18,108
General and administrative expenses	404	(30)	374
Exploration and evaluation expenses	10	(5)	5
Other operating expenses	170	9	179
Distribution expenses	222	35	257

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

Critical accounting estimates and judgements. The critical accounting estimates and judgements followed by the Group in the preparation of these interim financial statements are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2013. Estimates have principally been made in respect of useful lives of property, plant and equipment, fair values of assets and liabilities, deferred income tax asset recognition, estimations of oil and gas reserves, impairment of non-financial assets, impairment provision for trade receivables, provision for disability payment, asset retirement and environmental remediation obligations.

Management reviews these estimates and judgements on a continuous basis, by reference to past experiences and other factors considered as reasonable which form the basis for assessing the book values of assets and liabilities. Adjustments to accounting estimates are recognized in the period in which the estimate is revised. Actual results may differ from such estimates if different assumptions or circumstances apply; however, management considers that the effect of any changes in these estimates would not be significant unless otherwise disclosed in the accompanying interim financial statements.

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

In assessing whether impairment is required in the carrying value of a potentially impaired asset, its carrying value is compared with its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value-in-use. Given the nature of the Group's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers are taking place. Consequently, the Group estimates the recoverable amount used in assessing the impairment charges by calculating value-in-use.

2 Basis of preparation and significant accounting policies, critical accounting estimates and judgments (continued)

Critical accounting estimates and judgements (continued). The Group generally determines value-in-use using a discounted cash flow model from financial budgets approved by management. Management estimates the expected future cash flows from the asset or cash generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

During the six months ended 30 June 2014, the Group has impaired property, plant and equipment in the amount of AZN 118 (2013: AZN 136), which represent oil and gas assets capitalized during the period on the Group's loss making cash generating units.

3 Operating segment information

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

The Group has four reportable segments:

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

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

Information about reportable segment profit or loss, assets and liabilities

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

The following table presents revenue and profit information regarding the Group's operating segments for the six months ended 30 June 2014 and 2013, respectively.

Six months ended 30 June 2014	Oil and gas	Refining	Construction	Sales and distribution	Unallocated (*)	Eliminations (**)	Total
Revenues							
External customers	1,423	1,056	229	17,685	11	–	**20,404**
Inter-segment	596	219	347	8,783	149	(10,094)	–
Total revenue	**2,019**	**1,275**	**576**	**26,468**	**160**	**(10,094)**	**20,404**
Segment profit/(loss)	**457**	**98**	**(25)**	**227**	**72**	**(218)**	**611**

3 Operating segment information (continued)

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

Six months ended 30 June 2013	Oil and gas	Refining	Construction	Sales and distribution	Unallocated (*)	Eliminations (**)	Total
Revenues							
External customers	1,540	1,017	119	17,081	38	–	**19,795**
Inter-segment	240	244	366	5,809	171	(6,830)	–
Total revenue	**1,780**	**1,261**	**485**	**22,890**	**209**	**(6,830)**	**19,795**
Segment profit/(loss)	**483**	**(11)**	**44**	**234**	**(50)**	**(127)**	**573**

(*) Includes unallocated revenues and expenses related to research and development, IT, security and other functions that are managed at the Group level.

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

The following table represents segment assets, liabilities and capital expenditures of the Group's operating segments as at 30 June 2014 and 31 December 2013:

	Oil and gas	Refining	Construction	Sales and distribution	Unallocated (*)	Eliminations (**)	Consolidated
Segment assets							
At 30 June 2014	9,711	3,982	1,816	13,149	8,688	(12,904)	24,442
At 31 December 2013	9,146	3,587	1,754	11,266	8,180	(10,887)	23,046
Segment liabilities							
At 30 June 2014	(3,105)	(2,141)	(1,173)	(11,075)	(4,748)	8,562	(13,680)
At 31 December 2013	(3,063)	(1,970)	(1,089)	(9,182)	(4,059)	6,546	(12,817)

	Oil and gas	Refining	Construction	Sales and distribution	Unallocated (*)	Eliminations (**)	Consolidated
Capital expenditures (***)							
Six months ended 30 June 2014	613	160	196	292	42	–	1,303
Six months ended 30 June 2013	572	146	160	256	96	–	1,230

(*) includes unallocated assets and liabilities related to research and development, IT, security and other functions that are managed at the group level.

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

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

4 Balances and transactions with related parties

Key management compensation. Key management of the Group includes the President of SOCAR and its ten Vice-Presidents. All of the Group's key management are appointed by the President of the Azerbaijan Republic. Key management individuals are entitled to salaries and benefits of SOCAR in accordance with the approved payroll matrix as well as to compensation for serving as members of the Boards of Directors for certain Group companies. During six-month period ended 30 June 2014 compensation of key management personnel totalled to AZN 0.2 (2013: AZN 0.2).

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding is detailed below.

At 30 June 2014 and 31 December 2013, the outstanding balances with related parties were as follows:

	30 June 2014		31 December 2013	
	The Government and entities under government control	Associates and joint ventures	The Government and entities under government control	Associates and joint ventures
Gross amount of trade receivables	564	73	420	90
Impairment provisions for trade and other receivables	(77)	–	(71)	–
Other receivables	4	27	6	42
Other long-term financial assets	–	34	–	30
Cash and cash equivalents	301	–	222	–
Deposit	148	–	227	–
VAT and other taxes receivable	437	–	442	–
Prepayment to suppliers	5	–	–	–
Prepayment for corporate income tax	–	–	5	
Receivable from joint ventures	10	–	–	–
Borrowings from International Bank of Azerbaijan ("IBA")	(502)	–	(509)	–
Borrowings from the Ministry of Finance of the Azerbaijan Republic	(124)	–	(127)	–
Trade and other payables	(267)	(707)	(272)	(720)
Taxes payable to the State Oil Fund of the Azerbaijan Republic (SOFAZ)	(123)	–	(123)	–
Bond payable to SOFAZ	(913)	(19)	(742)	–
Trade Payable to SOFAZ	(1,356)	–	(1,106)	–
Taxes payable	(211)	–	(443)	–
Corporate income tax payable	(31)	–	(23)	–

4 Balances and transactions with related parties (continued)

Key management compensation (continued). The transactions with related parties for the six-month periods ended 30 June 2014 and 2013 were as follows:

	Six months ended 30 June 2014		Six months ended 30 June 2013	
	The Government and entities under government control	Associates and joint ventures	The Government and entities under government control	Associates and joint ventures
Sales of natural gas	191	61	119	54
Sales of oil products	119	4	121	321
Sales of crude oil	–	1	–	–
Services rendered	29	12	88	65
Interest income on deposits	1	–	2	–
Interest income on loans from related parties	–	–	–	3
Corporate income tax	(222)	–	(192)	–
Excise tax	(206)	–	(249)	–
Price margin tax	(139)	–	(178)	–
Mining tax	(58)	–	(56)	–
Other taxes	(107)	–	(103)	–
Utilities costs	(25)	(1)	(27)	(2)
Other operating expenses	(34)	(8)	(17)	(15)
Interest expense on loans from related parties	–	–	(10)	–
Social security deductions	(46)	–	(64)	–
Social expenses	(220)	–	(293)	–
Transportation expenses	(16)	(30)	–	(49)
Purchases of property, plant and equipment and inventory	(4,510)	(108)	(4,964)	(186)
Dividends received by joint ventures	–	13	–	14
Dividends received by associates	–	60	–	68

Terms and conditions of transactions with related parties. The sales to majority of the related parties are made at prices regulated by the Government. Outstanding balances at the year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or receivable for any related party receivables or payables.

5 Cash and cash equivalents and deposits

	30 June 2014	31 December 2013
USD denominated bank balances	703	843
AZN denominated bank balances	244	120
YTL denominated bank balances	133	101
CHF denominated bank balances	78	72
EUR denominated bank balances	25	53
Other denominated bank balances	14	28
Cash on hand	6	6
Total cash and cash equivalents	**1,203**	**1,223**

Included in USD denominated bank balances as at 30 June 2014 is one call deposit of AZN 195 placed with IBA (31 December 2013: AZN 206). Interest rate on this deposit for the years ended 30 June 2014 and 31 December 2013 equalled 70 per cent of overnight rate published by Reuters. Call deposit has original maturity of less than three months.

5 Cash and cash equivalents and deposits (continued)

Deposits. At 30 June 2014 term deposits included placements in the amount of AZN 16 with maturity ranging from three to six months, under fixed contractual interest rates ranging from 2.5 per cent to 3.75 per cent per annum (31 December 2013: AZN 9).

In addition as at 30 June 2014 term deposits included placements in the amount of AZN 16 (31 December 2013: AZN 16) and other deposits in the amount of AZN 4.

All the bank balances and deposits are neither past due nor impaired.

6 Restricted cash

At 30 June 2014 restricted cash was mainly represented by cash collateral account in the amount of EUR 40 million (AZN 43) placed with Natixis (31 December 2013: AZN 43). This account was opened as on-demand performance guarantee for the benefit of Hellenic Republic Assets Development Fund S.A. in accordance with the terms of agreement on acquisition of gas distribution company DESFA.

7 Trade and other receivables

	30 June 2014	31 December 2013
Trade receivables	5,135	4,615
Less impairment loss provision	(170)	(164)
Total trade receivables, net	**4,965**	**4,451**
VAT recoverable	473	473
Prepayments	279	244
Other taxes receivable	31	27
Receivables for underlift of oil	24	19
Other receivables	174	140
Less impairment loss provision (other receivables)	(52)	(50)
Total trade and other receivables	**5,894**	**5,304**

Receivables mainly represent receivables for crude oil, oil products and natural gas sold to customers of the Group.

At 30 June 2014 trade receivables of AZN 4,321 (31 December 2013: AZN 4,017) were denominated in foreign currencies, mainly in USD.

At 30 June 2014 trade receivables of AZN 718 (31 December 2013: AZN 688) were past due.

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

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

	2014	2013
At 1 January	**214**	**201**
Receivables written off during the period as uncollectible, net of recovery	–	(8)
Net change in provision	8	9
At 30 June	**222**	**202**

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

8 Property, plant and equipment

Movements in the carrying amount of property, plant and equipment were as follows:

	Oil and gas properties and equipment	Other	Construction in progress	Total
Carrying amount at 1 January 2013	**5,362**	**3,688**	**1,727**	**10,777**
Additions	235	236	638	**1,109**
Disposals	(3)	(26)	(19)	**(48)**
Transfers	176	(52)	(124)	**–**
Depreciation charge	(200)	(210)	–	**(410)**
Impairment charge	(23)	–	(113)	**(136)**
Translation of foreign operations' balances	(2)	(91)	(18)	**(111)**
Carrying amount at 30 June 2013	**5,545**	**3,545**	**2,091**	**11,181**
Carrying amount at 1 January 2014	**5,692**	**3,854**	**2,119**	**11,665**
Additions	229	386	505	**1,120**
Disposals	(4)	(59)	(19)	**(82)**
Transfers	133	54	(187)	**–**
Depreciation charge	(250)	(201)	–	**(451)**
Impairment charge	(28)	–	(90)	**(118)**
Translation of foreign operations' balances	(4)	(9)	(2)	**(15)**
Carrying amount at 30 June 2014	**5,768**	**4,025**	**2,326**	**12,119**

Included in the disposed property, plant and equipment for six months ended 30 June 2014 were assets with net book value of AZN 15 (30 June 2013: AZN 14) which were transferred to governmental entities as part of a program approved by the Government and recognized in the distributions to the Government (Note 14).

9 Investments in joint ventures and associates

During six-month period ended 30 June 2014, the Group has made additional contributions in share capital of its joint ventures and associates, SOCAR Umid, LLC, Azerbaijan Rigs LLC and SCPC in the amount of AZN 21, AZN 10 and AZN 14, respectively.

In May 2014 the Group acquired additional 18.5 per cent shares of its associate, SOCAR Turkey Yatirim A.S. (STYAS), for the amount of AZN 50 and made additional contribution in share capital of the entity in amount AZN 20. At the same time the Shareholders of STYAS signed a new shareholding agreement. According to new shareholding agreement the Group has joint control in STYAS. As a result of this transaction the Group transferred the associate to joint venture.

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

At the end of April 2014 SGC completed purchase of 6.67% participating interest in SD PSA, 6.67% shares of SCPC Co. and 5.34% of shares in Azerbaijan Gas Supply Company ("AGSC") for USD 967 million (AZN 758).

At the date of purchase SGC allocated USD 882 million (AZN 692) to cost of acquisition of an interest in SD PSA, a joint operation, and USD 85 million (AZN 67) to cost of acquisition of shares in SCPC and AGSC, associates.

10 Other long-term assets

At 30 June 2014 other long-term assets were mainly represented by long-term prepayments for purchase of property, plant and equipment in the amount of AZN 110 (31 December 2013: AZN 157) and VAT receivable in the amount of AZN 33 (31 December 2013: AZN 39).

11 Trade and other payables

	30 June 2014	31 December 2013
Trade payables	4,340	4,246
Accrued liabilities	1,512	1,072
Other payables	71	59
Total financial payables	**5,923**	**5,377**
Liabilities for overlift of oil	34	45
Advances from customers	250	111
Payable to employees	66	63
Total trade and other payables	**6,273**	**5,596**

Financial payables of AZN 4,903 (31 December 2013: AZN 4,264) are denominated in foreign currencies, mainly in USD. Trade payables mainly represent payables for construction, drilling, transportation and utilities provided by vendors of the Group.

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

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

12 Borrowings

As at 30 June 2014 short-term borrowings of the Group were represented by the following facilities:

Facilities	Interest rate	Maturity date	Total borrowed in original currency	Balance as at 30 June 2014
Short-term facilities in USD	0.26%-14%	February 2014 - June 2015	1,504	1,194
Short-term facilities in EUR	1.65% - EURIBOR + 3.5%	July 2014 - March 2015	76	59
Short-term facilities in GEL	8%-12%	January 2014 - December 2014	50	21
Short-term facilities in CHF	0.07% + 1.5%	January 2014 - December 2014	22	19
Short-term facilities in AZN	1%	December 2014	22	22
Short-term facilities in other currencies	10.1%-12.3%	July 2014 - June 2015	–	18
Current portion of long-term borrowings			–	408
Total			–	**1,741**

12 Borrowings (continued)

As at 30 June 2014, long-term borrowings of the Group were represented by the followings facilities:

Facilities	Interest rate	Maturity date	Balance as at 30 June 2014 Non-current portion	Current portion
USD 1,000 million	4.75%	March 2023	784	12
AZN 750 million	3.15%	July 2023	450	58
USD 500 million	5.45%	February 2017	392	9
USD 485 million	LIBOR + 1.00%	December 2024	272	27
USD 330 million	LIBOR + 4.88%	August 2019	243	5
USD 300 million	LIBOR + 2.30%	August 2018	196	20
USD 200 million	LIBOR + 1.335%	December 2027	162	–
USD 170 million	LIBOR + 4.88%	August 2019	125	3
USD 150 million	LIBOR + 2.50%	November 2018	117	1
USD 150 million	LIBOR + 2.50%	March 2019	116	1
USD 150 million	LIBOR + 2.20%	May 2019	116	–
USD 200 million	LIBOR + 2.50%	August 2016	102	31
YEN 15,462 million	1.50%	April 2039	96	4
AZN 100 million	4.00%	August 2015	69	–
USD 78 million	4.00%	December 2027	64	–
USD 100 million	LIBOR + 2.20%	October 2016	46	32
EUR 40 million	EURIBOR 6 + 2.25%	November 2015	43	–
USD 50 million	LIBOR + 2.40%	December 2016	29	10
USD 29 million	4.00%	December 2027	24	–
USD 110 million	LIBOR + 3.00%	August 2015	21	44
USD 100 million	LIBOR + 3.00%	October 2015	19	40
USD 100 million	LIBOR + 3.00%	November 2015	19	39
USD 35 million	LIBOR + 2.35%	April 2020	19	4
USD 24 million	4.26%	December 2022	19	–
AZN 60 million	5.00%	March 2016	16	22
USD 16 million	LIBOR + 1.70%	June 2017	9	–
EUR 7 million	LIBOR + 3.00%	March 2022	7	–
USD 100 million	LIBOR + 2.40%	October 2015	6	32
EUR 5 million	LIBOR + 3.00%	March 2022	5	–
USD 20 million	LIBOR + 4.00%	August 2015	5	5
USD 5 million	4.26%	December 2022	4	–
USD 60 million	5.50%	January 2019	4	1
USD 4 million	4.26%	December 2022	3	–
USD 4 million	4.26%	December 2022	3	–
Other long-term borrowings			14	8
Total			**3,619**	**408**

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

Facilities	Interest rate	Maturity date	Total borrowed in original currency	Balance as at 31 December 2013
Short-term facilities in USD	0.75%-14%	January 2014 - December 2014	1,180	926
Short-term facilities in EUR	2%-4%	February 2014 - May 2014	45	49
Short-term facilities in AZN	1%-6%	September 2014	32	32
Short-term facilities in CHF	LIBOR + 0.07%	January 2014	22	19
Short-term facilities in GEL	8%-12%	June 2014 - December 2014	49	22
Short-term facilities in other currencies	4%	January 2014 - December 2014	–	33
Current portion of long-term borrowings			–	464
Total short-term borrowings and current portion of long-term borrowings			**–**	**1,545**

12 Borrowings (continued)

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

			Balance as at 31 December 2013	
Facilities	Interest rate	Maturity date	Non-current portion	Current portion
USD 1,000 million	4.75%	March 2023	785	12
AZN 750 million	3.15%	July 2023	450	50
USD 500 million	5.45%	February 2017	392	9
USD 485 million	LIBOR + 1.00%	December 2024	272	57
USD 330 million	LIBOR + 4.88%	August 2019	241	5
USD 300 million	LIBOR + 2.30%	August 2018	194	19
USD 200 million	LIBOR + 1.34%	December 2027	161	–
USD 170 million	LIBOR + 4.88%	August 2019	124	3
USD 150 million	LIBOR + 2.50%	November 2018	117	–
USD 200 million	LIBOR + 2.50%	August 2016	101	31
AZN 100 million	4.00%	August 2015	100	–
YEN 15,398 million	1.50%	April 2039	94	5
USD 100 million	LIBOR + 2.20%	October 2016	62	16
USD 78 million	4.00%	December 2027	61	2
USD 110 million	LIBOR + 3.00%	August 2015	42	45
EUR 40 million	EURIBOR + 2.25%	November 2015	41	1
USD 100 million	LIBOR + 3.00%	October 2015	39	40
USD 100 million	LIBOR + 3.00%	November 2015	39	40
USD 50 million	LIBOR + 2.40%	December 2016	39	–
AZN 60 million	5.00%	October 2015	30	23
USD 29 million	4.00%	December 2027	23	1
USD 35 million	LIBOR + 2.35%	April 2020	21	4
USD 24 million	4.26%	December 2022	19	–
USD 100 million	LIBOR + 2.40%	October 2015	18	32
USD 14 million	LIBOR + 1.70%	June 2017	11	2
USD 20 million	LIBOR + 4.00%	August 2015	10	6
EUR 7 million	LIBOR + 3.00%	March 2022	7	–
EUR 5 million	LIBOR + 3.00%	March 2022	5	–
USD 10 million	LIBOR + 3.75%	June 2016	3	2
USD 4 million	4.26%	December 2022	3	–
USD 4 million	4.26%	December 2022	3	–
EUR 3 million	LIBOR+3.00%	March 2022	3	–
USD 20 million	7.79%	July 2016	2	1
USD 2 million	LIBOR + 1.70%	June 2017	2	–
USD 2 million	LIBOR + 1.70%	June 2017	2	–
USD 3 million	5.50%	January 2019	2	–
USD 7 million	LIBOR + 3.75%	June 2015	1	2
TL 5 million	9.66%	July 2018	1	–
USD 130 million	LIBOR + 2.60%	April 2014	–	14
USD 200 million	LIBOR + 2.55%	April 2014	–	11
EUR 20 million	EURIBOR + 3.50%	June 2014	–	14
EUR 30 million	EURIBOR + 3.50%	December 2014	–	14
Other long-term borrowings			1	3
Total long-term borrowings			**3,521**	**464**

For the loans in the amount of AZN 592 the 51 per cent of Petkim shares have been pledged in favor of the financial institutions.

13 Asset retirement obligation and other provisions for liabilities and charges

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

	Note	2014	2013
Carrying amount at 1 January		**371**	**621**
Additions		50	13
Unwinding of the present value discount	16	14	19
Effect of change in discount rate		52	(222)
Exchange differences		–	(1)
Carrying amount at 30 June		**487**	**430**

The Group makes provision for the future cost of oil and natural gas production facilities retirement and related pipelines based on the present value of the decommissioning of those facilities. The provision has been estimated using existing technology, at current prices and discounted using pre-tax discount rates that reflects current market assessments of the time value of money and the risks specific to the liability as of the reporting date. These costs are expected to be incurred over the useful life of the fields and properties ranging between 10.5 and 68.5 years from the reporting date.

Asset retirement obligations related to the PSAs are determined with reference to capital costs incurred by contractor parties and they are limited to the maturities of respective PSAs. Governmental authorities are continually reviewing regulations and their enforcement. Consequently, the Group's ultimate liabilities may differ from the recorded amounts.

The maximum estimated cost to Azneft PU to abandon the production facilities employed at 30 June 2014 was AZN 1,559 as at 30 June 2014 (as at 31 December 2013: AZN 1,607). The Company used 7.38 per cent rate to discount this obligation (2013: 7.96 per cent).

The maximum estimated cost to AzSD to abandon the production facilities employed at 30 June 2014 in Shah Deniz project was AZN 102 as at 30 June 2014 (as at 31 December 2013: AZN 84). The Company used 6.64 per cent rate to discount this obligation (2013: 7.02 per cent).

The maximum estimated cost to AzACG to abandon the production facilities employed at 30 June 2014 in AzACG project was AZN 290, as at 30 June 2014 (as at 31 December 2013: AZN 279). The Company used 5.82 per cent rate to discount this obligation (2013: 6.33 per cent).

Estimated costs of dismantling oil and gas production facilities, pipelines and related processing and storage facilities, including abandonment and site restoration costs amounting to AZN 202 at 30 June 2014 (31 December 2013: AZN 158) are included in the cost of oil and gas properties and equipment.

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

Year	2014 2H	2015	2016	2017	2018	2019	2020	2021	2022 and later
Inflation rate	1.26%	4.55%	4.78%	4.45%	4.34%	4.23%	4.13%	4.03%	3.00%

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

13 Asset retirement obligation and other provisions for liabilities and charges (continued)

Other provisions for liabilities and charges. Movements in provisions for liabilities and charges are as follows:

	Note	Environmental obligations	Disability payments	Unused vacations	Total
Carrying amount at 1 January 2013		**195**	**102**	**23**	**320**
Additional provision and change in estimate, except for change in discount rate		–	4	21	**25**
Utilisation		(10)	(6)	(13)	**(29)**
Unwinding of the present value discount	16	7	3	–	**10**
Discount rate change		(2)	(10)	–	**(12)**
Carrying amount at 30 June 2013		**190**	**93**	**31**	**314**
of which:					
Current		70	12	31	**113**
Non-current		120	81	–	**201**
Carrying amount at 1 January 2014		**117**	**94**	**29**	**240**
Additional provision and change in estimate, except for change in discount rate		(4)	8	19	**23**
Utilisation		(7)	(6)	(17)	**(30)**
Unwinding of the present value discount	16	4	4	–	**8**
Discount rate change		–	3	–	**3**
Carrying amount at 30 June 2014		**110**	**103**	**31**	**244**
of which:					
Current		40	15	31	**86**
Non-current		70	88	–	**158**

Under the Presidential Decree number 1697 dated 28 September 2006 the Group prepared and approved Action Plan for Environmental Restoration with respect to the damage caused to the environment as a result of the Group's activities within Absheron area. In 2009 the Group amended the Action Plan in accordance with the Presidential Decree dated 14 April 2009. Corresponding provision is recognized at the present value of future costs to be incurred for the environmental remediation. In 2013 the Group revised the estimates related to the Action Plan based on the actual expenses incurred in prior years. In addition the Group extended the period covered by this Action Plan to 2016.

The Group has an obligation to compensate its employees for the damage caused to their health during their employment, as well as to compensate the families of the employees died at work. The compensations provided are linked to the salaries paid to the affected employees. The Group calculated the present value of the disability payments to employees using a discount rate of 7.12 per cent (7.36 per cent at 30 June 2013). For the purpose of calculation of the lifetime payments to injured employees, the Group estimated a life expectancy as 71 and 76 for men and women, respectively. The inflation rates presented above were applied to match the escalation in average salaries.

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

Charter capital. Parent company of the Group, SOCAR, has a legal status of a state enterprise. During prior year the Group's charter capital increased by AZN 170. This increase relates to increase in the charter capital of Azerigaz PU and Karbamid Plant by the Government, in the amount AZN 156 and AZN 14, respectively. The increase in charter capital was registered during six month period ended 30 June 2014 and accordingly the amount was reclassified from additional paid in capital to charter capital.

Additional paid-in-capital. During the six-month period ended 30 June 2014 the Group's additional paid-in-capital increased by AZN 88. This increase relates to the increase in the charter capital of Azerigaz PU and Karbamid Plant by the Government, in the amount AZN 30 and AZN 58, respectively. The increase in charter capital was not registered as of 30 June 2014.

Distributions to the Government. Based on decisions of the Government, the Group is periodically mandated to make direct cash contributions or finance construction and repair works for the Government (including transfer of assets), various government agencies and projects administered by the Government. During the six-month period ended 30 June 2014, such direct cash transfers to the Government and financing (made in the form of payments to sub-contractors of governmental entities and transfer of assets constructed by the Group) amounted to AZN 81 and AZN 89, respectively (2013: AZN 131 and AZN 53, respectively), mainly for repair and reconstruction of existing, as well as construction of new recreational, transport, educational and medical infrastructure of the Azerbaijan Republic. Financing in the form of transfer of assets constructed by the Group amount to AZN 15 as of 30 June 2014 (2013: AZN 14).

15 Revenue

	Six months ended 30 June 2014	Six months ended 30 June 2013
Crude oil, net	12,300	12,925
Oil products, net	5,849	4,213
Petrochemicals	957	914
Natural gas	737	752
Other revenue	561	991
Total revenue	**20,404**	**19,795**

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

Revenue from oil product sales is stated net of excise tax of AZN 206 (2013: AZN 249) and price margin tax of 139 AZN (2013: AZN 178).

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

16 Finance costs

	Note	Six months ended 30 June 2014	Six months ended 30 June 2013
Interest expense		103	100
Provisions for asset retirement obligations: unwinding of the present value discount	13	14	19
Environmental provision: unwinding of the present value discount	13	4	7
Provision for disability payments: unwinding of the present value discount	13	4	3
Total finance costs recognised in the interim consolidated statement of comprehensive income		**125**	**129**

17 Financial instruments

Fair value of financial instruments. The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

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

	30 June 2014	
	Carrying amount	Fair value
Cash and cash equivalents (Note 5)	1,203	1,203
Deposits (Note 5)	36	36
Restricted cash	70	70
Trade receivables and other receivables (Note 7)	5,089	5,089
Other current financial assets	102	102
Other long-term financial assets	148	148
Total financial assets	**6,648**	**6,648**
Trade and other payables (Note 11)	(5,923)	(5,923)
Short-term and current portion of long-term borrowings (Note 12)	(1,741)	(1,741)
Deferred acquisition consideration payable	(75)	(75)
Long-term borrowings (Note 12)	(3,619)	(3,606)
Other non-current liabilities	(53)	(53)
Total financial liabilities	**(11,411)**	**(11,398)**

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

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

Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of customers and the risk characteristics of the financed project.

17 Financial instruments (continued)

Fair value hierarchy. All financial instruments for which fair value is recognised or disclosed 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 market prices in an active market (that are unadjusted) 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 financial instruments that are recognised at fair value 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.

As at 30 June 2014, the Group held the following classes of financial instruments measured at fair value:

	Total	Level 1	Level 2	Level 3
Derivatives, included in financial assets measured at fair value	14	7	7	–
Derivatives, included in financial liabilities measured at fair value	8	1	7	–

During the six-month period ended 30 June 2014, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

18 Discontinued operations

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

The results of CSOF for the six months period ended 30 June 2013 are presented below:

	30 June 2013
Revenue and other income	26
Expenses	(42)
Gross loss	**(16)**
Finance cost	–
Loss before income tax	**(16)**
Corporate income tax benefit	2
Loss after tax for the year from discontinued operations	**(14)**

19 Contingences, commitments and operating risks

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

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

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

The Azerbaijani economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. While the Azerbaijan Government has introduced a range of stabilization measures, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects. While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

Concerning the Group's activities in Ukraine, these characteristics include, but are not limited to, low levels of liquidity in the capital markets and the existence of currency controls which cause the national currency to be illiquid outside of Ukraine. Due to unstable political situation in Ukraine, during the period from 1 January 2014 to 30 June 2014 the Ukrainian Hryvnia devaluated against major foreign currencies by approximately 60-70%. The National Bank of Ukraine imposed certain restrictions on purchase of foreign currencies at the inter-bank market. The stability of the Ukrainian economy will be significantly impacted by the Government's policies and actions with regard to administrative, fiscal, legal, and economic reforms. As a result, operations in Ukraine involve risks that are not typical for developed markets. The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

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

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these interim financial statements.

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

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

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained and potential tax liabilities of the Group will not exceed the amounts recorded in these interim financial statements. Accordingly, at 30 June 2014 and 31 December 2013 no provision for potential tax liabilities had been recorded.

19 Contingences, commitments and operating risks (continued)

Environmental matters. The enforcement of environmental regulation in the Azerbaijan Republic is evolving and the enforcement practices of government authorities are continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage above environmental obligation provision currently made by the Group (Note 13).

The Group is subject to national and local environmental laws and regulations concerning its products, operations and other activities. These laws and regulations may require the group to take future action to remediate the effects on the environment of prior disposal or release of chemicals or petroleum substances by the Group or other parties. Such contingencies may exist for various sites including refineries, chemical plants, oil fields, service stations, terminals and waste disposal sites. In addition, the Group may have obligations relating to prior asset sales or closed facilities. The ultimate requirement for remediation and its cost are inherently difficult to estimate. However, the estimated cost of known environmental obligations has been provided in the interim financial statements in accordance with the Group's accounting policies.

While the amounts of future costs could be significant and could be material to the Group's results of operations in the period in which they are recognised, it is not practical to estimate the amounts involved. The Group does not expect these costs to have a material effect on the Group's financial position or liquidity.

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

Compliance with financial covenants. At 30 June 2014 the Group had borrowings in total amount of AZN 5,360 (Note 12), which were received for financing its investing and operating activities. The Group is subject to certain financial covenants related to these borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. Management believes that as of 30 June 2014 and 31 December 2013 the Group was in compliance with all applicable financial covenants.

For the loans in the amount of AZN 592 the 51 per cent of Petkim shares have been pledged in favor of the financial institutions.

Commitments of Petkim. Based on the Share Sales Agreement, the Group has accepted and committed to take the approval of Republic of Turkey Ministry Privatization Administration for any kind of stock transfer that will result in change in controlling interest of Petkim for the following three years after signing the Share Sales Agreement.

The Group has accepted and committed to make investments over a certain amount for infrastructure and services for Petkim harbour, increase production capacities of factories and establish new factories for the following three years after the Share Sales Agreement. The Group also has accepted and committed to continue production in the Ethylene Factory and produce a certain amount for at least three years after signing the Share Sales Agreement unless there are unforeseen situations that do not involve the Group.

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

The Group has commitment to purchase at market price 623,237,585 cubic metres (31 December 2013: 943,746,586 cubic meter) of natural gas from BOTAS Petroleum Corporation ("BOTAS") in 2014.

19 Contingences, commitments and operating risks (continued)

Guarantees received and given by Petkim. The following table demonstrates guarantees received and given by the Group.

	30 June 2014	31 December 2013
Guarantees received		
Letters of guarantee received	161	142
Bank guarantees within context of direct order collection system (DOCS)	282	238
Other	1	1
Total guarantees received	**444**	**381**

	30 June 2014	31 December 2013
Guarantees given		
Letters of guarantee given	152	119
Total guarantees given	**152**	**119**

Commitment of Azerigaz PU. Based on Presidential Decree number 80 dated 14 April 2009 directed to social-economical development of Baku area and regions of the Azerbaijan Republic, Azerigaz PU has certain commitments with respect to improvement of gasification options in mentioned areas. According to this decree, Azerigaz PU would be engaged in restoration of old magisterial and local gas pipelines, gasification of new residential communities/regions/far locations, and renewal of old gas meters on magisterial gas traffic control points, industrial and personal meters for physical customers. Management believes that these expenditures will continue to be financed by the Government through contributions into capital.

Gas purchase commitment. Based on the Gas sales and purchase agreement signed on 27 February 2003 between AGSC and the Ministry of Fuel and Energy of the Azerbaijan Republic (currently purchase rights under this agreement are executed by the Group), the Group has obligation to purchase seller's minimum annual quantity as indicated in the agreement. Monetary amount of commitment to purchase seller's minimum annual quantity is USD 87 million (AZN 69).

Participating interest in ACG PSA. Azerbaijan International Operating Company, the Operator of the ACG PSA has entered into a number of capital commitments and operating leases as of 31 December 2013. As of indicated date, the Group estimated its 11.65 per cent share of these commitments and operating leases to be USD 654 million (AZN 513) and USD 21 million (AZN 17) respectively. There were no material changes in the capital commitments and operating leases during the six months ended 30 June 2014.

Commitments related to participating interest in Shah Deniz. On 17 December, 2013 Shah Deniz consortium announced the final investment decision for stage 2 development of Shah Deniz gas field in the Azerbaijan Sector of the Caspian Sea and signed certain Addendums to Shah Deniz Exploration and Development and Production Sharing Agreement ("SD EDPSA"). According to these Addendums the parties agreed to extend the development and production period to 40 years from 7 March 2001. By 31 December 2018 the Contractor Parties shall spend no less than USD 25 million (AZN 20) in order to undertake a long-term Shah Deniz Stage 2 appraisal plan. The Group has 10 per cent share in these commitments through its subsidiary, AzSD, and another effective 3.283 per cent share through its associate, SGC.

According to the work program related to Shah Deniz the capital expenditure by the year of 2041 will total USD 32,983 million (AZN 25,875). The Group has 10 per cent share in these commitments through its subsidiary, AzSD, and another effective 3.283 per cent share through its associate, SGC.

19 Contingences, commitments and operating risks (continued)

Commitments related to participating interest in Shah Deniz (continued). BP Exploration Shah Deniz Limited, the Operator of the Shah Deniz PSA, has entered into a number of capital commitments and operating leases as at 31 December 2013. The amount of these commitments and operating leases to be USD 3,250 million (AZN 2,550) (2012: USD 3,010 million (AZN 2,360)) and USD 360 million (AZN 280) (2012: USD 370 million (AZN 290)), respectively. The Group has 10 per cent share in these commitments through its subsidiary, AzSD, and another effective 3.283 per cent share through its associate, SGC.

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

Gas Contract. AGSC is obliged under the agreement signed with BOTAS to make available a maximum of approximately 6.3 bcm from 2014 and onwards at a price calculated based on a 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 deliveries 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 2014 and onwards, at a price which is calculated based on formula established in the contract.

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 Azerbaijan Republic. 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 Azerbaijan Republic).

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 2014 and onwards, at a price which is calculated based on a formula established in the contract.

Sale and purchase agreement with Option Co. AGSC is obliged under the agreement signed with OptionCo to make available 0.16 bcm during the contract year starting on 1 October 2013. Thereafter, the Company is obliged to deliver during a contract year, which starts on 1 October a maximum of five percent of the volumes transported by the Company through Georgia via the South Caucasus pipeline in the previous calendar year, at a price which is calculated based on a formula established in the contract.

Shah Deniz Debottlenecking Gas Sales Agreement. AGSC is obliged under the agreement signed with SOCAR to make available gas during the period 1 January 2014 – 30 June 2018 as follows: 0.65 bcm in 2014, 1.3 bcm in 2015-2017 and 0.64 bcm in 2018, at a price which is stipulated in the contract.

Shah Deniz Stage 2 EU Long term Gas Sales Agreements ("GSA"). In September 2013 10 EU GSAs were signed by SOCAR with 9 EU Buyers and in December 2013 the GSAs were assigned to AGSC until Shah Deniz PSA expiry with re-assignment to SOCAR as Shah Deniz Production declines. The commencement date will be firmed up through funneling mechanism within a 2-year window between July 2019 and July 2021. The GSAs assume 3 year build up period with the 10.18 bcm peak delivery obligation.

19 Contingences, commitments and operating risks (continued)

Commitments related to participating interest in AGSC (continued)

Transportation agreement with SCPC. AGSC is party to SCPC Gas Transportation Agreement ("GTA") which was amended and re-stated with effect from 17 December 2013 in order to provide additional transportation services in respect of Shah Deniz Stage 2. AGSC is obliged to pay certain tariffs, as calculated in accordance with the agreement, to SCPC starting from the commencement date, which is 1 October, 2006. The transportation agreement provides for Monthly Minimum Payment ("MMP"), as calculated in accordance with this agreement, payable by AGSC to SCPC, regardless of whether natural gas is shipped or not, in respect of each contract year until the termination or expiry of the GTA. MMP are recoverable from BPX SD under the amended ARC Deed. Annual Minimum Payment ("AMP") due in 2014 was USD 81 million (AZN 64), as calculated and presented to AGSC by SCPC in August 2013. In January 2014 SCPC submitted to AGSC the revised AMPA calculation for year 2014. The revised AMPA is USD 220 million (AZN 173) due to inclusion into calculation of SCP expansion costs. In addition to AMPA, AGSC shall pay to SCPC Incremental Monthly Charges calculated in accordance with the GTA. Further, AGSC is obliged to provide SCPC, free of charge, the natural gas necessary to fill and pressurize the pipeline to its designed operating pressure and as fuel gas.

Trans Anatolian Pipeline GTA (TANAP GTA). AGSC is party to TANAP GTA with annual reserved capacity during the buildup period of 6.1 bcm, 6.2 bcm, 7.1 bcm and plateau of 10.5 bcm after 18 months with 100 per cent ship or pay on the capacity reservation. The start date will be set through a funneling mechanism inside the first window period between 1 July 2019 – 1 July 2021.

Trans Adriatic Pipeline GTA (TAP GTA). AGSC is party to TAP GTA with initial capacity of 10 bcm and expansion capacity up to additional 10 bcm. The planned commencement date is inside the first window period between 1 January 2020 – 31 December 2022.

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) approximately 3.6 bcm in 2019 and 6.4 bcm in 2020, at a price which is stipulated in the contract.

Sale and purchase agreement with BTC Co. AGSC is obliged under an agreement signed with BTC Co to make available 0.16 bcm in 2014 and during the following years until the termination of the contract subject to the right of BTC to reduce annual off-take, at a price which is calculated based on a formula established in the contract.

The Shah Deniz PSA contractor parties and the Group 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 the Group are obliged to pay to AGSC all transportation charges and third party liabilities as stipulated in the UPAs.

Commitments related to participating interest in SCPC. Effective 17 December 2013 the SCP Company committed transportation of the Shah Deniz Stage 2 natural gas through an expansion of the SCP pipeline system. The SCP Expansion cost is expected to be in the amount of USD 5,296 million (AZN 4,155). The Group has 10 per cent share in these costs through its subsidiary, AzSD, and another effective 3.283 per cent share through its associate, SGC.

Oil shipment commitment. On 1 August 2002 the Group and other participants under the ACG PSA (the "Shipper Group") have entered into the ACG Field Production Transportation Agreement ("ACG TA") with the BTC Company which was amended on 3 February 2004. Under this Agreement, the Shipper Group (including the Group) have committed to ship through the BTC pipeline all of their crude oil entitlement from the ACG field, other than any production which each participant may ship through the Western Export Route. The Group has agreed to transport its crude oil by rail unless Baku-Tbilisi-Ceyhan pipeline is operating at its full capacity. However, in accordance with ACG TA the Group has agreed not to use other transportation options if capacity of the BTC is sufficient.

19 Contingences, commitments and operating risks (continued)

Oil shipment commitment (continued). The BTC pipeline was put into operation in May 2006. A total of 10 million barrels of oil from the ACG fields was used to fill the pipeline and the first tanker loaded with oil which had flowed through the BTC sailed away from the Ceyhan terminal on the Mediterranean coast of Turkey on 4 June 2006. The BTC pipeline, with a throughput capacity of more than 1,200,000 barrels per day, is used as the Shipper Group's main export route.

In accordance with the Transportation Agreement, Direct Agreement entered into on 3 February 2004 by BTC, the Shipper Group, the Group Representative, the lenders and security trustee to BTC, and the lenders and security trustee to certain of the ACG Shipper Group, the parties have agreed that payment of BTC tariff has a first priority claim on oil and oil sale proceeds.

Commitments of SOCAR Switzerland Group. The Group has entered into a number of capital commitments and operating leases for the next years. The Group estimated its commitments and operating leases to be CHF 4.3 million (AZN 3.8) and CHF million 70.4 (AZN 62), respectively.

Commitments of SOCAR Trading Group. The Group has entered into a number of operating leases for the next years. The Group estimated its operating leases to be USD 72 million (AZN 57).

On 8 December 2012, Petroexport Limited (in Official Liquidation) ("Petroexport") initiated an arbitration proceeding against SOCAR Trading S.A ("SOCAR Trading") before the Cairo Regional Centre for International Commercial Arbitration. The claim of Petroexport relates to the termination of a crude oil processing agreement dated 26 March 2010 between the parties and amounts to a sum of approximately USD 120 million (AZN 94). A final award of the arbitral tribunal is expected for the first quarter of 2015. Based on the arguments exchanged so far, SOCAR Trading believes that most of the claim is unsubstantiated. However at this stage of the proceedings SOCAR Trading is not able to reasonably estimate the exact amount, if any, that may be needed to settle the claim.

Commitments related to Black Sea Terminal LLC. In 2007 Carlina's 100% subsidiary, BST, has acquired land plots on the opposite bank of Khobis Ckali from Black Sea Industry LLC, a third party, for a consideration of USD 14 million (AZN 11). These land plots were originally sold to Black Sea Industry LLC pursuant to a privatisation agreement entered into with the Ministry of Economic Development of Georgia in July 2007, for a total consideration of USD 7.25 million (AZN 5). The Ministry of Economic Development of Georgia consented to the transfer of the land plots to Black Sea Terminal on the condition that Black Sea Terminal and Black Sea Industry LLC are jointly and severally liable under the privatisation agreement for the implementation of the investment programme relating to the land plots. The acquisition of title to the land plots is also contingent on the completion of the investment programme. This investment programme involves the investment of at least USD 250 million (AZN 196) for the construction of: (i) a liquid natural gas plant; (ii) oil processing facilities; (iii) seaport facilities; and (iv) a railroad. The privatization agreement also includes certain commitments in relation to the employment of personnel during the construction period. The privatisation agreement sets out certain financial penalties in the event that the investment programme is not implemented within five years. However, neither Black Sea Industry LLC nor BST have fulfilled yet their responsibilities for such significant investments in development of these land plots. As per our inquiry, in May 2009, Black Sea Industry LLC and BST filed a letter to Ministry of Economy and Sustainable Development of Georgia (MESD) requesting extension of investment period till 2017, however, MESD refused to provide such extension in favor of mentioned parties. The original deadline for implementation was 16 July 2012. On the maturity date, 16 July 2012, it became obvious that Black Sea Industry LLC and BST could not meet their investment commitments. In such case MESD had the right to request the sanctioned payments that should be determined in the following way:

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

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

19 Contingences, commitments and operating risks (continued)

Commitments related to Black Sea Terminal LLC (continued). On 11 February 2013 Carlina received the letter #4/2555 from MESD, according to which the maturity of the investment commitment was prolonged by one year till 1 August 2013. However, such extension did not suspend the accrual of USD 250 thousand on each day of delay for not fulfillment of above commitments. Total amount of such penalty comprised USD 84 million (AZN 66) as of 31 December 2013. In case Carlina and Black Sea Industry LLC do not meet their investment commitments and/or do not pay the penalty until the new maturity date the MESD has the right to repatriate the above mentioned land plots (neighboring to Kulevi terminal) and terminate the agreement.

On 19 December 2013 Group has received another decree (#1988) issued by the Government of Georgia. According to the decree Black Sea Industry and Black Sea Terminal will be free from the liabilities (including both investment liability and possible penalties) under the agreement formed on 16 July 2007, in case if:

- Investment in amount of USD 250 million (AZN 196) will be made by SOCAR Georgia Gas LLC covering the liabilities appearing on the balance of the Company, except for the liability of JSC SagarejoGas towards the GOGC subject to recovery by means of collections from subscribers.
- Gasification of minimum of 250,000 subscribers.

According to decree the maturity of the commitment was defined to be 3 years beginning from concluding an amendment to the general agreement. Currently, the Group is in process of drafting an amendment which is purported to be finalized within one month period.

20 Events after reporting date

Sales of participating interest. In July 2014 SOCAR entered into deferred sales agreement with SGC to sell its 10 per cent participating interest in SD PSA and 10 per cent share in SCPC Co. As of the date of these financial statements the Group received USD 735 million (AZN 576) payments for its 10 per cent interest in SD PSA, joint operations, and USD 254 million (AZN 199) for 10 per cent share in SCP Co, associate. The Group expects to receive further progress payments in the amount of cash calls related to the Shah Deniz PSA Full Field Development and to the Expansion Project of SCP, respectively. The sale is expected to close in 2023.

In July 2014 SOCAR sold its shares in TANAP Dogalgaz Iletim, subsidiary, to SGC for the amount of USD 166 million (AZN 130).

In July 2014 SOCAR sold its whole 20 per cent share in Trans Adriatic Pipeline AG, associate, and transferred an existing loan receivable from Trans Adriatic Pipeline AG to SGC for the total amount of USD 107 million (AZN 84).

Loan repayments. During subsequent period the Group has made early repayment in the amount of USD 181 million (AZN 142) for bonds issued to SOFAZ (USD 250 million).

Increase in Charter Capital
During subsequent period the Government has contributed AZN 30 into charter capital of one of the subsidiaries of the Group.

State Oil Company of the Azerbaijan Republic

International Financial Reporting Standards Consolidated Financial Statements

31 December 2013

Contents

Independent Auditors' Report

Consolidated Financial Statements

Consolidated Statement of Financial Position 2
Consolidated Statement of Profit or Loss and Other Comprehensive Income 4
Consolidated Statement of Changes in Equity 5
Consolidated Statement of Cash Flows 6

Notes to the Consolidated Financial Statements

1 The Group and its operations 7
2 Basis of preparation and significant accounting policies 7
3 Critical accounting estimates and judgments 22
4 Adoption of new or revised standards and interpretations and new accounting pronouncements 25
5 Segment information 27
6 Financial risk management 32
7 Balances and transactions with related parties 37
8 Cash and cash equivalents and deposits 40
9 Restricted cash and deposits 40
10 Trade and other receivables 41
11 Inventories 42
12 Other long-term assets 42
13 Other financial assets 42
14 Property, plant and equipment 43
15 Intangible assets other than goodwill 44
16 Investments in jointly controlled entities 45
17 Investments in associates 49
18 Trade and other payables 52
19 Borrowings 52
20 Taxes payable 55
21 Asset retirement obligations 55
22 Other provisions for liabilities and charges 56
23 Deferred income 57
24 Other non-current liabilities 57
25 Deferred acquisition consideration payable 58
26 Charter capital, additional paid-in-capital and retained earnings 58
27 Analysis of revenue by categories 59
28 Analysis of expenses by nature 59
29 Other operating income 60
30 Finance income 60
31 Finance costs 60
32 Income taxes 60
33 Discontinued operations 63
34 Significant non-cash investing and financing activities 64
35 Contingences, commitments and operating risks 64
36 Business combination, acquisition of non-controlling interests, acquisition of subsidiary which is not a business and goodwill 71
37 Material partly-owned subsidiaries 75
38 Events after reporting date 77

Ernst & Young Holdings (CIS) B.V.
Port Baku Towers Business Centre
South Tower, 9th floor
153, Neftchilar Ave.
Baku, AZ1010, Azerbaijan
Tel: +994 (12) 490 7020
Fax: +994 (12) 490 7017
www.ey.com/az

Ernst & Yang Holdings (SİAyEs) Bi.Vi.
Port Baku Tauers Biznes Mərkəzi
Cənub Qülləsi, 9-cu mərtəbə
Neftçilər prospekti, 153
Bakı, AZ1010, Azərbaycan
Tel: +994 (12) 490 7020
Faks: +994 (12) 490 7017

Independent Auditors' Report to Management of the State Oil Company of the Azerbaijan Republic:

We have audited the accompanying consolidated financial statements of the State Oil Company of the Azerbaijan Republic (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Holdings (CIS) B.V.

24 June 2014

	Note	31 December 2013	31 December 2012 (reclassified)
ASSETS			
Current assets			
Cash and cash equivalents	8	1,223	1,223
Restricted cash	9	82	98
Deposits	8	25	79
Trade and other receivables	10	5,304	5,020
Inventories	11	1,197	1,273
Other current financial assets	13	116	142
Total current assets		**7,947**	**7,835**
Non-current assets			
Property, plant and equipment	14	11,665	10,777
Goodwill	36	191	203
Intangible assets other than goodwill	15	533	576
Investments in jointly controlled entities	16	546	438
Investments in associates	17	1,328	1,157
Deferred tax asset	32	456	492
Other long-term financial assets	13	137	187
Other long-term assets	12	243	201
Total non-current assets		**15,099**	**14,031**
TOTAL ASSETS		**23,046**	**21,866**
EQUITY			
Charter capital	26	1,315	1,085
Additional paid-in-capital	26	955	1,015
Retained earnings		7,554	7,234
Cumulative translation differences		(108)	(40)
Equity attributable to equity holders of the Group		**9,716**	**9,294**
Non-controlling interest		513	559
TOTAL EQUITY		**10,229**	**9,853**

	Note	31 December 2013	31 December 2012 (reclassified)
LIABILITIES			
Current liabilities			
Trade and other payables	18	5,596	5,142
Short-term and current portion of long-term borrowings	19	1,545	1,873
Taxes payable	20	623	601
Other provisions for liabilities and charges	22	77	91
Deferred acquisition consideration payable	25	70	65
Total current liabilities		**7,911**	**7,772**
Non-current liabilities			
Long-term borrowings	19	3,521	2,618
Asset retirement obligations	21	371	621
Other provisions for liabilities and charges	22	163	229
Deferred income	23	84	91
Deferred tax liability	32	568	561
Other non-current liabilities	24	199	121
Total non-current liabilities		**4,906**	**4,241**
TOTAL LIABILITIES		**12,817**	**12,013**
TOTAL LIABILITIES AND EQUITY		**23,046**	**21,866**

Approved for issue and signed on behalf of the Group on 24 June 2014.

Mr. Rovnag Abdullayev
President

Mr. Suleyman Gasymov
Vice-President for Economic Affairs

(3)

State Oil Company of the Azerbaijan Republic
Consolidated Statement of Profit or Loss and Other Comprehensive Income
(Amounts presented are in millions of Azerbaijani Manats)

	Note	2013	2012 (reclassified)
Revenue	27	38,433	17,139
Cost of sales	28	(35,163)	(13,877)
Gross profit		**3,270**	**3,262**
Distribution expenses	28	(466)	(452)
General and administrative expenses	28	(791)	(653)
Gains and losses on disposal of property, plant and equipment, net		7	(24)
Social expenses		(237)	(234)
Exploration and evaluation expenses	28	(50)	(41)
Other operating expenses	28	(517)	(582)
Other operating income	29	435	117
Operating profit		**1,651**	**1,393**
Finance income	30	48	34
Finance costs	31	(256)	(187)
Foreign exchange gains and losses, net		(205)	36
Share of result of jointly controlled entities	16	29	20
Share of result of associates	17	196	200
Profit before income tax from continuing operations		**1,463**	**1,496**
Income tax expense	32	(444)	(476)
Profit for the year from continuing operations		**1,019**	**1,020**
Discontinued operations			
Loss after tax for the year from discontinued operations	33	(42)	(65)
Profit for the year		**977**	**955**
Other comprehensive income:			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods − currency translation differences		(161)	80
Other comprehensive income not to be reclassified to profit or loss in subsequent periods		–	–
Total comprehensive income for the year		**816**	**1,035**
Profit is attributable to:			
Equity holders of the Group		986	976
Non-controlling interest		(9)	(21)
		977	**955**
Total comprehensive income attributable to:			
Equity holders of the Group		918	1,013
Non-controlling interest		(102)	22
		816	**1,035**

State Oil Company of the Azerbaijan Republic
Consolidated Statement of Changes in Equity
(Amounts presented are in millions of Azerbaijani Manats)

		Attributable to the equity holders of the parent						
	Note	**Additional paid-in capital**	**Charter capital**	**Retained earnings**	**Currency translation difference**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2012		**785**	**1,059**	**6,750**	**(77)**	**8,517**	**732**	**9,249**
Profit/(loss) for the year		–	–	976	–	**976**	(21)	**955**
Other comprehensive income		–	–	–	37	**37**	43	**80**
Total comprehensive income for 2012		**–**	**–**	**976**	**37**	**1,013**	**22**	**1,035**
Acquisition of non-controlling interest in subsidiary	36	–	–	55	–	**55**	(194)	**(139)**
Contribution in charter capital of subsidiaries by non-controlling shareholder		–	–	–	–	**–**	11	**11**
Establishment of subsidiary		–	–	–	–	**–**	2	**2**
Increase in charter capital	26	–	26	(26)	–	**–**	–	**–**
Additional paid-in-capital	26	230	–	–	–	**230**	–	**230**
Distribution to the Government	26	–	–	(521)	–	**(521)**	–	**(521)**
Dividends declared by subsidiary		–	–	–	–	**–**	(14)	**(14)**
Balance at 31 December 2012		**1,015**	**1,085**	**7,234**	**(40)**	**9,294**	**559**	**9,853**
Profit/(loss) for the year		–	–	986	–	**986**	(9)	**977**
Other comprehensive loss		–	–	–	(68)	**(68)**	(93)	**(161)**
Total comprehensive income for 2013		**–**	**–**	**986**	**(68)**	**918**	**(102)**	**816**
Contribution in charter capital of subsidiaries by non-controlling shareholder		–	–	–	–	**–**	50	**50**
Establishment of subsidiary		–	–	–	–	**–**	15	**15**
Increase in charter capital		(230)	230	–	–	**–**	–	**–**
Additional paid-in-capital	26	170	–	–	–	**170**	–	**170**
Distribution to the Government	26	–	–	(666)	–	**(666)**	–	**(666)**
Dividends declared by subsidiary		–	–	–	–	**–**	(9)	**(9)**
Balance at 31 December 2013		**955**	**1,315**	**7,554**	**(108)**	**9,716**	**513**	**10,229**

(5)

State Oil Company of the Azerbaijan Republic
Consolidated Statement of Cash Flow
(Amounts presented are in millions of Azerbaijani Manats)

	Note	2013	2012 (Reclassified)
Cash flows from operating activities			
Profit before income tax from continuing operations		1,463	1,496
Loss before income tax from discontinued operations		(32)	(62)
Adjustments for:			
Depreciation of property, plant and equipment	28	720	656
Amortisation of intangible assets	15	24	21
Impairment of property, plant and equipment	14	248	228
Impairment of trade and other receivables	28	12	75
Change in provisions	28	(22)	55
Change in asset retirement obligations recognised in profit or loss		(187)	94
Gains and losses on disposals of property, plant and equipment, net		(7)	24
Finance income	30	(48)	(34)
Finance costs	31	256	187
Foreign exchange rate differences		127	(60)
Share of result of associates and joint ventures	16, 17	(225)	(220)
Gain on release of payables	29	(8)	(1)
Other non-cash transactions		(37)	(10)
Operating cash flows before working capital changes		**2,284**	**2,449**
(Increase)/decrease in trade and other receivables		(314)	197
Decrease in inventories		9	120
Increase in trade and other payables		518	2
Increase in taxes payable		–	99
Change in other financial assets		26	30
Utilization of provisions		(85)	(72)
Change in other assets		–	(30)
Cash generated from operations		**2,438**	**2,795**
Income taxes paid		(399)	(512)
Interest paid		(168)	(128)
Net cash from operating activities		**1,871**	**2,155**
Cash flows from investing activities			
Acquisitions of subsidiary (net of cash acquired), additional share in jointly controlled assets, additional contribution in associates and jointly controlled entities		(321)	(302)
Purchase of property, plant and equipment		(2,502)	(2,080)
Purchase of intangible assets	15	(53)	(39)
Deposits	8	54	(79)
Collection of loans provided to third parties		9	7
Financing provided to third parties		(19)	(10)
Interest received		14	30
Dividends received	16, 17	186	204
Proceeds from sale of property, plant and equipment		293	21
Financing provided to jointly controlled entities		–	(7)
Loss of control over subsidiary		21	–
Net cash used in investing activities		**(2,318)**	**(2,255)**
Cash flows from financing activities			
Proceeds from borrowings		2,511	1,268
Repayment of borrowings		(1,941)	(725)
Acquisition of share from non-controlling shareholder	36	–	(139)
Contribution in subsidiary by non-controlling shareholder		50	11
Increase in charter capital and additional paid-in capital	26	170	230
Dividends paid		(9)	(14)
Distribution to the Government	26	(387)	(475)
Change in restricted cash related to borrowings		16	–
Net cash provided by financing activities		**410**	**156**
Net foreign exchange difference on cash and cash equivalents		37	9
Net increase in cash and cash equivalents		**–**	**65**
Cash and cash equivalents at the beginning of the year	8	**1,223**	**1,158**
Cash and cash equivalents at the end of the year	8	**1,223**	**1,223**

(6)

1 The Group and its operations

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

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

Information about subsidiaries

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

Name	Principal activities	Country of incorporation	% equity interest 2013	2012
SOCAR Turkey Enerji A.Ş.	Refinery	Turkey	100%	100%
Azerbaijan (ACG) Ltd	Oil production	Cayman Islands	100%	100%
Azerbaijan (Shah Deniz) Ltd	Gas production	Cayman Islands	100%	100%
Caspian Drilling Company (CDC)	Drilling operations	Azerbaijan	92.4%	92.4%
SOCAR Energy Georgia LLC	Sales and Distribution	Georgia	51%	51%
SOCAR Overseas LLC	Sales and Distribution	UAE	100%	100%
SOCAR Trading Holding	Sales and Distribution	Malta	100%	100%
Azerbaijan (BTC) Ltd	Sales and Distribution	Cayman Islands	100%	100%
Cooperative Menkent U.A.	Sales and Distribution	Netherlands	99.9%	99.9%
SOCAR Energy Holdings AG	Sales and Distribution	Switzerland	100%	100%
SOCAR Energy Ukraine	Sales and Distribution	Ukraine	100%	100%
Azerbaijan (SCP) LTD	Sales and Distribution	Cayman Islands	100%	100%

2 Basis of preparation and significant accounting policies

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

Basis for consolidation. The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2013.

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

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

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

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

2 Basis of preparation and significant accounting policies (continued)

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

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

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

Business combinations. Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree 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 acquisition method of accounting for business combinations with entities under the common control.

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

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

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

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

2 Basis of preparation and significant accounting policies (continued)

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

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

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

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

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

Interests in joint operations. Certain of the Group's upstream activities which are governed by Production Sharing Agreements ("PSAs") are conducted through joint arrangements whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Such activities are accounted for as joint operations. Accordingly, the Group recognises its share of the joint operations and its share in liabilities, income and expenses related to joint operations in proportion to the Group's interest.

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

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

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

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

2 Basis of preparation and significant accounting policies (continued)

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

The functional currencies of the Group's consolidated entities are the currencies of the primary economic environments in which the entities operate. The functional currency of SOCAR and its 23 business units and the Group's presentation currency is the national currency of the Azerbaijan Republic, AZN. However, US Dollar ("USD"), Swiss Franc ("CHF"), Georgian Lari ("GEL"), Ukrainian Hryvnia ("UAH") and Turkish Lira ("YTL") are considered the functional currency of the Group's certain subsidiaries, associates and jointly controlled entities as majority of these investments' receivables, revenues, costs and debt liabilities are either priced, incurred, payable or otherwise measured in these currencies.

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

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

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

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

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

(ii) income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

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

At 31 December 2013 the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 0.7845, EUR 1 = AZN 1.0780, CHF 1 = AZN 0.8792, GEL 1 = AZN 0.4521, UAH 1 = AZN 0.0952, YTL 1 = AZN 0.3642, JPY 100 = AZN 0.7449 (2012: USD 1 = AZN 0.7850, EUR 1 = AZN 1.0377, CHF 1 = AZN 0.8594, GEL 1 = AZN 0.4744, UAH 1 = AZN 0.0975, YTL 1 = AZN 0.4387, JPY 100 = AZN 0.9126).

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

2 Basis of preparation and significant accounting policies (continued)

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

Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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

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

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

Financial assets. The Group classifies its financial assets in the following measurement categories: a) financial assets at fair value through profit or loss; b) loans and receivables; c) financial assets held-to-maturity and d) available-for−sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

2 Basis of preparation and significant accounting policies (continued)

Financial assets (continued). The subsequent measurement of financial assets depends on their classification, as follows:

(a) *Financial assets at fair value through profit or loss.* Financial assets at fair value through profit or loss are financial assets held for trading (a financial asset is classified in this category if acquired principally for the purpose of selling in the short term) and financial assets designated upon initial recognition as at fair value through profit or loss. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) *Loans and receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the statement of financial position.

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

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

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

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

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

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

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

2 Basis of preparation and significant accounting policies (continued)

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

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

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

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

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

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

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

2 Basis of preparation and significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

2 Basis of preparation and significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

2 Basis of preparation and significant accounting policies (continued)

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

Intangible assets. Intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses. Intangible assets include rights and computer software, patents, licences, customer relationships, trade name, water rights and development projects.

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

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

(a) Rights and computer software

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

(b) Customer relationships

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

Customer relationships acquired as part of net assets of SOCAR Switzerland were initially recognised at their fair values in accordance with IFRS 3 as at 30 June 2012.

(c) Petkim trade name

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

(d) Water rights

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

2 Basis of preparation and significant accounting policies (continued)

Intangible assets (continued)

(e) Development projects

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

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

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

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

Inventories. Inventories are stated at the lower of cost and net realizable value. Cost is assigned by the weighted average method. Cost comprises direct purchase costs, cost of production, transportation and manufacturing expenses (based on normal operating capacity).

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

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

2 Basis of preparation and significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

VAT payable. VAT payable represents VAT related to sales that is payable to tax authorities upon recognition of sales to customers, net of VAT on purchases which have been settled at the reporting date. VAT related to sales which have not been settled at the reporting date (VAT deferral) is also included in VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT where applicable. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

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

2 Basis of preparation and significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

It is the nature of transactions with related parties that they cannot be presumed to be carried out on an arm's length basis.

2 Basis of preparation and significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

A disposal group qualifies as discontinued operation if it is:

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

2 Basis of preparation and significant accounting policies (continued)

Non-current assets held for sale or for distribution to equity holders of the parent and discontinued operations (continued). Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss. Additional disclosures are provided in Note 33. All other notes to the financial statements mainly include amounts for continuing operations, unless otherwise mentioned.

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

Consolidated Statement of Financial Position

	Prior to reclassification	Reclassification	After reclassification
Reclassification from Investments in associates to Trade and other receivables, from Trade and other receivables to Other long-term financial assets, from Trade and other receivables to Other current financial assets, from Corporate income tax prepayments to Trade and other receivables:			
Trade and other receivables	5,034	(14)	5,020
Investment in associates	1,165	(8)	1,157
Other long-term financial assets	158	29	187
Other current financial assets	136	6	142
Corporate income tax prepayments	11	(11)	–
Reclassification from Corporate income tax payable to Taxes payable:			
Corporate income tax payable	(6)	6	–
Taxes payable	(595)	(6)	(601)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Prior to reclassification	Reclassification	After reclassification
Reclassification from Cost of sales to Other operating expenses, Distribution expenses and Social expenses, from Other operating expenses to General and administrative expenses, from Distribution expenses to Cost of sales, from General and administrative expenses to Other operating expenses:			
Cost of sales	14,010	(61)	13,949
Other operating expenses	564	18	582
Distribution expenses	412	40	452
Social expenses	233	6	239
General and administrative expenses	672	(3)	669
Reclassification from Other operating income to Revenue:			
Revenue	17,139	2	17,141
Other operating income	152	(2)	150

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

3 Critical accounting estimates and judgments

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

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

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

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

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

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

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

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

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

3 Critical accounting estimates and judgments (continued)

Asset retirement obligations (continued). The Group assesses its asset retirement obligation liabilities in accordance with the guidelines of International Financial Reporting Interpretations Committee ("IFRIC") 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current applicable legislation and regulations, and is also subject to changes because of modifications, revisions and changes in laws and regulations and respective interpretations thereof. Governmental authorities are continually considering applicable regulations and their enforcement. Consequently, the Group's ultimate asset retirement liabilities may differ from the recorded amounts. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of incurring such costs. Estimated liability of dismantling oil and gas production and storage facilities, including abandonment and site restoration costs, amounted to AZN 371 at 31 December 2013 (2012: AZN 621). Changes in any of these conditions may result in adjustments to provisions recorded by the Group.

Management determines discount rates used for discounting abandonment and site restoration costs as a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. The discount rate used as at 31 December 2013 was from 6.33 per cent to 7.96 per cent (2012: 5.97 per cent). Management believes that this discount rate appropriately reflects all risks and uncertainties pertaining to oil and gas exploration, evaluation, development and distribution in Azerbaijan as of the reporting date.

If the estimated discount rate used in the calculation had been 1 per cent higher/lower than management's estimate, the carrying amount of the provision would have been AZN 64 lower / AZN 97 higher, respectively.

Environmental obligations. As further discussed in Note 22, the Group records a provision in respect of estimated costs of remediation of the damage historically caused to the natural environment primarily in the Absheron area both by the activities of the Group and its legacy operations in periods preceding the formation of the Group. The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date based on current applicable legislation and regulations, and is also subject to changes because of modifications, revisions and changes in laws and regulations and respective interpretations thereof. Governmental authorities are continually considering applicable regulations and their enforcement. Consequently, the Group's ultimate liability for environmental remediation may differ from the recorded amounts. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of incurring such costs. Estimated liability for environmental remediation as of 31 December 2013 amounted to AZN 116 (2012: AZN 195). Changes in any of these conditions may result in adjustments to provisions recorded by the Group.

Management determines discount rate used for discounting environmental remediation costs as pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability as of the reporting date. The discount rate used as at 31 December 2013 was 7.21 per cent (2012: 7.13 per cent). Management believes that this discount rate appropriately reflects all risks and uncertainties pertaining to oil and gas exploration, evaluation and development industry in Azerbaijan. Changes in any of these conditions may result in adjustments to provisions recorded by the Group.

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

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

3 Critical accounting estimates and judgments (continued)

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

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

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

In 2013, as the result of underperformance of some cash generating units (CGU) the Group carried out a review of the recoverable amounts of those CGUs resulting in impairment charge amounting to AZN 248 (2012: AZN 228). These assets are used in the Group's oil and gas segment. In assessing whether impairment is required in the carrying value of a potentially impaired asset, its carrying value is compared with its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value-in-use. Given the nature of the Group's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers are taking place. Consequently, unless indicated otherwise, the recoverable amount used in assessing the impairment charges described below is value-in-use. The Group generally estimates value-in-use using a discounted cash flow model from financial budgets approved by management.

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

Production volumes. Estimated production volumes of SOCAR operated fields are based on detailed data for the fields and take into account development plans for the fields agreed by management as part of the long-term planning process. It is estimated that, if all production were to be reduced by 10 per cent for the whole of the next 15 years, this would not result in additional impairment charge.

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

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

Crude oil price: Forecast commodity prices are publicly available.

Discount rate. The pre-tax discount rate applied to the cash flow projections was in range of 13.77-16.00 per cent for different CGUs (2012: 14.27-15.58 per cent). The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital (WACC). In calculating WACC the cost of equity was estimated using peer group data and the cost of debt is based on interest bearing borrowings, the Group is obliged to service. Specific risks are incorporated by applying individual beta factors, market risk and size of the Group. The beta factors are evaluated annually based on publicly available market data. If the estimated WACC used in the calculation had been 1 per cent higher/lower than management's estimate this would not change the aggregate amount of impairment loss (2012: AZN 14 higher / AZN 10 lower, respectively).

3 Critical accounting estimates and judgments (continued)

Impairment of non-financial assets (continued)

Inflation rate estimates. Rates used are Global Insight (GI) forecasts.

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

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

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

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

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

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendment to IFRS effective as of 1 January 2013:

IAS 1 Presentation of Items of Other Comprehensive Income − Amendments to IAS 1. The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the Group's financial position or performance.

IAS 1 Clarification of the Requirement for Comparative Information (Amendment). The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements. An opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. Under IAS 34, the minimum items required for consolidated financial statements do not include a third balance sheet.

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

IAS 19 Employee Benefits (Revised 2012) (IAS 19R). IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. The amendment did not have an impact on the consolidated financial statements for the Group.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statement*s that dealt with consolidated financial statements and SIC-12 *Consolidation − Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it 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. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures. IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities − Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. The amendment did not have an impact on the consolidated financial statements of the Group.

IFRS 12 Disclosure of Interests in Other Entities. IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. None of these disclosure requirements are applicable for annual consolidated financial statements, unless significant events and transactions during the period requires that they are provided. Accordingly, the Group has not made such disclosures.

IFRS 13 Fair Value Measurement (issued in May 2012 and effective for annual periods beginning on or after 1 January 2013). IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group. IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j), thereby affecting the annual consolidated financial statements period. The Group provides these disclosures in Note 6.

Standards issued but not yet effective

These improvements are effective for annual periods beginning on or after 1 January 2013. These improvements will not have an impact on the Group.

IFRS 9 Financial Instruments. IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2012, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets.

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

Standards issued but not yet effective (continued)

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27). These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss.

IAS 32 Offsetting Financial Assets and Financial Liabilities − Amendments to IAS 32. These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014.

IFRS 15 New Revenue Recognition Standard. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue information about performance obligations; changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will apply to annual periods beginning on or after 1 January 2017. Early adoption is permitted. Entities will transition following either a full retrospective approach or a modified retrospective approach. The modified approach will allow the standard to be applied to existing contracts beginning with the current period. No restatement of the comparative periods will be required under this approach, as long as comparative disclosures about the current period's revenues under existing IFRS are included.

Recoverable Amount Disclosures for Non-financial Assets − Amendments to IAS 36 Impairment of Assets. These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied.

IFRIC Interpretation 21 Levies (IFRIC 21). IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting − Amendments to IAS 39. These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014.

5 Segment information

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

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

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

5 Segment information (continued)

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

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

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

Information about reportable segment profit or loss, assets and liabilities

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

	Oil and gas	Refining	Construction	Sales and distribution	Unallocated (*)	Eliminations (**)	Total
2013							
Revenues							
External customers	2,914	2,085	327	33,077	30	–	**38,433**
Inter-segment	641	488	708	13,407	364	(15,608)	**–**
Total revenue	**3,555**	**2,573**	**1,035**	**46,484**	**394**	**(15,608)**	**38,433**
Other operating income	7	21	31	58	322	(4)	**435**
Finance income	5	24	1	17	522	(521)	**48**
Foreign exchange gains/losses (net)	(8)	(199)	–	–	5	(3)	**(205)**
Raw materials and consumables used	(722)	(1,718)	(363)	(45,441)	(61)	14,715	**(33,590)**
Depreciation of property, plant and equipment	(446)	(114)	(69)	(117)	(41)	67	**(720)**
Wages, salaries and social security costs	(240)	(159)	(211)	(260)	(154)	131	**(893)**
Transportation and vehicle maintenance	(170)	(4)	(98)	(14)	(21)	170	**(137)**
Repairs and maintenance expenses	(206)	(31)	(111)	(37)	(22)	246	**(161)**
Impairment of property, plant and equipment	(235)	–	(4)	(10)	1	–	**(248)**
Mining tax	(114)	–	–	–	–	2	**(112)**
Utilities expense	(12)	(187)	(3)	(24)	(2)	2	**(226)**
Taxes other than on income	(104)	(7)	(4)	(20)	(8)	1	**(142)**
Amortization expense	–	(11)	–	(9)	(4)	–	**(24)**
Impairment of trade and other receivables	1	–	–	(13)	–	–	**(12)**
Change in other provisions for liabilities and charges	44	(8)	(11)	(5)	2	-	**22**
Other	(120)	(144)	(150)	(177)	(423)	270	**(744)**
Gains less losses on disposals of property, plant and equipment	4	(10)	(7)	13	33	(26)	**7**
Finance cost	(61)	(48)	(4)	(59)	(101)	17	**(256)**
Social expenses	(8)	(14)	(2)	(1)	(212)	–	**(237)**
Share of result of jointly controlled entities	3	–	10	2	14	–	**29**
Share of result of associates	–	41	–	153	2	–	**196**
Income tax expense	(266)	(40)	(10)	(96)	(32)	–	**(444)**
Net profit/(loss) for the year from continuing operations	**907**	**(35)**	**30**	**444**	**214**	**(541)**	**1,019**
Net loss for the year from discontinued operations	**–**	**–**	**–**	**–**	**(42)**	**–**	**(42)**
Net profit/(loss) for the year	**907**	**(35)**	**30**	**444**	**172**	**(541)**	**977**

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

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

5 Segment information (continued)

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

	Oil and gas	Refining	Construction	Sales and distribution	Unallocated (*)	Eliminations (**)	Total
Investment in associates	−	180	−	1,130	18	−	**1,328**
Investment in joint ventures	317	−	46	36	147	−	**546**
Other reportable segment assets	8,829	3,407	1,708	10,100	8,015	(10,887)	**21,172**
Total reportable segment assets	**9,146**	**3,587**	**1,754**	**11,266**	**8,180**	**(10,887)**	**23,046**
Other reportable segment liabilities	(3,063)	(1,970)	(1,089)	(9,182)	(4,059)	6,546	**(12,817)**
Total reportable segment liabilities	**(3,063)**	**(1,970)**	**(1,089)**	**(9,182)**	**(4,059)**	**6,546**	**(12,817)**
Capital expenditure (***)							
Additions − SOCAR	824	42	307	415	296	(8)	**1,876**
Additions − subsidiaries	408	176	229	265	2	−	**1,080**
Acquisitions through business combination	−	−	−	149	−	−	**149**
Total capital expenditures	**1,232**	**218**	**536**	**829**	**298**	**(8)**	**3,105**

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

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

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

5 Segment information (continued)

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

Segment information for the reportable segments for the year ended 31 December 2012 is set out below:

	Oil and gas	Refining	Construction	Sales and distribution	Unallocated (*)	Eliminations (**)	Total
2012							
Revenues							
External customers	3,068	2,039	205	11,797	30	–	**17,139**
Inter-segment	676	462	694	1,239	311	(3,382)	**–**
Total revenue	**3,744**	**2,501**	**899**	**13,036**	**341**	**(3,382)**	**17,139**
Other operating income	18	22	38	40	31	(32)	**117**
Finance income	9	19	-	7	756	(757)	**34**
Raw materials and consumables used	(724)	(1,784)	(315)	(12,119)	(51)	2,533	**(12,460)**
Depreciation of property, plant and equipment	(424)	(117)	(64)	(76)	(46)	71	**(656)**
Wages, salaries and social security costs	(234)	(164)	(201)	(180)	(138)	146	**(771)**
Transportation and vehicle maintenance	(159)	(3)	(84)	(14)	(19)	134	**(145)**
Repairs and maintenance expenses	(171)	(31)	(126)	(35)	(36)	216	**(183)**
Impairment of property, plant and equipment	(181)	–	–	–	(47)	–	**(228)**
Mining tax	(114)	–	–	–	–	2	**(112)**
Utilities expense	(13)	(184)	(4)	(7)	(3)	2	**(209)**
Taxes other than on income	(59)	(11)	(7)	(17)	(2)	–	**(96)**
Amortization expense	–	(12)	–	(6)	(3)	–	**(21)**
Impairment of trade and other receivables	(70)	(3)	–	(2)	–	–	**(75)**
Change in Other provisions for liabilities and charges	(10)	(10)	(20)	(7)	(8)	–	**(55)**
Other	(405)	(135)	(53)	(173)	(94)	266	**(594)**
Gains less losses on disposals of property, plant and equipment	(22)	(9)	3	(2)	1	5	**(24)**
Finance cost	(58)	(53)	(4)	(26)	(64)	18	**(187)**
Foreign exchange losses	(4)	49	(1)	10	(18)	–	**36**
Social expenses	(17)	(14)	(7)	(1)	(201)	6	**(234)**
Share of result of jointly controlled entities	1	–	15	–	4	–	**20**
Share of result of associates	–	–	–	196	4	–	**200**
Income tax expense	(339)	30	(23)	(190)	46	–	**(476)**
Net profit for the year from continuing operations	**768**	**91**	**46**	**434**	**453**	**(772)**	**1,020**
Net loss for the year from discontinued operations	**–**	**–**	**–**	**–**	**(65)**	**–**	**(65)**
Net profit for the year	**768**	**91**	**46**	**434**	**388**	**(772)**	**955**

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

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

5 Segment information (continued)

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

	Oil and gas	Refining	Construction	Sales and distribution	Unallocated (*)	Eliminations (**)	Total
Investment in associates	–	–	–	1,139	18	–	**1,157**
Investment in joint ventures	227	–	25	58	128	–	**438**
Other reportable segment assets	7,913	3,528	1,635	9,722	7,073	(9,600)	**20,271**
Total reportable segment assets	**8,140**	**3,528**	**1,660**	**10,919**	**7,219**	**(9,600)**	**21,866**
Other reportable segment liabilities	(2,964)	(2,230)	(1,034)	(9,565)	(3,093)	6,873	**(12,013)**
Total reportable segment liabilities	**(2,964)**	**(2,230)**	**(1,034)**	**(9,565)**	**(3,093)**	**6,873**	**(12,013)**
Capital expenditure (***)							
Additions − SOCAR	1,097	66	153	452	236	(152)	**1,852**
Additions − subsidiaries	358	130	185	317	15	–	**1,005**
Acquisitions through business combination	104	–	–	264	1	–	**369**
Total capital expenditures	**1,559**	**196**	**338**	**1,033**	**252**	**(152)**	**3,226**

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

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

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

Geographical information

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

	2013	2012
Azerbaijan	4,330	4,401
UAE	246	6,567
Switzerland	30,687	3,332
Turkey	2,222	1,907
Georgia	635	627
Other	313	305
Total consolidated revenues	**38,433**	**17,139**

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

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

	2013	2012
Azerbaijan	11,778	10,554
UAE	5	27
Switzerland	391	390
Turkey	1,874	1,996
Georgia	251	231
Other	207	154
Total	**14,506**	**13,352**

The analysis is based on location of assets.

6 Financial risk management

Financial risk factors. In the ordinary course of business, the Group is exposed to credit, liquidity and market risks. Market risk arises from fluctuating prices on commodities purchased and sold, prices of other raw materials, currency exchange rates and interest rates. Depending on degree of price volatility, such fluctuations in market prices may create volatility in the Group's financial position. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. To effectively manage the variety of exposures that may impact financial results, the Group's overriding strategy is to maintain a strong financial position. Although there are no structured formal management procedures, management of the Group identifies and evaluates financial risks with reference to the current market position.

(i) Foreign exchange risk

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

The majority of the Group's borrowings and sales as well as receivables from foreign customers are denominated in USD. There has been no significant devaluation of USD against AZN during the year ended 31 December 2013.

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

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

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

2012	Change in rates (+/-)	Effect on post-tax profit
USD/AZN	3.82%	(15)/15
JPY/AZN	5.65%	(6)/6
EUR/AZN	11.49%	(15)/15
YTL/AZN	21.46%	-/-
USD/YTL	10%	(68)/68
USD/GEL	5.39%	(5)/5

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

(ii) Commodity price risk

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

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

6 Financial risk management (continued)

Financial risk factors (continued). The following sensitivity analysis is based upon derivative price exposures that existed at 31 December 2013, whereby if oil future prices had moved, as illustrated in the table below, with all other variables held constant, post tax profit after the impact of hedge accounting and equity (excluding the effect of net profit) would have been as follows:

	Change in year-end price	Effect on profit before tax	Effect on equity
2013	5%/(5%)	(1)/1	(1)/1
2012	5%/(5%)	(6)/6	(6)/6

(iii) Interest rate risk

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

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

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

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

Loans and borrowings, net of loans receivable	Increase/decrease in basis points	Effect on post-tax profit
2013	+3/-3	0.5/(0.5)
2012	+5/-5	0.8/(0.8)

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

The Group's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, including restricted cash, trade receivables and loans receivable.

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

	2013	2012
Cash and cash equivalents (Note 8)	1,217	1,218
Restricted cash	79	94
Deposits (Note 8)	25	79
Trade and other receivables (Note 10)	4,515	4,401
Other current financial assets (Note 13)	116	142
Other long-term financial assets (Note 13)	137	187
Financial guarantees given (Note 35)	119	91
Total maximum exposure to credit risk	**6,208**	**6,212**
Financial guarantees − amounts of guarantees of indebtedness of others (Note 35)	(381)	(373)
Total exposure to credit risk net of guarantees received	**5,827**	**5,839**

6 Financial risk management (continued)

Credit risk and concentration of credit risk (continued). The Group places its cash with reputable financial institutions in the Azerbaijan Republic. The Group's cash is mainly placed with the International Bank of Azerbaijan ("IBA") which is controlled by the Azerbaijani Government. The balance of cash and cash equivalents and restricted cash held with the IBA at 31 December 2013 was AZN 445 (2012: AZN 663). The Group continually monitors the status of the banks where its accounts are maintained.

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

As at 31 December 2013, letters of guarantee and bank guarantees in total amount of AZN 381 (YTL 1,046 million) (2012: AZN 358 (YTL 816 million)) were received from certain domestics and foreign customers of SOCAR Turkey Energy A.S ("STEAS").

The Group categorized its financial receivables as follows:

31 December 2013	**Standard**	**Sub-standard**	**Past due but not impaired**	**Individually impaired**
Trade receivables	3,762	64	689	214
Other short-term financial assets (Note 13)	–	116	–	–
Other long-term financial assets (Note 13)	–	137	–	–
Total	**3,762**	**317**	**689**	**214**

31 December 2012	**Standard**	**Sub-standard**	**Past due but not impaired**	**Individually impaired**
Trade receivables	3,730	69	602	200
Other short-term financial assets (Note 13)	–	142	–	–
Other long-term financial assets (Note 13)	–	138	49	–
Total	**3,730**	**349**	**651**	**200**

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

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

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

6 Financial risk management (continued)

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

The maturity analysis of financial liabilities as of 31 December 2013 and 2012 is as follows:

At 31 December 2013	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade and other financial payables	5,377	–	–	–	**5,377**
Deferred acquisition consideration payable	–	70	-	–	**70**
Interest bearing borrowings	686	936	2,316	1,907	**5,845**
Other financial liabilities	–	–	69	–	**69**
Total undiscounted financial liabilities	**6,063**	**1,006**	**2,385**	**1,907**	**11,361**

At 31 December 2012	Less than 3 months	3-12 months	1-5 years	More than 5 years	Total
Trade and other financial payables	4,955	–	–	–	**4,955**
Deferred acquisition consideration payable	–	65	–	–	**65**
Interest bearing borrowings	1,216	740	2,330	620	**4,906**
Other financial liabilities	–	37	10	–	**47**
Total undiscounted financial liabilities	**6,171**	**842**	**2,340**	**620**	**9,973**

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

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

	2013	2012
Total borrowings (Note 19)	5,066	4,491
Total equity attributable to the Group's equity holders	9,716	9,294
Less: cash and cash equivalents	(1,223)	(1,223)
Total capital under management	**13,559**	**12,562**

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

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

6 Financial risk management (continued)

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

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

	31 December 2013	
	Carrying amounts	**Fair values**
Cash and cash equivalents (Note 8)	1,223	1,223
Deposits (Note 9)	25	25
Restricted cash	79	79
Trade receivables and other receivables (Note 10)	4,515	4,515
Other current assets	116	116
Other long-term financial assets (Note 13)	137	137
Total financial assets	**6,095**	**6,095**
Total financial payables (Note 18)	(5,377)	(5,377)
Short-term and current portion of long-term borrowings (Note 19)	(1,545)	(1,545)
Long-term borrowings (Note 19)	(3,521)	(3,502)
Deferred acquisition consideration payable	(70)	(70)
Other non-current liabilities	(69)	(69)
Total financial liabilities	**(10,582)**	**(10,563)**

	31 December 2012	
	Carrying amounts	**Fair values**
Cash and cash equivalents (Note 8)	1,223	1,223
Deposits (Note 9)	79	79
Restricted cash	94	94
Trade receivables and other receivables (Note 10)	4,401	4,401
Other current financial assets	142	142
Other long-term financial assets (Note 13)	187	187
Total financial assets	**6,126**	**6,126**
Total financial payables (Note 18)	(4,955)	(4,955)
Short-term and current portion of long-term borrowings (Note 19)	(1,873)	(1,873)
Long-term borrowings (Note 19)	(2,618)	(2,636)
Deferred acquisition consideration payable	(65)	(65)
Other non-current liabilities	(46)	(46)
Total financial liabilities	**(9,557)**	**(9,575)**

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

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

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

6 Financial risk management (continued)

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

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

	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Derivatives, included in financial assets measured at fair value	**4**	3	1	–
Derivatives, included in financial liabilities measured at fair value	**3**	2	1	–

As at 31 December 2012, the Group held the following classes of financial instruments measured at fair value:

	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Derivatives, included in financial assets measured at fair value	**9**	8	1	–
Derivatives, included in financial liabilities measured at fair value	**5**	5	–	–

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements during 2013 and 2012.

7 Balances and transactions with related parties

Key management compensation. Key management of the Group includes the President of SOCAR and its ten Vice-Presidents. All of the Group's key management are appointed by the President of the Azerbaijan Republic. Key management individuals are entitled to salaries and benefits of SOCAR in accordance with the approved payroll matrix as well as to compensation for serving as members of the Boards of directors for certain Group companies. During 2013 compensation of key management personnel totaled to AZN 0.4 (2012: AZN 0.5).

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

7 Balances and transactions with related parties (continued)

Key management compensation (continued)

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

	Note	Government and entities under government control	Associates, joint ventures
Gross amount of trade receivables		420	90
Impairment provisions for trade and other receivables		(71)	–
Other receivables		6	42
Other long-term financial assets		–	30
Cash and cash equivalents		222	–
Deposit		227	–
VAT and other taxes receivable		442	–
Prepayment for corporate income tax		5	–
Borrowings from IBA (at fixed rates varying from 3 to 3.5 per cent and floating interest rates varying from LIBOR plus 2 per cent to LIBOR plus 3.5 per cent)		(509)	–
Borrowings from the Ministry of Finance of Azerbaijan Republic		(127)	–
Trade and other payables		(272)	(720)
Taxes payable to State Oil Fund of Azerbaijan Republic (“SOFAZ”)	20	(123)	–
Bond payable to SOFAZ		(742)	–
Payable to SOFAZ		(1,106)	–
Taxes payable		(453)	–

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

	Note	Government and entities under government control	Associates and joint ventures
Sales of natural gas		248	–
Sales of oil products		266	567
Service rendered		16	88
Interest income on deposits		3	–
Interest on loans to related parties		–	3
Corporate income tax		(382)	–
Excise tax	27	(570)	–
Price margin tax		(318)	–
Mining tax	28	(112)	–
Other taxes		(217)	–
Utilities costs		(57)	(4)
Other operating expenses		(49)	(52)
Social security deductions		(138)	–
Social expenses		(439)	–
Transportation expenses		(1)	–
Ecology service and environmental security		–	(2)
Purchases of PPE and inventory		(6,505)	(1,308)
Dividends received from jointly controlled entities	16	–	13
Dividends received from associates	17	–	173

7 Balances and transactions with related parties (continued)

Key management compensation (continued)

At 31 December 2012, the outstanding balances with related parties were as follows:

	Note	Government and entities under government control	Associates, joint ventures
Gross amount of trade receivables		334	110
Impairment provisions for trade and other receivables		(64)	−
Other receivables		−	29
Cash and cash equivalents		241	−
Deposit		426	−
VAT and other taxes receivable		400	−
Borrowings from IBA (at fixed rates varying from 3 to 3.5 per cent and floating interest rates varying from LIBOR plus 2 per cent to LIBOR plus 3.5 per cent)		(571)	−
Borrowings from the Ministry of Finance of Azerbaijan Republic		(156)	−
Trade and other payables		(87)	(567)
Taxes payable to SOFAZ	20	(123)	−
Bond payable to SOFAZ		(354)	−
Payable to State SOFAZ		(1,429)	−
Taxes payable		(416)	−

The transactions with related parties for the year ended 31 December 2012 were as follows:

	Note	Government and entities under government control	Associates and joint ventures
Sales of natural gas		234	−
Sales of oil products		246	582
Sales of crude oil		−	6,496
Service rendered		26	95
Interest income on deposits		1	−
Interest on loans to related parties		1	3
Corporate income tax		(503)	−
Excise tax	27	(482)	−
Price margin tax		(441)	−
Mining tax	28	(112)	−
Other taxes		(154)	−
Utilities costs		(51)	(3)
Other operating expenses		(45)	(20)
Social security deductions		(135)	−
Social expenses		(511)	−
Transportation expenses		(6)	−
Ecology service and environmental security		(1)	(12)
Impairment of loan receivable from jointly controlled entity		−	(69)
Purchases of PPE and inventory		(7,249)	(1,234)
Dividends received from jointly controlled entities	16	−	14
Dividends received from associates	17	−	190

Terms and conditions of transactions with related parties. The sales to and purchases from the Government and entities under government control are made at prices regulated by the Azerbaijani Government. Outstanding balances at the year-end are unsecured and settlement occurs in cash. There have been no guarantees provided for any related party receivables or payables.

8 Cash and cash equivalents and deposits

	2013	2012
USD denominated bank balances	843	892
AZN denominated bank balances	120	75
YTL denominated bank balances	101	71
CHF denominated bank balances	72	116
EUR denominated bank balances	53	40
Other denominated bank balances	28	24
Cash on hand	6	5
Total cash and cash equivalents	**1,223**	**1,223**

Included in USD denominated bank balances as at 31 December 2013 are two call deposit of AZN 206 and AZN 16 placed with IBA (31 December 2012: deposit of AZN 282). Interest rate on these deposits for the year ended 31 December 2013 equalled 70 per cent of overnight rate published by Reuters and 2.85 per cent, respectively (31 December 2012: 70 per cent of overnight rate published by Reuters). Call deposit has original maturity of less than three months.

Deposits. At 31 December 2013 term deposits included placements in the amount of AZN 9 with maturity ranging from three to six months, under fixed contractual interest rates ranging from 2.5 per cent to 3.75 per cent per annum (31 December 2012: AZN 79).

In addition as at 31 December 2013 term deposits included placements in the amount of AZN 16 (2012: nil).

All the bank balances and deposits are neither past due nor impaired.

9 Restricted cash and deposits

	2013	2012
Deposit account with IBA in USD	–	63
Other restricted cash	82	35
Total short-term restricted cash and deposits	**82**	**98**

At 31 December 2013 other restricted cash was mainly represented by cash collateral account in the amount of EUR 40 million (AZN 43) placed with Natixis (2012: nil). This account was opened as on-demand performance guarantee for the benefit of Hellenic Republic Assets Development Fund S.A. in accordance with the terms of agreement on acquisition of gas distribution company DESFA.

At 31 December 2012 short-term restricted deposits were represented by two time deposits with IBA both of which were in the amount of AZN 31.4, pledged to collateralize the Group’s obligations to IBA under the loan facility obtained in May 2010 and matured in May 2013. During 2013 the Group fully settled the loan facility to IBA and released deposits from restriction.

10 Trade and other receivables

	2013	2012
Trade receivables	4,615	4,481
Less impairment loss provision	(164)	(149)
Total trade receivables	**4,451**	**4,332**
VAT recoverable	473	383
Other taxes receivable	27	30
Prepayments	244	151
Other receivables	140	161
Less impairment loss provision (other receivables)	(50)	(51)
Receivable for underlift of oil	19	14
Total trade and other receivables	**5,304**	**5,020**

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

At 31 December 2013 trade receivables of AZN 4,017 (2012: AZN 4,116) were denominated in foreign currencies, mainly in USD.

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

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

	2013	2012
At 1 January	**200**	**215**
Receivables written off during the year as uncollectible net of recovery	–	(21)
Net change in provision	14	6
At 31 December	**214**	**200**

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

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

	2013	2012
1-30 days overdue	255	208
1-3 months overdue	38	91
Over 3 months overdue	395	303
Total overdue receivables	**688**	**602**

At 31 December 2013 trade receivables of AZN 688 (2012: AZN 602) were past due. The Group holds guarantee letters and letters of credits in total amount of AZN 2 (2012: AZN 6).

11 Inventories

	2013	2012
Finished goods	323	368
Goods in transit	320	150
Raw materials and spare parts	310	363
Crude oil	136	306
Work in progress	96	76
Other	12	10
Total inventories	**1,197**	**1,273**

12 Other long-term assets

At 31 December 2013 other long-term assets were mainly represented by long-term prepayments for purchase of property, plant and equipment in the amount of AZN 157 (2012: AZN 81), VAT receivable in the amount of AZN 39 (2012: AZN 39) and other long-term assets.

13 Other financial assets

Current

At 31 December 2013 other current financial assets were mainly represented by short-term loans receivable from third parties in the amount of AZN 50 (2012: AZN 78), balances relating to margin deposits and financial derivatives in the amount of AZN 61 (2012: AZN 52) and other financial assets.

Non-current

In accordance with the loan agreement with Palmali dated 5 October 2009, as amended on 6 November 2009 and 30 March 2010, the Group provided a loan in the amount of USD 120 million (AZN 94) bearing annual interest rate of LIBOR plus 4.5 per cent and maturing on 30 September 2015. The principal and interest are payable on a quarterly basis.

At 31 December 2013 the carrying value of loan receivable from Palmali equalled to AZN 65 (2012: AZN 74).

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

At 31 December 2013 the Group also had receivable from Trans Adriatic Pipeline (“TAP”), a joint venture company established with the purpose of planning, developing and building the Trans Adriatic gas pipeline, in the amount of AZN 30 (2012: AZN 10), long-term dividends receivable from BTC Co, an associate company, in the amount of AZN 33 (2012: AZN 29) and other financial assets.

14 Property, plant and equipment

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

	Buildings and constructions	Oil & gas properties and equipment	Plant and machinery	Vessels and port facilities	Other	Exploration and evaluation assets	Construction in progress	Total
Cost:								
At 1 January 2012	**1,202**	**7,173**	**1,919**	**492**	**1,135**	**117**	**1,430**	**13,468**
Additions	19	874	176	41	117	54	1,166	**2,447**
Acquisition through business combination	162	24	25	4	17	–	6	**238**
Disposals	(50)	(90)	(22)	(3)	(33)	–	(80)	**(278)**
Transfers	–	499	35	–	34	–	(568)	**–**
Translation to presentation currency	7	(3)	59	–	37	–	10	**110**
At 31 December 2012	**1,340**	**8,477**	**2,192**	**534**	**1,307**	**171**	**1,964**	**15,985**
Additions	61	889	169	57	139	107	1,212	**2,634**
Acquisition through business combination (Note 36)	96	–	2	–	5	–	1	**104**
Discontinued operations (Note 33)	(5)	–	(12)	(571)	(12)	–	(24)	**(624)**
Disposals	(12)	(78)	(43)	(8)	(114)	–	(169)	**(424)**
Transfers	74	147	389	2	18	–	(630)	**–**
Translation to presentation currency	(10)	(12)	(158)	–	(106)	–	(34)	**(320)**
At 31 December 2013	**1,544**	**9,423**	**2,539**	**14**	**1,237**	**278**	**2,320**	**17,355**
Depreciation and impairment:								
At 1 January 2012	**(355)**	**(2,549)**	**(671)**	**(309)**	**(200)**	**–**	**(319)**	**(4,403)**
Depreciation charge for the year	(73)	(408)	(158)	(27)	(85)	–	–	**(751)**
Disposal	45	80	18	3	19	–	21	**186**
Impairment	(1)	(77)	(4)	(40)	(1)	–	(105)	**(228)**
Transfers	8	(162)	(4)	–	(8)	–	166	**–**
Translation to presentation currency	–	1	(13)	–	–	–	–	**(12)**
At 31 December 2012	**(376)**	**(3,115)**	**(832)**	**(373)**	**(275)**	**–**	**(237)**	**(5,208)**
Depreciation charge for the year	(70)	(403)	(195)	(27)	(115)	–	–	**(810)**
Disposal	6	28	23	6	28	–	14	**105**
Discontinued Operations (Note 33)	4	–	1	391	9	–	7	**412**
Impairment	(11)	(224)	(1)	–	(1)	–	(11)	**(248)**
Transfers	(2)	(19)	–	(2)	(3)	–	26	**–**
Translation to presentation currency	3	2	50	–	4	–	–	**59**
At 31 December 2013	**(446)**	**(3,731)**	**(954)**	**(5)**	**(353)**	**–**	**(201)**	**(5,690)**
Net book value:						–		
At 1 January 2012	**847**	**4,624**	**1,248**	**183**	**935**	**117**	**1,111**	**9,065**
At 31 December 2012	**964**	**5,362**	**1,360**	**161**	**1,032**	**171**	**1,727**	**10,777**
At 31 December 2013	**1,098**	**5,692**	**1,585**	**9**	**884**	**278**	**2,119**	**11,665**

14 Property, plant and equipment (continued)

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

Included in the disposed property, plant and equipment during the year ended 31 December 2013 were assets with net book value of AZN 33 (2012: AZN 47) which were transferred to governmental entities as part of social program approved by the Government and recognized in the distribution to the Government (Note 26). Due to the fact that the assets are constructed/acquired and disposed to the Government within the same year, management believe that their fair value at the date of transfer to the Government approximate cost of construction/acquisition.

15 Intangible assets other than goodwill

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

	Land and property rights	Water rights	Trade name	Customer relation-ship	Other intangible assets	Total
Cost:						
At 1 January 2012	**130**	**156**	**30**	**79**	**57**	**452**
Acquisitions through business combinations	9	–	–	114	7	**130**
Additions	13	–	–	–	26	**39**
Disposal	–	–	–	–	(1)	**(1)**
Impairment	(7)	–	–	–	–	**(7)**
Translation to presentation currency	10	11	2	10	9	**42**
At 31 December 2012	**155**	**167**	**32**	**203**	**98**	**655**
Additions	28	–	–	–	25	**53**
Disposal	–	–	–	–	(13)	**(13)**
Translation to presentation currency	(22)	(28)	(5)	(12)	–	**(67)**
At 31 December 2013	**161**	**139**	**27**	**191**	**110**	**628**
Amortization and impairment:						
At 1 January 2012	**(11)**	**(12)**	**–**	**(12)**	**(11)**	**(46)**
Amortization charge for the year	(3)	(3)	–	(7)	(8)	**(21)**
Translation to presentation currency	(1)	(1)	–	(1)	(9)	**(12)**
At 31 December 2012	**(15)**	**(16)**	**–**	**(20)**	**(28)**	**(79)**
Amortization charge for the year	(5)	(3)	–	(8)	(8)	**(24)**
Translation to presentation currency	2	2	–	3	1	**8**
At 31 December 2013	**(18)**	**(17)**	**–**	**(25)**	**(35)**	**(95)**
Net book value:						
At 1 January 2012	**119**	**144**	**30**	**67**	**46**	**406**
At 31 December 2012	**140**	**151**	**32**	**183**	**70**	**576**
At 31 December 2013	**143**	**122**	**27**	**166**	**75**	**533**

15 Intangible assets other than goodwill (continued)

At 31 December 2013 included in carrying value of intangible assets was AZN 27 (2012: AZN 32) trade name of Petkim acquired through business combination in May 2008.

The carrying value of Petkim trade name at 31 December 2013 has been tested for impairment through comparison with its recoverable amount. Recoverable amount has been determined based on the relief from royalty approach. In applying this methodology, the Group estimated the value of the trade name by capitalising the royalties saved due to Petkim owning the trade name. The royalty rate of 0.2 per cent was used in the calculations and the discount rate of 9.70 per cent was applied in the impairment study based on the WACC for 11 years. As a result of the test performed, no impairment on the Petkim trade name was identified.

During 2013, total amortization expense amounting to AZN 24 (2012: AZN 21) have been allocated to cost of sales by AZN 19 (2012: AZN 16), marketing, selling and distribution expenses by AZN 4 (2012: AZN 4), and general administrative expenses by AZN 1 (2012: AZN 1).

16 Investments in jointly controlled entities

The table below summarizes movements in the carrying amount of the Group's investment in jointly controlled entities.

	Note	2013	2012
Carrying amount at 1 January		**438**	**392**
Additions to investments in jointly controlled entities		135	55
Share of after tax results of jointly controlled entities		29	20
Dividends received from jointly controlled entities	7	(13)	(14)
Exchange differences		(1)	(1)
Acquisition of control over jointly controlled entities	36	(56)	–
Other		14	(14)
Carrying amount at 31 December		**546**	**438**

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

	Azgerneft LLC	AZFEN	Azeri MI Drilling Fluids	SOCAR Umid	SOCAR AQS	Azerbaijan Rigs	SOCAR Aurora Terminal
Country of incorporation	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**	**Panama**
Current assets:	33	59	47	11	337	21	4
including cash and cash equivalents	8	3	1	5	–	1	–
Non-current assets	46	13	6	397	3	171	83
Current liabilities:	(29)	(23)	(24)	(21)	(73)	(4)	(10)
including current financial liabilities (except trade and other payables and provisions)	–	–	–	–	(19)	–	–
Non-current liabilities:	–	–	–	(3)	(55)	–	(18)
including non-current financial liabilities (except trade and other payables and provisions)	–	–	–	–	–	–	–
Net assets	**50**	**49**	**29**	**384**	**212**	**188**	**59**
Proportion of the Group's ownership	40%	60%	51%	80%	51%	10%	50%
Interest in the net assets	**20**	**29**	**15**	**307**	**108**	**19**	**30**
Adjustments*	–	–	–	(17)	–	–	–
Carrying value	**20**	**29**	**15**	**290**	**108**	**19**	**30**

(45)

16 Investments in jointly controlled entities (continued)

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

* As of 31 December 2013 the other shareholder of SOCAR Umid paid more than its portion of investment.

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

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

16 Investments in jointly controlled entities (continued)

At 31 December 2012, the summarized financial information of the Group's principal jointly controlled entities, based on their IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

2012	Azgerneft LLC	AZFEN	Azeri MI Drilling Fluids	SOCAR Umid	SOCAR AQS	SOCAR Petroleum CSJC
Country of incorporation	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**	**Azerbaijan**
Current assets:	24	53	55	2	368	36
including cash and cash equivalents	9	23	2	1	1	6
Non-current assets	34	13	5	302	4	85
Current liabilities:	(18)	(23)	(45)	(50)	(128)	(29)
including current financial liabilities (except trade and other payables and provisions)	–	–	–	–	(84)	–
Non-current liabilities:	–	–	–	–	(52)	–
including non-current financial liabilities (except trade and other payables and provisions)	–	–	–	–	(1)	–
Net assets	**40**	**43**	**15**	**254**	**192**	**92**
Proportion of the Group's ownership	40%	60%	51%	80%	51%	51%
Interest in the net assets	**16**	**26**	**8**	**203**	**98**	**47**
Adjustments**	–	–	–	8	–	12
Carrying value	**16**	**26**	**8**	**211**	**98**	**59**

2012	Azgerneft LLC	AZFEN	Azeri MI Drilling Fluids	SOCAR Umid	SOCAR AQS	SOCAR Petroleum CSJC
Revenue	39	131	116	–	90	519
Cost of sales	(22)	(97)	(98)	–	(111)	(500)
including depreciation	–	(4)	(1)	–	–	(1)
General and Administrative expenses	–	(3)	(3)	–	(3)	(17)
Other expenses	(1)	(4)	–	(4)	(1)	–
Finance income	–	–	–	–	5	–
Finance costs	–	–	–	–	(2)	–
Profit before tax	**16**	**27**	**15**	**(4)**	**(22)**	**2**
Income tax (expense)/benefit	(3)	(6)	(3)		3	–
Profit for the year (continuing operations)	**13**	**21**	**12**	**(4)**	**(19)**	**2**
Group's share of profit for the year	**5**	**13**	**6**	**(3)**	**(10)**	**1**

** As of 31 December 2012 the Group paid more than its portion of investment in SOCAR Umid and SOCAR Petroleum.

16 Investments in jointly controlled entities (continued)

At 31 December 2012, the Group's interests in other joint ventures that are not significant both individually and in aggregate and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (loss)	Interest held	Country of incorpo-ration
Azeri-Fugro	–	–	–	–	1	–	60%	Azerbaijan
Bosshelf LLC	20	1	(18)	–	70	–	90%	Azerbaijan
Azturqaz	–	1	(1)	–	1	–	50%	Azerbaijan
Oil and Gas Proservice	11	–	(2)	–	5	3	30%	Azerbaijan
Ekol Engineering Services	6	10	(2)	–	17	–	51%	Azerbaijan
Caspian Shipyard Company	13	1	(1)	–	25	7	20%	Azerbaijan
SOCAR KPS	7	7	(14)	–	6	–	50%	Azerbaijan
SOCAR-UGE	1	12	(3)	–	–	(2)	97%	Azerbaijan
Sarmatia	1	–	(1)	–	–	–	27%	Poland
SOCAR Baglan LLC	–	16	(9)	(10)	–	(2)	51%	Azerbaijan
AGRI LNG Project Company SRL	1	–	–	–	–	–	33%	Romania
SOCAR CAPE	2	–	(3)	–	9	–	51%	Azerbaijan
Star Gulf FZCO	8	8	(11)	–	19	(1)	80%	UAE
SOCAR Foster Wheeler Engineering	1	–	(1)	–	1	–	65%	Azerbaijan
Total	**71**	**56**	**(66)**	**(10)**	**154**	**5**		

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

During 2013, the Group has made additional contributions in share capital of its jointly controlled entities, SOCAR Umid LLC and Azerbaijan Rigs LLC in the amount of AZN 84 (2012: AZN 38) and AZN 19 (2012: nil), respectively, and insignificant contributions to other jointly controlled entities.

In July 2013 shareholders agreement related to Star Gulf FZCO has changed and SOCAR obtained control over this joint venture (without any consideration paid by SOCAR). As a result Star Gulf FZCO and Bosshelf LLC (where Star Gulf FZCO has 50 per cent interest) became subsidiaries of SOCAR (Note 36).

During second half of 2013, SOCAR Overseas, the Group's subsidiary, acquired remaining 49 per cent share in SOCAR Petroleum, as a result of which control over the latter was obtained (Note 36).

In July 2013 the Group acquired remaining 50 per cent shares of its associate, SOCAR International DMCC, as a result of which SOCAR International DMCC's investment in SOCAR Aurora Terminal in the amount of AZN 30 was recognized as Group's joint venture (Note 17, 36).

The Group holds more than half of the voting rights in several jointly controlled entities. All significant decisions of these entities require unanimous consent of all shareholders.

The Group holds 10 per cent of the voting rights in Azerbaijan Rigs LLC. All significant decisions of the entity require unanimous consent of all shareholders.

17 Investments in associates

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

	Note	2013	2012
Carrying amount at 1 January		**1,157**	**1,186**
Additions to investments in associates		178	61
Acquisition through business combination		–	26
Share of after tax results of associates		196	200
Dividends received from associates	7	(173)	(190)
Acquisition of control over associate	36	(18)	–
Derecognition of associates		(9)	(120)
Exchange differences		(5)	(2)
Other		2	(4)
Carrying amount at 31 December		**1,328**	**1,157**

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

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

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

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

2013	South Caucasus Pipeline Company	BTC Co	SOCAR TURKEY YATIRIM A.Ş.
Revenue	174	1,143	–
Cost of sales	(78)	(462)	–
General and administrative expenses	(1)	–	(10)
Other expense	–	–	–
Finance income	–	–	17
Finance costs	–	(23)	(14)
Profit before tax	**95**	**658**	**(7)**
Income tax (expense)/benefit	(29)	–	105
Profit for the year (continuing operations)	**66**	**658**	**98**
Group's share of profit for the year	**7**	**165**	**41**

17 Investments in associates (continued)

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

Name	Total assets	Total liabilities	Revenue	Profit/ (loss)	Interest held	Country of incorporation
Ateshgah Insurance Company	29	(21)	38	−	10%	Azerbaijan
Azerbaijan Gas Supply Company	710	(709)	1,720	−	28%	Cayman Islands
AzLab	1	−	2	−	50%	Azerbaijan
Caspian Geophysical	37	(15)	36	8	45%	Azerbaijan
Caspian Pipe Coatings LLC	7	(3)	6	1	50%	Azerbaijan
Cross Caspian Oil and Gas Logistics	9	(9)	89	−	34%	Azerbaijan
South Caucasus Pipeline Company Hold Co ("SCPC Hold Co.")	17	(1)	1	1	10%	Cayman Islands
Interfax Azerbaijan	4	−	−	−	49%	Azerbaijan
TAP	252	(157)	−	(8)	20%	Switzerland
Total	**1,066**	**(915)**	**1,892**	**2**		

SOCAR Gas Pipelines GmbH, the Group's subsidiary, became shareholder of TAP on 30 July 2013. The Group owns 20 per cent of TAP, which is accounted as associate as of 31 December 2013. During 2013, the Group has made additional contributions in share capital of TAP in the amount of AZN 33 (2012: nil).

During 2013 the Group established Socar Turkey Yatirim A.S. that purchased all STEAS shares in STAR refinery (Group subsidiary) at market value. Socar Turkey Yatirim A.S. has then sold 40 per cent of the shares to the Ministry of Economic Development of Azerbaijan Republic and 18.5 per cent to Turcas. The Group's interest in Socar Turkey Yatirim A.S. is 41.5 per cent which is accounted at equity method. During 2013, the Group has made contributions in share capital of Socar Turkey Yatirim A.S. in the amount of AZN 144 (2012: nil).

In July 2013 the Group acquired remaining 50 per cent shares of SOCAR International DMCC, as a result of which the Group obtained control over SOCAR International DMCC. Accordingly, SOCAR International DMCC was consolidated into these financial statements (Note 36).

At 31 December 2012, the summarized financial information of the Group's principal associates, based on their IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

2012	South Caucasus Pipeline Company	BTC Co	SOCAR İnternational DMCC
Country of incorporation	**Cayman Islands**	**Cayman Islands**	**UAE**
Current assets	53	388	12
Non-current assets	987	3,693	36
Current liabilities	(97)	(491)	(4)
Non-current liabilities	(68)	(452)	−
Net assets	**875**	**3,138**	**44**
Proportion of the Group's ownership	10%	25%	50%
Interest in the net assets	**88**	**785**	**22**
Adjustments	−	219*	−
Carrying value	**88**	**1,004**	**22**

* The adjustment on BTC Co represents fair value adjustment on net assets at the date of acquisition of BTC Co adjusted for the effect of depreciation as of 31 December 2012 which is not reflected in the IFRS financial statements of BTC Co.

17 Investments in associates (continued)

2012	South Caucasus Pipeline Company	BTC Co	SOCAR İnternational DMCC
Revenue	139	1,282	4,146
Cost of sales	(76)	(395)	(4,100)
General and administrative expenses	(1)	–	(2)
Other expense	–	–	–
Finance income	–	–	–
Finance costs	–	(33)	–
Profit before tax	**62**	**854**	**44**
Income tax expense	(22)	–	–
Profit for the year (continuing operations)	**40**	**854**	**44**
Group's share of profit for the year	**4**	**214**	**22**

At 31 December 2012, the Group's interests in other associates that are not significant both individually and in aggregate and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/ (loss)	Interest held	Country of incorporation
Ateshgah Insurance Company	31	(24)	32	–	10%	Azerbaijan
Azerbaijan Gas Supply Company	377	(377)	1,188	–	28%	Cayman Islands
Azerbaijan John Brown	–	–	–	–	20%	Azerbaijan
AzLab	1	–	1	–	50%	Azerbaijan
Caspian Geophysical	21	(9)	36	8	45%	Azerbaijan
Caspian Pipe Coatings LLC	6	(2)	9	–	50%	Azerbaijan
Cross Caspian Oil and Gas Logistics	15	(15)	110	–	34%	Azerbaijan
SCPC Hold Co	18	(1)	1	1	10%	Cayman Islands
Total	**469**	**(428)**	**1,377**	**9**		

At 31 December 2013 and 2012 the Group holds 28 per cent interest in the Azerbaijan Gas Supply Company ("AGSC"). AGSC was established together with the Ministry of Fuel and Energy of the Azerbaijan Republic and contractor parties of Shah Deniz Production Sharing Agreement ("Shah Deniz PSA") related to the Exploration, Development and Production of gas field on Caspian Sea where the Group has 10 per cent participating interest. AGSC is established for marketing, accounting, billing, payment and reporting of other administrative activities related to the sales of Shah Deniz gas and operates on no gain / no loss basis. The Group exercises a significant influence over AGSC.

During 2012 the Group acquired remaining 50 per cent of Supra Holding Limited. As a result of this acquisition, the Group's participation in Supra Holding Limited has increased to 100 per cent and the Group has obtained control over Supra Holding Limited in November 2012.

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

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

18 Trade and other payables

	2013	2012
Trade payables	4,246	3,384
Accrued liabilities	1,072	1,530
Other payables	59	41
Total financial payables	**5,377**	**4,955**
Liabilities for overlift of oil	45	66
Advances from customers	111	66
Payable to employees	63	55
Total trade and other payables	**5,596**	**5,142**

Financial payables of AZN 4,264 (2012: AZN 4,315) are denominated in foreign currencies, mainly in USD. Trade payables mainly represent payables for crude oil, oil products, gas, construction, drilling, transportation and utilities provided by vendors of the Group.

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

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

19 Borrowings

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

Facilities	Interest rate	Maturity date	Total borrowed in original currency	Balance as at 31 December 2013
Short-term facilities in USD	0.75%-14%	January 2014 − December 2014	1,180	926
Short-term facilities in EUR	2%-4%	February 2014 − May 2014	45	49
Short-term facilities in AZN	1%-6%	September 2014	32	32
Short-term facilities in CHF	LIBOR + 0.07%	January 2014	22	19
Short-term facilities in GEL	8%-12%	June 2014 − December 2014	49	22
Short-term facilities in other currencies	4%	January 2014 − December 2014		33
Current portion of long-term borrowings				464
Total short-term borrowings and current portion of long-term borrowings				**1,545**

19 Borrowings (continued)

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

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

19 Borrowings (continued)

As at 31 December 2012, short-term borrowings of the Group were represented by the following facilities:

Facilities	Interest rate	Maturity date	Total borrowed in original currency	Balance as at 31 December 2012
Short-term facilities in USD	0.2%-16%	February 2013 − November 2013	1,396	1,090
Short-term facilities in EUR	EURIBOR + 1.25%	November 2013	57	58
Short-term facilities in AZN	3%-4%	March 2013	91	82
Short-term facilities in CHF	LIBOR + 0.18%	January 2013	30	26
Short-term facilities in GEL	10%-13%	January 2013 − March 2013	63	26
Short-term facilities in other currencies	0%-4%	January 2013 − December 2013		22
Current portion of long-term borrowings				569
Total short-term borrowings and current portion of long-term borrowings				**1,873**

As at 31 December 2012, long-term borrowings of the Group were represented by the following facilities:

Facilities	Interest rate	Maturity date	Balance as at 31 December 2012 Non-current portion	Current portion
USD 500 million	5.45%	February 2017	384	9
AZN 750 million	3.15%	July 2016	375	125
USD 485 million	LIBOR + 1%	December 2024	299	54
USD 330 million	LIBOR + 4.88%	August 2019	242	16
USD 300 million	LIBOR + 2.3%	August 2018	218	12
USD 200 million	LIBOR + 1.34%	December 2027	157	−
USD 200 million	LIBOR + 2.5%	August 2016	131	25
USD 170 million	LIBOR + 4.88%	August 2019	124	8
YEN 15398 million	1.5%	April 2039	122	3
AZN 100 million	4%	August 2015	100	−
USD 110 million	LIBOR + 3%	August 2015	85	1
USD 100 million	LIBOR + 3%	October 2015	77	1
USD 100 million	LIBOR + 3%	November 2015	77	−
USD 100 million	LIBOR + 2.4%	October 2015	61	16
USD 200 million	LIBOR + 2.55%	April 2014	31	63
USD 130 million	LIBOR + 2.6%	April 2014	25	52
EUR 30 million	EURIBOR + 3.5%	December 2014	24	7
USD 75 million	LIBOR + 2.3%	May 2014	17	34
USD 20 million	LIBOR + 4%	August 2015	16	−
USD 18 million	4%	December 2027	14	−
USD 27 million	LIBOR + 2%	March 2017	13	3
USD 7 million	4%	December 2027	5	−
USD 10 million	LIBOR + 3.75%	June 2016	5	2
EUR 20 million	EURIBOR + 3.5%	June 2014	4	17
USD 20 million	7.79%	July 2016	2	2
USD 7 million	LIBOR + 3.75%	June 2015	2	2
USD 50 million	LIBOR + 3.75%	May 2013	−	9
USD 100 million	LIBOR + 3.65%	July 2013	−	26
USD 75 million	LIBOR + 3.85%	July 2013	−	30
USD 50 million	LIBOR + 3.5%	December 2013	−	26
AZN 9 million	0%	December 2013	−	3
USD 35 million	LIBOR + 4%	December 2013	−	18
Other long-term borrowings			8	5
Total long-term borrowings			**2,618**	**569**

19 Borrowings (continued)

On 14 May 2010, IBA provided a credit line to the Group amounting to USD 40 million (AZN 31.4) which was collateralised by the Group's deposits with IBA. Since the loan was fully repaid during 2013, no outstanding collateralised amount remained under this facility as of 31 December 2013.

For the loans in the amount of AZN 592 the 51 per cent of Petkim shares have been pledged in favour of the financial institutions.

20 Taxes payable

	Note	2013	2012
Payable to SOFAZ	7	123	123
Social security contributions		1	1
Other taxes payable		499	477
Total taxes payable		**623**	**601**

In 2008 apart from regular export tax the Group was liable to transfer to SOFAZ the share of proceeds from sales of crude oil priced at the level exceeding the price determined by the Government. No such taxes were imposed on the Group in 2009-2013.

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

21 Asset retirement obligations

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

	Note	2013	2012
Carrying amount at 1 January		**621**	**468**
(Disposals)/additions		(37)	5
Unwinding of the present value discount	31	36	29
Effect of change in discount rate		(241)	121
Exchange differences		(8)	(2)
Carrying amount at 31 December		**371**	**621**

The Group makes full provision for the future cost of oil and natural gas production facilities retirement and related pipelines on a discounted basis on the installation of those facilities. The provision has been estimated using existing technology, at current prices and discounted using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability as of the reporting date. These costs are expected to be incurred over the useful life of the fields and properties ranging between 10 and 69 years from the reporting date.

Estimated costs of dismantling oil and gas production facilities, pipelines and related processing and storage facilities, including abandonment and site restoration costs amounting to AZN 158 at 31 December 2013 (2012: AZN 260) are included in the cost of oil and gas properties and equipment.

21 Asset retirement obligations (continued)

Asset retirement obligations related to the PSAs are determined with reference to capital costs incurred by contractor parties and they are limited to the maturities of respective PSAs. Governmental authorities are continually reviewing regulations and their enforcement. Consequently, the Group's ultimate liabilities may differ from the recorded amounts.

The maximum estimated cost to Azneft PU to abandon the production facilities employed at 31 December 2013 was AZN 1,607 as at 31 December 2013 (2012: AZN 1,527). The Company used 7.96 per cent rate to discount this obligation (2012: 5.97 per cent).

The maximum estimated cost to AzSD to abandon the production facilities employed at 31 December 2013 in Shah Deniz project was AZN 59 as at 31 December 2013 (2012: AZN 64). The Company used 7.02 per cent rate to discount this obligation (2012: 5.97 per cent).

The maximum estimated cost to AzACG to abandon the production facilities employed at 31 December 2013 in AzACG project was AZN 2,393 as at 31 December 2013 (2012: AZN 2,194). The Company used 6.33 per cent rate to discount this obligation (2012: 5.97 per cent).

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

Year	**2014**	**2015**	**2016**	**2017**	**2018-2020**	**2021 and later**
Inflation rate	3.92%	4.36%	3.77%	3.67%	3.58%-3.40%	3.00%

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

22 Other provisions for liabilities and charges

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

	Note	**Environmental obligations**	**Disability payments**	**Unused vacation**	**Total**
Carrying amount at 1 January 2012		**231**	**77**	**5**	**313**
Change in estimate, except for change in discount rate		(20)	24	38	**42**
Utilisation		(41)	(11)	(20)	**(72)**
Unwinding of the present value discount	31	20	5	–	**25**
Discount rate change		5	7	–	**12**
Carrying amount at 31 December 2012		**195**	**102**	**23**	**320**
of which:					
Current		55	13	23	**91**
Non-current		140	89	–	**229**
Carrying amount at 1 January 2013		**195**	**102**	**23**	**320**
Change in estimate, except for change in discount rate		(74)	10	56	**(8)**
Utilisation		(18)	(12)	(49)	**(79)**
Unwinding of the present value discount	31	14	6	–	**20**
Discount rate change		(1)	(12)	–	**(13)**
Carrying amount at 31 December 2013		**116**	**94**	**30**	**240**
of which:					
Current		33	14	30	**77**
Non-current		83	80	–	**163**

22 Other provisions for liabilities and charges (continued)

Under the Presidential Decree number 1697 dated 28 September 2006 the Group prepared and approved Action Plan for Environmental Restoration with respect to the damage caused to the environment as a result of the Group's activities within Absheron area. In 2009 the Group amended the Action Plan in accordance with the Presidential Decree dated 14 April 2009. Corresponding provision is recognized at the present value of future costs to be incurred for the environmental remediation, discounted at the rate of 7.21 per cent (2012: 7.13 per cent). In 2013 the Group revised the estimates related to the Action Plan based on the actual expenses incurred in prior years. In addition the Group extended the period covered by this Action Plan to 2016.

The Group has an obligation to compensate its employees for unused vacation balance and for the damage caused to their health during their employment, as well as to compensate the families of the employees died at work. The compensations provided are linked to the salaries paid to the affected employees. The Group calculated the undiscounted amount of short-term employee benefits to be paid in exchange for that service and the present value of the disability payments to employees using a discount rate of 7.52 per cent (5.97 per cent at 31 December 2012). For the purpose of calculation of the lifetime payments to injured employees, the Group estimated a life expectancy as 71 and 76 for men and women, respectively.

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

23 Deferred income

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

	2013	2012
Carrying amount at 1 January	**91**	**94**
Amortisation of deferred income to match related depreciation	(7)	(3)
Carrying amount at 31 December	**84**	**91**

24 Other non-current liabilities

Other non-current liabilities comprise the following:

	2013	2012
Advances received from related parties	84	–
Liabilities under carried interest arrangement	55	46
Provision for employment termination benefits	31	34
Payables for acquisition of a subsidiary	14	12
Provision for seniority incentive bonus	1	1
Other liabilities	14	28
Total other non-current liabilities	**199**	**121**

Under the Labour Law of the Republic of Turkey, the Group is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who is called up for military service, dies or retires after completing 25 years of service (20 years for women).

24 Other non-current liabilities (continued)

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

	2013	**2012**
Discount rate (per cent)	4.09	3.84
Probability of retirement (per cent)	100	100

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

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

	2013	**2012**
Carrying amount at 1 January	**34**	**32**
Actuarial loss and service cost	4	7
Payments during the year	(4)	(6)
Provision for seniority incentive bonus	1	–
Translation to presentation currency	(4)	–
Other	–	1
Carrying amount at 31 December	**31**	**34**

25 Deferred acquisition consideration payable

In 2013, the Group acquired remaining 49 per cent shares of SOCAR Petroleum CJSC from other shareholder. The Group has deferred cash consideration in the amount of USD 40 million (AZN 32) payable to this shareholder for the acquisition, out of which AZN 14 is long-term by nature and presented under other non-current liabilities.

The Group has deferred cash consideration payable in the amount of AZN 46 (2012: AZN 65) for acquisition of SOCAR Trading in 2012.

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

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

Charter capital

Parent company of the Group, SOCAR, has a legal status of a state enterprise. During 2012 the Group's charter capital increased by AZN 230. This increase relates to increase in the charter capital of Azerigaz PU, the Group's subsidiary engaged in sales and distribution of natural gas in the Azerbaijan Republic, by the Government. The increase in charter capital was registered during 2013 and accordingly the amount was reclassified from additional paid in capital to charter capital.

Additional paid-in capital

During 2013 the Group's additional paid-in-capital increased by AZN 170. This increase relates to the increase in the charter capital of the Group's subsidiaries Azerigaz PU and Carbamide Plant, by the Government in the amount of AZN 156 and AZN 14, respectively. The increase in charter capital was not registered as of 31 December 2013.

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

Distribution to the Government

Based on decisions of the Government, the Group is periodically mandated to make direct cash contributions or finance construction and repair works for the Government (including transfer of assets), various government agencies and projects administered by the Government. During the year 2013, such direct cash transfers to the Government and financing (made in the form of payments to sub-contractors of governmental entities and transfer of assets constructed by the Group) amounted to AZN 229 and AZN 191, respectively (2012: AZN 261 and AZN 260, respectively), mainly for repair and reconstruction of existing, as well as construction of new recreational, transport, educational and medical infrastructure of the Azerbaijan Republic. Financing in the form of transfer of assets constructed by the Group amount to AZN 33 as of 31 December 2013 (2012: AZN 47).

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

27 Analysis of revenue by categories

	2013	2012
Crude oil, net	25,319	10,126
Oil products, net	8,951	3,318
Petrochemicals	1,854	2,030
Natural gas	1,400	1,107
Other revenue	909	558
Total revenue	**38,433**	**17,139**

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

Revenue from oil product sales is stated net of excise tax of AZN 570 (2012: AZN 482).

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

28 Analysis of expenses by nature

	Note	2013	2012
Raw materials and consumables used		33,590	12,460
Depreciation of property, plant and equipment		720	656
Wages, salaries and social security costs		893	771
Transportation and vehicle maintenance		137	145
Repairs and maintenance expenses		161	183
Impairment of property, plant and equipment	14	248	228
Mining tax		112	112
Utilities expense		226	209
Taxes other than on income		142	96
Amortization expense	15	24	21
Impairment of trade and other receivables		12	75
Change in other provisions for liabilities and charges	22	(22)	55
Other		744	594
Total cost of sales, exploration and evaluation, distribution, general and administrative and other operating expenses		**36,987**	**15,605**

28 Analysis of expenses by nature (continued)

During 2013 the Group reduced its estimate of provision for environmental obligations and asset retirement obligation and included the resulting change in other operating expenses of Consolidated Statement of Profit or Loss and Other Comprehensive Income.

29 Other operating income

	2013	2012
Sales of other goods and services rendered	320	41
Gain on release of payables	8	1
Other	107	75
Total other operating income	**435**	**117**

30 Finance income

	2013	2012
Interest income on deposits and bank accounts	30	22
Other	18	12
Total finance income	**48**	**34**

31 Finance costs

	Note	2013	2012
Interest expense		200	133
Provisions for asset retirement obligations: unwinding of the present value discount	21	36	29
Environmental provision: unwinding of the present value discount	22	14	20
Provision for disability payments: unwinding of the present value discount	22	6	5
Total finance costs		**256**	**187**

32 Income taxes

Income tax expense comprises the following:

	2013	2012
Current tax expense	431	504
Deferred tax charge/(benefit)	13	(28)
Income tax expense reported in the statement of profit or loss	**444**	**476**

32 Income taxes (continued)

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

	2013	2012
Profit before tax	**1,463**	**1,496**
Loss before tax from a discontinued operation	**(32)**	**(62)**
Accounting profit before income tax	**1,431**	**1,434**
Theoretical tax charge at statutory rate of 20 per cent	286	287
Effects of different tax rates for certain subsidiaries (25 and 27 per cent)	33	41
Dividends income taxable at 10 per cent	(3)	(1)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(54)	(37)
- Non-deductible expenses	103	134
Allowance for deferred tax asset	79	67
Reversal of allowance for deferred tax	(16)	(8)
Correction of previous years current tax	2	2
Other	24	(6)
Income tax expense reported in the statement of profit or loss	**444**	**476**
Income tax attributable to a discontinued operation	**10**	**3**
Income tax expense for the year	**454**	**479**

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

At 31 December 2013 cumulative balance of unrecognized deferred tax asset is AZN 367 (2012: AZN 304).

The benefits arising from a previously unrecognized deferred tax assets were used during the year to reduce deferred tax and current tax expenses by the amount of AZN 16 and nil, respectively (2012: AZN 6 and AZN 2, respectively).

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

	1 January 2013	Credited/ (charged) to profit or loss	Translation difference	Disposal	Effect of deconso-lidation	31 December 2013
Tax effect of deductible/(taxable) temporary differences						
Accrued revenue	6	(2)	–	(3)	–	1
Carry forward tax losses	37	(10)	1	–	–	28
Investments in associates and jointly controlled entities	17	(9)	–	–	–	8
Trade and other payables	(2)	(1)	7	–	–	4
Impairment provision for receivables	(7)	17	–	2	–	12
Inventory	29	(10)	–	–	–	19
Property, plant and equipment	248	90	–	(21)	(5)	312
Provisions for liabilities and charges	128	(61)	–	(1)	–	66
Other	36	(12)	(2)	–	(16)	6
Deferred tax asset	**492**	**2**	**6**	**(23)**	**(21)**	**456**

32 Income taxes (continued)

	1 January 2013	Credited/ (charged) to profit or loss	Translation difference	31 December 2013
Tax effect of deductible/(taxable) temporary differences				
Accruals	3	7	–	10
Employment termination benefits and seniority incentive bonus provision	8	–	(1)	7
Investments in associates and jointly controlled entities	(72)	(2)	–	(74)
Asset retirement obligation	7	34	–	41
Intangible assets	(23)	(1)	–	(24)
Trade and other payables	–	22	–	22
Impairment provision for receivables	(24)	(12)	–	(36)
Inventory	(19)	15	(1)	(5)
Property, plant and equipment	(458)	(73)	32	(499)
Provisions for liabilities and charges	21	(3)	–	18
Other	(4)	(19)	(5)	(28)
Deferred tax liability	**(561)**	**(32)**	**25**	**(568)**

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

	1 January 2012	Acquired through subsidiaries (Note 36)	Credited/ (charged) to profit or loss	Translation difference	31 December 2012
Tax effect of deductible/(taxable) temporary differences					
Accrued revenue	8	–	(3)	–	5
Carry forward losses	76	–	(39)	–	37
Investments in associates and jointly controlled entities	–	–	17	–	17
Trade and other payables	2	–	(4)	–	(2)
Impairment provision for receivables	20	–	(26)	–	(6)
Inventory	6	–	23	–	29
Property, plant and equipment	242	–	7	–	249
Provisions for liabilities and charges	110	–	18	–	128
Other	19	7	12	(3)	35
Deferred tax asset	**483**	**7**	**5**	**(3)**	**492**

	1 January 2012	Acquired through subsidiaries	Credited/ (charged) to profit or loss	Translation difference	31 December 2012
Tax effect of deductible/(taxable) temporary differences					
Accruals	5	(7)	5	–	3
Employment termination benefits and seniority incentive bonus provision	7	–	1	–	8
Investments in associates and jointly controlled entities	(81)	(2)	14	(2)	(71)
Asset retirement obligation	–	–	7	–	7
Intangible assets	–	(23)	–	–	(23)
Trade and other payables	(3)	–	3	–	–
Impairment provision for receivables	(15)	–	(9)	–	(24)
Inventory	(1)	(9)	(9)	–	(19)
Property, plant and equipment	(447)	(12)	21	(20)	(458)
Provisions for liabilities and charges	17	–	4	–	21
Other	12	–	(17)	–	(5)
Deferred tax liability	**(506)**	**(53)**	**20**	**(22)**	**(561)**

32 Income taxes (continued)

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

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

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

In addition, the Group is a participant to Shah Deniz PSA through its subsidiary Azerbaijan (Shah Deniz) Limited ("AzSD"). According to the provisions of Shah Deniz PSA, AzSD is liable for corporate income tax payments. However, in accordance with PSA, the Government makes payments of the profit taxes on behalf of the contractor parties from the proceeds from sales of profit petroleum attributable to the Government. Accordingly, AZN 22 of corporate income tax related to Shah Deniz project for the year 2013 was recognized as revenue from sale of crude oil and natural gas and income tax expense in the statement of profit or loss and other comprehensive income (2012:AZN 24). At 31 December 2013 and 2012 deferred tax balance of AzSD was nil. AzSD is also exempt from certain ordinary operational taxes in the Azerbaijan Republic. AzSD is charged at zero per cent VAT effective in the Azerbaijan Republic for a contractor party under the Shah Deniz PSA according to a VAT certification issued to AzSD and effective until 3 June 2026.

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

33 Discontinued operations

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

The results of CSOF for the years ended 31 December 2013 and 2012 are presented below:

	2013	2012
Revenue and other income	61	35
Expenses	(92)	(93)
Gross loss	**(31)**	**(58)**
Finance cost	(1)	(4)
Loss before income tax	**(32)**	**(62)**
Corporate income tax charge	(10)	(3)
Loss after tax for the year from discontinued operations	**(42)**	**(65)**

33 Discontinued operations (continued)

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

	2013	2012
Operating	66	89
Investing	(66)	(89)
Financing	–	–
Net cash flow	**–**	**–**

34 Significant non-cash investing and financing activities

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

	2013	2012
Non-cash investing and financing activities		
Capitalized decommissioning costs	(54)	28
Transfer of property, plant and equipment to the Government (Note 14)	(33)	(47)
Distribution of subsidiary to the Government (Note 26)	(246)	–
Non-cash investing and financing activities	**(333)**	**(19)**

35 Contingences, commitments and operating risks

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

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

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

The Azerbaijani economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. While the Azerbaijan Government has introduced a range of stabilization measures, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects. While Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

35 Contingences, commitments and operating risks (continued)

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

Significant changes occurred in operating environment and political situation in Ukraine in the end of 2013 − beginning of 2014, which resulted in political and economic instability. From 1 January 2014 to 5 March 2014, the Ukrainian Hryvnia devaluated against major foreign currencies by approximately 25 per cent, and the National Bank of Ukraine imposed certain restrictions on purchase of foreign currencies at the inter-bank market. The international rating agencies have downgraded sovereign debt ratings for Ukraine. The combination of the above events has resulted in a deterioration of liquidity and much tighter credit conditions where credit is available. Management is monitoring these developments in the current environment and taking actions where appropriate. Further negative developments, including the political unrest, could adversely affect the SOCAR Energy Ukraine's results and financial position in a manner not currently determinable. These consolidated financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the period when they become known and estimable.

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

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

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

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained and potential tax liabilities of the Group will not exceed the amounts recorded in these consolidated financial statements. Accordingly, at 31 December 2013 and 2012 no provision for potential tax liabilities had been recorded.

Environmental matters. The enforcement of environmental regulation in the Azerbaijan Republic is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage above environmental obligation provision currently made by the Group. See Note 22.

35 Contingences, commitments and operating risks (continued)

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

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

Compliance with financial covenants. At 31 December 2013 the Group had loans payable in total amount of AZN 5,066 (Note 19) which were received for financing its investing and operating activity. The Group is subject to certain financial covenants related to these borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. Management believes that, as of 31 December 2013 and 2012 the Group was in compliance with all applicable financial covenants.

For the loans in the amount of AZN 592 the 51 per cent of Petkim shares have been pledged in favour of the financial institutions.

Commitments of Petkim. Based on the Share Sales Agreement, the Group has accepted and committed to take the Administration's approval for any kind of stock transfer that will result in change in controlling interest of Petkim for the following three years after signing the Share Sales Agreement.

The Group has accepted and committed to make investments over a certain amount for infrastructure and services for Petkim harbour, increase production capacities of factories and establish new factories for the following three years after the Share Sales Agreement. The Group also has accepted and committed to continue production in the Ethylene Factory and produce a certain amount for at least three years after signing the Share Sales Agreement unless there are unforeseen situations that do not involve the Group.

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

The Group has a commitment to purchase 943,746,586 cubic meters of natural gas from BOTAS Petroleum Pipeline Corporation ("BOTAS") in 2013.

35 Contingences, commitments and operating risks (continued)

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

	2013	2012
Guarantees received		
Bank guarantees within context of direct order collection system (DOCS)	238	210
Letters of guarantee received	142	162
Other	1	1
Total guarantees received	**381**	**373**
Guarantees given		
Letters of guarantee given	119	91
Total guarantees given	**119**	**91**

Commitment of Azerigaz PU. Based on Presidential decree number 80 dated 14 April 2009 directed to social-economic development of Baku area and regions of the Azerbaijan Republic, Azerigaz PU has certain commitments with respect to improvement of gasification options in mentioned areas. According to this decree, Azerigaz PU is engaged in restoration of old magisterial and local gas pipelines, gasification of new residential communities/regions/far locations, and renewal of old gas meters on magisterial gas traffic control points, industrial and personal meters for physical customers.

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

Gas purchase commitment. Based on the Gas sales and purchase agreement signed on 27 February 2003 between AGSC and the Ministry of Fuel and Energy of the Azerbaijan Republic (currently purchase rights under this agreement are executed by the Group), the Group has obligation to purchase seller's minimum annual quantity as indicated in the agreement. Monetary amount of commitment to purchase seller's minimum annual quantity is USD 87 million (AZN 68).

Participating interest in ACG PSA. Azerbaijan International Operating Company, the Operator of the ACG PSA has entered into a number of capital commitments and operating leases as at 31 December 2013. The Group estimated its 11.65 per cent (2012: 11.65 per cent) share of these commitments and operating leases to be USD 654 million (AZN 513) (2012: USD 688 million (AZN 540)) and USD 21 million (AZN 16) (2012: USD 19 million (AZN 15)), respectively.

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

According to the work program related to Shah Deniz the capital expenditure by the year of 2041 will total USD 32,983 million (AZN 25,875). The Group share in the total capital expenditure under Shah Deniz is estimated to be USD 3,298 million (AZN 2,588).

BP Exploration Shah Deniz Limited, the Operator of the Shah Deniz PSA, has entered into a number of capital commitments and operating leases as at 31 December 2013. The Group estimated its 10 per cent share of these commitments and operating leases to be USD 325 million (AZN 255) (2012: USD 301 million (AZN 236)) and USD 36 million (AZN 28) (2012: USD 37 million (AZN 29)), respectively.

35 Contingences, commitments and operating risks (continued)

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

Gas Contract. AGSC is obliged under the agreement signed with BOTAS to make available a maximum of approximately 6.3 bcm from 2014 and onwards at a price calculated based on a 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 deliveries 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 2014 and onwards, at a price which is calculated based on formula established in the contract.

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 Azerbaijan Republic. 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 Azerbaijan Republic).

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 2014 and onwards, at a price which is calculated based on a formula established in the contract.

Sale and purchase agreement with Option Co. AGSC is obliged under the agreement signed with OptionCo to make available 0.16 bcm during the contract year starting on 1 October 2013. Thereafter, the Company is obliged to deliver during a contract year, which starts on 1 October a maximum of five percent of the volumes transported by the Company through Georgia via the South Caucasus pipeline in the previous calendar year, at a price which is calculated based on a formula established in the contract.

Shah Deniz Debottlenecking Gas Sales Agreement. AGSC is obliged under the agreement signed with SOCAR to make available gas during the period 1 January 2014 − 30 June 2018 as follows: 0.65 bcm in 2014, 1.3 bcm in 2015-2017 and 0.64 bcm in 2018, at a price which is stipulated in the contract.
Shah Deniz Stage 2 EU Long term Gas Sales Agreements ("GSA"). In September 2013 10 EU GSAs were signed by SOCAR with 9 EU Buyers and in December 2013 the GSAs were assigned to AGSC until Shah Deniz PSA expiry with re-assignment to SOCAR as Shah Deniz Production declines. The commencement date will be firmed up through funneling mechanism within a 2-year window between July 2019 and July 2021. The GSAs assume 3 year build up period with the following peak delivery obligations: AXPO 0.48 bcm, GDF Suez 2.64 bcm, Gas Natural 0.99 bcm, E.ON 1.44 bcm, Shell 0.95 bcm, Hera 0.3 bcm, ENEL 0.48 bcm, AXPO 0.96 bcm, Bulgargaz 0.94 bcm, DEPA 1 bcm.

Transportation agreement with SCPC. AGSC is party to SCPC Gas Transportation Agreement ("GTA") which was amended and re-stated with effect from 17 December 2013 in order to provide additional transportation services in respect of Shah Deniz Stage 2. AGSC is obliged to pay certain tariffs, as calculated in accordance with the agreement, to SCPC starting from the commencement date, which is 1 October, 2006. The transportation agreement provides for Monthly Minimum Payment ("MMP"), as calculated in accordance with this agreement, payable by AGSC to SCPC, regardless of whether natural gas is shipped or not, in respect of each contract year until the termination or expiry of the GTA. MMP are recoverable from BPX SD under the amended ARC Deed. Annual Minimum Payment ("AMP") due in 2014 was USD 81 million (AZN 64), as calculated and presented to AGSC by SCPC in August 2013. In January 2014 SCPC submitted to AGSC the revised AMPA calculation for year 2014. The revised AMPA is USD 220 million (AZN 173) due to inclusion into calculation of SCP expansion costs. In addition to AMPA, AGSC shall pay to SCPC Incremental Monthly Charges calculated in accordance with the GTA. Further, AGSC is obliged to provide SCPC, free of charge, the natural gas necessary to fill and pressurize the pipeline to its designed operating pressure and as fuel gas.

35 Contingences, commitments and operating risks (continued)

Trans Anatolian Pipeline GTA (TANAP GTA). AGSC is party to TANAP GTA with annual reserved capacity during the buildup period of 6.1 bcm, 6.2 bcm, 7.1 bcm and plateau of 10.5 bcm after 18 months with 100 per cent ship or pay on the capacity reservation. The start date will be set through a funneling mechanism inside the first window period between 1 July 2019 − 1 July 2021.

Trans Adriatic Pipeline GTA (TAP GTA). AGSC is party to TAP GTA with initial capacity of 10 bcm and expansion capacity up to additional 10 bcm. The planned commencement date is inside the first window period between 1 January 2020 − 31 December 2022.

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) approximately 3.6 bcm in 2019 and 6.4 bcm in 2020, at a price which is stipulated in the contract.

Sale and purchase agreement with BTC Co. AGSC is obliged under an agreement signed with BTC Co to make available 0.16 bcm in 2014 and during the following years until the termination of the contract subject to the right of BTC to reduce annual off-take, at a price which is calculated based on a formula established in the contract.

The Shah Deniz PSA contractor parties and the Group 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 the Group are obliged to pay to AGSC all transportation charges and third party liabilities as stipulated in the UPAs.

Commitments related to participating interest in SCPC. Effective 17 December 2013 the SCP Company committed transportation of the Shah Deniz Stage 2 natural gas through an expansion of the SCP pipeline system. The SCP Expansion cost is expected to be in the amount of USD 5,296 million (AZN 4,155) and the Group's share is USD 530 million (AZN 416).

Commitments related to participating interest in BTC Co. On 24 October 2008 BTC Company received two notices of arbitration from the Botas International Limited ("BIL"). The first notice concerns a claim under Host Government Agreement of the Republic of Turkey, and the second is a claim under Operating Agreement between BTC Co and BIL. Total amount of claim comprised approximately USD 250 million (AZN 196). To resolve these long standing issues the BTC Co and BIL have negotiated and executed Amendment 3 to the Operating Agreement on October 25, 2011 which was subject to a number of conditions precedent. In addition to this, the BTC Company signed a separate Letter Agreement with BIL on the same date as a gesture of goodwill and without prejudice to its contractual rights under the Operating Agreement to provide BIL with funds in the amount of USD 100 million (AZN 78), payable in 8 installments starting from 4th quarter of 2013, to repay BIL historical debt which as per BIL was incurred as a result of providing services to BTC Company under the Operating Agreement. On 27 September 2013 this amendment entered into legal force since all of the conditions precedent got satisfied. Hence, from that date the arbitration proceedings were discontinued and BIL withdrew its claims.

35 Contingences, commitments and operating risks (continued)

Oil shipment commitment. On 1 August 2002 the Group and other participants under the ACG PSA (the "Shipper Group") have entered into the ACG Field Production Transportation Agreement ("ACG TA") with the BTC Company which was amended on 3 February 2004. Under this Agreement, the Shipper Group (including the Group) have committed to ship through the BTC pipeline all of their crude oil entitlement from the ACG field, other than any production which each participant may ship through the Western Export Route. The Group has agreed to transport its crude oil by rail unless Baku-Tbilisi-Ceyhan pipeline is operating at its full capacity. However, in accordance with ACG TA the Group has agreed not to use other transportation options if capacity of the BTC is sufficient.

The BTC pipeline was put into operation in May 2006. A total of 10 million barrels of oil from the ACG fields was used to fill the pipeline and the first tanker loaded with oil which had flowed through the BTC sailed away from the Ceyhan terminal on the Mediterranean coast of Turkey on 4 June 2006. The BTC pipeline, with a throughput capacity of more than 1,200,000 barrels per day, is used as the Shipper Group's main export route.

In accordance with the Transportation Agreement, Direct Agreement entered into on 3 February 2004 by BTC, the Shipper Group, the Group Representative, the lenders and security trustee to BTC, and the lenders and security trustee to certain of the ACG Shipper Group, the parties have agreed that payment of BTC tariff has a first priority claim on oil and oil sale proceeds.

Commitments of SOCAR Switzerland. The Group has entered into a number of capital commitments and operating leases for the next years. The Group estimated its commitments and operating leases to be CHF 19 million (AZN 17) and CHF 70 million (AZN 61), respectively.

Commitments of SOCAR Trading S.A ("SOCAR Trading"). The Group has entered into a number of operating leases for the next years. The Group estimated its operating leases to be USD 83 million (AZN 65).

On 8 December 2012, Petroexport Limited (in Official Liquidation) ("Petroexport") initiated an arbitration proceeding against SOCAR Trading before the Cairo Regional Centre for International Commercial Arbitration. The claim of Petroexport relates to the termination of a crude oil processing agreement dated 26 March 2010 between the parties and amounts to a sum of approximately USD 120 million (AZN 94). A final award of the arbitral tribunal is expected for the first quarter of 2015. Based on the arguments exchanged so far, SOCAR Trading believes that most of the claim is unsubstantiated. However, at this stage of the proceedings, and as in any legal process, it cannot be ruled out totally that an amount representing a small percentage of the claim may need to be paid by SOCAR Trading.

Commitments related to Black Sea Terminal LLC. In August 2007, the Group's subsidiary, Black Sea Terminal LLC ("Black Sea Terminal") entered into a sale and purchase agreement to purchase five land plots from Black Sea Industry LLC. These land plots were originally sold to Black Sea Industry LLC pursuant to a privatisation agreement entered into with the Ministry of Economic Development of Georgia ("MED") in July 2007, for a total consideration of USD 7.25 million (AZN 5). The MED consented to the transfer of the land plots to Black Sea Terminal on the condition that Black Sea Terminal and Black Sea Industry LLC are jointly and severally liable under the privatisation agreement for the implementation of the investment programme relating to the land plots. The acquisition of title to the land plots is also contingent on the completion of the investment programme. This investment programme involves the investment of at least USD 250 million (AZN 196) for the construction of: (i) a liquid natural gas plant; (ii) oil processing facilities; (iii) seaport facilities; and (iv) a railroad. The privatization agreement also includes certain commitments in relation to the employment of personnel during the construction period. The privatisation agreement sets out certain financial penalties in the event that the investment programme is not implemented within five years. The original deadline for implementation was 16 July 2012. Due to a lack of available funding, as a result of the global financial crisis and economic conditions in Georgia, the investment program has not been implemented by this deadline. In such case MED had the right to request the sanctioned payments that should be determined in the following way:

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

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

35 Contingences, commitments and operating risks (continued)

Commitments related to Black Sea Terminal LLC (continued). On 11 February 2013 Carlina received the letter No. 4/2555 from MESD, according to which the maturity of the investment commitment was prolonged by one year till 1 August 2013. However, such extension did not suspend the accrual of USD 250 thousand on each day of delay for not fulfillment of above commitments. Total amount of such penalty comprised USD 84 million (AZN 66) as of 31 December 2013. In case Carlina and Black Sea Industry LLC do not meet their investment commitments and/or do not pay the penalty until the new maturity date the MESD has the right to repatriate the above mentioned land plots (neighboring to Kulevi terminal) and terminate the agreement.

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

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

Commitments of SOCAR Energy Georgia. For the purposes of supplying natural gas in regions of Georgia and raising funds for investing in respective sphere, based on agreement formed with the MED in 2008, the Group had to invest USD 40 million (AZN 31) and provide natural gas to additional 150,000 subscribers. However, on 19 December 2013 the terms of this commitment were amended and a new decree No. 1988 of the government of Georgia was approved. According to this decree the commitment of investing in gas network increased from USD 40 million (AZN 31) to USD 250 million (AZN 196) and the number of new gas subscribers increased from 150,000 to 250,000. According to decree the maturity of the commitment was defined to be 3 year beginning from conducting amendment agreement.

As of 31 December, 2013 SOCAR Energy Georgia had guarantees in the total amount of AZN 32 issued on behalf of third parties.

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

Acquisition of SOCAR International DMCC. On 30 August 2013, the Group acquired 100 per cent ownership interest in Socar International DMCC, previously an associate of the Group, with carrying value of AZN 18. Purchase price paid for this acquisition was AZN 18. SOCAR International DMCC is the entity holding 50 per cent interest in SOCAR Aurora oil terminals in Fujairah (UAE), constructed with a view to handle and store oil transported through a pipeline from onshore oilfields of Abu Dhabi (UAE). The Group has recognized this transaction as a step-acquisition of subsidiary which is not a business. At the date of obtaining control over Socar International DMCC, cost of acquisition in the amount of AZN 30 was allocated to Investments in jointly controlled entities.

From the date of acquisition, SOCAR International DMCC contributed AZN nil of revenue and AZN 0.3 of loss to the Group. If the acquisition had taken place at the beginning of 2013, the Group’s revenue would not be different from the respective amount recognized in the Consolidated Statement of Profit or Loss and Other Comprehensive Income and the net profit from continuing operations would have been AZN 1,018 after adjusting the results of the SOCAR International DMCC to reflect the additional depreciation that would apply if the fair value adjustments made on acquisition were reflected in the records of the SOCAR International DMCC.

The Group acquired SOCAR International DMCC with the view to provide transportation and storage infrastructure to support its trading operations in UAE.

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

Acquisition of SOCAR Petroleum CJSC. On 10 December 2013, the Group acquired 100 per cent control over SOCAR Petroleum CJSC, previously a joint-venture of the Group with carrying value of AZN 53. The activities of SOCAR Petroleum CJSC are in the storage, distribution and retail sale of oil products in the Azerbaijani market. The Company is made up of a total of 23 petrol storage depots and 17 petrol stations in Baku and in the regions of Azerbaijan. The acquisition-date fair value of the Group's equity interest in SOCAR Petroleum CJSC held by the Group immediately before the acquisition date approximated AZN 76. This transaction was accounted by the Group as a step acquisition and the difference between the carrying value and fair value of previously held interest in SOCAR Petroleum CJSC was recognized as gain within Other operating income in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

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

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

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

The Group acquired SOCAR Petroleum CJSC in order to expand its presence in wholesale and retail sale oil products in the Azerbaijani market.

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

From the date of acquisition, Star Gulf FZCO contributed AZN 10 of revenue and AZN 2 of profit to the Group. If the acquisition had taken place at the beginning of 2013, the Group's revenue would have been AZN 38,441 and the net profit from continuing operations would have been AZN 1,017.

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

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

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

	2013	2012
Carrying amount at 1 January	**203**	**103**
Acquisition of subsidiaries	7	114
Impairment	−	(3)
Translation difference	(19)	(11)
Carrying amount at 31 December	**191**	**203**

The carrying amount of goodwill as of 31 December 2013 and 2012 includes an accumulated goodwill impairment of AZN 3.

Allocation of goodwill by CGUs at 31 December 2013 and 2012 is as following:

	2013	2012
Petkim	71	85
SOCAR Switzerland	59	58
SOCAR Trading	48	49
Other	13	11
Carrying amount at 31 December	**191**	**203**

Testing of the carrying value of goodwill related to acquisition of Petkim. The carrying value of the goodwill at 31 December 2013 has been tested for impairment through comparison with its recoverable amount. Recoverable amount has been determined based on the value-in-use calculations of Petkim. Pre-tax cash flows projections used for this purpose are based on financial budgets approved by management covering 11-year period. Cash flows for 11-year period are based on existing long-term projects with duration until 2023. Cash flow projections beyond 11-year period are extrapolated by the expected growth rates and then discounted to their net present value. The following key assumptions were used for impairment test of the goodwill:

- The valuation exercises are highly sensitive to the range of EBITDA/ Net Sales and the WACC, which were taken into account by the Group, as 4.7 per cent − 10.3 per cent and 8.7 per cent − 9.9 per cent between 2014 and 2024, respectively;
- The EBITDA / Net sales ratio is in line with the Group's budget for the year 2013 and onwards; whereas the WACC is based on macroeconomic and sector specific parameters.

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

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

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

As the results of the sensitivity analysis, the value in use of Petkim is estimated between AZN 737 and AZN 866.

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

Testing of the carrying value of goodwill related to acquisition of SOCAR Switzerland. The carrying value of the goodwill at 31 December 2013 has been tested for impairment through comparison with its recoverable amount. Recoverable amount has been determined based on the value-in-use calculations of SOCAR Energy Holdings AG and its subsidiaries. Pre-tax cash flows projections used for this purpose are based on financial budgets approved by management covering 3-year period. Management believes that these cash flows projections represent more accurate and reliable forecast. Cash flow projections beyond 3-year period are extrapolated by expected growth rates of 1 per cent p.a. and then discounted to their net present value. The following key assumptions were used for impairment test of the goodwill:

- EBITDA / Net sales ratio in terminal value − 2.5 per cent p.a.;
- EBITDA / Gross margin ratio in terminal value − 9 per cent p.a.;
- Terminal growth rate used in the cash flow projections is 1 per cent p.a.;
- WACC, used as discount rate − 6.76 per cent p.a.

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

If the estimated discount rate used in the calculation had been 0.25 per cent higher/lower than management's estimate, the value in use would have been AZN 8 lower / AZN 14 higher, respectively.

If the terminal growth rate used in the calculation had been 1 per cent higher/lower than management's estimate, the value in use would have been AZN 58 higher / AZN 36 lower, respectively.

Testing of the carrying value of goodwill related to acquisition of SOCAR Trading. The carrying value of the goodwill attributable to the acquisition of SOCAR Trading at 31 December 2013 has been tested for impairment through comparison with its recoverable amount. Recoverable amount has been determined based on the value-in-use calculations of SOCAR Trading and its subsidiaries. Pre-tax cash flow projections used for this purpose are based on financial forecast approved by management covering 6-year period. Cash flows for that period are based on existing and new projects and discounted to their net present value. Management believes that these cash flow projections represent accurate and realistic forecast. Cash flow projections beyond 6-year period have terminal growth rate of 1 per cent. The following key assumptions were used for impairment test of the goodwill:

- Valuation exercise is sensitive to the range WACC, which were taken into account by the Group, as 11-12 per cent;
- Valuation is also sensitive to terminal growth rate which is taken into account by the Group as 1 per cent.

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

If the estimated discount rate used in the calculation had been 0.25 per cent higher/lower than management's estimate, the amount of the value in use would have been AZN 11 lower / AZN 10 higher, respectively.

37 Material partly-owned subsidiaries

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

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

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

	2013	2012
Proportion of equity interest held by non-controlling interests	31%	31%
Accumulated balances of material non-controlling interest	444	540
(Loss)/profit allocated to material non-controlling interest	(96)	36

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

	2013	2012
Revenue	1,714	1,900
Cost of Sales	(1,635)	(1,900)
General and administrative expenses	(36)	(44)
Distribution expenses	(14)	(16)
Other operating income	43	65
Other operating expense	(84)	(55)
Finance income	27	25
Finance costs	(35)	(24)
Profit before tax	**(20)**	**(49)**
Deferred tax income	6	8
Profit for the year from continuing operations	**(14)**	**(41)**
Other comprehensive income to be reclassified to profit or loss in subsequent periods − currency translation differences	**(295)**	**158**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods	**-**	**-**
Total comprehensive income	**(309)**	**117**
Attributable to non-controlling interests	(96)	36
Dividends paid to non-controlling interests	-	-

37 Material partly-owned subsidiaries (continued)

Summarized statement of financial position:

	2013	**2012**
Current assets:	**619**	**633**
including:		
Cash and cash equivalents	102	128
Trade and other receivables	315	278
Inventories	169	203
Other current assets	33	24
Non-current assets:	**1,495**	**1,762**
including:		
Property, plant and equipment	1,178	1,380
Intangible assets	301	373
Other non-current assets	16	9
Current liabilities:	**(444)**	**(447)**
including:		
Short-term borrowings and current portion of long-term borrowings	(69)	(116)
Trade and other payables	(375)	(331)
Non-current liabilities:	**(238)**	**(206)**
including:		
Long-term borrowings	(60)	(11)
Deferred income	(19)	(2)
Other provisions for liabilities and charges	(32)	(37)
Deferred tax liability	(127)	(156)
Total equity	**1,432**	**1,742**
Attributable to:		
Equity holders of parent	988	1,202
Non-controlling interest	444	540

Summarized cash flow information:

	2013	**2012**
Operating	96	113
Investing	(97)	(28)
Financing	(4)	(25)
Net (decrease)/increase in cash and cash equivalents	**(5)**	**60**

38 Events after reporting date

Investment

During subsequent period the Group purchased 6.7 per cent equity in Shah Deniz PSA and SCPC from Statoil for amount of AZN 882. This share purchase agreement was completed during 2014 with effective date on 1 January 2014.

During subsequent period the Group obtained 49 per cent ownership of a South Caucasus Corridor Closed Joint-Stock Company with authorized capital of USD 100 million, which was established for the effective management of projects related to the Shah Deniz stage 2 gas and condensate field's development.

Subsea Construction Vessel agreement

During subsequent period the Group signed a contract in the amount of USD 378 million with BP Exploration (Shah Deniz) Ltd to design and build Subsea Construction Vessel, which will be deployed for the Stage 2 development of the Shah Deniz stage 2.

New loans

In February 2014 the Group obtained short-term bond from SOFAZ in the amount of USD 250 million (AZN 196) with 2 per cent interest rate, which will be repaid until March 2015.

In March 2014 the Group obtained long term loan from "Sberbank of Russia" in the amount of USD 150 million (AZN 118) with 2.5 per cent plus Libor interest rate, which will be repaid in equal portions of USD 43 million (AZN 34) starting from 2016 till 2019.

STATE OIL COMPANY OF THE AZERBAIJAN REPUBLIC

International Financial Reporting Standards Consolidated Financial Statements

31 December 2012

Contents

Independent Auditors' Report

Consolidated Financial Statements

Consolidated Statement of Financial Position 2
Consolidated Statement of Comprehensive Income 4
Consolidated Statement of Changes in Equity 5
Consolidated Statement of Cash Flows 6

Notes to the Consolidated Financial Statements

1 The Group and its operations 7
2 Basis of preparation and significant accounting policies 7
3 Critical accounting estimates and judgments 20
4 Adoption of new or revised standards and interpretations and new accounting pronouncements 24
5 Segment information 26
6 Financial risk management 31
7 Balances and transactions with related parties 36
8 Cash and cash equivalents 38
9 Restricted cash and deposits 39
10 Trade and other receivables 39
11 Inventories 40
12 Other long-term assets 40
13 Other financial assets 40
14 Property, plant and equipment 42
15 Intangible assets other than goodwill 43
16 Investments in jointly controlled entities 44
17 Investments in associates 45
18 Loan receivable from jointly controlled entity 47
19 Trade and other payables 47
20 Borrowings 48
21 Taxes payable 50
22 Asset retirement obligations 50
23 Other provisions for liabilities and charges 51
24 Deferred income 52
25 Other non-current liabilities 52
26 Deferred acquisition consideration payable 53
27 Charter capital, additional paid-in-capital and retained earnings 53
28 Analysis of revenue by categories 54
29 Analysis of expenses by nature 54
30 Other operating income 54
31 Finance income 55
32 Finance costs 55
33 Income taxes 55
34 Significant non-cash investing and financing activities 58
35 Contingences, commitments and operating risks 58
36 Business combination, acquisition of non-controlling interests, acquisition of subsidiary which is not a business and goodwill 63
37 Events after reporting date 69

ERNST & YOUNG

Ernst & Young Holdings (CIS) B.V.
Port Baku Towers Business Centre
South Tower (block A), 9th floor
153 Neftchilar avenue
Baku AZ1010, Azerbaijan

Tel: +994 (12) 490 7020
Fax: +994 (12) 490 7017
www.ey.com/azerbaijan

Ernst & Yanq Holdinqs (SiAyEs) Bi.Vi.
Port Baku Tauers Biznes Mərkəzi
Cənub Qülləsi (A bloku), 9-cu mərtəbə
Neftçilər prospekti 153
Bakı AZ1010, Azərbaycan

Tel: +994 (12) 490 7020
Faks: +994 (12) 490 7017

Independent Auditors' Report to Management of the State Oil Company of the Azerbaijan Republic:

We have audited the accompanying consolidated financial statements of the State Oil Company of the Azerbaijan Republic (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

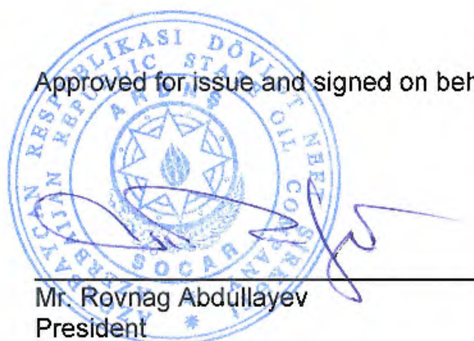
Ernst & Young Holdings (CIS) B.V.

25 June 2013

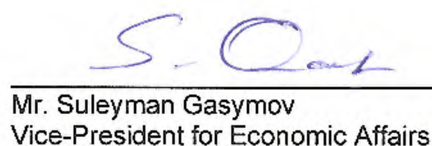
	Note	31 December 2012	31 December 2011 (reclassified)
ASSETS			
Current assets			
Cash and cash equivalents	8	1,223,439	1,157,744
Restricted cash	9	97,765	94,370
Deposits	8	78,503	-
Trade and other receivables	10	5,034,295	2,690,373
Corporate income tax prepayments		11,457	-
Inventories	11	1,273,186	784,801
Other current financial assets	13	136,395	-
Total current assets		**7,855,040**	**4,727,288**
Non-current assets			
Property, plant and equipment	14	10,776,896	9,065,173
Goodwill	36	203,169	103,248
Intangible assets other than goodwill	15	576,355	405,491
Investments in jointly controlled entities	16	437,973	392,399
Investments in associates	17	1,165,020	1,186,370
Deferred tax asset	33	491,887	483,483
Other long-term financial assets	13	158,310	88,396
Other long-term assets	12	201,122	310,192
Loan receivable from jointly controlled entity	18	-	178,484
Total non-current assets		**14,010,732**	**12,213,236**
TOTAL ASSETS		**21,865,772**	**16,940,524**
EQUITY			
Charter capital	27	1,084,990	1,059,258
Additional paid-in-capital	27	1,014,809	784,809
Retained earnings		7,233,978	6,749,596
Cumulative translation differences		(40,275)	(77,272)
Equity attributable to equity holders of the Group		**9,293,502**	**8,516,391**
Non-controlling interest		558,587	732,229
TOTAL EQUITY		**9,852,089**	**9,248,620**

	Note	31 December 2012	31 December 2011 (reclassified)
LIABILITIES			
Current liabilities			
Trade and other payables	19	5,142,444	2,806,900
Short-term and current portion of long-term borrowings	20	1,873,202	761,518
Taxes payable	21	595,282	433,708
Corporate income tax payable		5,504	4,595
Other provisions for liabilities and charges	23	90,923	66,124
Deferred acquisition consideration payable	26	65,169	-
Total current liabilities		**7,772,524**	**4,072,845**
Non-current liabilities			
Long-term borrowings	20	2,617,561	2,218,770
Asset retirement obligations	22	620,864	468,384
Other provisions for liabilities and charges	23	229,437	246,765
Deferred income	24	91,043	94,401
Deferred tax liability	33	561,368	506,336
Other non-current liabilities	25	120,886	84,403
Total non-current liabilities		**4,241,159**	**3,619,059**
TOTAL LIABILITIES		**12,013,683**	**7,691,904**
TOTAL LIABILITIES AND EQUITY		**21,865,772**	**16,940,524**

Approved for issue and signed on behalf of the Group on 25 June 2013.



Mr. Rovnag Abdullayev
President



Mr. Suleyman Gasymov
Vice-President for Economic Affairs

	Note	2012	2011 (reclassified)
Revenue	28	17,138,832	8,132,731
Cost of sales	29	(14,009,861)	(4,996,038)
Gross profit		**3,128,971**	**3,136,693**
Distribution expenses	29	(412,484)	(382,744)
General and administrative expenses	29	(671,555)	(401,444)
Losses on disposal of property, plant and equipment, net		(24,412)	(25,731)
Social expenses		(232,992)	(278,342)
Exploration and evaluation expenses	29	(41,376)	(16,945)
Other operating expenses	29	(564,026)	(637,405)
Other operating income	30	151,506	149,003
Operating profit		**1,333,632**	**1,543,085**
Finance income	31	34,104	72,400
Finance costs	32	(188,435)	(210,950)
Foreign exchange gains and losses, net		35,832	(412,888)
Share of result of jointly controlled entities	16	19,513	19,221
Share of result of associates	17	199,770	173,976
Profit before income tax		**1,434,416**	**1,184,844**
Income tax expense	33	(479,422)	(375,251)
Profit for the year		**954,994**	**809,593**
Other comprehensive income:			
Currency translation differences		80,334	(111,586)
Total comprehensive income for the year		**1,035,328**	**698,007**
Profit is attributable to:			
Equity holders of the Group		976,424	953,749
Non-controlling interest		(21,430)	(144,156)
		954,994	**809,593**
Total comprehensive income attributable to:			
Equity holders of the Group		1,013,421	981,572
Non-controlling interest		21,907	(283,565)
		1,035,328	**698,007**

	Note	Additional paid-in capital	Charter capital	Retained earnings	Currency translation difference	Total	Non-controlling interest	Total equity
Balance at 1 January 2011		**236,526**	**632,732**	**6,691,653**	**(105,095)**	**7,455,816**	**704,279**	**8,160,095**
Profit/(loss) for the year		-	-	953,749	-	953,749	(144,156)	809,593
Other comprehensive income / (loss)		-	-	-	27,823	27,823	(139,409)	(111,586)
Total comprehensive income / (loss) for 2011		**-**	**-**	**953,749**	**27,823**	**981,572**	**(283,565)**	**698,007**
Acquisition of non-controlling interest in subsidiary	36	-	-	(381,057)	-	(381,057)	269,629	(111,428)
Contribution in charter capital of subsidiaries by non-controlling shareholder		-	-	-	-	-	13,524	13,524
Establishment of subsidiary		-	-	-	-	-	32,622	32,622
Increase in charter capital	27	(236,526)	426,526	-	-	190,000	-	190,000
Additional paid-in-capital	27	784,809	-	-	-	784,809	-	784,809
Distribution to the Government	27	-	-	(514,749)	-	(514,749)	-	(514,749)
Dividends declared by subsidiary		-	-	-	-	-	(4,260)	(4,260)
Balance at 31 December 2011		**784,809**	**1,059,258**	**6,749,596**	**(77,272)**	**8,516,391**	**732,229**	**9,248,620**
Profit/(loss) for the year		-	-	976,424	-	976,424	(21,430)	954,994
Other comprehensive income		-	-	-	36,997	36,997	43,337	80,334
Total comprehensive income for 2012		**-**	**-**	**976,424**	**36,997**	**1,013,421**	**21,907**	**1,035,328**
Acquisition of non-controlling interest in subsidiary	36	-	-	55,132	-	55,132	(193,806)	(138,674)
Contribution in charter capital of subsidiaries by non-controlling shareholder		-	-	-	-	-	11,462	11,462
Establishment of subsidiary		-	-	-	-	-	1,014	1,014
Increase in charter capital		-	25,732	(25,732)	-	-	-	-
Additional paid-in-capital	27	230,000	-	-	-	230,000	-	230,000
Distribution to the Government	27	-	-	(521,442)	-	(521,442)	-	(521,442)
Dividends declared by subsidiary		-	-	-	-	-	(14,219)	(14,219)
Balance at 31 December 2012		**1,014,809**	**1,084,990**	**7,233,978**	**(40,275)**	**9,293,502**	**558,587**	**9,852,089**

	Note	2012	2011 (reclassified)
Cash flows from operating activities			
Profit before income tax		**1,434,416**	**1,184,844**
Adjustments for:			
Depreciation of property, plant and equipment	29	670,733	614,717
Amortisation on intangible assets	15	21,429	15,295
Impairment of property, plant and equipment	14	227,872	499,642
Impairment of trade and other receivables	29	74,854	155,268
Change in provisions	29	54,593	(154,996)
Change in asset retirement obligations recognised in profit or loss		93,942	21,691
Losses on disposals of property, plant and equipment		24,412	25,731
Finance income	31	(34,104)	(72,400)
Finance costs	32	188,435	210,950
Foreign exchange rate differences		(60,309)	419,669
Share of result of associates and joint ventures	16,17	(219,283)	(193,197)
Gain on release of payables	30	(1,443)	(25,709)
Other non-cash transactions		(25,050)	(6,853)
Operating cash flows before working capital changes		**2,450,497**	**2,694,652**
Decrease / (increase) in trade and other receivables		197,484	(378,625)
Decrease / (increase) in inventories		119,773	(194,124)
Increase in trade and other payables		1,686	374,246
Increase in taxes payable		98,870	237,904
Utilization of provisions	23	(71,933)	(45,541)
Increase in other assets and decrease in other long-term liabilities		-	(40,166)
Cash generated from operations		**2,796,377**	2,648,346
Income taxes paid		(512,261)	(472,657)
Interest paid		(127,316)	(143,530)
Net cash from operating activities		**2,156,800**	**2,032,159**
Cash flows from investing activities			
Acquisitions of subsidiary (net of cash acquired), additional share in jointly controlled assets, additional contribution in associates and jointly controlles entities		(301,408)	(466,660)
Purchase of property, plant and equipment		(2,080,661)	(1,856,489)
Purchase of intangible assets	15	(39,411)	(14,090)
Deposits	8	(78,503)	(56,055)
Collection of loans provided to third parties		7,428	-
Financing provided to third parties		(9,500)	-
Interest received		29,594	53,489
Dividends received	16,17	203,589	171,274
Purchase consideration paid		-	(272,935)
Proceeds from sale of property, plant and equipment		20,720	59,000
Prepayment for acquisition of subsidiary		-	(35,758)
Financing provided to jointly controlled entities		(7,408)	(6,031)
Net cash used in investing activities		**(2,255,560)**	**(2,424,255)**
Cash flows from financing activities			
Proceeds from borrowings		1,268,073	1,898,881
Repayment of borrowings		(725,403)	(965,471)
Acquisition of share from non-controlling shareholder	36	(138,674)	(111,428)
Contribution in subsidiary by non-controlling shareholder		12,476	46,146
Increase in charter capital and additional paid-in capital	27	230,000	190,000
Change in restricted cash related to borrowings		-	8,805
Dividends paid		(14,219)	(4,260)
Distribution to the Government	27	(475,286)	(420,411)
Net cash provided by financing activities		**156,967**	**642,262**
Net foreign exchange difference on cash and cash equivalents		7,488	(54,183)
Net increase in cash and cash equivalents		**65,695**	**195,983**
Cash and cash equivalents at the beginning of the year	8	**1,157,744**	**961,761**
Cash and cash equivalents at the end of the year	8	**1,223,439**	**1,157,744**

1 The Group and its operations

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

In July 2012, SOCAR acquired 100 per cent of voting equity shares of Esso Switzerland, which owns the Esso branded retail service chain network in Switzerland. Total consideration paid for this acquisition equalled USD 313 million (AZN 257,713). Following the acquisition, Esso Switzerland was renamed to SOCAR Switzerland Group ("SOCAR Switzerland") (Note 36). In November 2012, SOCAR obtained control over Supra Holding Limited, previously SOCAR's associate. Following the acquisition, Supra Holding Limited was renamed to SOCAR Trading Holding Ltd ("SOCAR Trading") (Note 36).

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

2 Basis of preparation and significant accounting policies

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

Basis for consolidation. The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2012.

Subsidiaries are all entities (including special-purpose entities) over which the Group has control, being the power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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

Business combinations. Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree 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.

2 Basis of preparation and significant accounting policies (continued)

Business combinations (continued)

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

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

Investments in associates. Associates are all entities over which the Group has significant influence but not control. Investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate less accumulated impairment of investments. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, the Group's share of changes in net assets recognised in other comprehensive income or loss is recognised in other comprehensive income or loss. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any receivables, regarded to be in substance the extension of the Group's investment in the associate, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates related to transfer of assets are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Interests in joint ventures. The Group has interests in joint ventures, which are jointly controlled entities, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity.

A joint venture is a contractual arrangement whereby two or more parties (venturers) undertake an economic activity that is subject to joint control. Joint control exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers. A jointly controlled entity is a joint venture that involves the establishment of a company, partnership or other entity to engage in economic activity that the Group jointly controls with its fellow venturers.

The results, assets and liabilities of a jointly controlled entity are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, the investment in a jointly controlled entity is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the jointly controlled entity, less distributions received and less any impairment in value of the investment. The Group's statement of comprehensive income reflects the Group's share of the profit or loss of the jointly controlled entity and any income and expense recognised by the jointly controlled entity in other comprehensive income or loss.

Financial statements of jointly controlled entities are prepared for the same reporting period as the Group. Where necessary, adjustments are made to those financial statements to bring the accounting policies used into line with those of the Group.

2 Basis of preparation and significant accounting policies (continued)

Interests in joint ventures (continued). The Group ceases to use the equity method of accounting of the date from which it no longer has joint control over joint venture or significant influence in the associate, or when the interest becomes held for sale. Certain of the Group's upstream activities which are governed by Production Sharing Agreements ("PSAs") are conducted through joint ventures where the venturers have a direct ownership interest in and jointly control the assets of the venture. Such activities are accounted for as jointly controlled assets. Accordingly, the Group recognises its share of the jointly controlled assets and its share in liabilities, income and expenses related to jointly controlled assets in proportion to the Group's interest.

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

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

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

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

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

The functional currencies of the Group's consolidated entities are the currencies of the primary economic environments in which the entities operate. The functional currency of SOCAR and its 23 business units and the Group's presentation currency is the national currency of the Azerbaijan Republic, AZN. However, US Dollar ("USD"), Swiss Franc ("CHF"), Georgian Lari ("GEL"), Ukrainian Hryvnia ("UAH") and Turkish Lira ("YTL") are considered the functional currency of the Group's certain subsidiaries, associates and jointly controlled entities as majority of these investments' receivables, revenues, costs and debt liabilities are either priced, incurred, payable or otherwise measured in these currencies.

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

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

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

2 Basis of preparation and significant accounting policies (continued)

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

(i) assets and liabilities for each statement of financial position are translated at the closing rate at the date of that statement of financial position;
(ii) income and expenses for each statement of 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 recognised as a separate component of equity – currency translation difference.

At 31 December 2012 the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 0.7850, EUR 1 = AZN 1.0377, CHF 1 = AZN 0.8594, GEL 1 = AZN 0.4744, UAH 1 = AZN 0.0975, YTL 1 = AZN 0.4387, JPY 100 = AZN 0.9126 (2011: USD 1 = AZN 0.7865, EUR 1 = AZN 1.0178, CHF 1 = AZN 0.8357, GEL 1 = AZN 0.4692, UAH 1 = AZN 0.0978, YTL 1 = AZN 0.4102, JPY 100 = AZN 1.0146).

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data.

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

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

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

2 Basis of preparation and significant accounting policies (continued)

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

Financial assets. The Group classifies its financial assets in the following measurement categories: a) financial assets at fair value through profit or loss; b) loans and receivables; c) financial assets held-to-maturity and d) available-for–sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

(a)Financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are financial assets held for trading (a financial asset is classified in this category if acquired principally for the purpose of selling in the short term) and financial assets designated upon initial recognition as at fair value through profit or loss. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b)Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the statement of financial position.

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

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

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

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

2 Basis of preparation and significant accounting policies (continued)

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

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

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

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

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

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

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

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

2 Basis of preparation and significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

2 Basis of preparation and significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

Buildings and constructions	12 to 40 years
Plant and machinery	3 to 47 years
Vessels	25 years

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

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

2 Basis of preparation and significant accounting policies (continued)

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

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

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

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

Intangible assets. Intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses. Intangible assets include rights and computer software, patents, licences, customer relationships, trade name, water rights and development projects.

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

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

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

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

Customer relationships acquired as part of net assets of SOCAR Switzerland were initially recognised at their fair values in accordance with IFRS 3 as at 30 June 2012.

2 Basis of preparation and significant accounting policies (continued)

Intangible assets (continued)

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

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

Inventories. Inventories are stated at the lower of cost and net realizable value. Cost is assigned by the weighted average method. Cost comprises direct purchase costs, cost of production, transportation and manufacturing expenses (based on normal operating capacity).

2 Basis of preparation and significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

2 Basis of preparation and significant accounting policies (continued)

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

VAT payable. VAT payable represents VAT related to sales that is payable to tax authorities upon recognition of sales to customers, net of VAT on purchases which have been settled at the statement of financial position date. VAT related to sales which have not been settled at the statement of financial position date (VAT deferral) is also included in VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT where applicable. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

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

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

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

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

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

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

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

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

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

2 Basis of preparation and significant accounting policies (continued)

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

Governmental economic and social policies affect the Group's financial position, results of operations and cash flows. The Government imposed an obligation on the Group to provide an uninterrupted supply of oil and gas to customers in the Azerbaijan Republic at government controlled prices. Transactions with the state include taxes which are detailed in Note 21.

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.

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

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

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

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

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

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

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

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

2 Basis of preparation and significant accounting policies (continued)

Reclassifications (continued)

Consolidated Statement of Financial Position

	Prior to reclassification	Reclassification	After reclassification
Reclassification from Inventories to Property, plant and equipment and from Property, plant and equipment to Other long-term financial assets			
Property, plant and equipment	8,919,860	145,313	9,065,173
Inventories	936,145	(151,344)	784,801
Other long-term financial assets	82,365	6,031	88,396

The above reclassifications mainly relate to inventories held by the Group for the purposes of planned construction works on the Group's fields which were further capitalized in oil and gas properties.

	Prior to reclassification	Reclassification	After reclassification
Reclassification from Trade and other receivables to Other long-term assets, from Corporate income tax payable to Taxes payable and from Taxes payable to Trade and other receivables			
Other long-term assets	279,149	31,043	310,192
Trade and other receivables	2,740,803	(50,430)	2,690,373
Corporate income tax payable	(22,169)	17,574	(4,595)
Taxes payable	(435,521)	1,813	(433,708)

Consolidated Statement of Comprehensive Income

	Prior to reclassification	Reclassification	After reclassification
Reclassification from Cost of sales, Distribution and Social expenses to General and administrative and Other operating expenses			
Cost of sales	5,391,983	(395,945)	4,996,038
General and administrative expenses	296,458	104,986	401,444
Distribution expenses	437,154	(54,410)	382,744
Social expenses	308,353	(30,011)	278,342
Other operating expenses	262,025	375,380	637,405

In 2012 the Group revised its policy for cost allocation and started application of activity based costing for calculation of production costs. Application of revised methodology did not have significant impact on the Group's net assets as of 31 December 2012 and 2011. In addition the Group changed presentation of certain expenditures (such as impairment of non-monetary and monetary assets, certain administrative expenditures of production units and others). As a result, certain prior year expenditure items were reclassified in order to conform to current year presentation.

3 Critical accounting estimates and judgments

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

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

3 Critical accounting estimates and judgments (continued)

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

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

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

Proved reserves of the SOCAR as of 1 January 2011 were based on reports prepared by independent reservoir engineers in accordance with Society of Petroleum Engineers rules. For subsequent periods, the Company updated its reserves information based on work performed by its in-house geologists.

Asset retirement obligations. As further discussed in Note 22, management makes provision for the future costs of decommissioning oil and gas production and storage facilities, pipelines and related support equipment and site restoration based on the estimates of future cost and economic lives of those assets. Estimating future asset retirement obligations is complex and requires management to make estimates and judgments with respect to removal obligations that will occur many years in the future. Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The Group assesses its asset retirement obligation liabilities in accordance with the guidelines of International Financial Reporting Interpretations Committee ("IFRIC") 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the statement of financial position date based on current applicable legislation and regulations, and is also subject to changes because of modifications, revisions and changes in laws and regulations and respective interpretations thereof. Governmental authorities are continually considering applicable regulations and their enforcement. Consequently, the Group's ultimate asset retirement liabilities may differ from the recorded amounts. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of incurring such costs. Estimated liability of dismantling oil and gas production and storage facilities, including abandonment and site restoration costs, amounted to AZN 620,864 at 31 December 2012 (2011: 468,384). Changes in any of these conditions may result in adjustments to provisions recorded by the Group.

Management determines discount rates used for discounting abandonment and site restoration costs as a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. The discount rate used as at 31 December 2012 was 5.97 per cent (2011: 6.86 per cent). Management believes that this discount rate appropriately reflects all risks and uncertainties pertaining to oil and gas exploration, evaluation, development and distribution in Azerbaijan as of the reporting date.

If the estimated discount rate used in the calculation had been 1 per cent higher / lower than management's estimate, the carrying amount of the provision would have been AZN 158,588 lower / AZN 264,394 higher, respectively.

3 Critical accounting estimates and judgments (continued)

Environmental obligations. As further discussed in Note 23, the Group records a provision in respect of estimated costs of remediation of the damage historically caused to the natural environment primarily in the Absheron area both by the activities of the Group and its legacy operations in periods preceding the formation of the Group. The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the statement of financial position date based on current applicable legislation and regulations, and is also subject to changes because of modifications, revisions and changes in laws and regulations and respective interpretations thereof. Governmental authorities are continually considering applicable regulations and their enforcement. Consequently, the Group's ultimate liability for environmental remediation may differ from the recorded amounts. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of incurring such costs. Estimated liability for environmental remediation as of 31 December 2012 amounted to AZN 195,484 (2011: AZN 231,323). Changes in any of these conditions may result in adjustments to provisions recorded by the Group.

Management determines discount rate used for discounting environmental remediation costs as pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability as of the reporting date. The discount rate used as at 31 December 2012 was 7.13 per cent (2011: 8.46 per cent). Management believes that this discount rate appropriately reflects all risks and uncertainties pertaining to oil and gas exploration, evaluation and development industry in Azerbaijan. Changes in any of these conditions may result in adjustments to provisions recorded by the Group.

If the estimated discount rate used in the calculation had been 1 per cent higher / lower than management's estimate, the carrying amount of the provision would have been AZN 4,355 lower / AZN 4,519 higher, respectively.

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

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

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

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

3 Critical accounting estimates and judgments (continued)

Impairment of non-financial assets (continued). In 2012, as the result of underperformance of some cash generating units (CGU) the Group carried out a review of the recoverable amounts of those CGUs resulting in impairment charge amounting to AZN 227,872 (2011: AZN 499,642). These assets are used in the Group's oil and gas segment. In assessing whether impairment is required in the carrying value of a potentially impaired asset, its carrying value is compared with its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value-in-use. Given the nature of the Group's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers are taking place. Consequently, unless indicated otherwise, the recoverable amount used in assessing the impairment charges described below is value-in-use. The Group generally estimates value-in-use using a discounted cash flow model from financial budgets approved by management.

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

Production volumes: Estimated production volumes of SOCAR operated fields are based on detailed data for the fields and take into account development plans for the fields agreed by management as part of the long-term planning process. It is estimated that, if all production were to be reduced by 10 per cent for the whole of the next 15 years, this would not result in additional impairment charge.

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

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

Crude oil price: Forecast commodity prices are publicly available.

Discount rate: The pre-tax discount rate applied to the cash flow projections was in range of 14.27 – 15.58 per cent for different CGUs (2011: 15.3 – 19.85 per cent). The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital (WACC). In calculating WACC the cost of equity was estimated using peer group data and the cost of debt is based on interest bearing borrowings, the Group is obliged to service. Specific risks are incorporated by applying individual beta factors, market risk and size of the Group. The beta factors are evaluated annually based on publicly available market data. If the estimated WACC used in the calculation had been 1 per cent higher / lower than management's estimate, the aggregate amount of impairment loss would have been AZN 14,195 higher / AZN 10,049 lower, respectively (2011: AZN 21,467 higher / AZN 22,873 lower, respectively).

Inflation rate estimates: Rates used are Global Insight (GI) forecasts.

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

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

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

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

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

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendment to IFRS effective as of 1 January 2012:

IAS 12, Income Taxes – Deferred Taxes: Recovery of Underlying Assets (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012). The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. There was no effect on the Group’s financial position, performance or its disclosures.

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

Amendments to IAS 1, Presentation of Items of Other Comprehensive Income (issued in June 2011 and effective for annual periods beginning on or after 1 July 2012). The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or ‘recycled’) to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and will have no impact on the Group’s financial position or performance.

IAS 19, Employee Benefits (revised in June 2011 and effective for annual periods beginning on or after 1 January 2013). The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.

IAS 28, Investments in Associates and Joint Ventures (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013). As a consequence of the new IFRS 11 *Joint Arrangements,* and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates,* has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group’s financial position or performance.

Amendments to IFRS 1, Government Loans (issued in March 2012 and effective for annual periods beginning on or after 1 January 2013). These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment has no impact on the Group.

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

Amendments to IFRS 7, Disclosures — Offsetting Financial Assets and Financial Liabilities (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013). These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not significantly impact the Group's financial position or performance.

IFRS 9, Financial Instruments: Classification and Measurement (issued in December 2011 and effective for annual periods beginning on or after 1 January 2015). IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013). IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation — Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have significant impact on the currently held investments of the Group.

IFRS 11, Joint Arrangements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013). IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRS 12, Disclosure of Interests in Other Entities (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013). IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Group's financial position or performance.

IFRS 13, Fair Value Measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013). IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected.

IFRIC* 20, *Stripping Costs in the Production Phase of a Surface Mine (issued in October 2011 and effective for annual periods beginning on or after 1 January 2013). This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The new interpretation will not have an impact on the Group.

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

IFRIC Interpretation 21 Levies (issued In May 2013 and effective for annual periods beginning on or after 1 January 2014). The interpretation was developed by the IFRS Interpretations Committee and issued by the IASB. The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached. Based on the preliminary analysis performed, the Group does not expect significant impact on the Group's financial position or performance.

Annual Improvements to IFRSs May 2012

These improvements will not have an impact on the Group, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards
This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements
This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment
This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation
This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

These improvements are effective for annual periods beginning on or after 1 January 2013.

5 Segment information

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

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

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

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

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

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

5 Segment information (continued)

Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 31 December 2012 is set out below:

	Oil and gas	Refining	Construction	Sales and distribution	Unallocated (*)	Eliminations (**)	Total
2012							
Revenues							
External customers	3,067,791	2,039,404	205,407	11,796,798	29,432	-	**17,138,832**
Inter-segment	676,322	461,792	693,618	1,238,980	310,814	(3,381,526)	**-**
Total revenue	**3,744,113**	**2,501,196**	**899,025**	**13,035,778**	**340,246**	**(3,381,526)**	**17,138,832**
Other operating income	17,927	21,890	38,487	39,685	65,727	(32,210)	**151,506**
Finance income	8,722	19,229	335	6,869	756,336	(757,387)	**34,104**
Foreign exchange gains/losses (net)	(3,906)	48,785	(848)	9,744	(17,914)	(29)	**35,832**
Raw materials and consumables used	(723,964)	(1,783,935)	(314,734)	(12,111,569)	(59,783)	2,532,846	**(12,461,139)**
Depreciation of property, plant and equipment	(423,875)	(116,883)	(63,784)	(75,200)	(61,911)	70,920	**(670,733)**
Wages, salaries and social security costs	(233,926)	(163,669)	(201,149)	(172,096)	(181,505)	145,959	**(806,386)**
Transportation and vehicle maintenance	(165,262)	(3,009)	(83,854)	(24,098)	(18,526)	134,192	**(160,557)**
Repairs and maintenance expenses	(183,230)	(31,383)	(125,875)	(31,287)	(25,700)	216,442	**(181,033)**
Impairment of property, plant and equipment	(181,167)	-	-	-	(46,705)	-	**(227,872)**
Mining tax	(113,708)	-	-	-	-	1,606	**(112,102)**
Utilities expense	(12,814)	(184,287)	(4,052)	(5,937)	(3,953)	2,252	**(208,791)**
Taxes other than on income	(58,852)	(11,056)	(6,750)	(16,214)	(8,092)	351	**(100,613)**
Amortization expense	(16)	(11,969)	-	(5,528)	(3,916)	-	**(21,429)**
Impairment of trade and other receivables	(69,919)	(2,741)	-	(2,194)	-	-	**(74,854)**
Change in Other provisions for liabilities and charges	(9,821)	(10,002)	(19,570)	(6,755)	(8,445)	-	**(54,593)**
Other	(391,959)	(134,651)	(53,091)	(185,400)	(120,090)	265,991	**(619,200)**
Gains less losses on disposals of property, plant and equipment	(22,294)	(8,775)	3,075	(2,135)	642	5,075	**(24,412)**
Finance cost	(57,855)	(52,649)	(4,145)	(26,131)	(65,662)	18,007	**(188,435)**
Social expenses	(10,952)	(14,338)	(7,345)	(835)	(205,463)	5,941	**(232,992)**
Share of result of jointly controlled entities	1,327	-	14,440	265	3,481	-	**19,513**
Share of result of associates	-	-	-	196,089	3,681	-	**199,770**
Income tax expense	(339,082)	29,591	(22,862)	(189,756)	42,687	-	**(479,422)**
Net profit for the year	**769,487**	**91,344**	**47,303**	**433,295**	**385,135**	**(771,570)**	**954,994**

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

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

5 Segment information (continued)

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

	Oil and gas	Refining	Construction	Sales and distribution	Unallocated (*)	Eliminations (**)	Total
Investment in associates	-	-	-	1,147,121	17,899	-	**1,165,020**
Investment in joint ventures	227,270	-	24,433	57,799	128,471	-	**437,973**
Other reportable segment assets	7,913,142	3,527,900	1,634,846	9,713,664	7,073,565	(9,600,338)	**20,262,779**
Total reportable segment assets	**8,140,412**	**3,527,900**	**1,659,279**	**10,918,584**	**7,219,935**	**(9,600,338)**	**21,865,772**
Other reportable segment liabilities	(2,964,164)	(2,230,047)	(1,033,669)	(9,564,730)	(3,094,245)	6,873,172	**(12,013,683)**
Total reportable segment liabilities	**(2,964,164)**	**(2,230,047)**	**(1,033,669)**	**(9,564,730)**	**(3,094,245)**	**6,873,172**	**(12,013,683)**
Capital expenditure (***)							
Additions – SOCAR	1,097,544	65,672	152,782	452,236	235,700	(152,118)	**1,851,816**
Additions - subsidiaries	357,937	129,560	185,041	317,525	14,593	-	**1,004,656**
Acquisitions through business combination	104,454	-	-	263,682	741	-	**368,877**
Total capital expenditures	**1,559,935**	**195,232**	**337,823**	**1,033,443**	**251,034**	**(152,118)**	**3,225,349**

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

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

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

5 Segment information (continued)

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

Segment information for the reportable segments for the year ended 31 December 2011 is set out below:

	Oil and gas	Refining	Construction	Sales and distribution	Unallocated (*)	Eliminations (**)	Total
2011							
Revenues							
External customers	2,960,332	2,000,208	212,957	2,939,990	19,244	-	**8,132,731**
Inter-segment	694,320	474,086	600,463	333,212	237,379	(2,339,460)	**-**
Total revenue	**3,654,652**	**2,474,294**	**813,420**	**3,273,202**	**256,623**	**(2,339,460)**	**8,132,731**
Other operating income	7,223	22,133	51,818	197,978	527,386	(657,535)	**149,003**
Finance income	25,927	17,857	18	2,704	874,613	(848,719)	**72,400**
Raw materials and consumables used	(736,997)	(1,668,947)	(348,081)	(2,415,036)	(197,544)	1,650,726	**(3,715,879)**
Depreciation of property, plant and equipment	(353,344)	(115,452)	(78,782)	(67,935)	(88,040)	88,836	**(614,717)**
Wages, salaries and social security costs	(192,691)	(151,702)	(168,102)	(108,340)	(144,684)	136,576	**(628,943)**
Transportation and vehicle maintenance	(137,366)	(2,511)	(74,245)	(20,473)	(13,386)	118,829	**(129,152)**
Repairs and maintenance expenses	(168,748)	(37,112)	(61,599)	(35,587)	(37,955)	156,004	**(184,997)**
Impairment of property, plant and equipment	(300,605)	-	(1,989)	-	(197,100)	52	**(499,642)**
Mining tax	(118,771)	-	-	-	(104)	653	**(118,222)**
Utilities expense	(17,941)	(186,753)	(5,667)	(2,895)	(3,993)	442	**(216,807)**
Taxes other than on income	(33,317)	(15,764)	(5,193)	(13,030)	(9,831)	-	**(77,135)**
Amortization expense	-	(15,295)	-	-	-	-	**(15,295)**
Impairment of trade and other receivables	(97,416)	(280)	-	(53,958)	(3,614)	-	**(155,268)**
Change in Other provisions for liabilities and charges	122,859	28,600	(10,664)	1,790	12,411	-	**154,996**
Other	(149,705)	(121,652)	(61,298)	(215,952)	(540,358)	855,450	**(233,515)**
Gains less losses on disposals of property, plant and equipment	(27,172)	25,027	945	(18,053)	(6,478)	-	**(25,731)**
Finance cost	(57,971)	(97,805)	(2,503)	(19,882)	(45,743)	12,954	**(210,950)**
Foreign exchange losses (net)	(5,131)	(394,431)	(75)	1,396	(14,647)	-	**(412,888)**
Social expenses	(6,601)	(18,195)	(2,864)	(16)	(257,343)	6,677	**(278,342)**
Share of result of jointly controlled entities	4,966	-	10,906	1,159	2,190	-	**19,221**
Share of result of associates	-	-	-	172,957	1,019	-	**173,976**
Income tax expense	(255,103)	(31,588)	(10,508)	(116,158)	38,106	-	**(375,251)**
Net profit for the year	**1,156,748**	**(289,576)**	**45,537**	**563,871**	**151,528**	**(818,515)**	**809,593**

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

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

5 Segment information (continued)

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

	Oil and gas	Refining	Construction	Sales and distribution	Unallocated (*)	Eliminations (**)	Total
Investment in associates	-	-	-	1,175,453	10,917	-	**1,186,370**
Investment in joint ventures	191,609	-	16,658	48,368	135,764	-	**392,399**
Other reportable segment assets	7,380,527	3,340,159	1,340,178	4,505,602	5,899,543	(7,104,254)	**15,361,755**
Total reportable segment assets	**7,572,136**	**3,340,159**	**1,356,836**	**5,729,423**	**6,046,224**	**(7,104,254)**	**16,940,524**
Other reportable segment liabilities	(2,573,881)	(2,003,255)	(814,674)	(4,742,070)	(2,270,096)	4,712,072	**(7,691,904)**
Total reportable segment liabilities	**(2,573,881)**	**(2,003,255)**	**(814,674)**	**(4,742,070)**	**(2,270,096)**	**4,712,072**	**(7,691,904)**
Capital expenditure (***)							
Additions – SOCAR	888,969	87,443	231,377	1,330,241	316,966	(61,108)	**2,793,888**
Additions - subsidiaries	323,317	104,943	52,552	91,487	1,607	-	**573,906**
Increase of share in jointly controlled assets	381,641	-	-	-	-	-	**381,641**
Total capital expenditures	**1,593,927**	**192,386**	**283,929**	**1,421,728**	**318,573**	**(61,108)**	**3,749,435**

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

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

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

Geographical information

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

	2012	2011
Azerbaijan	4,400,098	4,140,795
UAE	6,566,788	1,323,722
Switzerland	3,331,695	-
Turkey	1,907,483	1,848,774
Georgia	626,637	679,153
Other	306,131	140,287
Total consolidated revenues	**17,138,832**	**8,132,731**

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

5 Segment information (continued)

Geographical information (continued)

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

	2012	2011
Azerbaijan	10,524,311	9,327,572
UAE	26,701	4,241
Switzerland	390,117	116,769
Turkey	1,995,974	1,815,537
Georgia	231,041	155,362
Other	154,471	43,392
Total	**13,322,615**	**11,462,873**

The analysis is based on location of assets.

6 Financial risk management

Financial risk factors. In the ordinary course of business, the Group is exposed to credit, liquidity and market risks. Market risk arises from fluctuating prices on commodities purchased and sold, prices of other raw materials, currency exchange rates and interest rates. Depending on degree of price volatility, such fluctuations in market prices may create volatility in the Group's financial position. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. To effectively manage the variety of exposures that may impact financial results, the Group's overriding strategy is to maintain a strong financial position. Although there are no structured formal management procedures, management of the Group identifies and evaluates financial risks with reference to the current market position.

(i) Foreign exchange risk

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

The majority of the Group's borrowings and sales as well as receivables from foreign customers are denominated in USD. There has been no significant devaluation of USD against AZN during the year ended 31 December 2012.

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

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

2012	Change in rates(+/-)	Effect on post- tax profit
USD/AZN	3.82%	(14,766) / 14,766
JPY/AZN	5.65%	(5,650) / 5,650
EUR/AZN	11.49%	(14,629) / 14,629
USD/YTL	10%	(67,843) / 67,843

6 Financial risk management (continued)

Financial risk factors (continued)

2011	Change in rates(+/-)	Effect on post- tax profit
USD/AZN	5.09%	1,706 / (1,706)
JPY/AZN	7.85%	(9,048) / 9,048
EUR/AZN	14.55%	(2,616) / 2,616
USD/YTL	10%	(68,142) / 68,142

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

(ii) Commodity price risk

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

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

The following sensitivity analysis is based upon derivative price exposures that existed at 31 December 2012, whereby if oil future prices had moved, as illustrated in the table below, with all other variables held constant, post tax profit after the impact of hedge accounting and equity (excluding the effect of net profit) would have been as follows:

	Change in yearend price	Effect on profit before tax	Effect on equity
2012	5% / (5%)	(6,448) / 6,448	(6,448) / 6,448
2011	5% / (5%)	- / -	- / -

(iii) *Interest rate risk*

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

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

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

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

6 Financial risk management (continued)

Loans and borrowings, net of loans receivable	Increase/decrease in basis points	Effect on post- tax profit
2012	+5/-5	757 / (757)
2011	+15/-15	2,019 / (2,019)

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

The Group's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, including restricted cash, trade receivables and loans receivable.

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

	2012	2011
Cash and cash equivalents (Note 8)	1,218,309	1,157,538
Restricted cash	94,243	75,493
Deposits (Note 8)	78,503	-
Trade and other receivables (Note 10)	4,415,656	2,081,644
Loan receivable from jointly controlled entity	-	178,484
Other current financial assets (Note 13)	136,395	-
Other long-term financial assets (Note 13)	158,310	88,396
Other long-term assets	-	3,837
Financial guarantees given (Note 35)	91,464	51,930
Total maximum exposure to credit risk	**6,192,880**	**3,637,322**
Financial guarantees–amounts of guarantees of indebtedness of others (Note 35)	(372,955)	(336,787)
Total exposure to credit risk net of guarantees received	**5,819,925**	**3,300,535**

The Group places its cash with reputable financial institutions in the Azerbaijan Republic. The Group's cash is mainly placed with the International Bank of Azerbaijan ("IBA") which is controlled by the Azerbaijani Government. The balance of cash and cash equivalents and restricted cash held with the IBA at 31 December 2012 was AZN 662,839 (2011: AZN 835,805). The Group continually monitors the status of the banks where its accounts are maintained.

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

As at 31 December 2012, letters of guarantee and bank guarantees in total amount of AZN 357,923 (YTL 815,871,402) (2011: AZN 303,172 (YTL 739,083,379)) were received from certain domestics and foreign customers of SOCAR Turkey Energy A.S ("STEAS").

6 Financial risk management (continued)

The Group categorized its financial receivables as follows:

31 December 2012	Standard	Sub-standard	Past due but not impaired	Individually impaired
Trade receivables	3,614,833	99,424	701,399	200,769
Other short-term financial assets (Note 13)	-	77,600	-	-
Other long-term financial assets (Note 13)	-	109,601	48,709	-
Total	**3,614,833**	**286,625**	**750,108**	**200,769**

31 December 2011	Standard	Sub-standard	Past due but not impaired	Individually impaired
Trade receivables	2,155,203	100,118	41,716	215,393
Other long-term financial assets (Note 13)	-	88,396	-	-
Loan receivable from jointly controlled entity (Note 18)	-	-	178,484	-
Total	**2,155,203**	**188,514**	**220,200**	**215,393**

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

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

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

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

The maturity analysis of financial liabilities as of 31 December 2012 and 2011 is as follows:

At 31 December 2012	less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Trade and other financial payables	4,955,480	-	-	-	4,955,480
Deferred acquisition consideration payable	-	65,169	-	-	65,169
Interest bearing borrowings	1,215,574	739,793	2,330,533	620,360	4,906,260
Other financial liabilities	-	36,927	9,544	-	46,471
Total undiscounted financial liabilities	**6,171,054**	**841,889**	**2,340,077**	**620,360**	**9,973,380**

6 Financial risk management (continued)

At 31 December 2011	less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Trade and other financial payables	2,682,464	-	-	-	2,682,464
Interest bearing borrowings	234,305	602,356	1,741,785	760,873	3,339,319
Other financial liabilities	-	39,765	3,731	-	43,496
Total undiscounted financial liabilities	**2,916,769**	**642,121**	**1,745,516**	**760,873**	**6,065,279**

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

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

	2012	2011
Total borrowings (Note 20)	4,490,763	2,980,288
Total equity attributable to the Group's equity holders	9,263,502	8,516,391
Less: cash and cash equivalents	(1,223,439)	(1,157,744)
Total capital under management	**12,530,826**	**10,338,935**

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

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

Fair value of financial instruments. The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Management has used all available market information in estimating the fair value of financial instruments.

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

	31 December 2012	
	Carrying amounts	**Fair values**
Cash and cash equivalents (Note 8)	1,223,439	1,223,439
Deposits (Note 9)	78,503	78,503
Restricted cash	94,243	94,243
Trade receivables and other receivables (Note 10)	4,415,656	4,415,656
Other current assets	136,395	136,395
Other long-term financial assets (Note 13)	158,310	158,310
Total financial assets	**6,106,546**	**6,106,546**
Total financial payables (Note 19)	(4,955,480)	(4,955,480)
Short-term and current portion of long-term borrowings (Note 20)	(1,873,202)	(1,873,202)
Long-term borrowings (Note 20)	(2,617,561)	(2,636,099)
Deferred acquisition consideration payable	(65,169)	(65,169)
Other non-current liabilities	(46,471)	(46,471)
Total financial liabilities	**(9,557,883)**	**(9,576,421)**

6 Financial risk management (continued)

	31 December 2011	
	Carrying amounts	**Fair values**
Cash and cash equivalents	1,157,744	1,157,744
Restricted cash	75,493	75,493
Trade receivables and other receivables (Note 10)	2,081,644	2,081,644
Loan receivable from jointly controlled entity (Note 18)	178,484	178,484
Other long-term assets	3,837	3,837
Other long-term financial assets (Note 13)	88,396	88,396
Total financial assets	**3,585,598**	**3,585,598**
Total financial payables	(2,682,464)	(2,682,464)
Short-term and current portion of long-term borrowings (Note 20)	(761,518)	(761,518)
Long-term borrowings (Note 20)	(2,218,770)	(2,202,591)
Other non-current liabilities	(43,496)	(43,496)
Total financial liabilities	**(5,706,248)**	**(5,690,069)**

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

(i) Short-term financial assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments;
(ii) Long-term fixed-rate and variable-rate receivables / borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of customers and the risk characteristics of the financed project.

7 Balances and transactions with related parties

Key management compensation. Key management of the Group includes the President of SOCAR and its ten Vice-Presidents. All of the Group's key management are appointed by the President of the Azerbaijan Republic. Key management individuals are entitled to salaries and benefits of SOCAR in accordance with the approved payroll matrix as well as to compensation for serving as members of the Boards of directors for certain Group companies. During 2012 compensation of key management personnel totalled to AZN 465 (2011: AZN 282).

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

At 31 December 2012, the outstanding balances with related parties were as follows:

	Note	Government and entities under government control	Associates, joint ventures
Gross amount of trade receivables		334,130	109,665
Impairment provisions for trade and other receivables		(63,828)	-
Other receivables		-	28,959
Cash and cash equivalents		240,786	-
Deposit		425,575	-
VAT and other taxes receivable		390,321	-
Prepayments to vendors		10,112	-
Borrowings from IBA (at fixed rates varying from 3 to 3.5 per cent and floating interest rates varying from LIBOR plus 2 per cent to LIBOR plus 3.5 per cent)		(571,316)	-
Borrowings from the Ministry of Finance of Azerbaijan Republic		(155,473)	-
Trade and other payables		(81,156)	(567,063)
Taxes payable to State Oil Fund of Azerbaijan Republic (SOFAZ)	21	(123,324)	-
Bond payable to SOFAZ		(353,530)	-
Payable to State SOFAZ		(1,429,450)	-
Other taxes payable		(381,672)	-
Corporate income tax payable		(3,123)	-

7 Balances and transactions with related parties (continued)

The transactions with related parties for the year ended 31 December 2012 were as follows:

	Note	Government and entities under government control	Associates and joint ventures
Sales of natural gas		234,217	-
Sales of oil products		246,176	581,585
Sales of crude oil		-	6,495,541
Service rendered		25,817	95,393
Interest income on deposits		1,251	-
Interest on loans to related parties		929	3,114
Corporate income tax		(502,980)	-
Excise tax	28	(482,043)	-
Price margin tax		(440,757)	-
Mining tax	29	(112,106)	-
Other taxes		(154,433)	-
Utilities costs		(51,460)	(3,221)
Other operating expenses		(44,682)	(19,979)
Social security deductions		(135,235)	-
Social expenses		(510,641)	-
Transportation expenses		(6,311)	(457)
Ecology service and environmental security		(1,262)	(11,804)
Impairment of loan receivable from jointly controlled entity		-	(68,762)
Purchases of PPE and inventory		(7,249,083)	(1,233,811)
Dividends received from jointly controlled entities	16	-	13,789
Dividends received from associates	17	-	189,800

In addition to the above disclosed related party balances and transactions during the year the Group obtained a loan from other related parties in the amount of AZN 12,948 and provided a loan to other related parties in the amount of AZN 13,345 which were outstanding as at 31 December 2012.

At 31 December 2011, the outstanding balances with related parties were as follows:

	Note	Government and entities under government control	Associates, joint ventures
Gross amount of trade receivables		272,964	731,643
Impairment provisions for trade and other receivables		(79,797)	-
Other receivables		-	17,574
Cash and cash equivalents		456,269	463
Deposit		398,138	-
VAT and other taxes receivable		416,357	-
Prepayments to vendors		2,094	60
Prepayment for corporate income tax		-	-
Receivable from a jointly controlled entity	18	-	178,484
Borrowings from IBA (at fixed rates varying from 3 to 3.5 per cent and floating interest rates varying from LIBOR plus 2 per cent to LIBOR plus 3.5 per cent)		(688,118)	-
Borrowings from the Ministry of Finance of the Azerbaijan Republic		(179,010)	-
Trade and other payables		(67,205)	(687,567)
Taxes payable to SOFAZ	21	(123,324)	-
Bond payable to SOFAZ	20	(381,452)	-
Payable to SOFAZ		(1,098,129)	-
Other taxes payable		(291,551)	-

7 Balances and transactions with related parties (continued)

The transactions with related parties for the year ended 31 December 2011 were as follows:

	Note	Government and entities under government control	Associates and joint ventures
Sales of natural gas		215,740	-
Sales of oil products		243,754	286,480
Sales of crude oil		-	1,323,722
Service rendered		22,313	94,733
Interest income on deposits		33,244	-
Interest on loans to related parties	31	-	16,468
Corporate income tax	33	(461,254)	-
Excise tax	28	(440,769)	-
Price margin tax		(449,075)	-
Mining tax	29	(118,222)	-
Other taxes		(128,713)	-
Utilities costs		(65,177)	(180)
Other operating expenses		(70,825)	(25,385)
Social security deductions		(116,153)	-
Social expenses		(569,931)	(627)
Transportation expenses		(5,864)	(5,345)
Repair and construction works		-	-
Ecology service and environmental security		(4,676)	(22,406)
Impairment of loan receivable from jointly controlled entity		-	(101,219)
Purchases of PPE and inventory		(1,365,212)	(1,271,770)
Dividends received from jointly controlled entities	16	-	11,362
Dividends received from associates	17	-	159,912

Terms and conditions of transactions with related parties.
The sales to and purchases from the Government and entities under government control are made at prices regulated by the Azerbaijani Government. Outstanding balances at the year-end are unsecured and settlement occurs in cash. There have been no guarantees provided for any related party receivables or payables.

8 Cash and cash equivalents and deposits

	2012	2011
USD denominated bank balances	892,631	872,472
CHF denominated bank balances	115,692	30,869
AZN denominated bank balances	74,948	162,724
YTL denominated bank balances	70,561	20,382
EUR denominated bank balances	39,828	62,071
Other denominated bank balances	24,649	9,020
Cash on hand	5,130	206
Total cash and cash equivalents	**1,223,439**	**1,157,744**

Included in USD denominated bank balances as at 31 December 2012 is a call deposit of AZN 282,080 placed with IBA (2011: AZN 269,426). Interest rate on this deposit for the years ended 31 December 2012 and 31 December 2011 equalled 70 per cent of overnight rate published by Reuters. Call deposit has original maturity of less than three months.

At 31 December 2011 the Group's bank balances included call deposit of AZN 78,650, which was withdrawn in the first half of 2012.

Deposits. At 31 December 2012 term deposits mainly included placements in the amount of AZN 78,500 with maturity ranging from three to six months, under fixed contractual interest rates ranging from 2.5 per cent to 3.75 per cent per annum (31 December 2011: nil). All the bank balances and deposits are neither past due nor impaired.

9 Restricted cash and deposits

	2012	2011
Deposit account with IBA in USD	62,814	62,260
Other restricted cash	34,951	32,110
Total short-term restricted cash and deposits	**97,765**	**94,370**

At 31 December 2012 short-term restricted deposits are represented by two time deposits with IBA in the amount of AZN 31,400 (2011: AZN 31,460) and AZN 31,414 (2011: nil) pledged to collateralize the Group's obligations to IBA under the loan facility obtained in May 2010 and maturing in May 2013. The deposits bear interest of 2.85 per cent per annum.

Short-term restricted deposits at 31 December 2011 also included part of another deposit in the amount of AZN 78,650 placed with IBA pledged to collateralize the Group's obligations to IBA under the loan facilities obtained in May 2010 and maturing in May 2012 in the amount of AZN 30,800, which were drawn down in the first half of 2012 (Note 8).

10 Trade and other receivables

	2012	2011
Trade receivables	4,517,001	2,196,918
Less impairment loss provision	(149,143)	(162,952)
Total trade receivables	**4,367,858**	**2,033,966**
VAT recoverable	378,231	349,079
Other taxes receivable	19,037	126,402
Prepayments	167,568	112,500
Other receivables	138,788	100,119
Less impairment loss provision (other receivables)	(51,626)	(52,441)
Receivable for underlift of oil	14,439	20,748
Total trade and other receivables	**5,034,295**	**2,690,373**

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

At 31 December 2012 trade and other receivables of AZN 4,115,821 (2011: AZN 1,860,164) were denominated in foreign currencies, mainly in USD.

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

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

	2012	2011
At 1 January	**215,393**	**180,727**
Receivables written off during the year as uncollectible net of recovery	(20,716)	(19,383)
Net change in provision	6,092	54,049
At 31 December	**200,769**	**215,393**

10 Trade and other receivables (continued)

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

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

	2012	2011
1-30 days overdue	357,607	7,939
1-3 months overdue	76,299	3,358
Over 3 months overdue	267,493	30,419
Total overdue receivables	**701,399**	**41,716**

At 31 December 2012 trade receivables of AZN 701,399 (2011: AZN 41,716) were past due. The Group holds guarantee letters in total amount of AZN 5,603 (2011: AZN 19,260) for these receivables.

11 Inventories

	2012	2011
Finished goods	367,964	230,895
Raw materials and spare parts	363,231	405,652
Crude oil	306,455	67,287
Goods in transit	150,434	16,459
Work in progress	76,296	58,264
Other	8,806	6,244
Total inventories	**1,273,186**	**784,801**

12 Other long-term assets

At 31 December 2012 other long-term assets were mainly represented by long-term prepayments for purchase of property, plant and equipment in the amount of AZN 80,805 (2011: AZN 229,069) and VAT receivable in the amount of AZN 39,340 (2011: AZN 12,758).

At 31 December 2011 the balance of long-term assets included prepayment of AZN 35,758 made as part of purchase consideration for SOCAR Switzerland, which was acquired during 2012 (see Note 36).

13 Other financial assets

Current
At 31 December 2012 other current financial assets were mainly represented by short-term loans receivable from third parties in the amount of AZN 77,600 (2011: nil) and balances relating to margin deposits and derivatives in the amount of AZN 52,220 (2011: nil).

Non-current
In accordance with the loan agreement with Palmali dated 5 October 2009, as amended on 6 November 2009 and 30 March 2010, the Group provided a loan in the amount of USD 120 million (AZN 95,748) bearing annual interest rate of LIBOR plus 4.5 per cent and maturing on 30 September 2015. The principal and interest are payable on a quarterly basis.

13 Other financial assets (continued)

At 31 December 2012 and 2011 the carrying value of loan receivable from Palmali equaled to AZN 74,249 and AZN 82,365, respectively.

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

At 31 December 2012 the Group also had receivable and interest receivable from Egyptian General Petroleum Company ("EGPC"), a governmental entity, under the refining agreement between SOCAR Trading (newly acquired subsidiary of the Group) and EGPC in the amount of AZN 48,709 (2011: nil).

14 Property, plant and equipment

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

	Buildings and constructions	Oil & gas properties and equipment	Plant and machinery	Vessels and port facilities	Other	Exploration and evaluation assets	Construction in progress	Total
Cost:								
At 1 January 2011	**1,136,266**	**5,833,570**	**1,921,131**	**456,228**	**1,129,340**	**78,238**	**1,021,061**	**11,575,834**
Additions	61,448	646,483	170,063	43,196	162,404	39,913	1,071,312	2,194,819
Increase in share of jointly controlled assets	-	381,641	-	-	-	-	-	381,641
Disposals	(18,105)	(47,126)	(27,560)	(7,319)	(27,554)	-	(143,206)	(270,870)
Transfers	37,221	384,807	64,435	17	4,574	-	(491,054)	-
Translation to presentation currency	(14,782)	(27,104)	(208,931)	-	(133,688)	(1,270)	(27,802)	(413,577)
At 31 December 2011	**1,202,048**	**7,172,271**	**1,919,138**	**492,122**	**1,135,076**	**116,881**	**1,430,311**	**13,467,847**
Additions	19,486	874,154	175,893	40,788	117,128	54,352	1,165,340	2,447,141
Acquisition through business combination	162,034	24,282	24,698	3,677	17,072	-	6,297	238,060
Disposals	(49,709)	(89,486)	(22,602)	(2,762)	(33,107)	-	(79,695)	(277,361)
Transfers	343	498,589	35,566	-	33,666	-	(568,164)	-
Translation to presentation currency	6,433	(3,124)	58,933	(7)	36,968	(266)	10,076	109,013
At 31 December 2012	**1,340,635**	**8,476,686**	**2,191,626**	**533,818**	**1,306,803**	**170,967**	**1,964,165**	**15,984,700**
Depreciation and impairment:								
At 1 January 2011	**(284,173)**	**(2,015,813)**	**(529,670)**	**(124,085)**	**(130,241)**	**-**	**(239,122)**	**(3,323,104)**
Depreciation charge for the year	(72,085)	(353,312)	(155,773)	(52,501)	(66,692)	-	-	(700,363)
Disposal	8,514	25,537	12,998	775	4,807	-	17,767	70,398
Impairment	(6,442)	(92,346)	(39,786)	(133,610)	(9,391)	-	(218,067)	(499,642)
Transfers	(2,090)	(118,603)	274	-	(23)	-	120,442	-
Translation to presentation currency	1,731	5,737	40,968	-	1,601	-	-	50,037
At 31 December 2011	**(354,545)**	**(2,548,800)**	**(670,989)**	**(309,421)**	**(199,939)**	**-**	**(318,980)**	**(4,402,674)**
Depreciation charge for the year	(72,885)	(408,393)	(158,017)	(26,548)	(84,675)	-	-	(750,518)
Disposal	44,939	80,575	18,517	2,531	18,597	-	20,914	186,073
Impairment	(686)	(77,282)	(4,274)	(39,607)	(902)	-	(105,121)	(227,872)
Transfers	8,019	(161,827)	(4,286)	-	(8,134)	-	166,228	-
Translation to presentation currency	(476)	1,005	(12,917)	-	(425)	-	-	(12,813)
At 31 December 2012	**(375,634)**	**(3,114,722)**	**(831,966)**	**(373,045)**	**(275,478)**	**-**	**(236,959)**	**(5,207,804)**
Net book value:								
At 31 December 2012	**965,001**	**5,361,964**	**1,359,660**	**160,773**	**1,031,325**	**170,967**	**1,727,206**	**10,776,896**
At 31 December 2011	**847,503**	**4,623,471**	**1,248,149**	**182,701**	**935,137**	**116,881**	**1,111,331**	**9,065,173**
At 1 January 2011	**852,093**	**3,817,757**	**1,391,461**	**332,143**	**999,099**	**78,238**	**781,939**	**8,252,730**

14 Property, plant and equipment (continued)

Acquisition through business combination mainly represents property, plant and equipment acquired through acquisition of SOCAR Switzerland, Carlina and ITERA in amounts of AZN 102,792, AZN 99,910 and AZN 17,628, respectively.

Included in the disposed property, plant and equipment during the year ended 31 December 2012 were assets with net book value of AZN 46,156 (2011: AZN 94,338) which were transferred to governmental entities as part of social program approved by the government and recognised in the distribution to the Government (Note 27). Due to the fact that the assets are constructed/acquired and disposed to the Government within the same year, management believes that their fair value at the date of transfer to the Government approximate cost of construction/acquisition.

In 2011, the Group acquired additional 1.65 per cent participation interest in ACG PSA (Note 36). As a result of this acquisition the Group's share in ACG PSA equalled to 11.65 per cent. This transaction represents increase of share in jointly controlled assets.

15 Intangible assets other than goodwill

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

	Land and property rights	Water rights	Trade name	Customer relationship	Other intangible assets	Total
Cost:						
At 1 January 2011	**163,495**	**196,114**	**37,393**	**99,548**	**44,360**	**540,910**
Additions	-	-	-	-	14,090	**14,090**
Translation to presentation currency	(33,401)	(40,033)	(7,546)	(20,582)	(1,700)	**(103,262)**
At 31 December 2011	**130,094**	**156,081**	**29,847**	**78,966**	**56,750**	**451,738**
Acquisitions through business combinations	9,415	-	-	114,251	7,151	**130,817**
Additions	13,259	-	-	-	26,152	**39,411**
Disposal	-	-	-	-	(744)	**(744)**
Impairment	(6,593)	(266)	-	-	-	**(6,859)**
Translation to presentation currency	9,342	10,839	2,074	9,432	9,063	**40,750**
At 31 December 2012	**155,517**	**166,654**	**31,921**	**202,649**	**98,372**	**655,113**
Amortization and impairment:						
At 1 January 2011	**(10,216)**	**(11,460)**	**-**	**(11,538)**	**(7,883)**	**(41,097)**
Amortization charge for the year	(3,419)	(3,814)	-	(4,324)	(3,738)	**(15,295)**
Translation to presentation currency	2,914	3,266	-	3,511	454	**10,145**
At 31 December 2011	**(10,721)**	**(12,008)**	**-**	**(12,351)**	**(11,167)**	**(46,247)**
Amortization charge for the year	(3,171)	(3,537)	-	(6,864)	(7,857)	**(21,429)**
Translation to presentation currency	(753)	(844)	-	(1,016)	(8,469)	**(11,082)**
At 31 December 2012	**(14,645)**	**(16,389)**	**-**	**(20,231)**	**(27,493)**	**(78,758)**
Net book value:						
At 31 December 2012	**140,872**	**150,265**	**31,921**	**182,418**	**70,879**	**576,355**
At 31 December 2011	**119,373**	**144,073**	**29,847**	**66,615**	**45,583**	**405,491**
At 1 January 2011	**153,279**	**184,654**	**37,393**	**88,010**	**36,477**	**499,813**

At 31 December 2012 included in the carrying value of intangible assets was AZN 31,921 (2011: AZN 29,487) trade name of Petkim acquired through business combination in May 2008.

15 Intangible assets other than goodwill (continued)

The carrying value of Petkim trade name at December 31, 2012 has been tested for impairment through comparison with its recoverable amount. Recoverable amount has been determined based on the relief from royalty approach. In applying this methodology, the Group estimated the value of the trade name by capitalising the royalties saved due to Petkim owning the trade name. The royalty rate of 0.2 per cent (2011: 0.2 per cent) was used in the calculations and the discount rate of 9.7 per cent (2011: 9.7 per cent) was applied in the impairment study based on the WACC for 11 years. As a result of the test performed, no impairment on the Petkim trade name was identified.

Acquisition through business combination mainly represents intangible assets other than goodwill acquired through acquisition of SOCAR Trading, SOCAR Switzerland, Atikva Estate LLC and Carlina in the amounts of AZN 3,610, AZN 115,800, AZN 9,415 and AZN 1,866, respectively (Note 36).

During 2012, total amortization expense amounting to AZN 21,429 (2011: AZN 15,295) have been allocated to cost of sales by AZN 16,013 (2011: AZN 7,234), marketing, selling and distribution expenses by AZN 3,890 (2011: AZN 4,121), and general administrative expenses by AZN 1,526 (2011: AZN 3,940).

16 Investments in jointly controlled entities

The table below summarises movements in the carrying amount of the Group's investment in jointly controlled entities.

	Note	2012	2011
Carrying amount at 1 January 2012		**392,399**	**265,894**
Additions to investments in jointly controlled entities		54,662	84,504
Share of after tax results of jointly controlled entities		19,513	19,221
Dividends received from jointly controlled entities	7	(13,789)	(11,362)
Exchange differences		(592)	670
Other		(14,220)	33,472
Carrying amount at 31 December 2012		**437,973**	**392,399**

At 31 December 2012, the Group's interests in its principal jointly controlled entities and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (loss)	Interest held	Country of incorporation
Azgerneft MMC	24,132	33,588	(18,290)	-	39,154	12,805	40%	Azerbaijan
Azəri-Fuqro	11	114	(77)	-	914	(121)	60%	Azerbaijan
AZFEN	53,042	12,949	(22,779)	-	130,612	21,881	60%	Azerbaijan
Bosshelf LLC	20,498	831	(18,245)	-	70,372	466	90%	Azerbaijan
Azturqaz	287	871	(1,125)	-	568	(21)	50%	Azerbaijan
Azəri M.İ. Drillinq Fluids	54,505	5,389	(44,930)	-	114,318	12,090	51%	Azerbaijan
Oil and Gas Proservice	10,870	258	(2,136)	(236)	4,630	3,279	30%	Azerbaijan
Ekol Engineering Services	6,032	9,912	(1,958)	(319)	17,465	(12)	51%	Azerbaijan
Caspian Shipyard Company	12,679	881	(863)	-	24,689	6,556	20%	Azerbaijan
SOCAR KPS	7,473	6,705	(14,145)	-	6,136	(23)	50%	Azerbaijan
SOCAR Petroleum CSJC	35,547	85,432	(29,496)	(69,293)	518,765	653	51%	Azerbaijan
SOCAR-UGE	709	12,105	(3,413)	-	-	(2,141)	97%	Azerbaijan
SOCAR Umid	1,880	301,843	(49,920)	-	-	(4,744)	80%	Azerbaijan
Sarmatia	1,468	-	(1,393)	-	27	(454)	27%	Poland
SOCAR Baglan LLC	32	15,704	(8,603)	(9,533)	270	(1,798)	51%	Azerbaijan
SOCAR AQS	368,292	3,799	(127,800)	(52,253)	89,779	(18,876)	51%	Azerbaijan
AGRI LNG Project Company SRL	619	1	(19)	-	-	(66)	33%	Romania
SOCAR CAPE	2,328	102	(2,733)	-	9,409	(402)	51%	Azerbaijan
Star Gulf FZCO	8,237	8,348	(11,081)	-	19,148	(721)	80%	UAE
SOCAR Foster Viler Mühəndislik Xidmətləri	1,257	187	(999)	(445)	593	(205)	65%	Azerbaijan
Total	**609,898**	**499,019**	**(360,005)**	**(132,079)**	**1,046,849**	**28,146**		

16 Investments in jointly controlled entities (continued)

At 31 December 2011, the Group's interests in its principal associates and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (loss)	Interest held	Country of incorporation
Azeri Fugro	165	47	(13)	-	1,340	53	60%	Azerbaijan
Azeri M.I. Drilling Fluids	44,473	4,975	(38,002)	-	85,127	7,385	51%	Azerbaijan
Azfen	34,751	8,595	(11,993)	-	87,952	17,521	60%	Azerbaijan
Azgerneft	24,585	26,563	(15,639)	-	39,524	15,310	40%	Azerbaijan
Azturqaz	324	873	(1,119)	-	661	(107)	50%	Azerbaijan
Bosshelf LLC	14,759	426	(12,567)	-	80,361	2,210	50%	Azerbaijan
Carlina Overseas Corp.	19,347	115,962	(384,550)	(2,247)	34,117	(13,931)	51%	BVI
Caspian Shipyard Company	14,081	1,089	(3,431)	-	22,022	1,966	20%	Azerbaijan
Ekol Engineering Services	6,294	10,332	(2,502)	(395)	26,830	(897)	51%	Azerbaijan
Oil and Gas Proservice	6,724	168	(1,243)	-	3	1,893	30%	Azerbaijan
Sarmatia	(1,224)	-	(15)	-	70	(275)	25%	Poland
SOCAR AQS	346,822	4,636	(60,463)	(80,082)	145,285	65,631	51%	Azerbaijan
SOCAR Baglan LLC	113	24,283	(5,287)	(20,433)	8	737	51%	Azerbaijan
SOCAR CAPE	5,325	5	(6,439)	-	9,344	(1,895)	51%	Azerbaijan
SOCAR - KPS	5,261	4,270	(9,475)	-	3,794	(12)	50%	Azerbaijan
SOCAR Petroleum CJSC	26,152	70,448	(13,396)	(61,667)	289,659	660	51%	Azerbaijan
SOCAR-UGE	12,463	298	(1,219)	-	-	(2,318)	97%	Azerbaijan
SOCAR Umid	354	224,156	(15,432)	-	-	(1,448)	80%	Azerbaijan
Total	**560,769**	**497,126**	**(582,755)**	**(164,824)**	**826,097**	**92,483**		

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

During 2012, the Group has made additional contributions in share capital of its jointly controlled entities, SOCAR Petroleum CJSC, SOCAR Umid LLC and SOCAR-UGE LLC in the amount of AZN 12,311 (2011: 17,627), AZN 37,939 (2011: 63,751) and AZN 3,685 (2011: 1,205), respectively, and insignificant contributions to other jointly controlled entities.

On 17 January 2012, the Group obtained control over its jointly controlled entity Carlina. Accordingly, from this date Carlina was consolidated (Note 36).

On 30 June 2012, the subsidiary of the Group, SOCAR Overseas acquired 80 per cent of Star Gulf FZCO, which owns 50 per cent of Bosshelf LLC. As a result of this transaction, the Group's effective participating interest in Bosshelf LLC increased to 90 per cent. BosShelf is considered as a joint venture of the Company, since its operations are under joint control.

17 Investments in associates

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

	Note	2012	2011
Carrying amount at 1 January		**1,186,370**	**351,085**
Additions to investments in associates		87,238	984,830
Share of after tax results of associates		199,770	173,976
Dividends received from associates	7	(189,800)	(159,912)
Acquisition of control over associate (Note 36)		(119,964)	(160,675)
Derecognition of associates		-	(2,767)
Exchange differences		(1,932)	(167)
Other		3,338	-
Carrying amount at 31 December		**1,165,020**	**1,186,370**

17 Investments in associates (continued)

At 31 December 2011 the Group had 50 per cent interest in Supra Holding Limited. In August 2012 the Group has acquired additional 30 per cent share of Supra Holding Limited, for a consideration of AZN 60,641 from other shareholder. Due to the fact that strategic and operating decisions related to Supra Holding Limited activity require the unanimous consent of all shareholders, as a result of this acquisition, the Group did not obtain control over this investee. At the date of this acquisition fair value of investment in associate approximated it carrying value. In November 2012 the Group acquired additional 20 per cent share of Supra Holding Limited for a consideration of AZN 43,764. As a result of this acquisition, the Group's participation in Supra Holding Limited has increased to 100 per cent and the Group has obtained control over Supra Holding Limited in November 2012 (Note 36).

At 31 December 2012, the Group's interests in its principal associates and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/ (loss)	Interest held	Country of incorporation
Ateshgah Insurance Company	31,462	(23,848)	32,465	200	10%	Azerbaijan
Azerbaijan Gas Supply Company	377,071	(376,911)	1,188,150	-	8%	Cayman Islands
Azerbaijan John Brown	118	(32)	378	(14)	20%	Azerbaijan
AzLab	872	(234)	1,071	164	50%	Azerbaijan
BTC Co	4,087,522	(963,393)	1,281,674	854,292	25%	Cayman Islands
Caspian Geophysical	20,795	(9,169)	35,961	7,683	45%	Azerbaijan
Caspian Pipe Coatings LLC	5,567	(1,995)	8,647	(60)	50%	Azerbaijan
Cross Caspian Oil and Gas Logistics	15,247	(15,120)	110,182	27	34%	Azerbaijan
SOCAR International DMCC	47,855	(3,695)	4,145,696	43,663	50%	UAE
South Caucasus Pipeline Company ("SCPC")	1,040,045	(165,036)	138,673	39,497	10%	Cayman Islands
South Caucasus Pipeline Company Hold Co ("SCPC Hold Co.")	18,118	(829)	790	761	10%	Cayman Islands
Total	**5,644,672**	**(1,560,262)**	**6,943,687**	**946,213**		

At 31 December 2012 the Group had investments in associates with total carrying value of AZN 24,844 acquired through business combination of SOCAR Switzerland (Note 36). The Group has not disclosed total assets, total liabilities, revenue and profit/loss information for these companies in the above table due to impracticability of their calculation. The results of operations of these associates are immaterial.

At 31 December 2011, the Group's interests in its principal associates and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/ (loss)	Interest held	Country of incorporation
Ateshgah Insurance Company	19,964	(14,945)	18,727	(2,048)	10%	Azerbaijan
Azerbaijan Gas Supply Company	405,399	(405,242)	1,138,607	-	8%	Cayman Islands
Azerbaijan John Brown	132	(32)	531	14	40%	Azerbaijan
AzLab	917	(279)	1,029	143	50%	Azerbaijan
BTC Co	4,168,399	(1,172,373)	522,303	493,099	25%	Azerbaijan
Caspian Geophysical	10,023	(4,430)	18,864	2,324	45%	Azerbaijan
Caspian Pipe Coatings LLC	8,880	(1,582)	7,636	199	50%	Azerbaijan
Cross Caspian Oil and Gas Logistics	8,180	(8,059)	103,454	22	34%	Azerbaijan
SOCAR International DMCC	660,279	(651,482)	1,332,777	8,387	50%	UAE
SCPC	1,018,965	(105,535)	156,483	52,709	10%	Cayman Islands
SCPC Hold Co.	18,480	(394)	1,054	1,022	10%	Cayman Islands
Supra Holding Limited	3,232,528	(3,074,719)	26,571,500	23,848	50%	Malta
Total	**9,552,146**	**(5,439,072)**	**29,872,965**	**579,719**		

At 31 December 2012 and 2011 the Group held 8 per cent interest in the Azerbaijan Gas Supply Company ("AGSC"). AGSC was established together with the Ministry of Fuel and Energy of the Azerbaijan Republic and contractor parties of Shah Deniz Production Sharing Agreement ("Shah Deniz PSA") related to the Exploration, Development and Production of gas field on Caspian Sea where the Group has 10 per cent participating interest. AGSC is established for marketing, accounting, billing, payment and reporting of other administrative activities related to the sales of Shah Deniz gas and operates on no gain / no loss basis. The Group exercises a significant influence over AGSC.

17 Investments in associates (continued)

On 22 July 2011 the Group acquired remaining 77.44 per cent of Azerbaijan BTC Ltd ("AzBTC") shares. As a result of this transaction, SOCAR became sole 100 per cent shareholder of AzBTC. Accordingly, from 22 July 2011 AzBTC was transferred from associates to subsidiary. Upon acquisition of control in AzBTC, the Group recognized 25 per cent interest of AzBTC in BTC Co shares as investment in associate (Note 36).

In June 2011 the Group entered into agreement with other participants to establish an associated entity named SOCAR International DMCC. Total equity of the entity is AZN 1,030 and the Group's share is 50 per cent.

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

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

18 Loan receivable from jointly controlled entity

Loan receivable from jointly controlled entity at 31 December 2011 represents balances due from Carlina in accordance with terms of the loan agreement signed on 28 December 2006 between Carlina and Azerbaijan (ACG) Limited ("AzACG"), a subsidiary of the Group. At 31 December 2011 the carrying value of the receivable from Carlina equalled to AZN 178,484. In accordance with the Share Pledge and Retention Agreement dated 28 December 2006 and Share Charge and Retention Agreement dated 12 April 2007 between the owners of Carlina and the Group, the owners of Carlina pledged in favour of the AzACG all of their rights and interest in all proceeds and funds received or receivable by Carlina, and all of their shares and any other equity interests in Carlina.

On 17 January 2012, the other owners of Carlina transferred their shares to the Group and the Group's interest increased to 100 per cent. Accordingly, from the date when control was obtained in Carlina, it has been consolidated by the Group (Note 36).

19 Trade and other payables

	2012	2011
Trade payables	3,383,681	2,582,245
Accrued liabilities	1,530,129	66,956
Other payables	41,670	33,263
Total financial payables	**4,955,480**	**2,682,464**
Liabilities for overlift of oil	66,423	32,539
Advances from customers	65,743	48,487
Payable to employees	54,798	43,410
Total trade and other payables	**5,142,444**	**2,806,900**

Financial payables of AZN 4,315,122 (2011: AZN 1,840,407) are denominated in foreign currencies, mainly in USD. Trade payables mainly represent payables for crude oil, oil products, gas, construction, drilling, transportation and utilities provided by vendors of the Group.

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

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

20 Borrowings

As at 31 December 2012, short-term borrowings of the Group were represented by the following facilities:

Facilities	Interest rate	Maturity date	Total borrowed in original currency (in thousands)	Balance as at 31 December 2012
Short-term facilties in USD	0.2% - 16%	February 2013 – November 2013	1,396,382	1,089,800
Short-term facilties in EUR	EURIBOR+1.25%	November 2013	56,660	57,863
Short-term facilties in AZN	3% - 4%	March 2013	91,000	82,600
Short-term facilties in CHF	LIBOR+0.18%	January 2013	30,000	25,782
Short-term facilties in GEL	10% - 13%	January 2013 – March 2013	63,000	26,460
Short-term facilties in other currencies	0% - 4%	January 2013 – December 2013		21,805
Current portion of long-term borrowings				568,892
Total short-term borrowings and current portion of long-term borrowings				**1,873,202**

As at 31 December 2012, long-term borrowings of the Group were represented by the following facilities:

			Balance as at 31 December 2012	
Facilities	**Interest rate**	**Maturity date**	**Non-current portion**	**Current portion**
AZN 750 million	3.15%	July 2016	375,000	125,000
USD 500 million	5.45%	February 2017	383,825	8,675
USD 130 million	LIBOR+2.6%	April 2014	25,163	51,517
USD 110 million	LIBOR+3%	August 2015	85,136	1,168
USD 200 million	LIBOR+2.55%	April 2014	30,996	63,269
USD 100 million	LIBOR+3%	October 2015	77,337	568
USD 100 million	LIBOR+3%	November 2015	77,278	261
USD 100 million	LIBOR+2.4%	October 2015	61,475	16,098
USD 75 million	LIBOR+2.3%	May 2014	16,612	33,738
USD 50 million	LIBOR+3.75%	May 2013	-	8,840
USD 100 million	LIBOR+3.65%	July 2013	-	26,167
USD 75 million	LIBOR+3.85%	July 2013	-	29,803
USD 50 million	LIBOR+3.5%	December 2013	-	26,141
USD 27 million	LIBOR+2%	March 2017	12,584	3,126
AZN 100 million	4%	August 2015	100,443	-
USD 17 million	7.79%	July 2016	1,620	1,668
YEN 15,462 million	1.5%	April 2039	121,573	3,409
AZN 9 million	0%	December 2013	-	2,861
USD 485 million	LIBOR+1%	December 2024	299,140	54,390
USD 200 million	LIBOR+1.34%	December 2027	157,000	-
USD 18 million	4%	December 2027	13,738	-
USD 7 million	4%	December 2027	5,495	-
EUR 20 million	EURIBOR+3.5%	June 2014	4,070	16,911
EUR 30 million	EURIBOR+3.5%	December 2014	23,814	6,902
USD 35 million	LIBOR+4%	December 2013	-	18,358
USD 20 million	LIBOR+4%	August 2015	15,996	-
USD 200 million	LIBOR+2.5%	August 2016	130,740	24,886
USD 300 million	LIBOR+2.30%	August 2018	218,145	12,204
USD 330 million	LIBOR+4.88%	August 2019	242,362	16,096
USD 170 million	LIBOR+4.88%	August 2019	123,616	8,160
USD 7 million	LIBOR+3.75%	June 2015	2,346	1,555
USD 10 million	LIBOR+3.75%	June 2016	5,306	2,123
Other long-term borrowings			6,751	4,998
Total long-term borrowings			**2,617,561**	**568,892**

20 Borrowings (continued)

As at 31 December 2011, short-term borrowings of the Group were represented by the following facilities:

Facilities	Interest rate	Maturity date	Total borrowed in original currency (in thousands)	Balance as at 31 December 2011
Short-term facilties in USD	0% - 16%	January 2012- November 2012	340,456	163,383
Short-term facilties in EUR	EURIBOR+3.5%	June 2012 - December 2012	3,378	3,378
Short-term facilties in AZN	3% - 3.15%	March 2012 – May 2012	86,000	78,059
Short-term facilties in GEL	14% - 14.5%	February 2012 – June 2012	45,395	28,030
Short-term facilties in other currencies	6.5%	March 2012		2,856
Current portion of long-term borrowings				485,812
Total short-term borrowings and current portion of long-term borrowings				**761,518**

As at 31 December 2011, long-term borrowings of the Group were represented by the following facilities:

			Balance as at 31 December 2011	
Facilities	Interest rate	Maturity date	Non-current portion	Current portion
AZN 750 million	3.2%	July 2016	500,000	125,000
USD 130 million	LIBOR+2.6%	April 2014	75,597	25,561
USD 200 million	LIBOR+2.55%	April 2014	93,064	62,920
USD 75 million	LIBOR+2.3%	May 2014	50,009	8,427
USD 50 million	LIBOR+3.75%	May 2013	8,677	17,460
USD 100 million	LIBOR+3.65%	July 2013	50,886	26,190
USD 75 million	LIBOR+3.85%	July 2013	29,275	29,494
USD 50 million	LIBOR+3.5%	December 2013	25,868	13,095
USD 200 million	LIBOR+4%	March 2013	52,061	104,762
USD 17 million	7.79%	July 2016	4,129	106
JPY 15,462 million	1.5%	April 2039	138,951	5,122
AZN 9 million	0%	December 2013	3,009	2,506
AZN 4 million	0%	June 2014	1,985	1,401
USD 485 million	LIBOR+1%	December 2024	326,959	54,493
EUR 20 million	EURIBOR+3.5%	June 2014	20,052	-
EUR 30 million	EURIBOR+3.5%	December 2014	30,128	-
USD 35 million	LIBOR+4%	December 2013	27,472	-
USD 330 million	LIBOR+4.88%	August 2019	248,651	2,820
USD 170 million	LIBOR+4.88%	August 2019	126,912	2,634
USD 200 million	LIBOR+2.5%	August 2016	152,407	-
USD 300 million	LIBOR+2.3%	August 2018	228,610	-
USD 5 million	LIBOR+3,75%	June 2015	2,767	1,107
USD 7 million	LIBOR+3,75%	June 2015	3,874	1,550
USD 5 million	LIBOR+3,75%	June 2015	2,912	1,164
USD 10 million	LIBOR+3,75%	Jun-16	7,361	-
Other long-term borrowings			7,154	-
Total long-term borrowings			**2,218,770**	**485,812**

On 14 May 2010, IBA provided a credit line to the Group amounting to USD 40 million (AZN 31,460) which was collateralised by the Group's deposits with IBA in the amount of AZN 31,400 (Note 9). In May 2012 an amendment to this contract was signed and the maturity of the contract was prolonged till 14 May 2013. The loan bears an annual interest rate of 3 per cent. The amount outstanding under this facility as at 31 December 2012 was AZN 23,079 (2011: 19,427).

20 Borrowings (continued)

Included in short-term borrowings there is a USD 40 million facility, which is collateralized by a cash deposit of USD 40 million (AZN 31,414) placed with IBA (Note 9). This facility bears annual interest rate of 3 per cent and matures on 16 May 2013. The amount outstanding under this facility as at 31 December 2012 and 31 December 2011 was AZN 30,800.

21 Taxes payable

	Note	2012	2011
Payable to SOFAZ	7	123,324	123,324
Social security contributions		1,235	1,568
Other taxes payable		470,723	308,816
Total taxes payable		**595,282**	**433,708**

In 2008 apart from regular export tax the Group was liable to transfer a certain share of proceeds from sales of crude oil priced at the level exceeding the price determined by the state budget (USD 50 per barrel for 2009) to SOFAZ. No such taxes were imposed on the Group in 2009-2012.

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

22 Asset retirement obligations

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

	Note	2012	2011
Carrying amount at 1 January		**468,384**	**324,632**
Additions		4,058	47,275
Unwinding of the present value discount	32	28,930	22,473
Effect of change in discount rate		121,156	77,481
Exchange differences		(1,664)	(3,477)
Carrying amount at 31 December		**620,864**	**468,384**

The Group makes full provision for the future cost of oil and natural gas production facilities retirement and related pipelines on a discounted basis on the installation of those facilities. The provision has been estimated using existing technology, at current prices and discounted using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability as of the reporting date. These costs are expected to be incurred over the useful life of the fields and properties ranging between 12 and 70 years from the reporting date.

Included within the asset retirement obligations at 31 December 2012 was AZN 187,189 (2011: AZN 133,445) relating specifically to estimated site restoration liabilities. Estimated costs of dismantling oil and gas production facilities, pipelines and related processing and storage facilities, including abandonment and site restoration costs amounting to AZN 259,951 at 31 December 2012 (2011: AZN 293,465) are included in the cost of oil and gas properties and equipment.

Asset retirement obligations related to the PSAs are determined with reference to capital costs incurred by contractor parties and they are limited to the maturities of respective PSAs. Governmental authorities are continually reviewing regulations and their enforcement. Consequently, the Group's ultimate liabilities may differ from the recorded amounts.

22 Asset retirement obligations (continued)

The maximum estimated cost to AzSD to abandon the production facilities employed at 31 December 2012 in Shah Deniz project was AZN 64,144 as at 31 December 2012 (as at 31 December 2011: AZN 55,020). The Company used 5.97 per.cent rate to discount this obligation (in 2011: 5.47 per cent).

The maximum estimated cost to AzACG to abandon the production facilities employed at 31 December 2012 in AzACG project was AZN 2,193,857, as at 31 December 2012 (as at 31 December 2011: AZN 1,985,010). The Company used 5.97 per cent rate to discount this obligation (in 2011: 5.47 per cent).

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

Year	2013	2014	2015	2016	2017-2020	2021 and later
Inflation rate	4.29%	4.88%	5.43%	5.29%	4.90%-3.40%	3.00%

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

23 Other provisions for liabilities and charges

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

	Note	Environmental obligations	Disability payments	Unused vacation	Total
Carrying amount at 1 January 2011		**416,419**	**56,546**	**8,306**	**481,271**
Change in estimate, except for change in discount rate		(178,047)	26,135	6,505	(145,407)
Utilisation		(25,199)	(10,767)	(9,575)	(45,541)
Unwinding of the present value discount	32	28,250	3,905	-	32,155
Discount rate change		(10,100)	511	-	(9,589)
Carrying amount at 31 December 2011		**231,323**	**76,330**	**5,236**	**312,889**
of which:					
Current		*48,158*	*12,730*	*5,236*	*66,124*
Non-current		*183,165*	*63,600*	-	*246,765*
Carrying amount at 1 January 2012		**231,323**	**76,330**	**5,236**	**312,889**
Change in estimate, except for change in discount rate		(20,176)	24,287	38,260	42,371
Utilisation		(41,008)	(10,541)	(20,384)	(71,933)
Unwinding of the present value discount	32	19,573	5,238	-	24,811
Discount rate change		5,772	6,450	-	12,222
Carrying amount at 31 December 2012		**195,484**	**101,764**	**23,112**	**320,360**
of which:					
Current		*54,840*	*12,971*	*23,112*	*90,923*
Non-current		*140,644*	*88,793*	-	*229,437*

Under the Presidential Decree number 1697 dated 28 September 2006 the Group prepared and approved Action Plan for Environmental Restoration with respect to the damage caused to the environment as a result of the Group's activities within Absheron area. In 2009 the Group amended the Action Plan in accordance with the Presidential Decree dated 14 April 2009. Corresponding provision is recognized at the present value of future costs to be incurred for the environmental remediation. In 2011 the Group revised the estimates related to the Action Plan based on the actual expenses incurred in prior years. In addition, the Group extended the period covered by this Action Plan till 2016.

23 Other provisions for liabilities and charges (continued)

The Group has an obligation to compensate its employees for the damage caused to their health during their employment, as well as to compensate the families of the employees died at work. The compensations provided are linked to the salaries paid to the affected employees. The Group calculated the present value of the disability payments to employees using a discount rate of 5.97 per cent (6.86 per cent at 31 December 2011). For the purpose of calculation of the lifetime payments to injured employees, the Group estimated a life expectancy as 71 and 76 for men and women, respectively.

The inflation rates in Note 22 were applied to reflect the escalation in average salaries.

24 Deferred income

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

	2012	2011
Carrying amount at 1 January	**94,401**	**101,183**
Amortisation of deferred income to match related depreciation	(3,358)	(6,782)
Carrying amount at 31 December	**91,043**	**94,401**

25 Other non-current liabilities

Other non-current liabilities comprise the following:

	2012	2011
Provision for employment termination benefits	33,772	31,732
Liabilities under carried interest arrangement	46,471	43,496
Provision for seniority incentive bonus	1,377	1,446
Other liabilities	39,266	7,729
Total non-current liabilities	**120,886**	**84,403**

Under the Turkish Labour Law, the Group is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who is called up for military service, dies or retires after completing 25 years of service (20 years for women). The amount payable consists of one month's salary limited to a maximum of AZN 1 for each year of service as of 31 December 2012 and 31 December 2011.

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

	2012	2011
Discount rate (%)	3.84	6.07
Probability of retirement (%)	100	100

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

25 Other non-current liabilities (continued)

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

	2012	2011
Carrying amount at 1 January	**31,732**	**39,529**
Actuarial loss and service cost	7,348	1,818
Payments during the year	(6,615)	(11,531)
Other	1,307	1,916
Carrying amount at 31 December	**33,772**	**31,732**

The total of actuarial loss and the service cost amounting to AZN 7,348 (2011: AZN 1,818) was included in general administrative expenses.

Other liabilities mainly relate to the Group's payable to its partners under various oil and gas projects.

26 Deferred acquisition consideration payable

In 2012, the Group acquired additional 50 per cent shares of SOCAR Trading from other shareholders. The Group deferred cash consideration in the amount of USD 83 million (AZN 65,169) payable to one of the shareholders for this acquisition.

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

Charter capital
Parent company of the Group, SOCAR, has a legal status of a state enterprise. During 2011 the Group's charter capital increased by AZN 190,000. This increase partially relates to increase in the charter capital of Azerigaz PU in the amount of AZN 150,000 by the Government. The remaining increase of AZN 40,000 is related to establishment of "Karbamid Plant".

Additional paid-in capital
During 2012 the Group's additional paid-in-capital increased by AZN 230,000. This increase relates to the increase in the charter capital of Azerigaz PU by the Government, which was not registered as of 31 December 2012.

In 2011 the Government has transferred 77.44 per cent of shares in Azerbaijan (BTC) Limited previously belonged to the Ministry of Economic Development of the Azerbaijan Republic ("MED"). As of 31 December 2011 this transfer was recognized as additional paid in capital at fair value of transferred shares in the amount of AZN 784,809.

Distribution to the Government
Based on decisions of the Government, the Group is periodically mandated to make direct cash contributions or finance construction and repair works for the Government (including transfer of assets), various government agencies and projects administered by the Government. During 2012, such direct cash transfers to the Government and financing (made in the form of payments to sub-contractors of governmental entities and transfer of assets constructed by the Group) amounted to AZN 261,539 and AZN 259,903, respectively (2011: AZN 250,642 and AZN 264,107, respectively), mainly for repair and reconstruction of existing, as well as construction of new recreational, transport, educational and medical infrastructure of the Azerbaijan Republic. Financing in the form of transfer of assets constructed by the Group amount to AZN 46,156 as of 31 December 2012 (2011: AZN 94,338).

28 Analysis of revenue by categories

	2012	2011
Crude oil, net	10,126,222	2,716,988
Oil products, net	3,318,135	2,077,482
Petrochemicals	2,029,524	2,002,327
Natural gas	1,106,713	967,219
Other revenue	558,238	368,715
Total revenue	**17,138,832**	**8,132,731**

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

Revenue from oil product sales is stated net of excise tax of AZN 482,043 (2011: AZN 440,769).

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

29 Analysis of expenses by nature

	Note	2012	2011
Raw materials and consumables used		12,461,139	3,715,879
Depreciation of property, plant and equipment		670,733	614,717
Wages, salaries and social security costs		806,386	628,943
Transportation and vehicle maintenance		160,557	129,152
Repairs and maintenance expenses		181,033	184,997
Impairment of property, plant and equipment	14	227,872	499,642
Mining tax		112,102	118,222
Utilities expense		208,791	216,807
Taxes other than on income		100,613	77,135
Amortization expense	15	21,429	15,295
Impairment of trade and other receivables		74,854	155,268
Change in other provisions for liabilities and charges	23	54,593	(154,996)
Other		619,200	233,515
Total cost of sales, exploration and evaluation, distribution, general and administrative and other operating expenses		**15,699,302**	**6,434,576**

During 2012 the Group reduced its estimate of provision for environmental obligations and included the resulting change in other operating expenses of Consolidated Statement of Comprehensive Income.

During 2012 the Group recognized impairment loss provision in the amount of AZN 68,762 (2011: AZN 101,219) related to the loan receivable from jointly controlled entity (Note 18).

30 Other operating income

	2012	2011
Sales of other goods and services rendered	71,994	63,014
Gain on release of payables	1,443	25,709
Other	78,069	60,280
Total other operating income	**151,506**	**149,003**

31 Finance income

	2012	2011
Interest income on deposits and bank accounts	22,422	53,489
Interest on loans to related parties	-	16,468
Other	11,682	2,443
Total finance income	**34,104**	**72,400**

32 Finance costs

	Note	2012	2011
Interest expense		134,694	156,322
Provisions for asset retirement obligations: unwinding of the present value discount	22	28,930	22,473
Environmental provision: unwinding of the present value discount	23	19,573	28,250
Provision for disability payments: unwinding of the present value discount	23	5,238	3,905
Total finance costs		**188,435**	**210,950**

33 Income taxes

Income tax expense comprises the following:

	2012	2011
Current tax expense	504,281	461,254
Deferred tax benefit	(24,859)	(86,003)
Income tax expense for the year	**479,422**	**375,251**

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

	2012	2011
Profit before tax	**1,434,416**	**1,184,844**
Theoretical tax charge at statutory rate of 20 per cent	286,883	236,969
Effects of different tax rates for certain subsidiaries (25 and 27 per cent)	40,909	33,775
Dividends income taxable at 10 per cent	(1,379)	(12,712)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(37,141)	(53,832)
- Non-deductible expenses	134,356	140,579
Allowance for deferred tax asset	67,551	109,800
Reversal of allowance for deferred tax	(8,229)	(79,837)
Correction of previous years current tax	2,103	616
Other	(5,631)	(107)
Income tax expense for the year	**479,422**	**375,251**

33 Income taxes (continued)

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

At 31 December 2012 and 2011 cumulative balance of unrecognized deferred tax asset is AZN 304,252 and AZN 244,930, respectively.

The benefits arising from a previously unrecognised deferred tax assets were used during the year to reduce deferred tax and current tax expenses by the amount of 6,012 and 2,217, respectively (2011: 79,837 and nil, respectively).

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

	1 January 2012	Acquired through subsidiaries (Note 36)	Credited / (charged) to profit or loss	Translation difference	31 December 2012
Tax effect of deductible/(taxable) temporary differences					
Accrued revenue	8,339	-	(2,570)	-	5,769
Carry forward tax losses	76,081	-	(38,602)	-	37,479
Investments in associates and jointly controlled entities	(25)	-	17,016	-	16,991
Trade and other payables	1,612	-	(3,545)	(5)	(1,938)
Impairment provision for receivables	19,912	-	(27,134)	-	(7,222)
Inventory	6,418	-	22,802	(2)	29,218
Property, plant and equipment	241,572	-	6,521	26	248,119
Provisions for liabilities and charges	110,342	-	18,100	-	128,442
Other	19,232	6,858	11,986	(3,047)	35,029
Deferred tax asset	**483,483**	**6,858**	**4,574**	**(3,028)**	**491,887**

	1 January 2012	Acquired through subsidiaries (Note 36)	Credited/ (charged) to profit or loss	Translation difference	31 December 2012
Tax effect of deductible/(taxable) temporary differences					
Accruals	4,613	(6,947)	5,077	(10)	2,733
Employment termination benefits and seniority incentive bonus provision	6,873	-	511	479	7,863
Investments in associates and jointly controlled entities	(80,984)	(2,333)	14,260	(2,477)	(71,534)
Asset retirement obligation	-	-	6,768	(36)	6,732
Intangible assets	-	(22,950)	3	-	(22,947)
Trade and other payables	(2,996)	-	3,261	-	265
Impairment provision for receivables	(14,357)	(446)	(9,654)	20	(24,437)
Inventory	(876)	(8,394)	(9,149)	(112)	(18,531)
Property, plant and equipment	(447,118)	(12,390)	20,539	(19,706)	(458,675)
Provisions for liabilities and charges	16,609	-	4,308	36	20,953
Other	11,900	83	(15,639)	(134)	(3,790)
Deferred tax liability	**(506,336)**	**(53,377)**	**20,285**	**(21,940)**	**(561,368)**

33 Income taxes (continued)

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

	1 January 2011	Credited / (charged) to profit or loss	Translation difference	31 December 2011
Tax effect of deductible/(taxable) temporary differences				
Accruals	727	7,612	-	8,339
Carry forward losses	129,686	(53,605)	-	76,081
Investments in associates and jointly controlled entities	-	(25)	-	(25)
Trade and other payables	3,863	(2,251)	-	1,612
Impairment provision for receivables	52,352	(32,440)	-	19,912
Inventory	29,324	(22,898)	(8)	6,418
Property, plant and equipment	133,148	108,426	(2)	241,572
Provisions for liabilities and charges	37,304	72,950	88	110,342
Other	22,569	(3,337)	-	19,232
Deferred tax asset	**408,973**	**74,432**	**79**	**483,483**

	1 January 2011	Acquired through subsidiaries	Credited/ (charged) to profit or loss	Translation difference	31 December 2011
Tax effect of deductible/(taxable) temporary differences					
Accruals	6,810	-	(2,108)	(89)	4,613
Carry forward tax losses	9,506	-	(8,718)	(788)	-
Employment termination benefits and seniority incentive bonus provision	8,454	-	143	(1,724)	6,873
Investments in associates and jointly controlled entities	(47,186)	(50,038)	16,233	7	(80,984)
Trade and other payables	-	-	(2,996)	-	(2,996)
Trade and other receivables	(18,433)	-	3,849	227	(14,357)
Inventory	(450)	-	(436)	10	(876)
Property, plant and equipment	(497,967)	-	(613)	51,462	(447,118)
Provisions for liabilities and charges	6,274	-	11,708	(1,373)	16,609
Other	23,852	-	(5,491)	(6,461)	11,900
Deferred tax liability	**(509,140)**	**(50,038)**	**11,571**	**41,271**	**(506,336)**

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

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

33 Income taxes (continued)

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

In addition, the Group is a participant to Shah Deniz PSA through its subsidiary Azerbaijan (Shah Deniz) Limited ("AzSD"). According to the provisions of Shah Deniz PSA, AzSD is liable for corporate income tax payments. However, in accordance with PSA, the Government makes payments of the profit taxes on behalf of the contractor parties from the proceeds from sales of profit petroleum attributable to the Government. Accordingly, AZN 23,516 of corporate income tax related to Shah Deniz project for the year 2012 was recognized as revenue from sale of crude oil and natural gas and income tax expense in the statement of comprehensice income (2011: nil). At 31 December 2012 and 2011 deferred tax balace of AzSD was nil. AzSD is also exempt from certain ordinary operational taxes in the Azerbaijan Republic. AzSD is charged at zero per cent VAT effective in the Azerbaijan Republic for a contractor party under the Shah Deniz PSA according to a VAT certification issued to AzSD and effective until 3 June 2026.

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

34 Significant non-cash investing and financing activities

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

	2012	2011
Non-cash investing activities		
Offset loan due to IBA and deposits placed with the same bank	-	987,058
Capitalized decommissioning costs	27,593	103,965
Transfer of property, plant and equipment to the Government (Note 14)	46,156	94,338
Acquisition of Carlina, net of cash acquired (Note 36)	101,682	-
Non-cash investing activities	**175,431**	**1,185,361**

Other non cash transactions related to acquisition of subsidiaries are disclosed in Note 36.

35 Contingences, commitments and operating risks

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

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

35 Contingences, commitments and operating risks (continued)

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

The Azerbaijani economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. While the Azerbaijan Government has introduced a range of stabilization measures, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects. While Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

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

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

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

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

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained and potential tax liabilities of the Group will not exceed the amounts recorded in these consolidated financial statements. Accordingly, at 31 December 2012 and 2011 no provision for potential tax liabilities had been recorded.

Environmental matters. The enforcement of environmental regulation in the Azerbaijan Republic is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage above environmental obligation provision currently made by the Group. See Note 23.

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

35 Contingences, commitments and operating risks (continued)

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

Compliance with financial covenants. At 31 December 2012 the Group had loans payable in total amount of AZN 4,490,763 (Note 20) which were received for financing its investing and operating activity. The Group is subject to certain financial covenants related to these borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. Management believes that, as of 31 December 2012 and 2011 the Group was in compliance with all applicable financial covenants.

For the loans in the amount of AZN 620,150 the 51 per cent of Petkim shares have been pledged in favour of the financial institutions.

***Commitments of Petkim*.** Based on the Share Sales Agreement, the Group has accepted and committed to take the Administration's approval for any kind of stock transfer that will result in change in controlling interest of Petkim for the following three years after signing the Share Sales Agreement.

The Group has accepted and committed to make investments over a certain amount for infrastructure and services for Petkim harbour, increase production capacities of factories and establish new factories for the following three years after the Share Sales Agreement. The Group also has accepted and committed to continue production in the Ethylene Factory and produce a certain amount for at least three years after signing the Share Sales Agreement unless there are unforeseen situations that do not involve the Group.

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

The Group has a commitment to purchase 943,746,586 cubic meters of natural gas from BOTAS Petroleum Pipeline Corporation ("BOTAS") in 2013.

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

	2012	2011
Guarantees received		
Bank guarantees within context of direct order collection system (DOCS)	210,467	184,129
Letters of guarantee received	161,611	145,358
Other	877	7,300
Total guarantees received	**372,955**	**336,787**

Guarantees given		
Guarantee cheques given	-	28,714
Letters of guarantee given	91,464	23,216
Total guarantees given	**91,464**	**51,930**

Commitment of Azerigaz PU. Based on Presidential decree number 80 dated 14 April 2009 directed to social-economical development of Baku area and regions of the Azerbaijan Republic, Azerigaz CJSC has certain commitments with respect to improvement of gasification options in mentioned areas. According to this decree, Azerigaz CJSC would be engaged in restoration of old magisterial and local gas pipelines, gasification of new residential communities/regions/far locations, and renewal of old gas meters on magisterial gas traffic control points, industrial and personal meters for physical customers.

35 Contingences, commitments and operating risks (continued)

Commitment of Azerigaz PU (continued). Management estimates that during the year 2013 the Group will incur expenditures for implementation of this program in the amount of AZN 162,853.

Gas purchase commitment. Based on the Gas sales and purchase agreement signed on 27 February 2003 between AGSC and the Ministry of Fuel and Energy of the Azerbaijan Republic (currently purchase rights under this agreement are executed by the Group), the Group has obligation to purchase seller's minimum annual quantity as indicated in the agreement. Monetary amount of commitment to purchase seller's minimum annual quantity is USD 86,840 thousands (AZN 68,169).

Participating interest in ACG PSA. Azerbaijan International Operating Company, the Operator of the ACG PSA has entered into a number of capital commitments and operating leases as at 31 December 2012. The Group estimated its 11.65 per cent (2011: 11.65 per cent) share of these commitments and operating leases to be USD 688,291 thousands (AZN 540,308) (2011: USD 930,203 thousands (AZN 731,605)) and USD 18,677 thousands (AZN 14,661) (2011: USD 11,847 thousands (AZN 9,318)), respectively.

Participating interest in Shah Deniz PSA. BP Exploration Shah Deniz Limited, the Operator of the Shah Deniz PSA has entered into a number of capital commitments and operating leases as at 31 December 2012. The Group estimated its 10 per cent share of these commitments and operating leases to be USD 300,773 thousands (AZN 236,107) (2011: USD 112,658 thousands (AZN 88,606)) and USD 37,496 thousands (AZN 29,434) (2011: USD 20,157 thousands (AZN 15,854)), respectively.

Commitments related to participating interest in AGSC. As discussed in Note 17, the Group holds 8 per cent interest in AGSC. In accordance with the agreements of AGSC the Group has the following commitments relating to AGSC's activity:

Gas Contract. AGSC is obliged under the agreement signed with BOTAS to make available a maximum of approximately 6.3 bcm from 2013 and onwards at a price calculated based on a formula established by the Gas Contract.

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 2013 and onwards, at a price which is calculated based on a formula established in the contract.

Sale and purchase agreement with Baku-Tbilisi-Ceyhan Pipeline Company ("BTC"). AGSC is obliged under an agreement signed with BTC to make available approximately 0.16 bcm in the contract year starting 2013 and during the following years until the termination of the contract, which is the Decline period, at a price which is calculated based on a formula established in the contract.

The performance of AGSC under the Gas Contract is guaranteed under the Agreement between the Republic of Turkey and the Azerbaijan Republic Concerning the "Delivery of Azerbaijan Natural Gas to the Republic of Turkey" signed on 12 March 2001, by the Government. Commitments indicated above in respect of gas volumes to be delivered by AGSC are covered by the Upstream Purchase Agreements signed with the Shah Deniz PSA contractor parties and the SOCAR (for and on behalf of the Azerbaijan Republic).

The Shah Deniz PSA contractor parties and the Group 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 the Group are obliged to pay to AGSC all transportation charges and third party liabilities as stipulated in the UPAs.

Stage 2 Gas Contract. On 25 October 2011, the Group and BOTAS executed a gas sale and purchase agreement with respect to the sale by the Group to BOTAS of certain volumes of Stage 2 Shah Deniz Gas (2 bcm first delivery year, 4 bcm second delivery year, 6 bcm plateau period). The anticipated commencement of first gas delivery year under Stage 2 is June 2018.

35 Contingences, commitments and operating risks (continued)

Commitments related to participating interest in SCPC. Starting from 1 April 2012 SCPC committed to transport Shah Deniz Stage 2 natural gas through an expansion of SCPC pipeline system. Expected budget for 2013-2018 is around AZN 3.3 billion.

Commitments related to participating interest in BTC Co. On 24 October 2008 BTC Co, the Group's major associate, received two notices of arbitration from BOTAS International Limited ("BIL"). The first claim concerns a claim under Turkish HGA, and the second is a claim under the Agreement for the Operation of Facilities in Turkey (the "Operating Agreement") between BTC Co and BIL. In summary BIL is claiming in total USD 250 million (AZN 196,250).

To resolve these long standing issues, the BTC Co and BIL have negotiated and executed amendment to the Operating Agreement on 25 October 2011.

In addition to this, the BTC Co signed a separate Letter Agreement with BIL on the same date as a gesture of goodwill and without prejudice to its contractual rights under the Operating Agreement to provide BIL with funds capped USD 100 million (AZN 78,500) to repay BIL historical debt which as per BIL was incurred as a result of providing services to BTC Co under the Operating Agreement.

The amendment to Operating Agreement is subject to the satisfaction of certain conditions precedent, one of which is the withdrawal of BIL's arbitration claims. The parties have agreed to extend the current stay of the arbitration until 31 July 2013 in order to achieve satisfaction of the conditions precedent.

Management believes that the outcome of the litigation is going to be favourable for BTC Co and therefore no provisions have been made in the BTC Co financial statements and therefore there is no impact on the Group's consolidated financial statements at 31 December 2012.

Oil shipment commitment. On 1 August 2002 the Group and other participants under the ACG PSA (the "Shipper Group") have entered into the ACG Field Production Transportation Agreement ("ACG TA") with the BTC Company which was amended on 3 February 2004. Under this Agreement, the Shipper Group (including the Group) have committed to ship through the BTC pipeline all of their crude oil entitlement from the ACG field, other than any production which each participant may ship through the Western Export Route. The Group has agreed to transport its crude oil by rail unless Baku-Tbilisi-Ceyhan pipeline is operating at its full capacity. However, in accordance with ACG TA the Group has agreed not to use other transportation options if capacity of the BTC is sufficient.

The BTC pipeline was put into operation in May 2006. A total of 10 million barrels of oil from the ACG fields was used to fill the pipeline and the first tanker loaded with oil which had flowed through the BTC sailed away from the Ceyhan terminal on the Mediterranean coast of Turkey on 4 June 2006. The BTC pipeline, with a throughput capacity of more than 1,200,000 barrels per day, is used as the Shipper Group's main export route.

In accordance with the Transportation Agreement, Direct Agreement entered into on 3 February 2004 by BTC, the Shipper Group, the Group Representative, the lenders and security trustee to BTC, and the lenders and security trustee to certain of the ACG Shipper Group, the parties have agreed that payment of BTC tariff has a first priority claim on oil and oil sale proceeds.

Commitments of SOCAR Switzerland. The Group has entered into a number of capital commitments and operating leases for the next years. The Group estimated its commitments and operating leases to be CHF 43,869 thousands (AZN 37,701) and CHF 81,149 thousands (AZN 69,739), respectively.

Commitments of SOCAR Trading. The Group has entered into a number of operating leases for the next years. The Group estimated its operating leases to be USD 149,268 thousands (AZN 117,265).

Commitments related to Black Sea Terminal LLC. In August 2007, the Group's subsidiary, Black Sea Terminal LLC ("Black Sea Terminal") entered into a sale and purchase agreement to purchase five land plots from Black Sea Industry LLC. These land plots were originally sold to Black Sea Industry LLC pursuant to a privatisation agreement entered into with the Ministry of Economic Development of Georgia in July 2007, for a total consideration of USD 7.25 million (AZN 5 million). The Ministry of Economic Development of Georgia consented to the transfer of the land plots to Black Sea Terminal on the condition that Black Sea Terminal and Black Sea Industry LLC are jointly and severally liable under the privatisation agreement for the implementation of the investment programme relating to the land plots.

35 Contingences, commitments and operating risks (continued)

Commitments related to Black Sea Terminal LLC (continued). The acquisition of title to the land plots is also contingent on the completion of the investment programme. This investment programme involves the investment of at least USD 250 million (AZN 198 million) for the construction of: (i) a liquid natural gas plant; (ii) oil processing facilities; (iii) seaport facilities; and (iv) a railroad. The privatisation agreement also includes certain commitments in relation to the employment of personnel during the construction period. The privatisation agreement sets out certain financial penalties in the event that the investment programme is not implemented within five years. The original deadline for implementation was 16 July 2012. Due to a lack of available funding, as a result of the global financial crisis and economic conditions in Georgia, the investment program has not been implemented by this deadline. The National Agency of Georgia on State Property has agreed to extend the deadline to 1 August 2013, and the Group is currently in the negotiations with the Georgian government in respect to the investment programme and related commitments and liabilities. Management believes that the outcome of these negotiations will be favorable and no penalties will be imposed on the Group.

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

Acquisition of Carlina. As more fully discussed in the Note 18, on 17 January 2012 the Group has obtained 100 per cent control over Carlina, previously a jointly controlled entity with carrying value of nil. This transaction was accounted by the Group as a step acquisition.

Fair values of identifiable assets and liabilities of Carlina on 17 January 2012 were as follows:

	Fair value recognized on acquisition
Assets	
Property, plant and equipment	99,910
Intangible assets	1,866
Inventories	3,572
Trade and other receivables	1,586
Deferred tax asset	3,026
Cash and cash equivalents	8,040
Other assets	6,836
	124,836
Liabilities	
Trade and other payables	(13,648)
Other long term liabilities	(2,246)
	(15,894)
Total identifiable net assets at fair value	**108,942**

As mentioned above, the acquisition of Carlina was a result of Carlina's failures to repay the loan due to AzACG. The loan receivable by AzACG represented the pre-existing relationship for the purposes of business combination. Since no cash consideration was paid by AzACG, the deemed consideration for this acquisition equaled AZN 109,722 representing the fair value of the loan at acquisition date. No goodwill or gain was recognized as a result of settlement of this pre-existing relationship. Transaction costs incurred during the combination did not significantly impact the consolidated financial statements.

From the date of acquisition, Carlina has contributed AZN 23,307 of revenue and AZN 16,331 of loss to the net profit before tax of the Group. If the combination had taken place at the beginning of the year, the revenue and net profit from continuing operations would not be different from the respective amount recognized in the Consolidated Statement of Comprehensive Income.

The gross amount of trade receivables as of acquisition date is AZN 1,586. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

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

Acquisition of SOCAR Switzerland. On 1 July 2012, the Group acquired 100 per cent of voting equity shares of SOCAR Switzerland, which owns the Esso branded retail service chain network in Switzerland. This transaction was accounted for using the acquisition method of accounting. Based on the provisional purchase price allocation performed by the Group, fair values of identifiable assets and liabilities of SOCAR Switzerland on 1 July 2012 were as follows:

	Provisional fair value recognised on acquisition
Assets	
Cash and cash equivalents	18,928
Trade and other receivables	44,487
Corporate income tax prepayments	1,509
Inventories	45,817
Other current assets	25,577
Property, plant and equipment	102,792
Intangible assets	115,800
Deferred tax asset	3,832
Other long term financial assets	1,281
Investments in joint ventures	24,844
Other long-term assets	6,160
	391,027
Liabilities	
Trade and other payables	(86,637)
Other taxes payable	(31,688)
Other current liabilities	(7,022)
Other provisions	(6,760)
Deferred tax liability	(41,853)
Other non-current liabilities	(14,297)
	(188,257)
Total identifiable net assets at fair value	**202,770**
Goodwill arising on acquisition	**54,943**
Consideration, settled in cash	**257,713**

From the date of acquisition, SOCAR Switzerland contributed AZN 713,846 of revenue and AZN 18,496 of loss to the Group. If the combination had taken place at the beginning of 2012, the Group's revenue would have been AZN 17,907,530. The Group is not able to disclose its profit if the combination had taken place at the beginning of 2012 due to impracticability of its calculation. The gross amount of trade receivables as of acquisition date is AZN 44,721, including provision in the amount of AZN 234.

The Group acquired SOCAR Switzerland in order to expand its operations in Switzerland. The goodwill of AZN 54,943 comprises the fair value of expected synergies arising from this acquisition.

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

Acquisition of Supra Holding Limited. As more fully discussed in the Note 17, in November 2012 the Group has obtained 100 per cent control over Supra Holding Limited, previously an associate of the Group with carrying value AZN 119,964. The acquisition-date fair value of the Group's equity interest in Supra Holding Limited held by the Group immediately before the acquisition date approximated its carrying value of AZN 119,964. After acquisition Supra Holding Limited was renamed to SOCAR Trading. Headquartered in Geneva, SOCAR Trading is the international marketing entity, which trades Group and third party crude oil and oil products in international markets. This transaction was accounted by the Group as a step acquisition. Fair values of identifiable assets and liabilities of SOCAR Trading as at acquisition date were as follows:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	39,859
Trade and other receivables	2,423,631
Corporate income tax prepayments	1,126
Inventories	540,318
Other current assets	5,697
Other current financial assets	164,614
Property, plant and equipment	703
Intangible assets	3,610
Investments in associates	44
Other long-term financial assets	5,971
Other long-term assets	43,175
	3,228,748
Liabilities	
Trade and other payables	(2,145,794)
Short-term and current portion of long-term borrowings	(959,770)
Asset retirement obligation	(2,963)
Deferred tax liability	(10,010)
	(3,118,537)
Total identifiable net assets at fair value	110,211
Goodwill arising on acquisition	53,517
Fair value of previously held interest	**119,964**
Consideration, settled in cash	**43,764**

From the date of acquisition, SOCAR Trading contributed AZN 2,719,075 of revenue and AZN 4,331 of loss to the Group. If the combination had taken place at the beginning of 2012, the Groups revenue would have been AZN 42,464,072 and the profit would have been AZN 913,108. The gross amount of trade receivables as of acquisition date is AZN 2,423,631. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

The Group acquired SOCAR Trading to expand its trading operations. The goodwill of AZN 53,517 comprises the fair value of expected synergies arising from this acquisition.

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

Acquisition of Atikva Estate. On 1 October 2012 the Group acquired 100 per cent interest in "Atikva Estate" LLC comprising a network of 28 petrol stations and 1 petroleum storage depot. This transaction was accounted for using the acquisition method of accounting. Based on the provisional purchase price allocation performed by the Group, fair values of identifiable assets and liabilities of Atikva Estate as at acquisition date were as follows:

	Provisional fair value recognised on acquisition
Assets	
Cash and cash equivalents	1
Trade and other receivables	700
Inventories	18
Intangible assets	9,415
Property, plant and equipment	9,738
	19,872
Liabilities	
Trade and other payables	(2,349)
Deferred tax liability	(1,514)
	(3,863)
Total identifiable net assets at fair value	**16,009**
Goodwill arising on acquisition	2,489
Consideration, settled in cash	**18,498**

The effect of this acquisition on both revenue and net profit/loss of the Group for 2012 was not material. The gross amount of trade receivables as of acquisition date is AZN 1,352, including provision in the amount of AZN 652.

The goodwill of AZN 2,489 comprises the fair value of expected synergies arising from this acquisition.

Acquisition of ITERA. In September 2012 the Group through its subsidiary Alphard (Gas) Holdings B.V. acquired 51 per cent of ITERA, a gas distribution company operating in Georgia. Based on the provisional purchase price allocation performed by the Group, the difference in the amount of AZN 3,109 between the consideration paid of AZN 18,491 and net identifiable assets of ITERA of AZN 15,382 was recognized as goodwill. The goodwill comprises the fair value of expected synergies arising from acquisition.

Acquisition of shares from non-controlling shareholder of STEAS and Petkim. In 2012, the Group acquired additional 11.20 per cent of shares of Petkim pertaining to non-controlling shareholder for YTL 318 million (AZN 138,674). The difference of AZN 55,132 between the consideration and the carrying value of the interest acquired has been recognised in retained earnings within equity.

In 2011, the Group acquired 48.98 per cent of STEAS's shares pertaining to non-controlling shareholder for USD 86 million (AZN 67,804), and increased its investment in STEAS to 99.98 per cent.

In 2011, the Group also acquired 4.45 per cent of Petkim's shares pertaining to non-controlling shareholder for YTL 99,897 thousand (AZN 43,624).

As a result of acquisitions in STEAS and Petkim in 2011, the difference of AZN 381,057 between the consideration and the carrying value of the interest acquired has been recognised in retained earnings within equity.

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

Acquisition of subsidiary, which is not a business. On 22 July 2011 according to the decision of Azerbaijan Republic President, 77.44 per cent of Azerbaijan (BTC) Limited ("AzBTC") shares, that previously belonged to MED, were transferred to SOCAR without any consideration. As a result SOCAR became sole shareholder of AzBTC. The Group has recognized this transaction as a step-acquisition of subsidiary which is not a business. At the date of obtaining control over AzBTC allocation of "deemed" cost of acquisition to the identifiable assets and liabilities of AzBTC was as following:

	Allocated cost
Cash and cash equivalents	345
Long-term receivable from related parties	23,372
Property, plant and equipment	23
Investments in associates	984,315
Deferred taxes payable	(50,038)
Other current liabilities	(12,534)
Net assets of subsidiary	**945,483**

Investments in associates represent 25 per cent of AzBTC in BTC Co which is accounted under equity method.

77.44 per cent of the fair value of AzBTC amounted AZN 784,809 transferred by the Government to SOCAR was recognized as additional paid-in capital in the Consolidated Statement of Changes in Equity.

Acquisitions of additional share in jointly controlled assets. On 6 July 2011, the Group acquired a further 1.65 per cent participating interest in the ACG PSA from BP. As a result, the Group's share in the ACG PSA was increased to 11.65 per cent. Consideration paid for this acquisition equalled to AZN 381,641. For the purposes of financing this transaction AzACG obtained financing in the amount of USD 485 million (AZN 381,452) maturing in 2024 from the SOFAZ (Note 7).

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

	2012	**2011**
Carrying amount at 1 January	**103,248**	**123,448**
Acquisition of subsidiaries	114,058	-
Impairment	(3,109)	-
Translation difference	(11,028)	(20,200)
Carrying amount at 31 December	**203,169**	**103,248**

There was no accumulated goodwill impairment loss at the beginning of the reporting period.

Allocation of goodwill by CGUs at 31 December 2012 is as following:

	2012	**2011**
Petkim	85,455	79,903
SOCAR Switzerland	57,395	-
SOCAR Trading	48,837	-
Socar Energy Ukraine	11,482	23,345
Carrying amount at 31 December	**203,169**	**103,248**

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

Goodwill (continued)

At 31 December 2011 goodwill mainly relates to the acquisition of Petkim. As a result of purchase of Petkim shares, the excess of consideration paid over the acquirer's interest in the fair value of assets, liabilities and contingent liabilities acquired in the business combination has been accounted as goodwill in the consolidated financial statements.

Testing of the carrying value of goodwill related to acquisition of Petkim. The carrying value of the goodwill at 31 December 2012 has been tested for impairment through comparison with its recoverable amount. Recoverable amount has been determined based on the value-in-use calculations of Petkim. Pre-tax cash flows projections used for this purpose are based on financial budgets approved by management covering 11-year period. Cash flows for 11-year period are based on existing long-term projects with duration until 2023. Cash flow projections beyond 11-year period are extrapolated by the expected growth rates and then discounted to their net present value. The following key assumptions were used for impairment test of the goodwill:

- The valuation exercises are highly sensitive to the range of EBITDA/ Net Sales and the WACC, which were taken into account by the Group, as 6 per cent - 17.6 per cent between 2013 and 2023 and 9.7 per cent between 2013 and 2023, respectively. The growth rate have been taken into account by the Group as 1.8 per cent.

- The EBITDA / Net Sales ratio is in line with the Group's budget for the year 2013 and onwards; whereas the WACC is based on macroeconomic and sector specific parameters.

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

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

- Net sales growth is estimated to be 1 per cent higher and lower than the sales estimation in projections;
- Gross Profit margin is estimated to be 1 per cent higher and lower than the projected gross profit margin;
- WACC is estimated to be 1 per cent higher and lower than the based WACC rates;
- Terminal growth rate forecast is estimated to be 1 per cent higher and lower than the long term growth rate estimation.

As the results of the sensitivity analysis, the carrying amount of the value in use of Petkim is estimated between AZN 2,267,640 and AZN 3,034,049.

Testing of the carrying value of goodwill related to acquisition of SOCAR Switzerland. The carrying value of the goodwill attributable to the acquisition of SOCAR Switzerland at 31 December 2012 has been tested for impairment through comparison with its recoverable amount. Recoverable amount has been determined based on the value-in-use calculations of SOCAR Switzerland and its subsidiaries. Pre-tax cash flows projections used for this purpose are based on financial budgets approved by management covering 3-year period. Cash flows for 3-year period are based on existing long-term projects with duration up to 2015. Management believes that these cash flows projections represent more accurate and reliable forecast. Cash flow projections beyond 3-year period are extrapolated by expected growth rates of 1 per cent p.a. and then discounted to their net present value. The following key assumptions were used for impairment test of the goodwill:

- EBITDA/Net Sales ratio in terminal value – 2.5 per cent;
- EBITDA/Gross Margin ratio in terminal value – 9 per cent;
- Terminal growth rate used in the cash flow projections is 1 per cent;
- Discount rate used – 6.76 per cent.

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

Goodwill (continued)

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

If the estimated discount rate used in the calculation had been 0.25 per cent higher / lower than management's estimate, the carrying amount of the value in use would have been AZN 12,742 lower / AZN 13,901 higher, respectively.

Testing of the carrying value of goodwill related to acquisition of SOCAR Trading. The carrying value of the goodwill attributable to the acquisition of SOCAR Trading at 31 December 2012 has been tested for impairment through comparison with its recoverable amount. Recoverable amount has been determined based on the value-in-use calculations of SOCAR Trading and its subsidiaries. Pre-tax cash flow projections used for this purpose are based on financial budgets approved by management covering 4-year period. Cash flows for that period are based on existing and new projects. Management believes that these cash flow projections represent accurate and realistic forecast. Cash flow projections beyond 3-year period are extrapolated by expected growth rates of 5 per cent p.a. for the period from 2017 through 2021 and nil per cent for the period from 2022 through 2027 and then discounted to their net present value. The following key assumptions were used for impairment test of the goodwill:

- Valuation exercise is sensitive to the range WACC, which were taken into account by the Group, as 12–18 per cent;
- Valuation is also sensitive to growth rate between 2017-2022, which were taken into account by the Group as 2-8 per cent;
- Terminal growth rate used in the cash flow projections is nil per cent.

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

If the estimated discount rate used in the calculation had been 1.50 per cent higher / lower than management's estimate, the carrying amount of the value in use would have been AZN 8,252 lower / AZN 7,903 higher, respectively.

37 Events after reporting date

Issue of notes
On 11 March 2013 the Group issued senior unsecured notes on London Stock Exchange in the amount of USD 1,000 million (AZN 785 thousand). The notes bear interest rate of 4.75 per cent per annum and mature on 11 March 2023. Interest expenses are payable on a semi-annual basis.

Loan repayment
During subsequent period the Group has repaid short and long term portions of the loans in the amounts of AZN 27,290 and AZN 376,698, respectively.

New loans
During subsequent period the Group has obtained long term loans in the amount of AZN 164,250.

Guarantees issued
During subsequent period the Group issued guarantees in the total amount of AZN 188,400.

IBA deposit
During subsequent period the Group has placed deposits in the amount of USD 47,000 thousands (AZN 36,895).

Baku-Novorossiysk pipeline agreement
In early May 2013 the Government of Russia revoked the 17 year old intergovernmental agreement to transport 5 million tons a year of Azerbaijani oil through the Baku-Novorossiysk pipeline for USD 15.67 (AZN 12.3) per ton of oil transit.

Increase in Charter Capital
During subsequent period the Group charter capital was increased by AZN 80,000.

37 Events after reporting date (continued)

Investments

During subsequent period the Group has acquired additional interests in several investees in the total amount of AZN 2,599. The amounts of each major class of assets acquired and liabilities assumed as of the acquisition date are not material for the Group purposes.

ISSUER

State Oil Company of the Azerbaijan Republic
73, Neftchilar Avenue
Baku AZ1000
Republic of Azerbaijan

JOINT LEAD MANAGERS

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

J.P. Morgan Securities plc
25 Bank Street
Canary Wharf
London E14 5JP
United Kingdom

CO- MANAGERS

Natixis
30 avenue Pierre Mendès-France
75013 Paris
France

SMBC Nikko Capital Markets Limited
One New Change
London EC4M 9AF
United Kingdom

TRUSTEE

Deutsche Trustee Company Limited
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

PRINCIPAL PAYING AND TRANSFER AGENT

Deutsche Bank AG, London Branch
Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

REGISTRAR

Deutsche Bank (Luxembourg) S.A.
2 Boulevard Konrad Adenauer
L- 1115 Luxembourg

LEGAL ADVISERS

to the Issuer as to the laws of Azerbaijan

OMNI Law Firm
Bridge Plaza
24 Bakikhanov Street
Baku AZ1065
Republic of Azerbaijan

to the Issuer as to English law

Dechert LLP
160 Queen Victoria Street
London EC4V 4QQ
United Kingdom

to the Managers as to the laws of Azerbaijan

BM Morrison Partners
English Yard Business Center, Villa 9
43, Mammad Araz Street
Baku AZ1106
Republic of Azerbaijan

to the Managers and to the Trustee as to English law

White & Case LLP
5 Old Broad Street
London EC2N 1DW
United Kingdom

AUDITORS

Ernst & Young Holdings (CIS) B.V.
153 Neftchilar Avenue
Port Baku Towers Business Centre South Tower (Block A), 9th floor
Baku AZ1010
Republic of Azerbaijan