“Synergy Group” LLC

International Financial Reporting Standards
Consolidated Financial Statements

31 December 2015

Contents

INDEPENDENT AUDITOR'S REPORT

Consolidated Statement of Financial Position 1
Consolidated Statement of Profit or Loss and Other Comprehensive Income 2
Consolidated Statement of Changes in Equity 3
Consolidated Statement of Cash Flows 4

Notes to the Consolidated Financial Statements

1 Synergy Group and its Operations 5
2 Operating Environment of the Group 6
3 Summary of Significant Accounting Policies 6
4 Critical Accounting Estimates and Judgements in Applying Accounting Policies 17
5 Adoption of New or Revised Standards and Interpretations 18
6 New Accounting Pronouncements 19
7 Balances and Transactions with Related Parties 20
8 Property, Plant and Equipment 22
9 Biological Assets 24
10 Investments in Associates and Jointly Controlled Entities 25
11 Loans and advances to customers 26
12 Trade and Other Receivables 28
13 Inventories 29
14 Prepayments 30
15 Cash and Cash Equivalents and Mandatory Reserve Deposits with CBAR 30
16 Deposits by Customer Accounts and Banks 31
17 Share Capital 31
18 Borrowings 32
19 Trade and Other Payables 33
20 Analysis of Revenue by Category 33
21 Cost of Sales and Services 33
22 Administrative and Other Operating Expenses 34
23 Finance Costs 34
24 Income Taxes 34
25 Contingencies and Commitments 37
26 Non-Controlling Interest 37
27 Financial Risk Management 38
28 Management of Capital 40
29 Fair Value of Financial Instruments 40
30 Presentation of Financial Instruments by Measurement Category 41

	Note	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	8	68,458,525	54,449,768
Intangible assets		460,417	306,345
Biological assets	9	432,058	457,934
Investments in associates and jointly controlled entities	10	125,729,581	26,001,116
Loans and advances to customers	12	10,420,902	-
Prepayments	13	13,619,071	14,136,559
Deferred income tax asset	24	150,529	135,084
Total non-current assets		**219,271,083**	**95,486,806**
Current assets			
Inventories	13	8,829,547	7,996,218
Loans and advances to customers	12	73,290,438	-
Due from banks		8,060,610	
Trade and other receivables	12	79,152,960	14,888,440
Biological assets	9	37,085	183,512
Mandatory cash balances with CBAR		121,234	
Cash and cash equivalents	15	17,459,543	1,598,272
Total current assets		**186,951,417**	**24,666,442**
TOTAL ASSETS		**406,222,500**	**120,153,248**
EQUITY			
Share capital	0	15,000,000	15,000,000
Accumulated deficit		(99,985,759)	(69,522,835)
Additional paid-in capital		289,638,562	57,535,483
Cumulative currency translation reserve		(35,303)	(35,303)
Equity attributable to the Parent’s owners		**204,617,500**	**2,977,345**
Non-controlling interest		**(72,949,767)**	**(27,167,900)**
TOTAL EQUITY		**131,667,733**	**(24,190,555)**
LIABILITIES			
Non-current liabilities			
Deposits by customers and banks		43,731,227	-
Long-term borrowings	18	132,171,014	137,463,500
Deferred income tax liability	24	384,651	340,380
Total non-current liabilities		**176,286,892**	**137,803,880**
Current liabilities			
Short-term borrowings and overdrafts		31,711,499	2,251,314
Trade and other payables	19	66,556,375	4,288,609
Total current liabilities		**98,267,875**	**6,539,923**
TOTAL LIABILITIES		**274,554,767**	**144,343,803**
TOTAL LIABILITIES AND EQUITY		**406,222,500**	**120,153,248**

Approved for issue and signed on behalf of the Board of Directors on __________2016.

Rashad Babayev
Acting Chairman of the Executive Board

Elnur Asgarli
Finance Director

The notes set out on pages 5 to 42 form an integral part of these consolidated financial statements

	Note	2015	2014
Revenue	20	27,714,830	16,698,968
Cost of sales and services	21	(18,447,889)	(26,882,084)
Gross (loss)/profit		**9,266,941**	**(10,183,116)**
Provision for impairment losses on interest bearing financial assets		(27,926,261)	
Administrative and other operating expenses	22	(27,717,955)	(55,837,924)
Other operating income		4,563,141	1,545,272
Gains less losses from trading in foreign currencies		291,392	-
Gains less losses on fair value of biological assets	9	273,206	210,659
Operating loss		**(41,249,536)**	**(64,265,109)**
Share of result of associates and jointly controlled entities	10	1,462,515	52,201
Finance costs (interest expense)	23	(9,856,494)	(2,020,998)
Foreign exchange losses		(26,315,498)	(542,066)
Dividend income		2,500,000	-
Gain on bargain purchase		198,632	-
Loss before income tax		**(73,260,381)**	**(66,775,972)**
Income tax benefit/(expense)	24	(2,477,388)	231,760
Loss for the year		**(75,737,769)**	**(66,544,212)**
Other comprehensive income:			
Translation differences		-	(18,900)
Total comprehensive loss for the year		**(75,737,769)**	**(66,563,112)**
Loss is attributable to:			
- Owners of the Parent		(30,462,924)	(36,381,361)
- Non-controlling interest		(45,274,845)	(30,162,851)
Loss for the year		**(75,737,769)**	**(66,544,212)**
Total comprehensive loss is attributable to:			
- Owners of the Parent		(30,462,924)	(36,390,811)
- Non-controlling interest		(45,274,845)	(30,172,301)
Total comprehensive loss for the year		**(75,737,769)**	**(66,563,112)**

	Attributable to owners of the Parent						
	Share Capital	**Additional paid-in capital**	**Accumulated deficit**	**Currency translation difference**	**Total**	**Non-controlling interest**	**Total**
Balance at 1 January 2014	**15,000,000**	**130,514,067**	**(33,141,474)**	**(25,853)**	**112,346,740**	**20,236,096**	**132,582,836**
Loss for the year	-	-	(36,381,361)		(36,381,361)	(30,162,851)	(66,544,212)
Other comprehensive income	-	-	-	(9,450)	(9,450)	(9,450)	(18,900)
Total comprehensive loss for 2014	-	-	(36,381,361)	(9,450)	(36,390,811)	(30,172,301)	(66,563,112)
Additional paid-in capital, net-of withdrawals by shareholders	-	(72,978,584)	-	-	(72,978,584)	(17,231,695)	(90,210,279)
Balance at 31 December 2014	**15,000,000**	**57,535,483**	**(69,522,835)**	**(35,303)**	**2,977,345**	**(27,167,900)**	**(24,190,555)**
Loss for the year	-	-	(30,462,924)	-	(30,462,924)	(45,274,845)	(78,237,769)
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive loss for 2015			(30,462,924)	-	(30,462,924)	(45,274,845)	(78,237,769)
Additional paid-in capital, net-of withdrawals by shareholders		232,103,079			232,103,079	(507,022)	231,596,057
Balance at 31 December 2015	**15,000,000**	**289,638,562**	**(99,985,759)**	**(35,303)**	**204,617,500**	**(72,949,767)**	**131,667,733**

	Note	2015	2014
Cash flows from operating activities			
Loss before income tax		(73,260,381)	(66,775,972)
Adjustments for:			
Depreciation and impairment of property, plant and equipment	21,22	5,736,381	43,585,137
Amortisation and impairment of intangible assets		79,961	76,272
Impairment of biological assets	9	-	965,010
Impairment of trade and other receivables	22	646,555	949,933
Losses less gains on fair value of biological assets	9	(273,206)	(210,659)
Losses less gains on disposals of property, plant and Equipment	22	7,266	232,596
Finance costs	23	9,856,494	2,020,998
Other income		(1,228,361)	-
Foreign exchange translation differences		(4,657,254)	542,066
Provision for loans and advances to customers		22,064,825	-
Impairment of inventory	22	788,557	1,035,041
Share of result of associates and jointly controlled entities	10	(1,462,515)	(52,201)
Operating cash flows before working capital changes		**(41,701,678)**	**(17,631,779)**
Increase in mandatory balances with CBAR		(121,234)	-
Increase in Due from banks		(8,060,610)	-
Increase in loan and advances to customers		(105,776,164)	-
Increase in trade and other receivables		(65,528,968)	(1,511,145)
Increase in inventories		(1,026,896)	521,112
Increase in Deposits by customers and banks		43,731,227	-
Increase in trade and other payables		61,777,526	1,041,458
Changes in working capital		**(116,706,797)**	**(17,580,354)**
Income taxes paid		(2,111,903)	-
Interest paid		(8,719,300)	(2,366,459)
Net cash used in operating activities		**(127,538,000)**	**(19,946,813)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(17,025,903)	(21,520,537)
Proceeds from disposal of property, plant and equipment		4,520	414,236
Acquisition of intangible assets		(99,302)	(61,115)
Investment in biological assets		29,672	(900,691)
Investment in associates and jointly controlled entities	10	(98,265,950)	(8,706,000)
Acquisition of subsidiaries, net of cash acquired		39,420	-
Net cash used in investing activities		**(112,817,543)**	**(30,774,107)**
Cash flows from financing activities			
Proceeds from Loan received from CBAR	16	15,000,000	
Proceeds from long-term borrowings	18	73,567,246	137,463,500
Repayment of long -term borrowings		(133,466,466)	
Proceeds from short-term borrowings	18	17,065,565	2,137,080
Repayment of short-term borrowings		(13,587,038)	-
Proceeds from share issue	0	10,500	29,877,050
Capital contributions from shareholders other than share issues		302,817,665	22,300,526
Withdrawals by shareholders		(69,655,251)	(142,387,855)
Net cash from financing activities		**191,752,221**	**49,390,301**
Effect of exchange rate changes on cash and cash equivalents		66,964,593	(503,803)
Cash and cash equivalents at the beginning of the year	15	**1,598,272**	**3,432,694**
Net (decrease)/increase in cash and cash equivalents		**15,861,271**	**(1,834,422)**
Cash and cash equivalents at the end of the year	15	**17,459,543**	**1,598,272**

1 Synergy Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2015 for Synergy Group OJSC and its undertakings (together referred to as the “Group” or “Synergy Group”).

The Group was incorporated and is domiciled in the Republic of Azerbaijan on 25 January 2010. The Group is a joint stock company and was set up in accordance with regulations of the Republic of Azerbaijan. As of 31 December 2015 and 2014 the Group was ultimately controlled by Mr. A. Kamilov.

The Group is presented by the following companies:

1. “Synergy Group” OJSC – parent entity;
2. “AAC” LLC – production of construction materials, subsidiary, 39% ownership interest;
3. “Synergy Construction” LLC – construction, subsidiary, 100% ownership interest, which has an ownership in the following entity:
   a) "Renaissance Construction Azerbaijan" LLC – construction, joint venture, 50% ownership interest;
4. "Azagro" LLC – agriculture, subsidiary, 100% ownership interest;
5. "B.N.M." LLC – hospitality, subsidiary, 100% ownership interest;
6. "Cybernet" LLC – Information technologies, subsidiary, 100% ownership interest, which has a control in the following entity:
7. "Azorchid Hotels" LLC – hospitality, subsidiary, 70% ownership interest;
8. "Caspian Coast Winery and Vineyards" LLC – winery, subsidiary, 50% ownership interest which has a control in the following entity:
   a) “Tradehouse Caspian Coast Winery and Vineyards” LLC – selling and distribution of wine products, subsidiary,100% ownership interest;
9. "Khazar-Turizm" LLC – hospitality, subsidiary, 100% ownership interest;
10. "Bestpack" LLC – printing and packaging, subsidiary, 100% ownership interest;
11. "Caspian Agro" LLC – agriculture, subsidiary, 50% ownership interest, which has an ownership in the following entity:
    a) "Azagroexport" LLC – agriculture, subsidiary, 100% ownership interest;
12. “Exclusive Dining” LLC – restaurant, subsidiary, 100% ownership interest;
13. “Shamkir City Hotels and SPA” LLC – hospitality, subsidiary, 100% ownership interest;
14. “Azerbaijan University LLC” – education, subsidiary, 90% ownership interest, which has an ownership in the following entity:
    a) “Unicamp” LLC – education, subsidiary, 100% ownership interest;
15. “Ecolime” LLC – production of construction materials, subsidiary, 100% ownership interest;
16. “Synergy Foundation” – not-for-profit organization, subsidiary, 100% ownership interest;
17. “Synergy Development” LLC – property management, subsidiary, 100% ownership interest;
18. “Synac” LLC – education, subsidiary, 100% ownership interest;
19. “Synergy Sport” LLC – not-for-profit organization, subsidiary, 100% ownership interest;
20. “Synergy Technics” LLC – investment company, subsidiary, 100% ownership interest, which has an ownership in the following entity:
    a) “Zayamkandmash” OJSC – production of metal constructions, subsidiary, 51% ownership interest;

1 Synergy Group and its Operations (Continued)

21. "Azerbaijan Global Investments" OJSC – investment company, associate, 32% ownership interest;
22. "Azerbaijan Fibro Cement" LLC – production of construction materials, subsidiary, 100% ownership interest
23. "Synergy Jet" LLC, - a jet operating company, subsidiary, 100% ownership interest;
24. "Synergy Trading" LLC, a trading company, subsidiary, 100% ownership interest;
25. "Caspian Development Bank" OJSC, subsidiary, 99.91% ownership interest;

All the Group's investments are domiciled in Azerbaijan Republic, except "Tradehouse Caspian Coast Winery and Vineyards" LLC, which is domiciled in the Russian Federation.

Principal activity. The Group's principal business consists of commercial activities, the list of which includes, but not limited to banking, construction, production of construction materials and metal constructions, information technologies, cultivation of agricultural products, rendering resort and hospitality services, packaging and printing, education, wine production, not-for-profit activities etc. within the Republic of Azerbaijan. The Group's manufacturing facilities are primarily based in Baku, Khirdalan, Shamkir, Khachmaz and Siyazan cities.

Registered address and place of business. The Group's registered address is 55 Zarifa Aliyeva, AZ1095, Baku, Azerbaijan.

Presentation currency. These consolidated financial statements are presented in Azerbaijani Manats ("AZN"), unless otherwise stated.

2 Operating Environment of the Group

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

Following a significant drop in crude oil prices, the Azerbaijani manat devalued by 34% against the US dollar on 21 February 2015 and a further 47% on 21 December 2015. Following the second devaluation, the Central Bank of the Republic of Azerbaijan announced transition of manat to a floating exchange rate. The exchange rates have not materially changed since year-end to June 2016.

These events resulted in an increase in prices of imported products, however general inflation was kept well below the devaluation percentages. For companies these changes could result in increases of cost of goods sold and other operating expenses that are susceptible to currency devaluation effects. There continues to be uncertainty regarding economic growth and access to foreign currency reserves, which could adversely affect the Group's future results, financial position and business prospects in a manner not currently determinable.

The Azerbaijani government announced plans to accelerate reforms and support to the economy with the intention of attracting foreign investment and boosting the non-oil industry sectors of the economy. A law was passed to remove the additional fee on transactions where foreign currency leaves the country in order to attract foreign investors. Other regulatory reforms with respect to simplified tax regulation were imposed in order to support businesses.

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

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention. 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, unless otherwise stated (refer to Note 5 for new and amended standards adopted by the Group).

3 Summary of Significant Accounting Policies (Continued)

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries other than those acquired from parties under common control. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Group and all of its subsidiaries use uniform accounting policies consistent with the Group’s policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group’s equity.

Purchases of subsidiaries from parties under common control. Purchases of subsidiaries from parties under common control are accounted for in accordance with the acquisition method of accounting using the predecessor values method. Under this method the consolidated financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented or, if later, the date when the combining entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity’s carrying amounts.

Investments in associates. Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 per cent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Group’s share of net assets of an associate are recognised as follows: (i) the Group’s share of profits or losses of associates is recorded in the consolidated profit or loss for the year as share of result of associates, (ii) the Group’s share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group’s share of the carrying value of net assets of associates are recognised in profit or loss within the share of result of associates.

However, when the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise 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 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.

Interests in joint ventures. 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.

3 Summary of Significant Accounting Policies (Continued)

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 income statement reflects the Group's share of the results after tax of the jointly controlled entity. The Group's statement of equity changes reflects the Group's share of any income and expense recognised by the jointly controlled entity outside profit and 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.

The Group ceases to use the equity method of accounting on the date from which it no longer has joint control over, or significant influence in the joint venture, or when the interest becomes held for sale.

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

Fair value is the 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 the current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate.

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 flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure at 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. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

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 and derivatives that are linked to, and must be settled by, delivery of such unquoted equity instruments.

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 method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

3 Summary of Significant Accounting Policies (Continued)

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

Initial recognition of financial instruments. Trading investments, derivatives and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining 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.

Property, plant and equipment. Property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required. Property, plant and equipment includes assets under construction for future use as property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Costs of minor repairs and day-to-day maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At each end of each reporting period 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 fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in profit or loss for the year within other operating income or costs.

3 Summary of Significant Accounting Policies (Continued)

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	14-25 years
Land improvements	25 years
Machinery	5-25 years
Furniture, fixture and other equipment	4-5 years
Vehicles	4-6 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Biological assets. Biological assets of the Group consist of bearer and consumable biological assets. Bearer biological assets of the Group are flower and vine plants that are physically attached to land. As there is no separate market for such biological assets and for the combined assets that consist of the biological assets, raw land, and land improvements management of the Group measures biological assets at their cost less any accumulated depreciation and any accumulated impairment losses. The cost of the bearer biological assets consists of cost of purchases of plants and costs incurred to bring these plants to their productive capacity. Bearer biological assets are classified as non-current assets and depreciated over their harvesting period using the straight line method.

Cost of the consumable biological asset is started to accumulate for the period when the plants are ready for harvesting.

Agricultural produce harvested from the Group’s biological assets are measured at its fair value less costs to sell at the point of harvest.

Intangible assets. The Group’s intangible assets have definite useful lives and primarily include capitalised computer software and right of use of land.

Acquired computer software licences and right of use of land are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Software licenses	10 years
Right of use of land	99 years

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

Income taxes. Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period for each separate entity within the Group. The income tax charge (credit) comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also 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. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

3 Summary of Significant Accounting Policies (Continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. 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.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that Management expects the temporary differences to reverse in the foreseeable future.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method.

Impairment of financial assets carried at amortized cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred 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.

The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and reliability of 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:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- 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; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

Future cash flows in a group of financial assets that are collectively 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.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

3 Summary of Significant Accounting Policies (Continued)

Impairment losses are always recognised through an allowance account to write down the asset’s carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year. Short-term prepayments are included under trade and other receivables.

Cash and cash equivalents. Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include mandatory reserve deposits with the CBAR and all interbank placements with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

Mandatory cash balances with the CBAR. Mandatory cash balances with the CBAR are carried at amortised cost and represent non-interest bearing mandatory reserve deposits which are not available to finance the Group’s day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows.

Due from other banks. Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

Loans and advances to customers. Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates, and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred 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.

The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of 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:

3 Summary of Significant Accounting Policies (Continued)

- any instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the borrower's financial information that the Group obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower; or
- the value of collateral significantly decreases as a result of deteriorating market conditions.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively 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.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account in profit or loss for the year.

Credit related commitments. The Group issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Other securities. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities. Management determines the classification of other securities at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Other securities are carried at amortised cost and are classified as loans and receivables category under IAS 39.

3 Summary of Significant Accounting Policies (Continued)

Share capital and other equity reserves. Share capital consists of only ordinary shares. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Other reserves represent additional capital contributions made by owners of the Group. Drawings are deducted from equity in the period in which they are taken by owners.

Value added tax. The difference of output VAT and claimable input VAT is payable to the State Budget within 20 days following the reporting month. Input VAT paid to the VAT deposit account of suppliers is generally recoverable against output VAT upon presence of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowings. Borrowings are carried at amortised cost using the effective interest method.

Capitalisation of borrowing costs. General and specific borrowing costs directly attributable to the acquisition and construction of assets that are not carried at fair value and that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group’s average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred on the specific borrowings less any investment income on the temporary investment of these borrowings are capitalised

Trade and other payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial 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 probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. The Group recognises the estimated liability to repair or replace products sold still under warranty at the end of each reporting period. This provision is calculated based on past history of the level of repairs and replacements.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain

Foreign currency translation. The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Group and its subsidiaries, and the Group’s presentation currency, is the national currency of the Azerbaijan Republic, Azerbaijani Manats (“AZN”).

Monetary assets and liabilities are translated into each entity’s functional currency at the official exchange rate of the Central Bank of the Azerbaijan Republic (“CBAR”) at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity’s functional currency at year-end official exchange rates of the CBAR are recognised in profit or loss as finance income or costs. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

3 Summary of Significant Accounting Policies (Continued)

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

As at 31 December 2015, the principal rate of exchange used for translating foreign currency balances was RUB 1 = AZN 0.0216, EUR 1 = AZN 1.7046, and USD 1 = AZN 1.5594 (2014: RUB 1 = AZN 0.0133, EUR 1 = AZN 0.9522, and USD 1 = AZN 0.7844). The principal average rate of exchange used for translating income and expenses was RUB 1 = AZN 0.0169, EUR 1 = 1.1331, and USD 1 = 1.0285 (2014: RUB 1 = AZN 0.0208, EUR 1 = 1.0417, and USD 1 = 0.7844).

Revenue recognition. Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group’s activities, as described below. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

Sales of goods. Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Sales of services. Sales of services are recognised in the accounting period in which the services are rendered, by reference to the 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.

Income and expense recognition. Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

When loans and other debt instruments become doubtful of collection, they are written down to the present value of expected cash inflows and interest income is thereafter recorded for the unwinding of the present value discount based on the asset’s effective interest rate which was used to measure the impairment loss.

All other fees, commissions and other income and expense items are generally recorded on an accrual basis where applicable by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Construction contracts. Revenues related to construction contracts are recognised using the percentage of completion method, based primarily on contract costs incurred to date, compared to estimated overall contract costs. Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

3 Summary of Significant Accounting Policies (Continued)

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.

Amendment of the consolidated financial statements after issue. The Group's shareholders and management have the power to amend the consolidated financial statements after issue

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Azerbaijan Republic ("CBAR") at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBAR are recognised in profit or loss as finance income or costs. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined.

Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

As at 31 December 2015, the principal rate of exchange used for translating foreign currency balances was RUB 1 = AZN 0.0216, EUR 1 = AZN 1.7046, and USD 1 = AZN 1.5594 (2014: RUB 1 = AZN 0.0133, EUR 1 = AZN 0.9522, and USD 1 = AZN 0.7844). The principal average rate of exchange used for translating income and expenses was RUB 1 = AZN 0.0169, EUR 1 = 1.1331, and USD 1 = 1.0219 (2014: RUB 1 = AZN 0.0208, EUR 1 = 1.0417, and USD 1 = 0.7844).

Revenue recognition. Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

Sales of goods. Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Sales of services. Sales of services are recognised in the accounting period in which the services are rendered, by reference to the 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 method.

Construction contracts. Revenues related to construction contracts are recognised using the percentage of completion method, based primarily on contract costs incurred to date, compared to estimated overall contract costs. Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

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.

3 Summary of Significant Accounting Policies (Continued)

Amendment of the consolidated financial statements after issue. The Group's shareholders and management have the power to amend the consolidated financial statements after issue.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements 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 judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Going concern. Management prepared these consolidated financial statements on a going concern basis. In making this judgement management considered the Group's financial position, current intentions, profitability of operations and access to financial resources.

The Group was established and commenced its operations in 2010, and its losses for the years ended 31 December 2015 and 2014 totalled AZN 75,737,769 and AZN 66,544,212 respectively. In addition, for the years ended 31 December 2015 and 2014 the Group generated negative cash flows from its operating activities in the amounts of AZN 127,538,000 and AZN 19,946,813 respectively. As of 31 December 2015 and 2014 the Group's accumulated deficit was AZN 99,985,75 and AZN 69,522,835 respectively.

The Group's operations are primarily financed through the contributions provided by the owners of the Parent and the non-controlling interest and bank borrowings. As of 31 December 2015 the total amount of funds contributed by these parties equalled AZN 298,750,846 and AZN 105,632,811 respectively (2014: AZN 74,494,817 and AZN 139,600,580 respectively). The ability of the Group to continue as a going concern is largely dependent on the willingness of the shareholders to continue contribute funds for its operating and investing activities. Subsequently in 2016 shareholders of the Group contributed AZN 71,736,832. Management expects that the shareholders of the Group will continue to contribute in future, as well.

Subsidiaries. The Group holds less than 50% of the voting rights in a fully consolidated subsidiary "AAC" LLC. The Group, however, has the power to govern the financial and operating policies of this subsidiary through contractual arrangements with the other shareholders.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances.

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Terms and conditions of related party balances are disclosed in Note 7.

Useful lives of property, plant and equipment. The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

Were the estimated useful lives to differ by 10% from management’s estimates, the impact on depreciation for the year ended 31 December 2015 would be to increase/decrease it by AZN 652,449 (2014: increase/decrease by AZN 729,664).

Assessment of the percentage of completion on construction contracts. The percentage of completion for a construction project is normally established through the relationship between incurred project costs for work performed at the reporting date and the estimated total project costs. The amount of costs incurred and estimated total project costs are determined on an individual contract basis by the technical department of the Group based on past experience of the Group and overall trends in the economy.

Impairment of trade receivables. 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.

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

A 10% increase or decrease in actual loss experience compared to the loss estimates used would result in an increase or decrease in loan impairment losses of AZN 2,207,000 (2014: nil), respectively. Impairment losses for individually significant loans are based on estimates of discounted future cash flows of the individual loans, taking into account repayments and realisation of any assets held as collateral against the loans. A 10% increase or decrease in the actual loss experience compared to the estimated future discounted cash flows from individually significant loans, which could arise from differences in amounts and timing of the cash flows, would result in an increase or decrease in loan impairment losses of AZN 2,170,000 (2014: nil), respectively.

5 Adoption of New or Revised Standards and Interpretations

The following amended standards became effective for the Group from 1 January 2015, but did not have any material impact on the Group.

- Amendments to IAS 19 – “Defined benefit plans: Employee contributions” (issued in November 2013 and effective for annual periods beginning 1 July 2014).
- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).
- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014).

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2015 or later, and which the Group has not early adopted.

IFRS 9 “Financial Instruments: Classification and Measurement” (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets’ cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a ‘three stage’ approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group is currently assessing the impact of the new standard on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.The Group is currently assessing the impact of the new standard on its financial statements.

6 New Accounting Pronouncements (Continued)

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- IFRS 14, Regulatory deferral accounts (issued in January 2014 and effective for annual periods beginning on or after 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11 (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).
- Agriculture: Bearer plants - Amendments to IAS 16 and IAS 41 (issued on 30 June 2014 and effective for annual periods beginning 1 January 2016).
- Equity Method in Separate Financial Statements - Amendments to IAS 27 (issued on 12 August 2014 and effective for annual periods beginning 1 January 2016).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
- Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's consolidated financial statements

7 Balances and Transactions with Related Parties

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Key management compensation. Key management of the Group includes the Directors of "Synergy Group" OJSC in full time management positions. All of the Group's key management are appointed by the owners of the Group. Key management individuals are entitled to salaries and benefits in accordance with the approved payroll matrix.

At 31 December 2015, the outstanding balances with related parties were as follows:

7 Balances and Transactions with Related Parties (Continued)

	Entities under common control	Other related parties	Associates and jointly controlled entities
Investments in associates and jointly controlled entities			125,729,581
Cash and cash equivalents	1,140,985		
Trade and other payables	80,820	236,000	
Trade and other receivables	9,525	1,429,711	
Borrowings	5,684,066		

The transactions with related parties during the year ended 31 December 2015 were as follows:

	Entities under common control	Other related parties	Associates and jointly controlled entities
Share of result of associates and jointly controlled entities (profit)	1,462,515		(1,462,515)
Administrative and other operating expenses	525,560		
Revenue	(36,513)		
Finance costs (interest expense)	8,171,147		

At 31 December 2014, the outstanding balances with related parties were as follows:

	Entities under common control	Other related parties	Associates and jointly controlled entities
Investments in associates and jointly controlled entities	-	-	26,001,116
Cash and cash equivalents	1,540,258	-	-
Trade and other payables	91,665	236,000	-
Trade and other receivables	157,156	1,429,711	-
	139,714,814	-	-

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

	Entities under common control	Other related parties	Associates and jointly controlled entities
Share of result of associates and jointly controlled entities (profit)	-	-	52,201
Administrative and other operating expenses	1,805,616	-	-
Revenue	32,225	12,696	153,095
Finance costs (interest expense)	2,020,998	-	-

8 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

	Land and Land improvements	Buildings and constructions	JET/ Airplain	Machinery and plants	Vehicles	Furniture, fixture and other equipment	Leasehold improve ment	Construction in progress	Total
Cost at 31 December 2013	**3,239,608**	**23,727,655**	**-**	**40,024,758**	**3,294,518**	**2,468,309**	**-**	**23,591,530**	**96,346,378**
Accumulated depreciation	**(145,685)**	**(4,390,725)**	**-**	**(7,504,024)**	**(1,588,067)**	**(1,711,352)**	**-**	**-**	**(15,339,853)**
Carrying amount at 1 January 2014	**3,093,923**	**19,336,930**	**-**	**32,520,734**	**1,706,451**	**756,957**	**-**	**23,591,530**	**81,006,525**
Additions	98,950	707,841	-	222,735	200,699	507,628	-	16,598,749	18,336,602
Capitalised borrowing costs	-	-	-	-	-	-	-	459,695	459,695
Disposals	-	-	-	(63,783)	(1,004,189)	(11,957)	-	(18,203)	(1,098,132)
Transfers	-	14,582,961	-	8,534,872	116,134	2,975,519	-	(26,209,486)	-
Depreciation charge	(87,130)	(1,812,203)	-	(3,597,393)	(412,261)	(905,667)	-	-	(6,814,654)
Impairment charge to profit or loss	(1,887,402)	(12,554,549)	-	(20,170,993)	(484,673)	(178,713)	-	(2,689,668)	(37,965,998)
Accumulated depreciation of disposed items	-	-	-	22,367	491,632	11,731	-	-	525,730
Carrying amount at 31 December 2014	**1,218,341**	**20,260,980**	**-**	**17,468,539**	**613,793**	**3,155,498**	**-**	**11,732,617**	**54,449,768**
Cost at 31 December 2014	**3,338,558**	**39,018,457**	**-**	**48,718,582**	**2,607,162**	**5,939,499**	**-**	**14,422,285**	**114,044,543**
Accumulated depreciation and impairment	**(2,120,217)**	**(18,757,477)**	**-**	**(31,250,043)**	**(1,993,369)**	**(2,784,001)**	**-**	**(2,689,668)**	**(59,594,775)**
Carrying amount at 31 December 2014	**1,218,341**	**20,260,980**	**-**	**17,468,539**	**613,793**	**3,155,498**	**-**	**11,732,617**	**54,449,768**
Additions	-	150,034	8,064,804	489,027	241,949	2,357,751	1,513,506	6,438,384	19,255,455
Capitalised borrowing costs	-	-	-	-	-	-	-	679,598	679,598
Disposals	-	-	-	(637)	(85,811)	(57,786)	-	-	(144,234)
Transfers	-	-	-	(2,401)	-	77,163	-	(74,762)	-
Depreciation charge	-	(1,407,199)	(67,207)	(2,733,989)	(327,483)	(1,191,430)	(13,093)	-	(5,740,401)
Accumulated depreciation of disposed items	-	-	-	637	85,315	55,236	-	-	141,188
Impairment charge to profit or loss	-	(93,937)	-	(77,880)	-	(16,947)	-	-	(188,764)
Accumulated depreciation of impaired items	-	-	-	-	-	5,915	-	-	5,915
Carrying amount at 31 December 2015	**1,218,341**	**18,909,878**	**7,997,597**	**15,143,296**	**527,763**	**4,385,400**	**1,500,413**	**18,775,837**	**68,458,525**
Cost at 31 December 2015	**3,338,558**	**39,168,491**	**8,064,804**	**49,204,571**	**2,763,300**	**8,316,627**	**1,513,506**	**21,465,505**	**133,835,362**
Accumulated depreciation and impairment	**(2,120,217)**	**(20,258,613)**	**(67,207)**	**(34,061,275)**	**(2,235,537)**	**(3,931,227)**	**(13,093)**	**(2,689,668)**	**(65,376,837)**
Carrying amount at 31 December 2015	**1,218,341**	**18,909,878**	**7,997,597**	**15,143,296**	**527,763**	**4,385,400**	**1,500,413**	**18,775,837**	**68,458,525**

8 Property, Plant and Equipment (Continued)

During 2015, AZN 2,987,158 (2014: AZN 3,023,842) amount of depreciation expense was capitalised in the production process.

Construction in progress consists mainly of construction of plants. Upon completion, assets are transferred to machinery and plants. Additions to construction in progress include capitalised borrowing costs of AZN 679,598 (2014: 459,695). The capitalisation rate was 7 per cent (2014: 7 per cent).

Impairment losses in the amount of AZN 36,553,778 were recognised as a result of the impairment assessment carried in “AAC” LLC and “Caspian Coast Wine and Vinery” LLC at the end of 31 December 2014, and AZN 1,412,220 in “AFC” LLC as a result of moving the construction site from one place to another during the year ended 31 December 2014. The identified CGUs are: in “AAC” LLC aerated concrete production plant (CGU 1) and lime production plant (CGU 2), and in “Caspian Coast Wine and Vinery” LLC wine production plant (CGU 3) and vineyard (CGU 4). The impairment indicator that led to the impairment assessment in these CGUs is the worse economic performance of the assets than expected.

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

As at 31 December 2014 recoverable amounts, impairment charges and assumptions used for value-in-use calculations to which the recoverable amount is most sensitive were:

	CGU 1	**CGU 2**	**CGU 3**	**CGU 4**
Recoverable amount	21,590,558	2,123,270	5,639,450	461,988
Impairment charge to profit or loss	20,228,410	11,053,948	2,963,414	3,309,016
Pre-tax discount rate	11.59% p.a.	11.59% p.a.	11.36% p.a.	9.69% p.a.
Growth rate	5% p.a.	5% p.a.	5% p.a.	-

Management determined the budgeted gross margin based on past performance and its market expectations. The weighted average growth rates used are consistent with the forecasts in the industry sectors.

The discount rates used are pre-tax, and reflect specific risks relating to the relevant CGUs. If the revised estimated pre-tax discount rate applied to the discounted cash flows of the CGU 1, CGU 2 and CGU 4 had been 10% higher than management’s estimates, the Group would need to reduce the carrying value of property, plant and equipment by AZN 1,070,172 and the carrying value of biological assets by AZN 46,110. Property, plant equipment in CGU 3 was fully impaired and the carrying values of the remaining assets in this CGU approximates their fair values.

9 Biological Assets

	Bearer biological assets	Consumable biological assets	Total
Balance at 1 January 2014	**1,435,994**	**51,754**	**1,487,748**
Increase due to purchases	65,180	-	65,180
Capitalised expenditures	89,596	1,196,436	1,286,032
Disposals	(92,949)	-	(92,949)
Depreciation of bearer transferred to consumable	(93,396)	93,396	-
Accumulated depreciation of disposed items	18,519	-	18,519
Impairment charge to profit or loss	(965,010)	-	(965,010)
Harvested products transferred to inventory at fair value	-	(1,368,733)	(1,368,733)
Loss on fair value	-	210,659	210,659
Balance at 31 December 2014	**457,934**	**183,512**	**641,446**
Cost at 31 December 2014	1,652,276	183,512	1,835,788
Accumulated depreciation	(1,194,342)	-	(1,194,342)
Balance at 31 December 2014	**457,934**	**183,512**	**641,446**
Non-current	457,934	-	457,934
Current	-	183,512	183,512
Capitalized expenditures	-	894,755	**894,755**
Depreciation of bearer transferred to consumable	(13,420)	307,891	**294,471**
Accumulated depreciation of disposed items	(12,456)	12,456	**-**
Harvested products transferred to inventory at fair value	**-**	(1,634,735)	**(1,634,735)**
Loss on fair value	**-**	273,206	**273,206**
Balance at 31 December 2015	**432,058**	**37,085**	**469,143**
Cost at 31 December 2015	1,712,530	37,085	1,749,615
Accumulated depreciation and impairment	(1,280,472)	-	(1,280,472)
Balance at 31 December 2015	**432,058**	**37,085**	**469,143**
Non-current	432,058	-	**432,058**
Current	-	37,085	**37,085**

Impairment charge in bearer biological assets in the amount of AZN 965,010 was allocated as a result of impairment assessment carried in CGU 4. (Refer to Note 8).

Bearer biological assets of the Group represent vine and flower plants. Consumable biological assets are the growing agricultural products, which have not yet been harvested.

The cost of the bearer biological assets consists of cost of purchases of plants and costs incurred to bring these plants to their productive capacity.

Management expects that the vines will be harvested over the 30 years' period once the plants reach their productive capacity. From this point onward costs are started to be capitalised to the cost of consumable biological assets.

Flowers will be harvested over the 50 month period, once the plants reach their productive capacity. Harvested flowers are used in trading activities.

Agricultural produce harvested from the Group's biological assets are measured at its fair value less costs to sell at the point of harvest.

As at 31 December 2014, bearer biological assets consist of vines planted in approximately 120 hectares (2014: 120 hectares) and flowers planted in 1 hectare (2014: 1 hectare).

10 Investments in Associates and Jointly Controlled Entities

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

	2015		2014	
	Associates	**Joint Ventures**	**Associates**	**Joint Ventures**
Carrying amount at 1 January	**23,300,068**	**2,701,048**	**15,031,664**	**2,211,251**
Share of profit of associates and joint ventures	(5,284)	1,467,799	(437,596)	489,797
Additional investment	100,765,950	-	8,706,000	-
Dividends paid	-	(2,500,000)		
Carrying amount at 31 December	**124,060,734**	**1,668,847**	**23,300,068**	**2,701,048**

The Group's interests in its principal associates and joint ventures were as follows:

Name	2015		2014	
	% ownership interest held (% of voting rights if different)	**Place of business (country of incorporation if different)**	**% ownership interest held (% of voting rights if different)**	**Place of business (country of incorporation if different)**
Associates				
"Azerbaijan Global Investments" OJSC	32%	Azerbaijan Republic	32%	Azerbaijan Republic
Joint ventures				
"Renaissance Construction Azerbaijan" LLC	50%	Azerbaijan Republic	50%	Azerbaijan Republic

Summarised financial information of each material associate and joint venture is as follows at 31 December 2015:

	Associate "Azerbaijan Global Investments" OJSC	**Joint Venture "Renaissance Construction Azerbaijan" LLC**	**Total associates and joint ventures**
Current assets	798,216	14,143,474	**14,941,690**
Non-current assets	21,639,247	1,397,989	**23,037,236**
Current liabilities	-	9,805,779	**9,805,779**
Revenue	-	26,864,063	**26,864,063**
Profit or loss from continuing operations	(1,367,487)	979,594	**(387,893)**
Total comprehensive income	(1,367,487)	979,594	**(387,893)**

On 9 July 2014 "Azerbaijan Global Investments" OJSC entered into a project financing (construction of the resort complex in Montenegro) agreement with "PSG Resort" LLC with a total amount of EUR 400 million.

In October 8th 2015 "Azerbaijan Global Investments" OJSC acquired 100% of "PSG Resort" LLC. Untill December 2015 "PSG Resort" LLC owned 80 % of shares in "AzMont Investments" d.o.o. In December 2015 "PSG Resort" LLC acquired remaining 20% of shares from SOCAR and holds 100% of shares in "AzMont Investments" d.o.o. In December 31, 2015 "Azerbaijan Global Investments" OJSC restructures the organization by transfering the funds lent to "AzMont Investments" d.o.o to share capital, becoming the ultimate controlling party with 99.99% of shares. The remaining 0.01% of shares are owned by Saiph Holding BV.

10 Investments in Associates and Jointly Controlled Entities (Continued)

Summarised financial information of each material associate and joint venture is as follows at 31 December 2014:

	Associate "Azerbaijan Global Investments" OJSC	Joint Venture "Renaissance Construction Azerbaijan" LLC	Total associates and joint ventures
Current assets	798,216	14,143,474	14,143,474
Non-current assets	21,639,247	1,397,989	23,037,236
Current liabilities	-	9,805,779	9,805,779
Non-current liabilities	-	-	-
Revenue	-	26,864,063	26,864,063
Profit or loss from continuing operations	(1,367,487)	979,594	(387,893)

11 Loans and advances to customers

In Azerbaijani Manats	**2015**
Corporate loans	93,716,929
Loans to individuals	12,059,236
Less: Provision for loan impairment	(22,064,825)
Total loans issued	**83,711,340**

Approximately, 72% of gross loan portfolio comprises with a loan provided to the State Oil Company of the Azerbaijan Republic (hereinafter "SOCAR"). SOCAR was issued a credit for 5 years with 6% interest rate. Taking into account the conditions under which the loan was provided to SOCAR by the local banks, Management considers that it is in compliance with market conditions.

Movements in the provision for loan impairment are as follows:

	2015		
In Azerbaijani Manats	**Corporate loans**	**Loans to individuals**	**Total**
Provision for loan impairment at 1 January 2015	**-**	**-**	**-**
(Recovery of)/Provision for impairment during the year	21,925,721	139,104	22,064,825
Provision for loan impairment at 31 December 2015	**21,925,721**	**139,104**	**22,064,825**

11 Loans and Advances to customers (Continued)

Analysis by credit quality of loans outstanding is as follows:

In Azerbaijani Manats	**2015** **Corporate loans**	**Loans to individuals**	**Total**
Neither past due nor impaired			
- Large new borrowers	81,088,800	-	81,088,800
- Loans to medium size entities	11,127,780	-	11,127,780
- Loans to individuals	-	11,669,284	11,669,284
Total neither past due nor impaired	**92,216,580**	**11,669,284**	**103,885,864**
Past due but not impaired			
- less than 30 days overdue	1,500,350	336,935	1,837,285
- 30 to 90 days overdue	-	53,016	53,016
Total past due but not impaired	**1,500,350**	**389,951**	**1,890,301**
Less impairment provisions	**(21,925,721)**	**(139,104)**	**(22,064,825)**
Total loans issued	**71,791,209**	**11,920,131**	**83,711,340**

The Group applied the portfolio provisioning methodology prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*, and created portfolio provisions for impairment losses that were incurred, but have not been specifically identified with any individual loan, by the end of the reporting period.

The Group's policy is to classify each loan as 'neither past due nor impaired' until specific objective evidence of impairment of the loan is identified. The impairment provisions may exceed the total gross amount of individually impaired loans as a result of this policy and the portfolio impairment methodology.

The primary factors that the Group considers in determining whether a loan is impaired are its overdue status and realisability of related collateral, if any. As a result, the Group presents above an ageing analysis of loans that are individually determined to be impaired.

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed the carrying value of the asset ("over-collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralised assets"). The effect of collateral at 31 December 2015:

	Over-collateralised assets		**Under-collateralised assets**	
In Azerbaijani Manats	Carrying value of the assets	Fair value of collateral	Carrying value of the assets	Fair value of collateral
Corporate loans	1,009,935	31,567,395	70,781,274	4,614,735
Loans to individuals	11,218,003	21,220,998	702,128	702,128

Refer to Note 29 for the estimated fair value of each class of loans. Information on related party balances is disclosed in Note 7.

12 Trade and Other Receivables

	31 December 2015	31 December 2014
Trade receivables	14,740,790	3,767,341
Less impairment provision	(1,218,265)	(850,171)
Total financial assets within trade and other receivables	**13,522,525**	**2,917,170**
Prepayments	5,266,899	2,980,968
VAT receivable	60,278,984	9,403,840
VAT reclaimable	1,022,090	604,777
Restricted cash	242,294	620,795
Other receivables	795,655	476,539
Less impairment provision	(1,975,487)	(2,115,649)
Total trade and other receivables	**79,152,960**	**14,888,440**

Substantially all trade receivables are denominated in Azerbaijani Manats.

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

Restricted cash for tax settlement purposes represents VAT payments received from customers directly on the Group's bank accounts. These accounts can only be used by the Group for settlement of VAT and other taxes.

At 31 December 2015, the estimated fair value of trade receivables is AZN 13,522,525 (2014: AZN 2,917,170). The Group does not hold any collateral as security.

Movements in the impairment provision for trade and other financial receivables are as follows:

	2015	2014
Provision for impairment at 1 January	**850,171**	**700,569**
Provision charge during the year	234,700	325,810
Amounts written off during the year as uncollectible	139,086	(28,182)
Amounts recovered during the year	(5,692)	(148,026)
Provision for impairment at 31 December	**1,218,265**	**850,171**

12 Trade and Other Receivables (Continued)

Analysis by credit quality of trade and other receivables is as follows:

	31 December 2015	31 December 2014
Neither past due nor impaired – exposure to		
- Large companies	164,291	192,583
- SME and individuals	11,464,117	2,080,696
Total neither past due nor impaired	**11,628,408**	**2,273,279**
Individually determined to be impaired (gross)		
- 60 to 90 days overdue	570,242	167,912
- 91 to 180 days overdue	611,421	204,417
- 181 to 360 days overdue	893,175	200,828
- over 360 days overdue	1,037,544	920,905
Total individually impaired	**3,112,382**	**1,494,062**
Less impairment provision	(1,218,265)	(850,171)
Total	**13,522,525**	**2,917,170**

Trade receivables in the amount of AZN 656,942 (2014: AZN 209,787) were written-off as uncollectible during the year.

13 Inventories

	31 December 2015	31 December 2014
Work in progress	3,833,358	3,528,388
Consumables and materials	2,504,968	2,543,595
Finished products	1,880,191	1,720,859
Raw materials	184,050	203,376
Spare parts	426,980	-
Total inventories	**8,829,547**	**7,996,218**

The cost of inventories recognised as expense during the period represents cost of sales amounting to AZN 10,023,068 (2014: AZN 11,234,366).

14 Prepayments

	Prepayments for non-current assets
Carrying value at 1 January 2014	**11,336,159**
Additions	15,413,279
Prepayments transferred to construction in progress	(12,610,015)
Translation to presentation currency	(2,864)
Total prepayments at 31 December 2014	**14,136,559**
Additions	13,542,964
Prepayments transferred to property, plants and construction in progress	(15,335,546)
Less impairment provision	-
Translation to presentation currency	1,275,094
Total prepayments at 31 December 2015	**13,619,071**

Prepayments represent amounts paid to suppliers of fixed assets. Prepayments are transferred to the fixed asset once the Group obtains control over the asset.

15 Cash and Cash Equivalents and Mandatory Reserve Deposits with CBAR

	31 December 2015	31 December 2014
Cash on hand	4,716,146	58,014
Cash balances with CBAR (other than mandatory reserve deposits	8,498,781	-
Bank balances payable on demand	4,244,616	1,540,258
Total cash and cash equivalents	**17,459,543**	**1,598,272**

The obligatory minimum reserve deposits with the Central Bank of the Republic of Azerbaijan (the CBAR") included in the balances with the CBAR are restricted balances of AZN 121,234 as at December 31, 2015.

The Group is entitled to use all funds on its correspondent account provided that average daily balance for 30 days period will be eventually higher than the required mandatory reserve.

The published international rating (by Standard & Poor's) of the Republic of Azerbaijan is BBB- (2014: BBB-). The credit quality of cash and cash equivalents balances may be summarised as follows:

	2015 Bank balances payable on demand	2014 Bank balances payable on demand
Neither past due nor impaired		
Central Bank of the Azerbaijan Republic	8,498,781	
- A- to A+ rated	55,716	
- BB- to BB+ rated	296,503	
- B- to B+ rated	1,159,497	1,540,258
- Unrated Azerbaijani banks	2,732,900	
Total bank balances payable on demand	**12,743,397**	**1,540,258**

16 Deposits by Customer Accounts and Banks

In Azerbaijani Manats	**31 December 2015**
Deposits by customers	
Term deposits	38,808,269
Repayable on demand	4,911,781
Deposits by banks	
Correspondent accounts of other banks	11,177
Total customer accounts	**43,731,227**

As at December 31, 2015 accrued interest payable, included in deposits by customers amounted to AZN 1,591,805

Economic sector concentrations within customer accounts are as follows:

	31 December 2015	
In Azerbaijani Manats	**Amount**	**%**
Individuals	31,364,198	72%
Transportation	9,491,595	22%
Manufacturing	1,982,287	5%
Insurance	804,092	2%
Information Technology	10,743	0%
Others	67,135	0%
Total customer accounts	**43,720,050**	**100%**

17 Share Capital

Share capital of the Group consists of the parent entity share capital only. The share capital of the parent company, "Synergy Group" OJSC, was registered in Azerbaijan Republic on 25 January 2010, as an open joint stock company with share capital of AZN 15,000,000. The total authorized number of ordinary shares is 7,500,000 shares (2014: 7,500,000 shares) with a par value of AZN 2 per share (2014: AZN 2 per share). Each ordinary share carries one vote. On 7 January 2014 the shareholders of the Group decided to increase share capital of the Group to AZN 50,000,000 through the issue of additional shares of AZN 35,000,000. As at 31 December 2015 shares in the amount of AZN 29,877,050 were paid up by the existing shareholders of the Group but not yet registered as share capital and recognized in the consolidated financial statements of the Group as additional paid-in capital. Shareholders of the Group can subscribe to remaining portion of the issued shares within a 4 years and 11 month period from the date of share issue.

17 Share Capital (Continued)

The owners of the Parent at 31 December 2015 and 31 December 2014 were as follows:

	31 December 2015			31 December 2014		
	Number of outstanding shares	**%**	**Amount in AZN**	**Number of outstanding shares**	**%**	**Amount in AZN**
Mr. Ashraf Kamilov	7,425,000	99%	14,850,000	7,425,000	99%	14,850,000
Mr. Said Aliyev	75,000	1%	150,000	75,000	1%	150,000
Total share capital	**7,500,000**	**100%**	**15,000,000**	**7,500,000**	**100%**	**15,000,000**

18 Borrowings

	31 December 2015	31 December 2014
Short-term borrowings		
Loans received from CBAR	15,000,000	-
Accrued interest payables	2,653,235	114,234
Short term borrowings and bank overdrafts	14,058,265	2,137,080
Long-term borrowings		
Long-term borrowings from Atabank OJSC	124,850,412	137,463,500
Loans from the Azerbaijan Mortgage Fund in national	7,121,862	
Loans from other state funds in national currency	198,740	
Total borrowings	**163,882,514**	**139,714,814**

19 Trade and Other Payables

	31 December 2015	31 December 2014
Trade payables	60,791,085	2,418,732
Liabilities for purchased property, plant and equipment	123,944	50,032
Total financial payables within trade and other payables	**60,915,029**	**2,468,764**
Advances received	2,916,964	1,098,244
Payables to employees	478,956	304,207
Other	2,245,426	417,394
Trade and other payables	**66,556,375**	**4,288,609**

Substantially all trade payables are denominated in Azerbaijani Manats.

20 Analysis of Revenue by Category

	2015	2014
Interest income	4,838,133	-
Fee and commission income	375,549	-
Sales of construction materials	11,610,810	5,929,544
Provision of educational services	3,791,977	4,160,719
Provision of IT services	2,905,922	2,588,968
Sales of agricultural products	1,154,843	1,159,816
Sales of cardboard products	1,153,168	1,072,463
Other	1,884,428	1,787,458
Total revenue	**27,714,830**	**16,698,968**

21 Cost of Sales and Services

	2015	2014
Interest expense	1,851,494	
Fee and commission expense	152,713	
Staff cost	6,108,150	5,575,918
Materials used	4,438,684	5,132,982
Depreciation expense	2,404,698	1,828,327
Impairment of biological assets	-	965,010
Fair value of harvested products	800,328	916,755
Utilities	828,682	385,581
Cost of services provided by subcontractors	750,128	323,563
Transportation	206,675	229,426
Other	906,337	214,941
Total cost of sales and services	**18,447,889**	**26,882,084**

Included in staffs cost are statutory social security contributions of AZN 1,101,470 (2014: AZN 1,005,493).

22 Administrative and Other Operating Expenses

	2015	2014
Impairment of property, plant and equipment	192,009	26,656,417
Staff costs	7,974,247	8,214,605
Marketing, advertisement and promotional costs	4,231,455	5,184,450
Depreciation expense	2,753,243	3,790,812
Transportation	3,801,505	2,499,159
Impairment of inventory	788,557	1,035,041
Impairment of trade receivables	629,562	949,933
Professional services fees	1,314,235	882,945
Taxes, other than income tax	668,255	879,432
Rent expenses	1,223,457	765,142
Security expenses	173,056	439,094
Materials and consumables used	281,146	353,742
Business trip expenses	153,453	335,018
Repair and maintenance	244,545	282,675
Office expenses	247,767	253,836
Fuel expenses	220,614	250,897
Bank commission expenses	288,233	249,888
Utilities	222,224	243,773
Loss on asset disposal	7,266	232,596
Insurance	239,031	-
Communication expenses	206,816	-
Sponsorship expenses	109,111	-
Training expenses	2,293	221,153
Research expenses	-	172,584
Impairment of VAT receivable	199,312	-
Other	1,546,563	1,944,732
Total administrative and other operating expenses	**27,717,955**	**55,837,924**

Included in staffs cost are statutory social security contributions of AZN 1,437,979 (2014: AZN 1,481,322).

23 Finance Costs

	2015	2014
Interest expense on borrowings	10,536,092	2,480,693
Less capitalised finance costs	(679,598)	(459,695)
Total finance costs recognised in profit or loss	**9,856,494**	**2,020,998**

24 Income Taxes

Income tax expense recorded in profit or loss comprises the following:

	2015	2014
Current tax	(2,448,564)	(269)
Deferred tax	(28,825)	232,029
Income tax benefit/(expense) for the year	**(2,477,389)**	**231,760**

25 Income Taxes (Continued)

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

	2015	2014
Loss before tax	**(73,260,381)**	**(66,775,972)**
Theoretical tax credit at statutory rate of 20% (2014:20%):	14,652,076	13,355,194
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income not taxed		(155,611)
- Non-deductible expenses	(516,867)	(666,945)
- Results of entities that are taxable based on revenue	(326,620)	(604,399)
Results of entities that are exempt from income taxation	(207,578)	
Effect of intragroup transactions eliminated	(502,581)	(250,000)
Unrecognised tax losses carry forwards for the year	(16,878,120)	(5,169,995)
Unrecognised deductible temporary differences	(4,621,472)	(6,454,381)
Utilisation of previously unrecognised deductible temporary differences	5,240,703	128,917
Utilisation of previously unrecognised tax loss carry forwards	536,291	
Results of associates and jointly controlled entities taxable at 10 per cent	146,780	48,980
Income tax benefit/(expense) for the year	**(2,477,388)**	**231,760**

The Group has unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of AZN 144,405,192 (2014: AZN 61,824,066). The tax loss carry forwards expire as follows:

	2015	2014
Tax loss carry-forwards expiring by the end of:		
- 31 December 2016	7,442,886	7,442,886
- 31 December 2017	8,170,246	8,170,246
- 31 December 2018	18,551,485	18,551,485
- 31 December 2019	25,849,975	25,849,975
- 31 December 2020	84,390,600	
Total tax loss carry forwards	**144,405,192**	**60,014,592**

In accordance with the tax legislation of the Azerbaijan Republic, tax losses arising in one period can be carried forward for five years.

Differences between IFRS and statutory taxation regulations in Azerbaijan 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 and is recorded at the rate of 20% (2014: 20%).

25 Income Taxes (Continued)

	1 January 2015	Charged/ (credited) to profit or loss	31 December 2015
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards			
Tax loss carry forwards	68,375	76,435	144,810
Provision for unused vacation	59,311	(18,394)	(13,261)
Property, plant and equipment	2,265	1,853	4,118
Trade and other receivables	5,133	(44,449)	14,862
Deferred tax asset	**135,084**	**15,445**	**150,529**
Tax effect of deductible/(taxable) temporary differences			
Trade and other receivables	(48,617)	102,509	53,892
Property, plant and equipment	(9,185)	-	(9,185)
Investments in associates and jointly controlled entities	(235,043)	(146,780)	(381,823)
Other	(47,535)	(1)	(47,535)
Deferred tax liability	**(340,380)**	**(44,272)**	**(384,651)**

	1 January 2014	Charged/ (credited) to profit or loss	31 December 2014
Tax effect of deductible/(taxable) temporary differences and tax loss carry forwards			
Tax loss carry forwards	90,320	(21,945)	68,375
Provision for unused vacation	22,970	36,341	59,311
Property, plant and equipment	1,086	1,179	2,265
Trade and other receivables	(65,283)	70,416	5,133
Deferred tax asset	**49,093**	**85,991**	**135,084**
Tax effect of deductible/(taxable) temporary differences			
Inventories	87,483	(87,483)	-
Trade and other receivables	74,146	(122,763)	(48,617)
Property, plant and equipment	(468,445)	459,260	(9,185)
Investments in associates and jointly controlled entities	(186,061)	(48,982)	(235,043)
Other	6,459	(53,994)	(47,535)
Deferred tax liability	**(486,418)**	**146,038**	**(340,380)**

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.

25 Contingencies and Commitments

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of own estimates and internal and external professional advice the Management is of the opinion that no material losses will be incurred, and, accordingly, no provision has been made in these consolidated financial statements as at 31 December 2015 and 2014, respectively.

Tax contingencies. Tax, currency and customs legislation of the Republic of Azerbaijan are subject to varying interpretations, and changes, which can occur frequently. Management’s interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant tax authorities. As a result, significant additional taxes, penalties and interest may be assessed. Starting from the financial year ended 31 December 2001 fiscal periods remains open to review by the authorities in respect of taxes for three calendar years preceding the year of review. This clause of the Tax Code of the Republic of Azerbaijan is applied prospectively, i.e. does not apply to the financial years prior to 2001. Under certain legislative circumstances 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 and customs positions will be sustained. Accordingly, as at 31 December 2015 no provision for potential tax liabilities had been recorded (31 December 2014: no provision).

Capital expenditure commitments. At 31 December 2015 and 2014 the Group had no contractual capital expenditure commitments in respect of premises and equipment.

Operating lease commitments. As at 31 December 2015 and 2014, the Group had no significant operating lease commitments.

26 Non-Controlling Interest

The following table provides information about each subsidiary that has non-controlling interest that is material to the Group:

	Place of business (and country of incorporation if different)	Proportion of non-controlling interest	Proportion of non-controlling interest’s voting rights held	Profit or loss attributable to non-controlling interest	Accumulated non-controlling interest in the subsidiary
Year ended 31 December 2015					
"AAC" LLC	Azerbaijan Republic	61%	61%	(44,285,473)	(69,149,458)
"Caspian Agro" LLC	Azerbaijan Republic	50%	50%	0	(1,131,571)
"Caspian Coast Winery and Vineyards" LLC	Azerbaijan Republic	50%	50%	(941,384)	(1,320,264)
“Azerbaijan University”	Azerbaijan Republic	10%	10%	7,845	9,831
"Zayamkandmash" OJSC	Azerbaijan Republic	49%	49%	(84,876)	(1,524,595)
"Caspian Development Bank" OJSC	Azerbaijan Republic	0%	0%	8,446	52,619
"Azorchid" LLC	Azerbaijan Republic	30%	30%	21,440	113,671
TOTAL				**(45,274,002)**	**(72,949,767)**
Year ended 31 December 2014					
"AAC" LLC	Azerbaijan Republic	61%	61%	(25,350,968)	(24,311,946)
"Caspian Agro" LLC	Azerbaijan Republic	50%	50%	(738)	(1,131,571)
"Caspian Coast Winery and Vineyards" LLC	Azerbaijan Republic	50%	50%	(4,004,241)	(378,880)
“Azerbaijan University”	Azerbaijan Republic	10%	10%	(34,262)	1,986
"Zayamkandmash" OJSC	Azerbaijan Republic	49%	49%	(862,597)	(1,439,719)
"Azorchid" LLC	Azerbaijan Republic	30%	30%	89,955	92,230
TOTAL				**(30,162,851)**	**(27,167,900)**

26 Non-Controlling Interest (Continued)

The summarised financial information of these subsidiaries was as follows at 31 December 2014:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (loss)	Cash flows
Year ended 31 December 2015							
"AAC" LLC	26,404,141	13,929,508	9,493,639	119,500,412	8,016,257	(72,599,133)	440,047
"Caspian Agro" LLC	2,177	4,645	28,402	-	-	-	-
"Caspian Coast Winery and Vineyards" LLC	5,710,693	333,016	211,965	198,076	351,726	(1,882,767)	(1,371)
“Azerbaijan University”	515,942	884,252	1,062,942	(2,945)	3,795,212	78,448	28,939
"Zayamkand-mash" OJSC	9,607,126	15,938,212	9,799,235	-	3,594,553	(173,216)	59,308
"Azorchid" LLC	111,640,008	14,733,931	16,430,818	51,477,571	5,260,816	8,445,550	15,857,072
"Caspian Development Bank" OJSC	403,475	25,900	13,591	-	172,671	71,467	(57,044)
TOTAL	**154,283,562**	**45,849,464**	**37,040,592**	**171,173,114**	**21,191,235**	**-66,059,651**	**16,326,951**
Year ended 31 December 2014							
"AAC" LLC	10,526,315	15,689,956	1,808,222	60,000,000	5,929,544	(41,558,964)	(167,418)
"Caspian Agro" LLC	2,177	4,645	28,402	-	-	(1,476)	(596)
"Caspian Coast Winery and Vineyards" LLC	5,693,877	278,464	13,591	11,747,772	271,364	(8,008,482)	(65,738)
“Azerbaijan University”	1,000,705	767,275	808,551	99,564	4,160,719	(342,620)	(1,436,876)
"Zayamkand-mash" OJSC	1,615	17,746,069	2,304,342	-	-	(1,760,403)	1,273
"Azorchid" LLC	336,209	30,420	13,591	-	396,346	299,851	(5,157)
TOTAL	**17,560,898**	**34,516,829**	**4,976,699**	**71,847,336**	**10,757,973**	**(51,372,094)**	**(1,674,512)**

27 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group’s sales of products on credit terms and other transactions with counterparties giving rise to financial assets.

27 Financial Risk Management (Continued)

The Group’s maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the statement of financial position as follows:

	31 December 2015	31 December 2014
Loans and advances to customers (Note 11)	83,711,340	-
Cash and cash equivalents (Note 15)	17,459,543	1,598,272
Trade receivables (Note 12)	13,522,525	2,917,170
Total on-balance sheet exposure	**114,693,408**	**4,515,442**
Total maximum exposure to credit risk	**114,693,408**	**4,515,442**

The Group places its cash with a reputable financial institution “Atabank” OJSC, which is an entity under common control. The Group continually monitors the status of the bank where its accounts are maintained. Trade receivables consist primarily of balances with local customers. The Group does not believe that it is exposed to high credit risk as far as the existing debtors are concerned beyond the impairment provision amounts already recognised in the financial statements.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) commodity prices, all of which are exposed to general and specific market movements. The primary objective of mitigating these market risks is to manage and control market risk exposures, while optimizing the return on risk. The Group uses market reports and internal experts to monitor the commodity prices on a regular basis to make decisions over purchase or sale of commodities on a more informed way. The Group is exposed to market price movements relating to changes in commodity prices such as raw materials and finished goods (commodity price risk), foreign currency exchange rates and interest rates that could adversely affect the value of the Group’s financial assets, liabilities and expected future cash flows.

Currency risk. Currency risk arises primarily from future commercial transactions, and recognised assets and liabilities when assets and liabilities are denominated in a currency other than the functional currency.

Substantially all the Group’s sales are domestic and denominated in AZN. In addition to that, significant part of monetary assets and monetary liabilities are denominated in AZN. Therefore the Group’s exposure to foreign currency exchange rates is not significant.

Interest rate risk. The Group does not have financial liabilities with variable interest rates.

Changes in interest rates impact primarily debt by changing their fair value for fixed 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.

Commodity price risk. The Group operates on a competitive market. However, based on the commodity structure of the Group, its market position and the existence of competitors, the management believes that the Group is not exposed to significant risk in relation to changes in commodity prices. Presently, the Group does not use commodity derivative instruments for trading purposes to mitigate any potential price volatility.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources. Liquidity risk is managed by the management of the Group. Management monitors monthly rolling forecasts of the Group’s cash flows.

27 Financial Risk Management (Continued)

The Group seeks to maintain a stable funding base primarily consisting of borrowing and trade and other payables. 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 at the balance sheet 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 at 31 December 2015 is as follows:

	Demand and less than 1 month	From 1 to 12 months	More than 12 months	Total
Liabilities				
Deposits by customers and banks	**43,731,227**	**-**	**-**	**43,731,227**
Borrowings (Note 18)	10,151,144	45,333,883	152,740,219	**208,225,246**
Trade and other payables (Note 19)	53,948,673	6,966,356	-	**60,915,029**
Total future payments	**107,831,044**	**52,300,239**	**152,740,219**	**312,871,502**

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

	Demand and less than 1 month	From 1 to 12 months	More than 12 months	Total
Liabilities				
Borrowings (Note 18)	823,241	11,021,909	163,902,589	175,747,739
Trade and other payables (Note 19)	1,259,914	1,208,850	-	2,468,764
Total future payments	**2,083,155**	**12,230,759**	**163,902,589**	**178,216,503**

28 Management of Capital

The Group considers total capital under management to be comprised of share capital, additional paid-in capital and retained earnings, which are included within equity in the consolidated financial statements. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owner and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group does not have any specific regulatory ratios with respect to capital being managed.

29 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

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, judgement is necessarily required to interpret market data to determine the estimated fair value. Azerbaijan Republic continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

29 Fair Value of Financial Instruments (Continued)

Financial instruments carried at amortised cost. Financial instruments are carried in the statement of financial position at their amortised cost:

	31 December 2015		31 December 2014	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial Assets				
Loans and advances to customers	83,711,340	83,711,340	-	-
Due from banks	8,060,610	8,060,610	-	-
Cash and cash equivalents				
- Cash on hand	4,716,146	4,716,146	58,014	58,014
- Bank balances payable on demand	4,244,616	4,244,616	1,540,258	1,540,258
Cash balances with CBAR (other than mandatory reserve deposits)	8,498,781	8,498,781	-	-
Loans and receivables				
- Trade receivables	13,522,525	13,522,525	2,917,170	2,917,170
Total financial assets carried at amortised cost	**122,754,018**	**122,754,018**	**4,515,442**	**4,515,442**

	31 December 2015		31 December 2014	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial Liabilities				
- Borrowings	163,882,514	163,882,514	139,714,814	139,714,814
- Deposits by customers and Banks	43,731,227	43,731,227	-	-
- Trade payables	60,915,029	60,915,029	2,468,764	2,468,764
Total financial liabilities carried at amortised cost	**268,528,770**	**268,528,770**	**142,183,578**	**142,183,578**

30 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two sub-categories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading. In addition, finance lease receivables represent a separate category.

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2015:

	Loans and receivables
ASSETS	
Loans and advances to customers (Note 12)	83,711,340
Cash and cash equivalents (Note 15)	17,459,543
Trade and other receivables (Note 12)	13,522,525
TOTAL FINANCIAL ASSETS	**114,693,408**

30 Presentation of Financial Instruments by Measurement Category (Continued)

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2014:

	Loans and receivables
ASSETS	
Cash and cash equivalents (Note 15)	1,598,272
Trade and other receivables (Note 12)	2,917,170
TOTAL FINANCIAL ASSETS	**4,515,442**

All of the Group's financial liabilities are carried at amortised cost.