

Caspian Drilling Company LLC

Consolidated financial statements

*For the year ended 31 December 2015
with independent auditors' report*



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Independent Auditors' Report to management of Caspian Drilling Company LLC:

We have audited the accompanying consolidated financial statements of Caspian Drilling Company LLC (the "Company") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Basis for Qualified Opinion

The Company's 5% participating interest in Shemen License, joint operation acquired in 2013, is carried at the amount of the Group's share of joint operation's intangible assets of USD 8,102 thousand as at 31 December 2015 and 31 December 2014. In addition, there were accounts payable and accrued liabilities of USD 3,444 thousand on the balance sheet as at 31 December 2013 due under the existing arrangements under the Shemen License. In accordance with the agreement between the Company and Shemen Oil and Gas Resources Ltd these liabilities were released and respective gain was recognized in other income in 2014. We were unable to obtain sufficient appropriate audit evidence about the intangible assets of the joint operation as at 31 December 2015 and 31 December 2014 and other income for the year ended 31 December 2014 because the Group management was not able



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to provide important supporting information about the financial position and performance of the joint operation. Consequently, we were unable to determine whether any adjustments to the consolidated statement of financial position as at 31 December 2015 and 31 December 2014 and the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2014 were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Holdings (CIS) B.V.

30 June 2016

Caspian Drilling Company LLC

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2015

(All amounts are in thousands of US Dollars)

	Notes	2015	2014
Revenue	5	\$ 628,183	\$ 412,584
Revenue		628,183	412,584
Cost of sales	6	(539,891)	(304,808)
Gross profit		88,292	107,776
General and administrative expenses	7	(12,307)	(19,236)
Other income	8	28,420	9,833
Other expenses		(386)	(1,486)
Operating profit		104,019	96,887
Foreign exchange loss		(1,778)	(491)
Profit before tax		102,241	96,396
Income tax expense	9	(50,753)	(20,876)
Profit for the year		51,488	75,520
Other comprehensive income for the year, net of tax – currency translation differences		3	8
Total comprehensive income for the year, net of tax		\$ 51,491	\$ 75,528

Signed and authorized for release on behalf of management:



Farid Akhundov
General Director



Ziya Hajiyeu
Finance Manager

30 June 2016

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

Caspian Drilling Company LLC
Consolidated statement of financial position

as at 31 December 2015

(All amounts are in thousands of US Dollars)

	Notes	As at 31 December 2015	As at 31 December 2014
Assets			
Non-current assets			
Property, plant and equipment	10	\$ 264,260	\$ 229,744
Intangible assets	11	8,584	8,633
Deposit in bank	14	20,000	–
Prepayments (long-term)	19	–	48,869
Other non-current assets	20	–	126,008
Deferred income tax assets	9	7,244	6,361
		300,088	419,615
Current assets			
Cash and cash equivalents	13	145,408	158,374
Deposit in bank	14	–	20,000
Restricted cash	15	10,000	10,000
Trade and other receivables	16	109,308	49,578
Due from related parties	17	–	17,850
Inventories	18	11,337	8,278
Prepayments (short-term)	19	25,938	46,257
Other current assets	20	79,437	13
		381,428	310,350
Total assets		\$ 681,516	\$ 729,965
Equity and liabilities			
Equity			
Charter capital	21	\$ 285,846	\$ 285,846
Additional paid-in capital		448	448
Retained earnings		182,751	193,983
Cumulative translation differences		11	8
Total equity		469,056	480,285
Non-current liabilities			
Advances received (long-term)	12	–	45,787
Other non-current liabilities	20	–	126,008
		–	171,795
Current liabilities			
Accounts payable and accrued liabilities	22	43,486	25,231
Advances received (short-term)	12	19,348	40,472
Due to related parties	23	35,486	5,730
Other current liabilities	20	79,392	–
Deferred revenue		–	799
Income tax payable	9	34,748	5,653
		212,460	77,885
Total liabilities		212,460	249,680
Total equity and liabilities		\$ 681,516	\$ 729,965

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

Caspian Drilling Company LLC
Consolidated statement of changes in equity
for the year ended 31 December 2015
(All amounts are in thousands of US Dollars)

	Notes	Charter capital	Additional paid-in capital	Retained earnings	Cumulative translation differences	Total equity
As at 1 January 2014		\$ 285,846	\$ 448	\$ 149,114	\$ –	\$ 435,408
Profit for the period		–	–	75,520	–	75,520
Other comprehensive income		–	–	–	8	8
Total comprehensive income		–	–	75,520	8	75,528
Dividends paid	21	–	–	(30,651)	–	(30,651)
As at 31 December 2014		\$ 285,846	\$ 448	\$ 193,983	\$ 8	\$ 480,285
Profit for the period		–	–	51,488	–	51,488
Other comprehensive income		–	–	–	3	3
Total comprehensive income		–	–	51,488	3	51,491
Dividends paid	21	–	–	(62,720)	–	(62,720)
As at 31 December 2015		\$ 285,846	\$ 448	\$ 182,751	\$ 11	\$ 469,056

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

Caspian Drilling Company LLC

Consolidated statement of cash flows

for the year ended 31 December 2015

(All amounts are in thousands of US Dollars)

	Notes	2015	2014
Operating activities			
Profit before tax		\$ 102,241	\$ 96,396
<i>Non-cash adjustments to reconcile profit before tax to net cash flows</i>			
Depreciation and amortization	6, 7	20,297	23,495
Foreign exchange loss		1,655	524
Working capital adjustments			
Increase in trade and other receivables		(59,730)	(20,671)
Decrease/(increase) in prepayments (short-term)		20,319	(41,444)
Decrease in due from related parties		–	3,818
Decrease/(increase) in inventories		(3,059)	1,494
Decrease in other current assets		–	907
Increase/(decrease) in accounts payable and accrued liabilities		16,480	(3,542)
Increase in due to related parties		30,902	3,060
Increase/(decrease) in advances received (short-term)		(21,124)	40,472
Decrease in deferred revenue		(799)	(1,598)
Decrease in prepayments (long-term)		48,869	37,007
Decrease in advances received (long-term)		(45,787)	(37,007)
		110,264	102,911
Income tax paid		(22,540)	(30,173)
Net cash flows from operating activities		87,724	72,738
Investing activities			
Loan provided to the parent	17	(35,477)	(17,850)
Purchase of property, plant and equipment		(54,751)	(6,816)
Purchase of intangible assets		(46)	–
Net cash flows used in investing activities		(90,274)	(24,666)
Financing activities			
Dividends paid	21	(10,539)	(5,156)
Net cash flows used in financing activities		(10,539)	(5,156)
Net increase/(decrease) in cash and cash equivalents		(13,089)	42,916
Effect of foreign exchange (gain)/loss		123	(33)
Cash and cash equivalents as at 1 January	13	158,374	115,491
Cash and cash equivalents as at 31 December	13	\$ 145,408	\$ 158,374

Non-cash transactions performed by the Group during 2015 are represented by settlement of declared dividends with loan receivable from shareholder in the amount of USD 52,181 (2014: USD 25,495).

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