

Caspian Drilling Company LLC

Consolidated financial statements

*For the year ended 31 December 2016
with independent auditor's report*

Independent auditor's report

To the Supervisory Board and Management of Caspian Drilling Company LLC

Qualified opinion

We have audited the 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 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for qualified opinion

The Company's 5% participating interest in Shemen License, joint operation acquired in 2013, has been 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. We were unable to obtain sufficient appropriate audit evidence about the intangible assets of the joint operation as at 31 December 2015 because the Group management was not able to provide supporting information about the financial position and performance of the joint operation. As disclosed in Note 27 to the consolidated financial statements, on 14 February 2016 Shemen License expired. Therefore, the Group derecognized intangible assets related to the joint operation under Shemen License and recognized respective loss in other expenses in the consolidated statement of profit and loss and other comprehensive income for 2016. We were unable to determine whether any adjustments to the intangible assets as at 31 December 2015 and loss from derecognition of intangible assets recognized within other expenses for 2016 were necessary.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of management and the Supervisory Board for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Holdings (CIS) B.V.

31 July 2017

Baku, Azerbaijan

**Consolidated statement of profit or loss and other comprehensive income
for the year ended 31 December 2016**

(All amounts are in thousands of US dollars)

	Notes	2016	2015 restated*	2014 restated*
Revenue	6	\$ 423,102	\$ 500,966	\$ 403,513
Revenue		423,102	500,966	403,513
Cost of sales	7	(260,815)	(420,411)	(297,478)
Gross profit		162,287	80,555	106,035
General and administrative expenses	8	(11,992)	(12,307)	(19,236)
Other income	9	2,029	1,599	9,833
Other expenses	10	(85,790)	(386)	(1,486)
Operating profit		66,534	69,461	95,146
Foreign exchange gain/(loss), net		2,686	(1,778)	(491)
Profit before tax		69,220	67,683	94,655
Income tax expense	11	(24,044)	(43,841)	(20,528)
Profit for the year		45,176	23,842	74,127
Other comprehensive income for the year, net of tax – currency translation differences		–	3	8
Total comprehensive income for the year, net of tax		\$ 45,176	\$ 23,845	\$ 74,135

* Certain amounts shown here do not correspond to the 2015 and 2014 financial statements and reflect restatement adjustments, refer to Note 5.

Signed and authorized for release on behalf of management:


Farid Akhundov
General Director


Ziya Hajiye
Finance Manager

31 July 2017

Consolidated statement of financial position**as at 31 December 2016***(All amounts are in thousands of US dollars)*

	Notes	As at 31 December 2016	As at 31 December 2015 restated*	As at 31 December 2014 restated*	As at 1 January 2014
Assets					
Non-current assets					
Property, plant and equipment	12	\$ 377,502	\$ 391,070	\$ 237,074	\$ 249,444
Intangible assets	13	1,081	8,584	8,633	8,667
Deposit in bank	16	20,000	20,000	-	-
Prepayments (long-term)	21	4,703	18,311	90,637	82,821
Deferred income tax assets	11	68,855	14,504	6,709	4,634
Other non-current assets	22	-	-	126,008	-
		472,141	452,469	469,061	345,566
Current assets					
Cash and cash equivalents	15	146,887	145,408	158,374	115,491
Deposit in bank	16	-	-	20,000	20,000
Restricted cash	17	10,000	10,000	10,000	10,000
Trade and other receivables	18	74,258	67,517	48,436	28,907
Due from related parties	19	10,373	-	17,850	29,313
Inventories	20	10,574	11,337	8,278	9,772
Prepayments (short-term)	21	3,019	7,627	4,489	4,813
Other current assets	22	61,093	79,437	13	920
		316,204	321,326	267,440	219,216
Total assets		\$ 788,345	\$ 773,795	\$ 736,501	\$ 564,782
Equity and liabilities					
Equity					
Charter capital	23	\$ 285,846	\$ 285,846	\$ 285,846	\$ 285,846
Additional paid-in capital		448	448	448	448
Retained earnings		149,869	153,712	192,590	149,114
Cumulative translation differences		11	11	8	-
Total equity		436,174	440,017	478,892	435,408
Non-current liabilities					
Deferred revenue (non-current portion)	6	60,680	5,763	-	799
Advances received (long-term)	25	-	-	45,787	82,794
Other non-current liabilities	22	-	-	126,008	-
		60,680	5,763	171,795	83,593
Current liabilities					
Accounts payable and accrued liabilities	24	25,242	43,486	25,231	28,290
Advances received (short-term)	25	-	115,191	48,401	-
Due to related parties	26	15,091	35,486	5,730	2,670
Deferred revenue	6	145,172	19,712	799	1,598
Income tax payable	11	44,915	34,748	5,653	13,223
Other current liabilities	22	61,071	79,392	-	-
		291,491	328,015	85,814	45,781
Total liabilities		352,171	333,778	257,609	129,374
Total equity and liabilities		\$ 788,345	\$ 773,795	\$ 736,501	\$ 564,782

* Certain amounts shown here do not correspond to the 2015 and 2014 financial statements and reflect restatement adjustments, refer to Note 5.

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

Consolidated statement of changes in equity**for the year ended 31 December 2016***(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 (restated*)		-	-	74,127	-	74,127
Other comprehensive income		-	-	-	8	8
Total comprehensive income		-	-	74,127	8	74,135
Dividends declared	23	-	-	(30,651)	-	(30,651)
As at 31 December 2014 (restated*)		\$ 285,846	\$ 448	\$ 192,590	\$ 8	\$ 478,892
Profit for the period (restated*)		-	-	23,842	-	23,842
Other comprehensive income		-	-	-	3	3
Total comprehensive income		-	-	23,842	3	23,845
Dividends declared	23	-	-	(62,720)	-	(62,720)
As at 31 December 2015 (restated*)		285,846	448	153,712	11	440,017
Profit for the period		-	-	45,176	-	45,176
Total comprehensive income		-	-	45,176	-	45,176
Dividends declared	23	-	-	(49,019)	-	(49,019)
As at 31 December 2016		\$ 285,846	\$ 448	\$ 149,869	\$ 11	\$ 436,174

* Certain amounts shown here do not correspond to the 2015 and 2014 financial statements and reflect restatement adjustments, refer to Note 5.

Consolidated statement of cash flows**for the year ended 31 December 2016***(All amounts are in thousands of US dollars)*

	Notes	2016	2015 restated*	2014 restated*
Operating activities				
Profit before tax		\$ 69,220	\$ 67,683	\$ 94,655
<i>Non-cash adjustments to reconcile profit before tax to net cash flows</i>				
Depreciation and amortization	7, 8	36,796	20,297	23,495
Loss on disposal of property, plant and equipment	12	6	-	-
Impairment of property, plant and equipment	12	77,438	-	-
De-recognition of intangible assets	13	8,102	-	-
Foreign exchange (gain)/loss, net		(7,471)	1,655	524
<i>Working capital adjustments</i>				
Change in trade and other receivables		(6,741)	(19,081)	(19,529)
Change in due from related parties		(373)	-	3,818
Change in prepayments (short-term)		4,608	(3,138)	324
Change in prepayments (long-term)		-	48,869	37,007
Change in inventories		763	(3,059)	1,494
Change in other current assets		-	-	907
Change in accounts payable and accrued liabilities		(9,931)	(1,657)	(4,252)
Change in due to related parties		(3,339)	(1,223)	3,060
Change in advances received (short-term)		(115,191)	66,790	48,401
Change in deferred revenue		125,460	18,913	(1,598)
Change in deferred revenue (non-current portion)		54,917	5,763	-
Change in advances received (long-term)		-	(45,787)	(37,007)
		234,264	156,025	151,299
Income tax paid		(57,879)	(22,540)	(30,173)
Net cash flows from operating activities		176,385	133,485	121,126
Investing activities				
Loan provided to the parent	19	(12,547)	(35,477)	(17,850)
Purchase of property, plant and equipment		(112,323)	(100,512)	(55,204)
Purchase of intangible assets		(709)	(46)	-
Net cash flows used in investing activities		(125,579)	(136,035)	(73,054)
Financing activities				
Dividends paid	23	(46,472)	(10,539)	(5,156)
Net cash flows used in financing activities		(46,472)	(10,539)	(5,156)
Net increase/(decrease) in cash and cash equivalents		4,334	(13,089)	42,916
Net foreign exchange difference		(2,855)	123	(33)
Cash and cash equivalents as at 1 January	15	145,408	158,374	115,491
Cash and cash equivalents as at 31 December	15	\$ 146,887	\$ 145,408	\$ 158,374

* Certain amounts shown here do not correspond to the 2015 and 2014 financial statements and reflect restatement adjustments, refer to Note 5.

Non-cash transactions performed by the Group during 2016 are represented by settlement of declared dividends with loan receivable from shareholder in the amount of USD 2,547 (2015: USD 52,181; 2014: USD 25,495).

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