The State Oil Fund of the Republic of Azerbaijan

International Public Sector Accounting Standards Consolidated Financial Statements and Independent Auditors' Report

31 December 2014

Contents

Independent Auditor's Report

To the Supervisory Board of the State Oil Fund of the Republic of Azerbaijan

We have audited the accompanying consolidated financial statements of the State Oil Fund of the Republic of Azerbaijan and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated statements of financial performance, of changes in net assets/equity and of cash flows, and statement of comparison of budget and actual amounts for the year then ended, and notes comprising 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 Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, 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 audit procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the State Oil Fund of the Republic of Azerbaijan and its subsidiaries as at 31 December 2014, and their financial performance and cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

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19 March 2015

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Consolidated statement of financial position
As at 31 December 2014
(Thousands of Azerbaijani Manats)

	Notes	2014	2013
Assets			
Current assets			
Cash and cash equivalents	5	2,271,131	1,276,341
Financial assets at fair value through surplus or deficit	6	22,320,242	24,548,583
Financial investments held to maturity	7	110,974	313,381
Gold bullion	8	902,144	924,331
Tax receivables other than income tax		9,216	12,982
Current income tax asset		7,522	7,528
Other current assets		1,380	2,744
Total current assets		**25,622,609**	**27,085,890**
Non-current assets			
Financial investments held to maturity	7	2,388,565	428,673
Investment properties	9	805,472	509,107
Property and equipment, net		1,472	8,456
Other non-current and intangible assets		144,459	106,364
Investments in jointly controlled entities	10	319,933	168,966
Total non-current assets		**3,659,901**	**1,221,566**
Total assets		**29,282,510**	**28,307,456**
Liabilities			
Current liabilities		**15,536**	**7,882**
Net assets		**29,266,974**	**28,299,574**
Net assets/Equity			
Contributed capital		30,067,186	27,794,666
Property revaluation reserve		-	3,800
Foreign currency translation reserve		(80,176)	6,817
Accumulated (deficit)/surplus		(720,036)	494,291
Total net assets/equity		**29,266,974**	**28,299,574**

Consolidated statement of financial performance
For the year ended 31 December 2014
(Thousands of Azerbaijani Manats)

	Notes	2014	2013
Interest income and other investment income	13	548,955	491,118
Net (loss)/gain on foreign currency translation differences	14	(1,616,273)	277,995
Net (loss)/gain on financial assets at fair value through surplus or deficit	15	(166,883)	(5,341)
Net loss on revaluation of gold bullion	8	(22,186)	(243,186)
Net fair value gain on revaluation of investment properties	9	46,390	11,465
Other operating income	16	44,440	24,285
Total operating (loss)/gain		**(1,165,557)**	**556,336**
Operating expenses	17	(44,750)	(14,388)
Share of after tax results of jointly controlled entities	10	(296)	(170)
(Deficit)/surplus before income tax expense		**(1,210,603)**	**541,778**
Income tax expense	0	(934)	(1,229)
Net (deficit)/surplus for the year		**(1,211,538)**	**540,549**

Consolidated statement of changes in net assets/equity
For the year ended 31 December 2014
(Thousands of Azerbaijani Manats)

	Notes	Contributed capital	Property revaluation reserve	Foreign currency translation reserve	Accumulated surplus/ (deficit)	Total net assets/ equity
31 December 2012		**26,929,986**	**1,836**	**(185)**	**(46,258)**	**26,885,379**
Contributions received	11	13,119,874	-	-	-	13,119,874
Revaluation of building		-	1,964	-	-	1,964
Net surplus for the year		-	-	-	540,549	540,549
Exchange differences on translation of foreign operations		-	-	7,002	-	7,002
Transfers to the State Budget		(11,350,000)	-	-	-	(11,350,000)
Transfers for construction of "Star" oil refinery complex		(372,590)	-	-	-	(372,590)
Transfers to the State Refugees Committee and Internally Displaced Peoples' Social Development Fund		(299,990)	-	-	-	(299,990)
Transfers for the reconstruction of Samur Absheron Irrigation system		(173,934)	-	-	-	(173,934)
Transfers for the construction of new Baku-Tbilisi-Kars railway line		(25,672)	-	-	-	(25,672)
Transfers for the State Program on "Education of Azerbaijani youth abroad"		(33,008)	-	-	-	(33,008)
31 December 2013		**27,794,666**	**3,800**	**6,817**	**494,291**	**28,299,574**
Contributions received	11	12,343,810	-	-	-	12,343,810
Disposal of building		-	(3,800)	-	(2,789)	(6,589)
Net deficit for the year		-	-	-	(1,211,538)	(1,211,538)
Exchange differences on translation of foreign operations		-	-	(86,993)	-	(86,993)
Transfers to the State Budget		(9,337,000)	-	-	-	(9,337,000)
Transfers for construction of "Star" oil refinery complex		(223,538)	-	-	-	(223,538)
Transfers to the State Refugees Committee and Internally Displaced Peoples' Social Development Fund		(299,998)	-	-	-	(299,998)
Transfers for the reconstruction of Samur Absheron Irrigation system		(80,221)	-	-	-	(80,221)
Transfers for the construction of new Baku-Tbilisi-Kars railway line		(57,040)	-	-	-	(57,040)
Transfers for the State Program on "Education of Azerbaijani youth abroad"		(33,494)	-	-	-	(33,494)
Transfer for the "Southern Gas Corridor"		(39,999)	-	-	-	(39,999)
31 December 2014		**30,067,186**	**-**	**(80,176)**	**(720,036)**	**29,266,974**

Consolidated statement of cash flows
For the year ended 31 December 2014
(Thousands of Azerbaijani Manats)

	Notes	2014	2013
Cash flows from operating activities:			
(Deficit)/surplus before income tax expense		(1,210,603)	541,778
Adjustments to reconcile result to net cash used in operating activities			
Depreciation of property and equipment		138	322
Amortization of intangible assets		56	73
Unrealized loss on change in fair value of financial assets at fair value through surplus or deficit	15	165,039	4,711
Net unrealized loss/(gain) on foreign currency translation differences	14	1,589,105	(305,653)
Net loss on revaluation of gold bullion	8	22,187	243,186
Fair value gain on revaluation of investment properties	9	(46,390)	(11,465)
Share of after tax results of jointly controlled entities	10	296	170
Change in interest accruals		(33,434)	(99,351)
Changes in operating assets and liabilities:			
Increase in financial assets at fair value through surplus or deficit		433,845	(28,049)
Increase in financial investments held to maturity		(1,750,566)	(220,404)
Increase in investment properties		(347,743)	(145,578)
Purchase of gold bullion	8	-	(542,782)
Increase in investment in jointly controlled entities	10	(151,263)	(169,136)
Decrease in tax receivables other than income tax		3,765	4
Decrease/(increase) in other assets		2,527	(1,716)
(Decrease)/increase in current liabilities		(3,238)	3,125
Net cash used in operating activities before income tax		**(1,326,280)**	**(730,765)**
Income taxes paid		-	(1,229)
Net cash used in operating activities after income tax		**(1,326,280)**	**(731,994)**
Cash flows from investing activities:			
Purchase of property and equipment		(292)	(2,329)
Purchase of intangible assets		(63)	(74)
Increase in other non-current assets		(38,088)	(29,246)
Net cash used in investing activities		**(38,443)**	**(31,649)**
Cash flows from financing activities:			
Contributions received	11	12,343,810	13,119,874
Transfers to the State Budget		(9,337,000)	(11,350,000)
Transfers for the reconstruction of Samur-Absheron Irrigation System		(80,221)	(173,934)
Transfers to the State Refugees Committee and Internally Displaced Peoples' Social Development Fund		(299,998)	(299,990)
Transfers for the construction of new Baku-Tbilisi-Kars railway Line		(57,040)	(25,672)
Transfers for State Program on "Education of Azerbaijani youth abroad"		(33,494)	(33,008)
Transfers for construction of "Star" oil refinery complex		(223,538)	(372,590)
Transfer for the "Southern Gas Corridor"		(39,999)	-
Net cash from financing activities		**2,272,520**	**864,680**
Effect of exchange rate changes on cash and cash equivalents		**86,993**	**(7,005)**
Net increase in cash and cash equivalents		**994,791**	**94,032**
Cash and cash equivalents, beginning of the year	5	**1,276,341**	**1,182,309**
Cash and cash equivalents, end of the year	5	**2,271,131**	**1,276,341**
Operating cash flows from interest and dividend received		515,521	391,767

Statement of comparison of budget and actual amounts[1]

For the year ended 31 December 2014

(Thousands of Azerbaijani Manats)

	Annual budgeted amounts		
	Original[2]	**Final[2]**	**Actual amounts on a comparable basis**
Receipts			
Contributions received from sales of profit oil and gas	11,221,286	11,221,286	12,319,847
Income from placement and management of assets[1]	379,581	379,581	387,204
The oil and gas agreements signature or performance bonuses paid by investors to the State Oil Company of the Republic of Azerbaijan or an authorized state body	18,039	18,039	13,344
Income from transit of oil and gas through the territory of the Republic of Azerbaijan	6,276	6,276	8,910
Acreage fees by the foreign investors for use of the contract areas in connection with the development of hydrocarbon resources	1,662	1,662	1,661
Other gains and receipts	100	100	50
Total receipts	**11,626,943**	**11,626,943**	**12,731,016**
Payments			
Transfers to the State Budget	(9,337,000)	(9,337,000)	(9,337,000)
Reconstruction of Samur-Absheron Irrigation System	(80,221)	(80,221)	(80,221)
Transfers to the State Refugees Committee and Internally Displaced Peoples' Social Development Fund	(300,000)	(300,000)	(299,998)
Construction of new Baku-Tbilisi-Kars railway line	(132,311)	(132,311)	(57,040)
Education of Azerbaijani youth abroad	(33,680)	(33,680)	(33,494)
Financing of the construction of high speed fiber optic network providing an access to all settlements of Azerbaijan Republic.	(100,000)	(100,000)	-
Financing of the share of Azerbaijan Republic in the construction project of the Oil-Gas and Petrochemical Consortium (OGPC)	(285,000)	(285,000)	-
Financing of the share of Azerbaijan Republic in the construction of "Star" oil refinery complex	(223,583)	(223,583)	(223,538)
Financing of the share of Azerbaijan Republic in the construction of the TANAP project	(800,000)	-	-
Financing of the share of Azerbaijan Republic in the construction of new drilling rig in the Caspian Sea	-	(40,100)	(39,999)
Expenses for managing the Fund[2]	(58,140)	(58,140)	(45,917)
Total payments	**(11,349,935)**	**(10,590,035)**	**(10,117,207)**
Net receipts	**277,009**	**1,036,909**	**2,613,809**

1 The Statement of comparison of budget and actual amounts only refer to the State Oil Fund of the Republic of Azerbaijan and excludes its subsidiaries.

2 According to the decree #57 of the President of the Republic of Azerbaijan "On Ratifying the Budget of The State Oil Fund of the Republic of Azerbaijan for the year 2014" dated 19 December 2013 and the decree #134 of the President of the Republic of Azerbaijan "On Amendments and changes to the Budget of The State Oil Fund of the Republic of Azerbaijan for 2014" dated 10 April 2014.

Explanation of material differences between the annual original and final budget for which the Fund is held Publicly accountable, and the final annual budget and actual amounts are part of the annual report of the Fund.

(Thousands of Azerbaijani Manats)

1. Principal Activities

The State Oil Fund of the Republic of Azerbaijan ("SOFAZ") was established by Decree #240 of the President of the Republic of Azerbaijan on the "Establishment of The State Oil Fund of the Republic of Azerbaijan" dated 29 December 1999 (the "Decree"). The purpose of SOFAZ is to ensure the accumulation, effective management, and use of income and other inflows generated from agreements related to oil and gas exploration and development, as well as, from SOFAZ's own activities, for the benefit of citizens and future generations of the Republic of Azerbaijan.

In accordance with the Decree and the Regulations (discussed below), SOFAZ is an extra-budget state organization, formed as a separate legal entity, which is accountable and responsible to the President of the Republic of Azerbaijan.

The consolidated financial statements include the financial statements of SOFAZ, its direct and indirect subsidiaries listed in the following table and after tax results of jointly controlled entity (together the "Fund"):

	% interest					
Subsidiary	***2014***	***2013***	***Country***	***Date of establishment***	***Date of acquisition***	***Industry***
SOFAZ Re Ltd.	100	100	Island of Jersey	22-May-12	-	Property management
SOFAZ Re UK L.P.	100	100	Island of Jersey	6-Aug-12	-	Property management
SOFAZ Re Min Ltd.	100	100	Island of Jersey	13-Aug-12	-	Property management
78, St James`s Street Unit Trust	100	100	Island of Jersey	2-Oct-12	-	Property management
JSC Tverskaya 16	100	100	Russian Federation	29-Jun-93	21-Dec-12	Property management
SOFAZ RE Europe Holding Sarl	100	100	Luxembourg	31-Oct-12	-	Property management
SOFAZ RE Europe Sarl	100	100	Luxembourg	31-Oct-12	-	Property management
SCI 8 Place Vendome	100	100	France	14-Nov-12	-	Property management
Pine Avenue Tower A	100	-	South Korea	30-Oct-11	31-Mar-14	Property management

SOFAZ`s subsidiaries are entities which own the investment properties located in United Kingdom, Russia, France and South Korea as described in Note 9.

Contributions into the Fund are made in accordance with the Regulation of the Fund ("Regulation") approved by Presidential Decree #434 dated 29 December 2000 as amended by Presidential Decrees #849 and #202 on "Amending Certain Legislative Acts Regulating the Operations of The State Oil Fund of the Republic of Azerbaijan" dated 7 February 2003 and 1 March 2005, respectively, and Article 2.3 of the "Regulations on Development and Implementation of the Annual Program of Income and Expenses (Budget) of the Fund" approved by Presidential Decree #579 dated 12 September 2001 as amended by Presidential Decrees #849 and #202 mentioned earlier. Pursuant to the Regulations of the Fund, contributions are received from the following sources:

a) Revenues generated from implementing agreements on exploration, development and production sharing for oil and gas fields in the territory of the Republic of Azerbaijan including the Azerbaijan Sector of the Caspian Sea, as well as other agreements on oil and gas exploration, development and transportation entered into between the State Oil Company of the Republic of Azerbaijan ("SOCAR") or other authorized state bodies and investors, including:

   i. Net revenues from the sale of hydrocarbons related to the share of the Republic of Azerbaijan (net of expenditures incurred for hydrocarbons transportation, customs clearance and bank costs, marketing, insurance, and independent surveyor fees) excluding revenues related to the participating interest or investment of SOCAR in a project in which SOCAR is an investor, participant or a contracting party;

   ii. Price adjustment revenues under Shah Deniz Phase I;

   iii. Bonuses paid by investors under the production sharing agreements to SOCAR or an authorized state body in connection with oil and gas agreements;

iv. Acreage payments due to SOCAR and/or an authorized state body of the Republic of Azerbaijan from investors for the use of the contract area in connection with oil and gas exploration and development:

Dividends and profit participation revenues related to the share of the Republic of Azerbaijan in connection with oil and gas agreements, excluding revenues related to a participating interest or investment of SOCAR in a project in which SOCAR is an investor, participant or a contracting party;

v. Revenues generated from oil and gas transported over the territory of the Republic of Azerbaijan with the use of the Baku-Supsa, Baku-Tbilisi-Ceyhan ("BTC") and Baku-Tbilisi-Erzerum export pipelines;

vi. Revenues generated from transfer of assets from investors to SOCAR and/or an authorized state body within the framework of oil and gas agreements.

b) Revenues generated from investment, management, sale and other disposal of the Fund's assets (including financial assets and assets contributed by investors within oil and gas agreements), other non-sale income or revaluation surplus of the Fund's assets in its reporting currency (Azerbaijani manats), etc.;

c) Grants and other free aids;

d) Other revenues and receipts in accordance with the legislation of the Republic of Azerbaijan.

Under the provisions of the Fund's Regulations approved by the President of the Republic of Azerbaijan, SOCAR or an authorized state body implements the collection of the fees and revenues listed above and their transfers to the Fund.

The Regulations exclude the following from the list of sources of the Fund's revenue and assets:

- The rental fees from the use of state property under contracts with foreign companies;
- Revenues from the sale of hydrocarbons related to the participating interest or investment of SOCAR in any project in which SOCAR is an investor, participant or a contracting party; and
- Other revenues generated from joint activities with foreign companies.

In 2014 and 2013, the Fund was a party to a custody agreement with the Bank of New York Mellon, and four (2013: four) investment management agreements with financial institutions with Deutsche Asset Management International GmbH, the International Bank for Reconstruction and Development (IBRD – World Bank Group), State Street Global Advisors (SSGA) and Union Bank of Switzerland (UBS). Under the custody agreements the financial institutions hold securities purchased by the Fund, whereas in accordance with the investment management agreements the financial institutions manage the Fund's investments based on general investment policies established by the Fund.

The Fund's registered and actual office address is 111A, Heyder Aliyev Avenue, Baku, Azerbaijan, AZ1029.

These consolidated financial statements as of and for the year ended 31 December 2014 are authorized for issue by the Fund's Management on 19 March 2015.

2. Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Public Sector Accounting Standards ("IPSAS") issued by the International Public Sector Accounting Standards Board ("IPSASB") of the International Federation of Accountants ("IFAC"). IPSAS are developed by adopting International Financial Reporting Standards ("IFRS") to the public sector context. IFRS comprise standards issued by the International Accounting Standards Board ("IASB"), and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The public sector refers to national governments, regional governments, local governments and related governmental entities. As permitted by IPSAS, the Fund follows the provisions of IFRS pronouncements in the absence of equivalent IPSAS.

(Thousands of Azerbaijani Manats)

These consolidated financial statements have been prepared on the assumption that the Fund is a going concern and will continue in operation for the foreseeable future.

These consolidated financial statements are presented in thousands of Azerbaijani Manats ("AZN"), unless otherwise indicated.

These consolidated financial statements have been prepared under the historical cost convention, except for the measurement at fair value of financial assets at fair value through surplus or deficit, gold bullion, investment properties and buildings.

3. Significant Accounting Policies

Changes in accounting policies

During the year the IPSASB published Conceptual Framework and approved 5 new standards:

IPSAS Board approved the following standards on Interests in Other Entities:
- IPSAS 34 'Separate Financial Statements'.
- IPSAS 35 'Consolidated Financial Statements'.
- IPSAS 36 'Investments in Associates and Joint Ventures'.
- IPSAS 37 'Joint Arrangements'.
- IPSAS 38 'Disclosure of Interests in Other Entities'.

The standards update and replace three existing IPSASs: IPSAS 6 'Consolidated and Separate Financial Statements', IPSAS 7 'Investments in Associates' and IPSAS 8 'Interests in Joint Ventures'. They are effective for annual financial statements covering periods beginning on or after 1 January 2017 and the Fund is currently assessing the impact of the news standards on its future financial statements.

These new standards have many similarities with their IFRS equivalents. They are part of the IPSASB's strategy to converge IPSAS, to the extent appropriate, with IFRS. The new standards however also address the implications of public sector differences. For example, IPSAS 35 acknowledges that control in the public sector often arises from rights other than traditional voting rights from shareholdings, i.e. rights conferred by binding arrangements (administrative or contractual arrangements, founding documents, rights conferred by a legislative or executive authority, etc.). It also provides guidance on and examples of such situations.

Basis of consolidation

Subsidiaries, which are those entities in which the Fund has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Fund and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Fund.

For subsidiaries acquired and treated as an asset acquisition, no deferred tax is recognized by the Fund in respect of the asset i.e. property at the time of acquisition.

If the Fund loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in statement of financial performance and reclassifies the parent's share of components previously recognized in equity to statement of financial performance.

(Thousands of Azerbaijani Manats)

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 Fund jointly controls with its fellow venturers.

The results, assets and liabilities of a jointly controlled entity are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, the investment in a jointly controlled entity is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Fund's share of net assets of the jointly controlled entity, less distributions received and less any impairment in value of the investment. The consolidated statement of financial performance of the Fund reflects the Fund's share of after tax results of the jointly controlled entity. The consolidated statement of changes in net assets/equity reflects the Fund's share of any income and expense recognised by the jointly controlled entity outside surplus and deficit.

Financial statements of jointly controlled entities are prepared for the same reporting period as the Fund. Where necessary, adjustments are made to those financial statements to bring the accounting policies used into line with those of the Fund.

The Fund 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.

Recognition and measurement of financial instruments
The Fund recognizes financial assets and liabilities on its statement of financial position when it becomes a party to the contractual obligations of the instrument. A purchase or sale of financial assets is recognized using trade date accounting (Resolution #32 dated 13 June 2007 issued by the Supervisory Board of The State Oil Fund of the Republic of Azerbaijan). The trade date is the date on which the Fund commits to purchase or sell an asset.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Derecognition of financial assets and liabilities
Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

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

(Thousands of Azerbaijani Manats)

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Fund either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Fund reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains in the statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Fund assesses whether or not is has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Fund has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with original maturity of three months, and short-term, highly liquid investments i.e. money market funds, readily convertible to known amounts of cash and subject to low risk of changes in value, with an original maturity of three months or less. Cash on hand, cash in banks and deposits are carried at cost plus interest, if any.

Financial assets at fair value through surplus or deficit

Financial assets at fair value through surplus or deficit comprise equity and debt securities, and are classified as held for trading. A financial asset is classified as held for trading if it is:

a) Acquired principally for the purpose of selling or repurchasing it in the near term;
b) On initial recognition part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking;
c) A derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

A financial asset other than a financial asset held for trading may be designated at fair value through surplus or deficit upon initial recognition if:

d) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or recognizing the gains and losses on them on different bases; or
e) The financial asset forms part of a group of financial assets or liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Fund's documented risk management or investment strategy, and information about the grouping is provided internally on that basis the entity's key management personnel.

Financial assets at fair value through surplus or deficit are initially recorded and subsequently measured at fair value. The Fund uses quoted market prices and valuation model to determine fair value for financial assets at fair value through surplus or deficit. The fair value adjustment on financial assets at fair value through surplus or deficit is recognized in the statement of financial performance for the period as part of net gain or loss on financial assets at fair value through surplus or deficit. The Fund does not reclassify financial instruments in or out of this category while they are held.

(Thousands of Azerbaijani Manats)

Financial investments held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Fund has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in this classification. Held to maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in the statement of financial performance for the period when the investments are impaired, as well as through the amortization process.

Gold bullion

The Fund is involved in purchase of gold bullion for investment purposes with the intention of diversification of the investment portfolio with the ability to sell the gold in the future. The gold bullion is initially recognized and subsequently measured at fair value, and classified at fair value through surplus or deficit as part of current assets.

Investment properties

Investment properties are properties intended to earn rentals, or for capital appreciation, or both. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of existing investment properties at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of investment properties. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of financial performance in the period in which they arise. Fair values are evaluated annually by an accredited external, independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statement of financial performance in the period of derecognition.

Transfers are made to or from investment properties only when there is a change in use. For a transfer from investment properties to owner-occupied properties, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied properties become investment properties, the Fund accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Property and equipment

The Fund's property and equipment are tangible assets held for administrative purposes with an expected useful life of more than one accounting period.

Depreciation is charged on the carrying value of property and equipment and is designed to write off assets over their useful economic lives. Depreciation is calculated on a straight line basis at the following estimated useful lives:

	Years
Buildings	50
Vehicles	7
Office equipment	4
Furniture	5
Other property and equipment	3

The carrying amounts of property and equipment other than buildings are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount, impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the asset's revised carrying value, less its residual value (if any), on a systematic basis over its remaining useful life.

A building held for administrative purposes is stated in the statement of the financial position at its revalued amount, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to surplus or deficit for the period to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the property revaluation reserve relating to a previous revaluation of that asset.

Market value of property is assessed using any of the following three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The costs method which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over their useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with definite useful lives are reviewed at least at each financial year-end.

Taxation
Income tax expense comprises current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit before tax as reported in the statement of the financial performance as it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Fund’s current tax expense is calculated using tax rates that have been enacted during the reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited to surplus or deficit, except when it relates to items charged or credited directly to the net assets/equity, in which case the deferred tax is also dealt with the net assets/equity.

(Thousands of Azerbaijani Manats)

No deferred tax is recognized and the initial recognition exception applies if the temporary difference arises from the initial recognition of an asset or liability in a transaction that:
(a) is not a business combination; and
(b) at the time of the transaction, affects neither accounting surplus nor taxable surplus (tax loss).

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the statement of financial position if:

- The Fund has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

The Republic of Azerbaijan also has various other taxes, which are assessed on the Fund's activities. These taxes are included as a component of operating expenses in the statement of financial performance.

Contingencies

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

Net assets/Equity

As discussed in Note 1, in accordance with the Decrees and the Regulations, the Fund is an extra-budget state organization. All decisions regarding contributions to and transfers from the Fund are made based on the Decrees approved by the President of the Republic of Azerbaijan. Contributions/transfers received/made by the Fund represent contributions/withdrawals and, accordingly, are recognized through net assets/equity at the fair value of the consideration received/paid.

Transfers to the State Budget, as well as state institutions, state-owned entities and companies are recognized on the date of payment. All transfers are made within the approved budget of the Fund and transferred to the State Treasury of the Republic of Azerbaijan for payments to eligible budgetary beneficiaries (state institutions, state-owned entities and companies) based on their requests for payments.

Recognition of income and expense

Interest income is recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

Dividend income from financial assets at fair value through surplus or deficit is recognized in the statement of financial performance when the Fund's right to receive payment is established.

Other operating income including rental income is recognized on accruals basis, i.e. when these are earned.

Once a financial asset or a group of similar financial assets has been written down (or partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income.

Expenses are recognized on accrual basis, i.e. when they are incurred.

(Thousands of Azerbaijani Manats)

Foreign currency translation

The consolidated financial statements are presented in AZN, which is the Fund's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from the translation of foreign currency transactions are recognized in the consolidated statement of performance as foreign currency translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies.

As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Fund are translated into AZN at the rate of exchange ruling at the reporting date and, their statements of financial performance are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to the separate component of net assets/equity. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Fund, the deferred cumulative amount is recognized in surplus or deficit in the consolidated statement of financial performance.

Rates of exchange

The exchange rates used by the Fund in the preparation of the financial statements as at year-end are as follows:

	2014	**2013**
AZN/1 US Dollar	0.7844	0.7845
AZN/1 Euro	0.9522	1.0780
AZN/1 GB Pound	1.2173	1.2927
AZN/1 Russian Ruble	0.0133	0.0241
AZN/100 Korean (South) Won	0.0714	0.0743

Offset of financial assets and liabilities

Financial assets and liabilities are offset and reported net on the statement of financial position when the Fund has a legally enforceable right to set off the recognized amounts and the Fund intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Fund does not offset the transferred asset and the associated liability.

4. Significant Judgments and Estimates

The preparation of the Fund's consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the year ended. Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important in reflecting the Fund's financial condition and financial performance.

(Thousands of Azerbaijani Manats)

Accounting for Cash Inflows and Outflows

As described in Note 1, the Fund receives cash inflows from revenues generated from various oil and gas activities carried out in the Republic of Azerbaijan. These cash inflows are made according to certain decrees of the President of the Republic of Azerbaijan. Cash outflows for major projects and contributions to the State budget are also made according to decrees of the President of the Republic of Azerbaijan. SOFAZ believes these inflows and outflows of funds represent contributed capital and withdrawals of capital, respectively. Accordingly, SOFAZ recognises them as movements in equity in the consolidated statement of changes in net assets/equity. A strict interpretation of IPSAS would result in such cash inflows and outflows being accounted for as non-exchange transactions and require them to be recognised through the consolidated statement of financial performance. However, SOFAZ management believes that its accounting for the cash inflows and outflows fairly present the transactions and their substance, is consistent with the accounting practices of other sovereign wealth funds with similar characteristics applying International Financial Reporting Standards and separates the performance of Management in managing the Fund from the net impact of the inflows and outflows of capital which are outside of its control. Moreover, selection of either of the above two accounting methods does not change the Fund's financial position.

Valuation of financial instruments

Financial instruments that are classified at fair value through surplus or deficit are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty.

Where market-based valuation parameters are absent, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgment, a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the statement of financial performance on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Fund considers that the accounting estimates related to valuation of financial instruments where quoted markets prices are not available are a key source of estimating uncertainty because: (i) they are highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets reported in the statement of financial position as well as its surplus/(deficit) could be material.

Had management used different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available would have resulted that could have had a material impact on the Fund's reported net surplus.

Impairment of investments held to maturity

The Fund holds investments in companies, including those that do not trade in an active market. Future adverse changes in market conditions or poor operating results could result in losses that may not be reflected in an investment's current carrying value, thereby requiring an impairment charge in the future. The Fund regularly reviews its investments to determine if there have been any indicators that the value may be impaired. These reviews require estimating the outcome of future events and determining whether factors exist that indicate impairment has occurred.

(Thousands of Azerbaijani Manats)

Measurement of fair value of investment properties and property and equipment (building)

Fair value of investment properties as well as at the property and equipment (building) is determined by independent professionally qualified appraisers. Fair value is determined using the combination of internal capitalization method (also known as discounted future cash flow method), sales comparison method and also based on the highest and best use method.

The estimates described above are subject to change as new transaction data and market evidence becomes available.

5. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	2014	2013
Deposits	1,019,569	841,559
Money market funds	816,305	84,012
Bank accounts	435,256	350,770
Cash on hand	1	-
Total cash and cash equivalents	**2,271,131**	**1,276,341**

Money market funds

Investments in money market funds represent share ownership in funds, payable on demand. Investments in money market funds are highly liquid. Money market funds invest their assets in short-term debt and debt related instruments, such as commercial paper, certificates of deposit, bonds bearing floating interests, US treasury bonds, Eurobonds and asset-backed securities. Interest and dividends payable to the Fund are reinvested.

The Fund had the following investments in the money market funds with AAA credit ratings:

	2014	2013
BNP Paribas Global Liquidity Funds plc	266,204	-
BlackRock ICS-Institution Liquidity Funds plc	550,101	84,012
Total money market funds	**816,305**	**84,012**

Bank accounts

Bank accounts were denominated in the following currencies:

	2014	2013
USD + MSCI index*	93,770	173,131
AZN	319,993	169,564
RUB	4,714	776
AUD	73	83
EUR	502	3,924
GBP	5,640	3,284
TRY	1	8
KWR	10,564	-
Total bank accounts	**435,256**	**350,770**

* MSCI index includes developed world markets and consists of the following currencies: USD, EUR, GBP, AUD, CAD, CHF, DKK, HKD, ILS, JPY, NOK, NZD, SEK and SGD. These currencies are held in portfolios managed by external managers UBS and SSGA and amounted AZN 1,632 thousand (2013: AZN 1,917 thousand).

The Fund holds AZN accounts with the Central Bank of the Republic of Azerbaijan and the International Bank of Azerbaijan. At 31 December 2014 the Fund had AZN 319,951 thousand and AZN 42 thousand, held at bank accounts in the Central Bank of the Republic of Azerbaijan and the International Bank of Azerbaijan (2013: AZN 169,534 thousand and AZN 30 thousand), respectively.

Other accounts originated in foreign currencies were opened with non-resident banks with long-term ratings BB/Ba3 (Standard & Poor's/ Fitch/Moody's) and above.

(Thousands of Azerbaijani Manats)

Deposits
The Fund's investments in deposits comprise:

	2014	2013
Turkiye Is Bankasi A.S. Istanbul	355,036	313,009
T.C. Ziraat Bankasi A.S.	309,158	131,238
Akbank T.A.S, Istanbul	263,286	109,338
Turkiye Garanti Bankasi AS	84,243	209,095
Bank IBA Moscow	7,846	-
Gazprombank, Moscow	-	78,817
VTB Bank JSC	-	49
BNP Paribas, London	-	13
Total deposits	**1,019,569**	**841,559**

As at 31 December 2014, the Fund placed AZN 1,019,569 thousand in deposits with non-resident banks maturing in January and March 2015 with credit ratings of BB/Ba3 (Standard & Poor's/ Fitch/Moody's) and above.

6. Financial Assets at Fair Value through Surplus or Deficit

Financial assets at fair value through surplus or deficit comprise:

	2014	2013
Corporate debt securities	8,404,616	8,335,808
Financial institution debt securities	7,018,026	6,148,773
Foreign government debt securities	5,338,809	8,918,059
Equity securities	1,545,175	1,130,519
Standard and Poor's Depository Receipt ("SPDR") Trust	13,616	12,226
Securities of USA agencies	-	3,198
Total financial assets at fair value through surplus or deficit	**22,320,242**	**24,548,583**

As at 31 December 2014 the Fund held AZN 1,293,510 thousand (USD 1,649,043 thousand) under asset management agreements with financial institutions ("external managers") including cash and cash equivalents (2013: AZN 869,884 thousand (USD 1,108,839 thousand)). The management fees in 2014 to these institutions were AZN 651 thousand (2013: AZN 669 thousand). During 2014 and 2013 the Fund's external managers were Deutsche Bank AG, the International Bank for Reconstruction and Development (IBRD – World Bank Group), State Street Global Advisors (SSGA) and UBS.

Foreign government debt securities
Foreign government securities are represented by investments in debt securities issued by various sovereign and international organizations of Europe, Asia, Africa, Australia and America. These securities bear fixed interest ranging from 0.25% p.a. to 9.875% p.a. and USD LIBOR, EURIBOR, GBP LIBOR with the spread ranging from +0.01% p.a. to +1.2% p.a. (2013: 0.125% p.a. to 9.875% p.a. and USD LIBOR, EURIBOR, GBP LIBOR with the spread ranging from +0% p.a. to +1.2% p.a.) and mature during the period from January 2015 to November 2019 (2013: January 2014 to November 2018). As at 31 December 2014 total accrued interest on these securities amounted AZN 26,190 thousand (2013: AZN 43,907 thousand). These securities were held in the portfolio managed both directly by the Fund as well as the Fund's external managers, Deutsche Bank AG and IBRD.

(Thousands of Azerbaijani Manats)

Corporate debt securities

Corporate debt securities are represented by investments in debt securities issued by corporations of Europe, Asia, Africa, Australia and America. These securities bear fixed interest ranging from 0.45% p.a. to 8.75% p.a. and USD LIBOR and EURIBOR with the spread ranging from +0.20% p.a. to +1.75% p.a. (2013: 0.45% p.a. to 9.875% p.a. and USD LIBOR and EURIBOR with the spread ranging from +0.20% p.a. to +0.95% p.a.) and mature during the period from January 2015 to November 2020 (2013: January 2014 to June 2017). Discount securities are also included in this group. As at 31 December 2014 total accrued interest on these securities amounted AZN 112,333 thousand (2013: AZN 147,429 thousand). These securities were held in the portfolio managed both directly by the Fund as well as the Fund's external manager Deutsche Bank AG.

Financial institution debt securities

Financial institution securities are represented by investments in debt securities issued by various European, Asian, Australian and American financial institutions. These securities bear fixed interest ranging from 0.80% p.a. to 7% p.a. and USD LIBOR, GBP LIBOR, EURIBOR and Australian Bank Bill Short Term Rate with the spread ranging from +0.19% p.a. to +1.28% p.a. (2013: 0.80% p.a. to 7.375% p.a. and USD LIBOR, GBP LIBOR, EURIBOR and Australian Bank Bill Short Term Rate with the spread ranging from +0.14% p.a. to +2.5% p.a.) and mature during the period from January 2015 to January 2020 (2013: January 2014 to August 2017). Discount securities are also included in this group. As at 31 December 2014 total accrued interest on these securities amounted AZN 31,537 thousand (2013: AZN 18,906 thousand). These securities were held in the portfolio managed both directly by the Fund as well as the Fund's external managers, Deutsche Bank AG and IBRD.

Equity securities

The carrying value of equity securities consists of the following at 31 December:

	2014	2013
Finance	567,027	584,129
Consumer	243,836	135,119
Telecommunication and information technologies	197,538	98,881
Industrial	124,600	71,630
Healthcare	139,783	68,549
Private equity	93,495	61,361
Energy	88,176	57,672
Materials	54,460	34,654
Utilities	35,886	18,524
Transportation	374	-
Total equity securities	**1,545,175**	**1,130,519**

SPDR Trust

In its internally managed portfolio SOFAZ invests in S&P 500 stock index incorporated in the United States via SPDR Trust. S&P 500 index consists of a portfolio representing 500 large-cap stocks such as Apple Inc, Exxon Mobil Corp, Microsoft Corp, Johnson & Johnson, Berkshire Hathaway Inc, Wells Fargo & Co, General Electric, Procter & Gamble, JPMorgan Chase & Co, and Pfizer Inc. The main sectors are IT, Health Care, Consumer and Financials.

(Thousands of Azerbaijani Manats)

7. Financial Investments Held To Maturity

Financial investments held to maturity comprise:

	2014	**2013**
Current portion of Financial investments held to maturity	110,974	313,381
Non-current portion of Financial investments held to maturity	2,388,565	428,673
	2,499,539	**742,054**

These are comprised of corporate bonds of:

	2014	**2013**
JSC Cenub Qaz Dehlizi (Southern Gas Corridor)	1,987,120	-
Azerbaijan (ACG) Ltd (AzACG Ltd)	300,939	328,489
Mercury Investments and Holdings Ltd.	211,480	413,565
	2,499,539	**742,054**

On 1 May 2014, 23 July 2014, 25 September 2014 and 28 November 2014 the Fund purchased bonds of Southern Gas Corridor at face values of USD 917,321 thousand, USD 1,246,355 thousand, USD 101,120 thousand and USD 252,200 thousand respectively. As of 31 December 2014 the carrying amount of these bonds equaled AZN 726,005 thousand, AZN 983,445 thousand, AZN 79,603 thousand and AZN 198,067 thousand respectively. The maturity dates of these bonds are 1 May 2024, 23 July 2024, 25 September 2024 and 28 November 2024 and coupons are 6-month USD LIBOR +1%.

On 28 February 2014 the Fund purchased bonds of Mercury Investments and Holdings Ltd. (which is a 100% owned subsidiary of the State Oil Company of Azerbaijan Republic) at face values of USD 69,492 thousand. As of 31 December 2014 the carrying amount of these bonds equaled to AZN 54,600 thousand (2013: AZN 252,977 thousand). The maturity date of the bonds is 1 March 2015 and the coupon rate is 2% p.a.

On 26 September 2012 the Fund purchased bonds of Mercury Investments and Holdings Ltd. at face value of USD 200,000 thousand. As of 31 December 2014 the carrying amount of these bonds equaled to AZN 156,880 thousand (2013: AZN 160,588 thousand). The maturity date of the bonds is 31 December 2027 and the coupon rate is 6-month USD LIBOR + 1.335%. The purchase was made in accordance with the decree #519 of the President of Azerbaijan Republic dated 27 October 2011 on “Rules on management of foreign currency assets of the State Oil Fund of the Republic of Azerbaijan”. Main aim of the bond issuance is to improve and reconstruct the Ship Construction Plant of the Republic of Azerbaijan.

On 5 July 2011 the Fund purchased bonds of AzACG Ltd. (which is a 100% owned subsidiary of State Oil Company of Azerbaijan Republic) at face value of USD 485,000 thousand. The purchase of the bonds was made under the framework of the “The framework (program) of the main directions of utilization of Oil Fund’s assets for 2011” approved by the Decree of the President of the Republic of Azerbaijan dated 28 December 2010. According to the program SOFAZ may invest in the securities of oil and gas companies operating in the Caspian Sea basin. The issuer of these securities or its parent company should have a long-term investment grade credit rating. As of 31 December 2014 the carrying amount of these bonds equaled to AZN 300,939 thousand (2013: AZN 328,489 thousand). The maturity date of the bonds is 31 December 2024 and the coupon rate is 6-month USD LIBOR + 1%. Annual principal repayment for the bonds is AZN 27,174 thousand (USD 34,643 thousand).

The custodian service for holding securities is provided by the National Depository Center of the Republic of Azerbaijan. The management of the Fund has intention and ability to hold the bonds until the scheduled maturity date for the purpose of earning of interest income over the holding period.

(Thousands of Azerbaijani Manats)

8. Gold Bullion

In accordance with the "Rules on Holding, Placement and Management of Foreign Assets of The State Oil Fund of the Republic of Azerbaijan" approved by Decree #511 of the President of the Republic of Azerbaijan dated 19 June 2001 as amended by Decrees #607 dated 21 December 2001, #202 dated 1 March 2005, #216 dated 10 February 2010 and #519 dated 27 October 2011, gold bars conforming to the requirements of the London Bullion Market Association may be included in the Investment Portfolio of the Fund.

As of 31 December 2014 there was no gold bullion deposited in foreign banks (2013: 325,000 fine troy ounces, AZN 309,652 thousand).

Movements of gold bullion:

	2014	2013
Opening balance at 1 January	**924,331**	**624,735**
Total purchase during the year	-	542,782
Net loss on revaluation of gold bullion	(22,187)	(243,186)
Closing balance at 31 December	**902,144**	**924,331**

9. Investment Properties

Movement of investment properties:

	2014	2013
Opening balance at 1 January	**509,107**	**338,057**
Purchase of "Pine Avenue Tower A" office complex	351,443	-
Purchase of "8 Place Vendome" complex	-	145,578
Fair value gains less losses	46,390	11,465
Effect of translation to presentation currency	(101,468)	14,007
Closing balance at 31 December	**805,472**	**509,107**

Investment properties consist of "Gallery Actor", mixed-use office and retail complex located in Moscow central business district at 16 Tverskaya Street, "78 St James's Street" an office complex in London, "8 Place Vendome" office, retail and residential building located in Paris and "Pine Avenue Tower A" office complex located in Seoul, South Korea. All properties are leased out on a commercial basis.

	2014	2013
Rental income derived from investment properties	36,187	23,909
Direct operating expenses	(11,091)	(4,632)
Net operating income arising from investment properties carried at fair value	**25,096**	**19,277**

Detailed disclosure on fair value increase of investment properties:

Investment property	**Fair value 2014**	**Change in fair value**	**Effect of translation to presentation currency**	**Fair value 2013***
"Gallery Actor", Tverskaya 16, Moscow	75,544	27,538	(57,090)	105,096
"St James Street" UT, London	235,365	1,745	(14,578)	248,198
"SCI 8 Palace Vendome", Paris	150,487	13,828	(19,153)	155,812
"Pine Avenue Tower A", Seoul	344,076	3,279	(10,645)	351,443

*Fair value of "Pine Avenue Tower A", Seoul presented as of 31st of March 2014, the date of its acquisition.

Establishment of SCI 8 Place Vendome

On 19 March 2013, the Fund acquired via a special purpose vehicle, a mixed use office and retail complex SCI 8 Place Vendome located on Place Vendome 8, Paris, France from AXA Real Estate for EUR 135,000 thousand. SCI 8 Place Vendome is an indirect subsidiary of the Fund incorporated in France as a civil partnership with share capital of EUR 1,000 having its registered office in Paris, 6 place de Madeleine. SCI 8 Place Vendome is held by the Fund via two Luxembourg holding companies (the Luxcos): SOFAZ RE Europe Holding S.a.r.l. - a private limited company with a share capital of EUR 12,500 having its registered office in Luxembourg which is 100% held by the Fund and holds 0.1% of SCI 8 Place Vendome and SOFAZ RE Europe S.a.r.l. - a private limited company with a share capital of EUR 12,500 having its registered office in Luxembourg which is 100% held by SOFAZ RE Europe Holding S.a.r.l. and holding 99.9% of SCI 8 Place Vendome. During 2014, SCI 8 Place Vendome has contributed AZN 5,276 thousand (2013: AZN 3,533 thousand) of rental income and AZN 18,571 thousand profit (2013: AZN 4,651 thousand) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value increase of AZN 13,828 thousand (2013: AZN 1,424 thousand)).

Acquisition of JSC Tverskaya 16

On 21 December 2012, the Fund acquired 100% of voting shares of JSC Tverskaya 16. Its main activity is management of business and retail centre called “Gallery Actor” located in the Central Administrative District of Moscow, Russia. During 2014, JSC Tverskaya 16 contributed AZN 6,638 thousand (2013: AZN 8,524 thousand) of rental income and AZN 31,003 thousand profit (2013: AZN 6,228 thousand) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value increase of AZN 27,538 thousand (2013: AZN 1,967 thousand)). The acquisition was accounted for as an asset acquisition.

Establishment of 78 St James’s Street Unit Trust (the “Unit Trust”)

The Unit Trust was established by the Fund on 22 November 2012 under the provision of the Trust Instrument. SOFAZ Re Limited in its capacity as general partner of the SOFAZ RE UK L.P. has a 99% holding of the Unit Trust. SOFAZ Re Min Limited has a 1% holding of the Unit Trust. SOFAZ Re Limited, SOFAZ Re UK L.P. and SOFAZ RE Min Limited are ultimately owned by the State Oil Fund of Azerbaijan. The Unit Trust invests in real estate located in the United Kingdom and owns the office complex “78 St James’s Street”. The Unit Trust is established, resident and domiciled in Jersey, Channel Islands During 2014, the Unit Trust has contributed AZN 12,474 thousand (2013: AZN 11,852 thousand) of rental income and AZN 12,442 thousand profit (2013: AZN 18,241 thousand) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value increase of AZN 1,745 thousand (2013: AZN 8,074 thousand)). The Fund has no restrictions on the realizability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Acquisition of “Pine Avenue Tower A” office complex

On 31 March 2014 SOFAZ finalised the acquisition of prime office complex, Pine Avenue Tower A in Seoul, South Korea via acquisition of 100% interest in Beneficiary Certificates (“BCs”) in Real Estate Fund from Mirae Asset Management for KRW 469,007 million (AZN 346,250 thousand). SOFAZ’s team consisted of Cushman & Wakefield as commercial, Shin & Kim as legal, Kyobo as technical and KPMG as taxation advisers.

Pine Avenue Tower A was built in 2011 and is one of the very few trophy assets recently completed in the Seoul CBD area. The purchase of the property has been realized through a competitive auction process organized by Mirae Asset Management on behalf of the four owners (NongHyup Bank, NongHyup Life insurance, Woori Bank and KDB Life Insurance). The gross floor area (GFA) of the property is approximately 65,000 m2. The asset is solely leased to S&K Group, one of the largest conglomerates of South Korea. Since acquisition, “Pine Avenue Tower A” has contributed AZN 11,799 thousand of rental income and AZN 3,693 thousand loss to the net profit/(loss) before tax of the Fund (Net loss figure includes fair value increase of AZN 3,279 thousand (2013: nil)).

(Thousands of Azerbaijani Manats)

As at 31 December 2014 investment properties are stated at fair value, which has been determined based on valuations performed by professional valuation companies, the accredited independent appraisers. The appraiser is an industry specialist in valuing these types of investment properties. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The fair values of the properties have been primarily derived using prices for comparable properties, market information, discounted cash flow method (income approach) and the expert opinion of independent accredited valuators who have advised on current market levels.

10. Investments in Jointly Controlled Entities

The table below summarises the movements in the carrying amount of the Fund's investments in jointly controlled entities.

	2014	2013
Carrying amount at 1 January	**168,966**	**-**
Additions to investments in jointly controlled entities	151,263	169,136
Share of after tax results of jointly controlled entities	(296)	(170)
Carrying amount at 31 December	**319,933**	**168,966**

On 21 June 2013, Caspian Drilling Company (90% share) and State Oil Company of Azerbaijan Republic (10% share) jointly established "SOCAR Rig Assets" LLC with the share capital of AZN 1000 (100 shares, nominal value of AZN 10 for each share). The main activity of the entity is financing the construction of a new sixth generation semi-submersible drilling rig for operations in the Caspian Sea through funding from the shareholders' proportion of their respective shares. On 5 July 2013, State Oil Fund of the Republic of Azerbaijan acquired all of the shares of Caspian Drilling Company for their nominal value. "SOCAR Rig Assets" LLC did not have any operations prior to acquisition by the Fund. After acquisition "SOCAR Rig Assets" LLC was renamed "Azerbaijan Rigs" LLC. The Fund has contributed additional paid-in capital of AZN 320,399 thousand (2014: AZN 151,263; 2013: AZN 169,136) directly to the entity since the acquisition date. All strategic financial and operating decisions relating to the activity of the acquiree require the unanimous consent of both shareholding parties. The results of this jointly controlled entity are incorporated in these consolidated financial statements using the equity method of accounting.

At 31 December 2014, the Fund's interests in its jointly controlled entity and its summarised aggregate financial information, including total assets, liabilities, revenues and surplus or deficit, were as follows:

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Expenses	Surplus/ (deficit)	% interest held	Country of incorporation
"Azerbaijan Rigs" LLC	46,863	306,394	(375)	-	-	(329)	(329)	90%	Azerbaijan
Total	**46,863**	**306,394**	**(375)**	**-**	**-**	**(329)**	**(329)**		

(Thousands of Azerbaijani Manats)

11. Capital Contributions

The movements in capital contributions to the Fund were as follows:

	2014	2013
Contributions received from sales of oil and gas	12,319,849	13,108,016
Bonuses	13,345	1,850
Pipeline transit tariffs	8,911	8,064
Acreage fees	1,662	1,832
Other	43	112
Total capital contributions	**12,343,810**	**13,119,874**

12. Transfers by the Fund

During 2014 transfers to the State Budget, as well as to the state institutions, state-owned entities and companies were made in accordance with:

- Decree #57 of the President of the Republic of Azerbaijan "On Ratifying the Budget of The State Oil Fund of the Republic of Azerbaijan for the year 2014" dated 19 December 2013, "Program on main directions of management of the funds of The State Oil Fund of the Republic of Azerbaijan for 2014 and;
- Decree of the President of the Republic of Azerbaijan #134 "On Amendments and changes to the Budget of The State Oil Fund of the Republic of Azerbaijan for 2014" dated 10 April 2014.

13. Interest Income and Other Investment Income

	2014	2013
Interest income on financial assets at fair value through surplus or deficit	442,306	415,208
Interest income on assets carried at amortized cost:		
Interest on term deposits	53,312	50,656
Income from financial investments held to maturity	24,402	9,635
Income from money market funds	1,544	1,557
Interest on demand deposits	54	66
Other investment income		
Dividend income	27,337	13,996
Total interest income	**548,955**	**491,118**

14. Foreign Currency Translation Differences

Net foreign currency translation differences comprise of:

	2014	2013
Net unrealized (loss)/gain on foreign currency translation differences	(1,589,105)	305,653
Net realized loss on foreign currency translation differences	(27,168)	(27,658)
Total net (loss)/gain on foreign currency translation differences	**(1,616,273)**	**277,995**

15. Net (Loss)/Gain on Financial Assets at Fair Value through Surplus or Deficit

Net (loss)/gain on financial assets at fair value through surplus or deficit comprises:

	2014	2013
Unrealized (loss)/gain on change in fair value adjustment	(165,039)	(4,711)
Realized loss on trading operations	(1,844)	(630)
Net (loss)/gain on financial assets at fair value through surplus or deficit	**(166,883)**	**(5,341)**

(Thousands of Azerbaijani Manats)

16. Other operating income

Other comprehensive income is comprised of:

	2014	2013
Rental income (Note 9)	36,187	23,909
Other	8,253	376
Total other operating income	**44,440**	**24,285**

17. Operating expenses

Operating expenses are comprised of:

	2014	2013
Asset management fee (for acquisition of Pine Avenue Tower A property)*	(20,323)	-
Professional fees	(6,511)	(1,938)
Wages, salaries and employee benefits	(4,150)	(3,715)
Bank commissions	(2,861)	(2,332)
Rental expenses	(2,663)	(2,706)
Repair expenses	(2,499)	-
Other service expenses	(613)	(386)
Communication expenses	(495)	(503)
Depreciation and amortization	(326)	(395)
Other operating expenses	(4,309)	(2,413)
Total operating expenses	**(44,750)**	**(14,388)**

*This fee was originally the obligation of the sellers of Pine Avenue Tower A to the asset management company, Mirae Asset Management. During acquisition, an equivalent amount was deducted from the agreed purchase price and paid in the form of additional share capital into Pine Avenue Tower A which subsequently made the required payment to the asset management company.

18. Income Taxes

The Fund provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of Russian Federation and Luxembourg which may differ from IPSAS.

According to the Presidential decree №- 509-IVQD dated 21 December 2012, and law of State Parliament regarding changes to the Tax Code of Azerbaijan Republic dated 29 December 2012 starting from 1 January 2013 SOFAZ is exempted from corporate income tax. All the Jersey companies are zero corporate income tax rated by virtue of being International Service Entities. As a result there are no temporary differences in respect of SOFAZ's Azerbaijani and UK operations.

Standard corporate income tax rates for companies operating in the Russian Federation comprised 20% for 2014 and 2013. Whereas Luxembourg and French subsidiaries are subject to income tax at a rate of 33.3% (2013: 33.3%).

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets.

The effective income tax differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2014	2013
(Deficit)/surplus before income tax expense	**(1,210,603)**	**541,778**
Statutory tax rate	20%	20%
Theoretical income tax asset/(expense) at the statutory rate	**242,121**	**(108,356)**
Tax effect of permanent differences	(540)	4,202
Tax effect of income earned in UK and South Korea exempted from tax	6,588	-
(Deficit)/surplus generated in Azerbaijan exempted from tax	(249,103)	102,925
Income tax expense	**(934)**	**(1,229)**

19. Notes on Statement of Comparison of Budget and Actual Amounts

Classification of items in the Fund's budget is done in compliance with the classification of state budget of the Republic of Azerbaijan and international standards.

The Fund's budget consists of revenue items and expenditure items.

The revenue items of the Fund's budget comprise the following:

- Revenues generated from implementing agreements on exploration, development and production sharing for oil and gas fields in the territory of the Republic of Azerbaijan including the Azerbaijan's sector of the Caspian Sea (Lake), as well as other agreements on oil and gas exploration, development and transportation entered into between the State Oil Company of the Republic of Azerbaijan or other authorized state body and investors.

- Revenues generated from the placement, management, sale, or other utilization or out of sale revenues of the Fund's assets (including financial assets and assets handed over by investors within oil and gas contracts), revenues from asset revaluation in the reported currency (Azerbaijani manat) by the Fund and other;

- Grant and other free aid;

- Other revenues and receipts in accordance with the legislation.

The expenditure items of the Fund's budget comprise the following:

- Expenditures to finance the projects in compliance with the main directions (program) of the Fund's assets utilization;

- The Fund's operational expenditures, including administrative (staffing), involving external consultants and other expenditures.

Reconciliation of actual amounts from budgetary basis to the financial statement basis:

As required under IPSAS 24, the actual amounts presented on a comparable basis to the budget shall, where the consolidated financial statements and the budget are not prepared on a comparable basis, be reconciled to the actual amounts presented in the consolidated financial statements, identifying separately any basis, timing and entity differences. There may also be differences in formats and classification schemes adopted for presentation of consolidated financial statements and the budget.

Basis differences occur when the approved budget is prepared on a basis other than the accounting basis.

Timing differences occur when the budget period differs from the reporting period reflected in the consolidated financial statements. There are no timing differences for the Fund for purposes of comparison of budget and actual amounts.

Entity differences occur when the budget omits entities that are part of the Fund for which the consolidated financial statements are prepared.

Presentation differences are due to differences in the format and classification schemes adopted for presentation of statement of cash flows and statement of comparison of budget and actual amounts.

(Thousands of Azerbaijani Manats)

Reconciliation between the actual amounts on a comparable basis and the actual amounts in the statement of cash flow for the period ended 31 December 2014 is presented below:

	Operating	**Investing**	**Financing**	**Effect of exchange rate changes on cash and cash equivalents**	**Total**
Actual amount on comparable basis as presented in the Statement of comparison of budget and actual amounts	**379,375**	**(38,086)**	**2,272,520**	**-**	**2,613,809**
Presentation differences (changes in operating assets and liabilities)	(1,938,057)	-	-	-	(1,938,057)
Entity differences	9,023	(357)	-	86,993	95,660
Basis differences (accrual basis versus cash flows)	223,379	-	-	**-**	223,379
Actual Amount in the Statement of Cash Flows	**(1,326,280)**	**(38,443)**	**2,272,520**	**86,993**	**994,791**

The budget scope of the Fund is restricted to the budget of SOFAZ. It does not include budgets of subsidiaries which represents an entity difference in the reconciliation below:

Classification in Statement of comparison of budget and actual amounts	**Actual amounts on comparable basis excluding subsidiaries**	**Entity difference**	**Actual amounts on comparable basis including subsidiaries**
Receipts			
Contributions received from sales of profit oil and gas	12,319,847	-	12,319,847
Income from placement and management of assets	387,204	50,154	437,358
The oil and gas agreements signature or performance bonuses paid by investors to the State Oil Company of the Republic of Azerbaijan or an authorized state body	13,344	-	13,344
Income from transit of oil and gas through the territory of the Republic of Azerbaijan	8,910	-	8,910
Acreage fees by the foreign investors for use of the contract areas in connection with the development of hydrocarbon resources	1,661	-	1,661
Other gains and receipts	50	-	50
Total receipts	**12,731,016**	**50,154**	**12,781,170**
Payments			
Transfers to the State Budget	(9,337,000)	-	(9,337,000)
Reconstruction of Samur-Absheron Irrigation system	(80,221)	-	(80,221)
Transfers to the State Refugees Committee and Internally Displaced Peoples' Social Development Fund	(299,998)	-	(299,998)
Construction of new Baku-Tbilisi-Kars railway line	(57,040)	-	(57,040)
Education of Azerbaijani youth abroad	(33,494)	-	(33,494)
Financing of the share of Azerbaijan Republic in the construction of the STAR oil refinery project in Turkey	(223,538)	-	(223,538)
Transfer for "Southern Gas Corridor"	(39,999)	-	(39,999)
Expenses for managing the Fund	(45,917)	(33,191)	(79,108)
Total payments	**(10,117,207)**	**(33,191)**	**(10,150,398)**
Net receipts	**2,613,809**	**16,963**	**2,630,770**

(Thousands of Azerbaijani Manats)

20. Business Combination

On 31 March 2014 the The State Oil Fund of the Republic of Azerbaijan ("SOFAZ") acquired 100% of the share capital of Mirae Asset Euljiro Tower (formerly known as Pine Avenue Tower A) located in 203 Euljiro 2 ga, Seoul, Korea and obtained control through its ability to cast a majority of votes in the general meeting of shareholders. The acquired Property was initially owned by a fund managed by Mirae Asset Global Investment Management. The acquisition-date fair value of the total purchase consideration and its components are as follows:

Cash consideration paid	346,250
Total consideration transferred	**346,250**
Total purchase consideration and previously held interest in the acquiree	**346,250**

Acquisition related transaction costs of AZN 1,828 thousand were expensed as general and administrative expenses. The contractual acquisition arrangement included repayment of loan principal of AZN 137,632 thousand of the former owner. This amount was transferred within the total cash consideration paid. The consideration paid by the Fund was based on results of an external appraisal, performed by Cushman and Wakefield - internationally recognised private and estate services company, of the acquiree's business taken as a whole.

Details of the assets and liabilities acquired and goodwill arising are as follows:

	Attributed fair value
Cash and cash equivalents	3,810
Property, plant and equipment	
Investment property	352,523
Other assets	1,160
Borrowings	(702)
Trade and other payables	(8,946)
Other liabilities	(1,597)
Fair value of identifiable net assets of subsidiary	**346,250**
Goodwill arising from the acquisition	-
Total purchase consideration and previously held interest in the acquiree	**346,250**
Less: Cash and cash equivalents of subsidiary acquired	(3,810)
Outflow of cash and cash equivalents on acquisition	**342,440**

The fair values of assets and liabilities acquired are based on discounted cash flow models and based on the estimations of Cushman and Wakefield Korea, commercial advisor of the Fund on this acquisition. Based on the purchase agreement the following items were included in the purchase price allocation:

Investment property valued at AZN 352,523 thousands (KRW 477,504,000).

No goodwill arose on this business combination.

The acquired subsidiary has paid AZN 14,051 thousand as a dividend to the Fund during the year.

(Thousands of Azerbaijani Manats)

21. Fair Value of Financial Instruments

The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Fund's valuation approach and fair value hierarchy categorization for certain significant classes of financial instruments recognized at fair value are as follows:

At 31 December 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through surplus or deficit	20,074,784	2,151,963	93,495	**22,320,242**
At 31 December 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through surplus or deficit	20,880,762	3,606,460	61,361	**24,548,583**

Level 3 financial assets consist of 3 investments in International Finance Corporation (IFC) Private Equity funds (ALAC, GIF and Catalyst funds). IFC ALAC (African, Latin American and Caribbean) Fund has been set up with the purpose of making investments in businesses in Africa, Latin America and the Caribbean. IFC Catalyst fund is fund of funds structure private equity vehicle investing into emerging market focus funds. IFC GIF specializes in making infrastructure investments into the emerging world.

22. Risk Management

Management of risk is an essential element of the Fund's operations. Risks inherent to the Fund's operations are those related to credit exposures, liquidity, market and operational risks. A summary description of the Fund's risk management policies in relation to those risks is discussed below.

Credit risk

The Fund is exposed 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. The Fund is subject to credit risk from its portfolio of cash and cash equivalents and its investments. The Fund manages its credit risk in accordance with the "Rules on Holding, Placement and Management of Foreign Currency Assets of The State Oil Fund of the Republic of Azerbaijan" approved by Decree #511 of the President of the Republic of Azerbaijan dated 19 June 2001 as amended by Decree #607 dated 21 December 2001, Decree #202 dated 1 March 2005, Decree #216 dated 10 February 2010, Decree #519 dated 27 October 2011 (hereinafter collectively referred to as the "Rules"), as well as "Program on Expensing of Assets of The State Oil Fund of the Republic of Azerbaijan for 2014" as approved by decree #57 of the President of the Republic of Azerbaijan, dated 19 December 2013.

Credit risk is managed and controlled through proper selection of investment assets, credit quality of investment assets and setting limits on the amount of investment per investment asset.

In accordance with decree of the President of the Republic of Azerbaijan "Program on Expensing of Assets of The State Oil Fund of the Republic of Azerbaijan for 2014" dated 19 December 2013, the maximum weight of one financial institution or one investment in the investment portfolio is set at 15% of total amount of the investment portfolio.

In accordance with the "Rules", foreign currency assets of the Fund could be invested in debt obligations with investment grade credit rating not less than Baa3 (Moody's) or BBB- (Standard & Poor's, Fitch) and up to 5% of foreign currency assets of the Fund could be placed into debt obligations that have credit rating not less than Ba3 (Moody's) or BB- (Standard & Poor's, Fitch).

(Thousands of Azerbaijani Manats)

The following table details the credit ratings of financial instruments held by the Fund. The credit rating is issued by internationally regarded agencies Standard & Poor's, Fitch and Moody's. If the agencies have assigned different credit ratings to an asset, the lowest one was used.

Credit risk (Continued)

2014	AAA	AA	A	BBB	Non-investment rating	Securities without rating	Total
Cash and cash equivalents	835,269	-	96,296	1,331,677	7,889	-	**2,271,131**
Financial assets at fair value through surplus or deficit	3,038,722	3,645,482	7,532,609	6,573,465	80,414	1,449,550	**22,320,242**
Financial investments held–to–maturity	-	-	-	1,987,120	512,419	-	**2,499,539**

2013	AAA	AA	A	BBB	Non-investment rating	Securities without rating	Total
Cash and cash equivalents	85,201	1,104	165,832	1,024,174	30	-	**1,276,341**
Financial assets at fair value through surplus or deficit	6,525,683	3,531,232	7,560,755	5,698,302	90,520	1,142,091	**24,548,583**
Financial investments held–to–maturity	-	-	-	742,054	-	-	**742,054**

Bank accounts

In accordance with the "Rules", currency settlement accounts of the Fund may be held in banks with long-term credit ratings not lower than AA- (Standard & Poor's, Fitch) or Aa3 (Moody's).

The Fund is allowed to maintain funds in the Republic of Azerbaijan only in the Central Bank of the Republic of Azerbaijan and the International Bank of Azerbaijan.

Depository services

In accordance with the "Rules", the Fund's depository services may be provided by commercial banks and other financial institutions with long-term credit ratings not lower than A- (Standard & Poor's), A- (Fitch) or A3 (Moody's).

Financial market counterparties

In accordance with the "Rules", the Fund's counterparties at international financial markets may involve commercial banks and other financial institutions with long-term investment credit ratings (Standard & Poor's, Fitch or Moody's).

External managers

In accordance with the "Rules", when an external manager is engaged in management of the Fund's currency assets, the external manager or its principal founder should have investment credit ratings (not lower than Baa3 (Moody's) or BBB- (Standard & Poor's, Fitch)) or have at least five years of positive history of management of assets, or be experienced in managing assets with a value not less than one billion USD.

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

"Program on main directions of Expensing of Assets of The State Oil Fund of the Republic of Azerbaijan for 2014" as approved by decree #57, dated 19 December 2013, specified requirements for Investment Policy (investment trend) of the Fund for 2014 and the currency basket of the Fund's portfolio for 2014. In accordance with these requirements, 50% of the total amount of the investment portfolio of the Fund invests in assets denominated in USD, 35% in assets denominated in EUR, 5% in assets denominated in GBP, whereas 10% of the total amount of the investment portfolio can be invested in currencies specified in an article 2.2.1 of Presidential decree #511 dated 19 June, 2001. In case of noncompliance the Fund is to rebalance the portfolio during 10 business days subsequent to the end of each quarter. As at 31 December 2014, 55.97% of the Fund's investment portfolio was denominated in USD (2013: 49.45%), 35.49% in EUR (2013: 41.60%) and 4.35% in GBP (2013: 4.47%).

(Thousands of Azerbaijani Manats)

The table below summarizes the Fund's exposure to foreign currency exchange rate risk at the reporting date:

2014	**AZN**	**USD + MSCI index***	**EUR**	**GBP**	**TRY**	**AUD**	**RUB**	**KRW**	**Total**
Financial assets									
Cash and cash equivalents	319,994	650,073	941,999	7,411	336,304	73	4,714	10,564	2,271,131
Financial assets at fair value through surplus or deficit	-	11,999,136	8,670,576	1,173,507	-	137,005	340,018	-	22,320,242
Financial investments held to maturity	-	2,499,539	-	-	-	-	-	-	2,499,539
Total financial assets	**319,994**	**15,148,748**	**9,612,575**	**1,180,918**	**336,304**	**137,078**	**344,732**	**10,564**	**27,090,912**
Financial liabilities									
Other financial liabilities	-	251	-	-	-	-	-	-	251
Total financial liabilities		**251**							**251**
Open position	**319,994**	**15,148,497**	**9,612,575**	**1,180,918**	**336,304**	**137,078**	**344,732**	**10,564**	**27,090,661**
	1.18%	**55.92%**	**35.48%**	**4.36%**	**1.24%**	**0.51%**	**1.27%**	**0.04%**	

(Thousands of Azerbaijani Manats)

2013	AZN	USD + MSCI index*	EUR	GBP	TRY	AUD	RUB	Total
Financial assets								
Cash and cash equivalents	169,564	196,674	499,402	3,528	327,497	83	79,593	1,276,341
Financial assets at fair value through surplus or deficit	-	12,193,893	10,550,837	1,187,992	-	144,496	471,365	24,548,583
Financial investments held to maturity	-	742,054	-	-	-	-	-	742,054
Total financial assets	**169,564**	**13,132,621**	**11,050,239**	**1,191,520**	**327,497**	**144,579**	**550,958**	**26,566,978**
Financial liabilities								
Other financial liabilities	75	231	2,723	3,466	-	-	1,387	7,882
Total financial liabilities	**75**	**231**	**2,723**	**3,466**	**-**	**-**	**1,387**	**7,882**
Open position	**169,489**	**13,132,390**	**11,047,516**	**1,188,054**	**327,497**	**144,579**	**549,571**	**26,559,096**
	0.64%	**49.45%**	**41.60%**	**4.47%**	**1.23%**	**0.54%**	**2.07%**	

* MSCI index includes developed world markets and consists of the following currencies: USD, EUR, GBP, AUD, CAD, CHF, DKK, HKD, ILS, JPY, NOK, NZD, SEK and SGD. These currencies are held in portfolios managed by external managers UBS and SSGA and allocated as follows:

	USD	EUR	GBP	AUD	CAD	CHF	DKK	HKD	ILS	JPY	NOK	NZD	SEK	SGD	Total
2014	608,149	118,605	82,118	29,354	41,624	36,415	6,030	11,982	2,282	83,149	2,562	514	12,072	5,942	1,040,798
2013	338,733	78,079	56,290	18,933	24,930	22,612	3,081	7,241	1,246	53,680	2,085	288	8,030	3,755	618,983

(Thousands of Azerbaijani Manats)

Currency risk sensitivity

The tables below indicate the currencies to which the Fund had significant exposure at 31 December 2014 and 2013 on its monetary assets and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the AZN, with all other variables held constant on the statement of financial performance. The effect on net assets/equity does not differ from the effect on the statement of financial performance.

	Impact on surplus/(deficit) for the year	
	31 December 2014	
AZN/USD	**+20%**	3,029,715
	-20%	(3,029,715)
AZN/EUR	**+20%**	1,922,415
	-20%	(1,922,415)
AZN/GBP	**+20%**	235,546
	-20%	(235,546)
AZN/TRY	**+20%**	67,261
	-20%	(67,261)
AZN/AUD	**+20%**	27,416
	-20%	(27,416)
AZN/RUB	**+20%**	68,004
	-20%	(68,004)

	Impact on surplus/(deficit) for the year	
	31 December 2013	
AZN/USD	**+20%**	2,625,456
	-20%	(2,625,456)
AZN/EUR	**+20%**	2,209,252
	-20%	(2,209,252)
AZN/GBP	**+20%**	237,648
	-20%	(237,648)
AZN/TRY	**+20%**	65,499
	-20%	(65,499)
AZN/AUD	**+20%**	28,916
	-20%	(28,916)
AZN/RUB	**+20%**	110,192
	-20%	(110,192)

Commodity price risk

The Fund is affected by the volatility of gold prices. The following table shows the effect of price changes in gold:

	31 December 2014		**31 December 2013**	
AZN/XAU	**20%**	**-20%**	**20%**	**-20%**
Impact on surplus/(deficit) for the year	180,429	(180,429)	184,866	(184,866)

(Thousands of Azerbaijani Manats)

Geographical concentration

2014	Azerbaijan	Europe	America	Asia	Africa	Australia and Oceania	International organizations	Total
Financial assets								
Cash and cash equivalents	319,995	1,819,451	121,122	10,564	-	-	-	2,271,131
Financial assets at fair value through surplus or deficit	-	10,274,012	7,301,781	2,702,377	2,848	1,208,048	831,176	22,320,242
Financial investments held to maturity	2,499,539	-	-	-	-	-	-	2,499,539
Total financial assets	**2,819,534**	**12,093,463**	**7,422,903**	**2,712,941**	**2,848**	**1,208,048**	**831,176**	**27,090,912**
Financial liabilities								
Other financial liabilities	45	206	-	-	-	-	-	251
Total financial liabilities	**45**	**206**	**-**	**-**	**-**	**-**	**-**	**251**
Net position	**2,819,489**	**12,093,257**	**7,422,903**	**2,712,941**	**2,848**	**1,208,048**	**831,176**	**27,090,661**

2013	Azerbaijan	Europe	America	Asia	Africa	Australia and Oceania	International organizations	Total
Financial assets								
Cash and cash equivalents	169,564	940,966	165,811	-	-	-	-	1,276,341
Financial assets at fair value through surplus or deficit	-	14,304,532	5,898,159	2,258,552	2,824	811,502	1,273,014	24,548,583
Financial investments held to maturity	742,054	-	-	-	-	-	-	742,054
Total financial assets	**911,618**	**15,245,498**	**6,063,970**	**2,258,552**	**2,824**	**811,502**	**1,273,014**	**26,566,978**
Financial liabilities								
Other financial liabilities	98	7,784	-	-	-	-	-	7,882
Total financial liabilities	**98**	**7,784**	**-**	**-**	**-**	**-**	**-**	**7,882**
Net position	**911,520**	**15,237,714**	**6,063,970**	**2,258,552**	**2,824**	**811,502**	**1,273,014**	**26,559,096**

Interest rate sensitivity

At 31 December 2014 deposits and debt securities were interest-bearing and, therefore, were exposed to the interest rate risk. Depending on the market conditions the Fund is managing this risk by gradually increasing or decreasing the duration of assets in the investment portfolio. Daily risk management and monitoring is performed within above set limits by the Risk Management Department.

The following table presents a net impact of change of the fair value of securities, when market interest rate changed by 1%. Sensitivity analysis of interest rate risk has been determined based on “reasonably possible changes in the risk variable”. The level of these changes is determined by management and is contained within the risk reports provided to key management personnel.

(Thousands of Azerbaijani Manats)

Impact on surplus/(deficit) before tax:

	31 December 2014		31 December 2013	
	Interest rate +1%	**Interest rate -1%**	**Interest rate +1%**	**Interest rate -1%**
Assets:				
Cash and cash equivalents	62	(62)	-	-
Financial assets at fair value through surplus or deficit	(191,745)	191,745	(132,532)	132,532
Net impact on surplus/(deficit) before tax	**(191,683)**	**191,683**	**(132,532)**	**132,532**

Liquidity Risk

Management's guiding policies are to maintain conservative levels of liquidity to ensure that the Fund has the ability to meet its obligations under all conceivable circumstances.

An analysis of the liquidity risk of financial position items is presented in the following tables:

2014	**Up to 1 month**	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Maturity undefined**	**Total**
Financial assets							
Cash and cash equivalents	2,263,285	7,846	-	-	-	-	2,271,131
Financial assets at fair value through surplus or deficit	1,945,410	1,893,882	6,142,616	10,574,417	205,102	1,558,815	22,320,242
Financial investments held to maturity	29,200	54,885	33,633	5,803	2,376,018	-	2,499,539
Total financial assets	**4,237,895**	**1,956,613**	**6,176,249**	**10,580,220**	**2,581,120**	**1,558,815**	**27,090,912**
Financial liabilities							
Other financial liabilities	(251)	-	-	-	-	-	(251)
Total financial liabilities	**(251)**	**-**	**-**	**-**	**-**	**-**	**(251)**
Liquidity gap	**4,237,644**	**1,956,613**	**6,176,249**	**10,580,220**	**2,581,120**	**1,558,815**	**27,090,661**

2013	**Up to 1 month**	**1 month to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Maturity undefined**	**Total**
Financial assets							
Cash and cash equivalents	1,189,735	86,606	-	-	-	-	1,276,341
Financial assets at fair value through surplus or deficit	1,184,691	2,407,007	9,268,211	10,546,499	-	1,142,175	24,548,583
Financial investments held to maturity	29,539	-	283,842	108,709	319,964	-	742,054
Total financial assets	**2,403,965**	**2,493,613**	**9,552,053**	**10,655,208**	**319,964**	**1,142,175**	**26,566,978**
Financial liabilities							
Other financial liabilities	(7,882)	-	-	-	-	-	(7,882)
Total financial liabilities	**(7,882)**	**-**	**-**	**-**	**-**	**-**	**(7,882)**
Liquidity gap	**2,396,083**	**2,493,613**	**9,552,053**	**10,655,208**	**319,964**	**1,142,175**	**26,559,096**

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Fund is exposed to price risks of its products which are subject to general market and specific fluctuations.

(Thousands of Azerbaijani Manats)

Daily risk management is performed by the Risk Management Department.

	31 December 2014		31 December 2013	
	1% increase in securities price	**1% decrease in securities price**	**1% increase in securities price**	**1% decrease in securities price**
Impact on surplus/(deficit) before tax	220,555	(220,555)	243,376	(243,376)
Impact on net assets/equity	220,555	(220,555)	243,376	(243,376)

Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Fund cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

23. Transactions with Related Parties

Related parties or transactions with related parties, as defined by IPSAS 20 “Related party disclosures”, represent parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Fund; have an interest in the Fund that gives them significant influence over the Fund; and that have joint control over the Fund.

Transactions with related parties are described in Notes 5, 7, 8, 10, 11, 12 and 25.

(Thousands of Azerbaijani Manats)

All government entities and their subsidiaries are considered to be entities under common control with the Fund. Transactions with such entities are disclosed below as related party transactions:

Related parties	**Year**	**Contributions received from related parties**	**Transfers to related parties**	**Carrying value of bonds acquired from related parties**	**Interest income on bonds acquired from related parties**	**Tax prepay-ments**	**Bank accounts with related parties**	**Precious metals**	**Off-balance sheet transactions**
State Oil Company of the Republic of Azerbaijan	2014	**11,858,475**	-	-	-	-	-	-	-
	2013	12,757,672	-	-	-	-	-	-	-
Azerbaijan Gas Supply Company	2014	**410,332**	-	-	-	-	-	-	-
	2013	301,136	-	-	-	-	-	-	-
Operating Companies	2014	**74,955**	-	-	-	-	-	-	-
	2013	60,954	-	-	-	-	-	-	-
The State Budget	2014	-	**9,337,000**	-	-	-	-	-	-
	2013		11,350,000	-	-	-	-	-	-
Ministry of Finance of the Republic of Azerbaijan	2014	-	-	-	-	-	-	-	**278,274**
	2013	-	-	-	-	-	-	-	284,824
Ministry of Tax of the Republic of Azerbaijan	2014	-	-	-	-	**16,739**	-	-	-
	2013	-	-	-	-	20,510	-	-	-
“Azerbaijan melioration and water-sludge system” OSC	2014	-	**80,221**	-	-	-	-	-	-
	2013	-	173,934	-	-	-	-	-	-
The Ministry of Transportation	2014	-	**57,040**	-	-	-	-	-	-
	2013	-	25,672	-	-	-	-	-	-
The State Refugees Committee and Internally Displaced People’ Social Development Fund	2014	-	**299,998**	-	-	-	-	-	-
	2013	-	299,990	-	-	-	-	-	-
Central Bank of the Republic of Azerbaijan	2014	-	-	-	-	-	**319,951**	**901,974**	-
	2013	-	-	-	-	-	169,534	613,064	-
“Star” oil refinery complex (SOCAR)	2014	-	**223,538**	-	-	-	-	-	-
	2013	-	372,590	-	-	-	-	-	-
Ministry of Education of the Republic of Azerbaijan	2014	-	**33,494**	-	-	-	-	-	-
	2013	-	33,008	-	-	-	-	-	-
International Bank of Azerbaijan	2014	-	-	-	-	-	**42**	-	-
	2013	-	-	-	-	-	30	-	-
Azerbaijan (ACG) Ltd (AzACG Ltd)	2014	-	-	**271,739**	**4,053**	-	-	-	-
	2013	-	-	328,489	4,838	-	-	-	-
Mercury Investments and Holdings Ltd.	2014	-	-	**211,480**	**8,376**	-	-	-	-
	2013	-	-	413,565	4,797	-	-	-	-
Ministry of Economy and Industry of the Republic of Azerbaijan	2014	-	**39,999**	-	-	-	-	-	-
	2013	-	-	-	-	-	-	-	-

(Thousands of Azerbaijani Manats)

Key management personnel

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

	2014	**2013**
Aggregate remuneration	97	109
Number of persons	3	3

24. Commitments and Contingencies

Off-balance sheet transactions

On 11 August 2006 the Fund signed an Asset Management Agreement on "Granting free budget (balance) Funds to trustworthy management" with the Ministry of Finance of the Republic of Azerbaijan. According to this agreement free budget Funds of the Ministry of Finance of the Republic of Azerbaijan are to be transferred to and managed by the Fund within the asset management rules set in the agreement with the Ministry of Finance of the Republic of Azerbaijan. The Fund manages these assets free of charge, on behalf of the Ministry of Finance and in favor, at the expense and at the risks of the Ministry of Finance of the Republic of Azerbaijan. At 31 December 2014 assets received under the above agreement were AZN 278,274 thousand (USD 292,533 thousand and EUR 51,262 thousand) (2013: AZN 284,824 thousand (USD 292,408 thousand, EUR 51,196 thousand and GBP 186 thousand)) including accrued interest.

Legal proceedings

In 2004, a legal action totaling approximately six million USD was brought against the Government of the Republic of Azerbaijan along with a number of Azerbaijan governmental institutions, including the Ministry of Communications and High Technologies of the Republic of Azerbaijan, the State Oil Company of the Republic of Azerbaijan and the Fund. This legal action was brought by First International Merchant Bank (the "Claimant Bank") in the District Court of Rotterdam (the "Court"), the Netherlands. In an interim-verdict dated 24 December 2008, the Court ruled that the Claimant Bank should submit additional evidence supporting the major facts on legal proceeding. Further, in a verdict dated 17 February 2010 (the "Verdict"), the Court has rejected the claims of the Claimant Bank. Currently, the claim is at the court of appellate jurisdiction. The Court has engaged The International Legal Institute in The Hague, the Netherlands (the "IJI") with the aim to gather further information on certain aspects on the laws of the Republic of Azerbaijan. The IJI has rendered its final report to the Court and the parties on 7 November 2014. The Management of the Fund believes that there is no possibility of any outflow in the settlement and there is no need for provision.

Capital expenditure commitments

At 31 December 2014, the Fund has contractual capital expenditure commitments in respect of the new administrative office building totalling AZN 9,849 thousand (2013: 18,953 AZN thousand).

The Fund believes that future net surplus will be sufficient to cover this and any similar such commitments.

Operating environment

The Fund is established and operates in the Republic of Azerbaijan and its subsidiaries operate in Russia, Jersey, United Kingdom, France, South Korea and Luxembourg. Laws and regulations affecting the business environment in these countries are subject to rapid changes and the Fund's and subsidiaries assets and operations could be at risk due to negative changes in the legal, regulatory, and political environment.

25. Events after the Reporting Period

Receivables and transfers

In accordance with Presidential Decree # 443 on "Ratifying the Budget of The State Oil Fund of the Republic of Azerbaijan for 2014" dated 19 January 2015, the Fund's budgeted inflows and outflows for 2015 are estimated at AZN 10,246,611 thousand and AZN 11,813,909 thousand, respectively. The following main types of outflows for 2015 are budgeted:

- Transfer to the State Budget of the Republic of Azerbaijan – AZN 10,338,000 thousand;
- Financing of the measures for improvement of social conditions of refugees and internally displaced people – AZN 150,000 thousand;
- Construction of new Baku-Tbilisi-Kars railway line – AZN 111,487 thousand;
- Reconstruction of Samur-Absheron irrigation system – AZN 90,000 thousand;
- Financing the State Program on Education of Azerbaijan youth in foreign countries during 2007-2015 – AZN 44,088 thousand;
- Financing of the share of Azerbaijan Republic in the construction of Cenub Gaz Dehlizi project– AZN 997,016 thousand;
- Expenses related to managing the Fund – AZN 33,318 thousand."

The following main types of income for 2015 are budgeted:

- Income from the sale of Azerbaijan Republic's share in carbohydrogens - AZN 9,741,175 thousands;
- Acreage fees by the foreign investors for use of the contract areas in connection with the development of hydrocarbon resources – AZN 1,568 thousands;
- Income from transit of oil and gas through the territory of the Republic of Azerbaijan - AZN 9,410 thousands;
- Income from management and placement of assets- AZN 494,357 thousands;
- Other income and incomings based on Legislation of Azerbaijan Republic- AZN 100 thousands.