

EITI AZERBAIJAN
ANNUAL REPORT



Republic of Azerbaijan

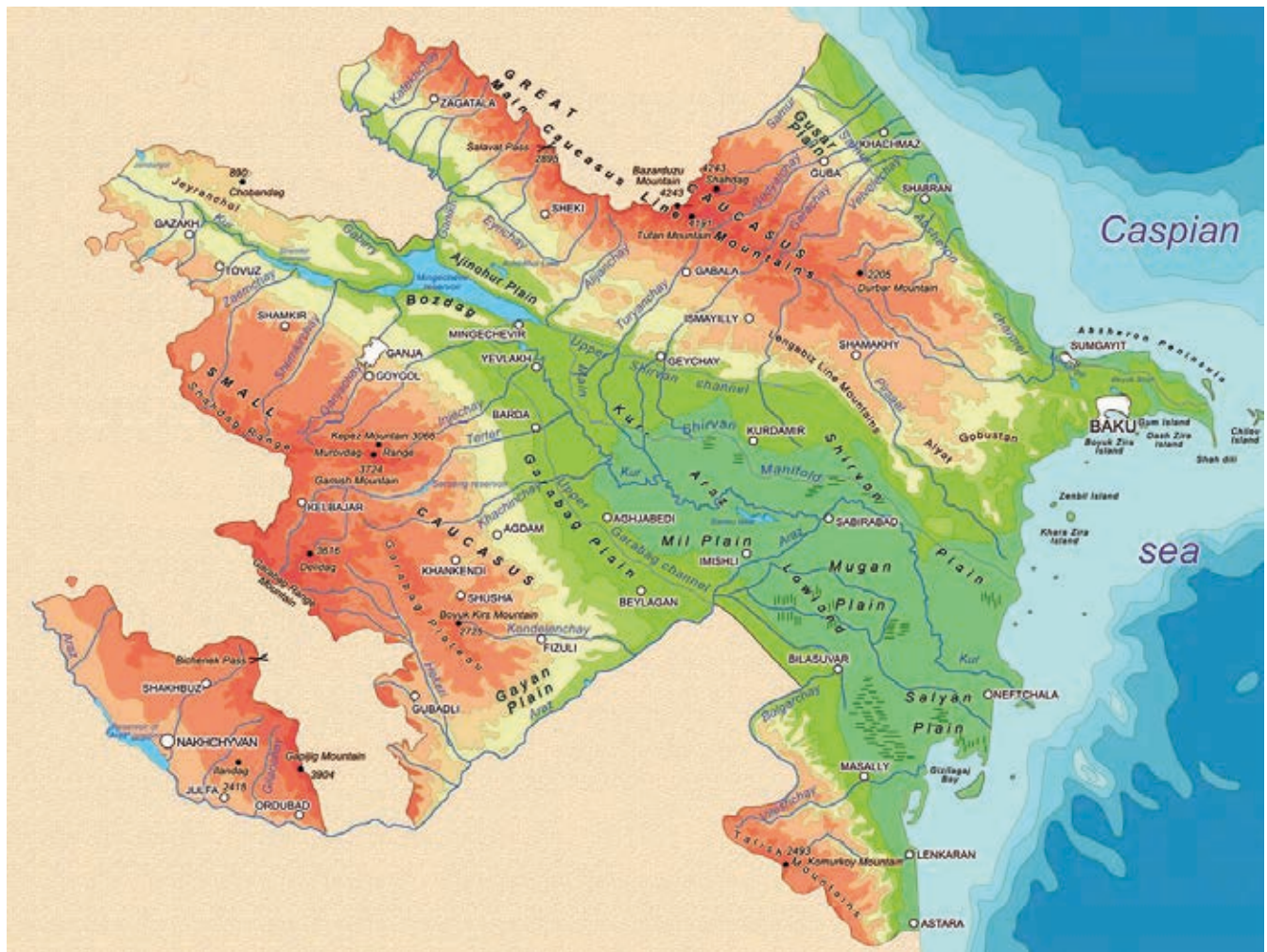
State Emblem of the Republic of Azerbaijan



National Flag of the Republic of Azerbaijan



Area: 86,6 thousand sq. km
Population: 9477,1 thousand
Capital: Baku
Official language: Azerbaijani
Currency: Manat



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Abbreviations and Acronyms

LIST OF ABBREVIATIONS

ACG	Azeri–Chirag–Gunashli
AIOC	Azerbaijan International Operating Company
AJ	Adjustment
AS	Aksjeselskap - Norwegian term for a stock-based company
AZN	Azerbaijani manats
BP	British Petroleum
CNG	Compressed Natural Gas
CNPC	China National Petroleum Corporation
Committee	EITI Committee of the Republic of Azerbaijan
Commission	Government agencies
EITI	Extractive Industries Transparency Initiative
EITI Secretariat	Azerbaijan EITI National Secretariat
FZE	Free Zone Enterprise
GDF	Gas de France
GDP	Gross Domestic Product
Government	Government of Azerbaijan
IBAR	International Bank of Azerbaijan Republic
IAO	Independent Accountants' Opinion
ITEI	Improving Transparency in Extractive Industry
JV	Joint Venture
k	Thousand
Kcm	Thousand cubic meters
LLC	Limited Liability Company
LTD	Limited Company
m	Meter

LIST OF ABBREVIATIONS

m³	Cubic meters
Mboe	Millions of barrels of oil equivalent
MEI	Ministry of Economy and Industry
Mln	Million
MOU	Memorandum of Understanding
MSG	Multi Stakeholder Group
NGO	Non-Governmental Organization
NICO	Naftiran Intertrade Company
Nm³	Normal cubic meters
ONGC	Oil and Natural Gas Corporation
PSA	Production sharing agreement
PU	Production units
Sm³	Standard cubic meters
SOCAR	State Oil Company of the Azerbaijan Republic
SOE	State Owned Enterprises
SOFAZ	State Oil Fund of the Republic of Azerbaijan
SSPF	State Social Protection Fund
TAP	Trans Adriatic Pipeline
THSD.	Thousand
TIN	Taxpayer Identification Number
TOR	Terms of reference
UN GA	General Assembly of the United Nations
USD	United States dollars
VAT	Value added tax
WREP	The Western Route Export Pipeline

EITI AZERBAIJAN ANNUAL ACTIVITY REPORT 2013

Multi-stakeholder Group (MSG)

MSG is a decision-making body overseeing the EITI process in the country. The Group was established in 2010 and includes the representatives of Memorandum parties (Companies Group, NGO Coalition and EITI Commission) in order to ensure stronger and more efficient comprehensive monitoring and management of Initiative development in Azerbaijan. Thus, each EITI party appoints 3 full and 1 alternate members with equal rights (in total 9 primary members + 3 alternate members). Chairman of the EITI Commission becomes a member of MSG on behalf of the Azerbaijani Government and chairs the group meetings. MSG members are re-elected each year.

The Group meets at least four times a year.

Members of Multi-stakeholder Group in 2013

EITI Commission:

Shahmar Movsumov	SOFAZ Executive Director, Chairman of the EITI Commission, MSG Chairman
Feyzulla Muradov	Representative of the Ministry of Energy
Zaur Fatizadeh	Representative of the Ministry of Taxes
Gazi Hajikarimov	Representative of the Ministry of Ecology and Natural Resources (alternate)

Group of Companies:

Araz Yusubov	Representative of BP
Jamila Hadiyeva	Representative of Statoil
Ayaz Huseynov	Representative of the State Oil Company of Azerbaijan Republic
Bakhtiyar Akhundov	Representative of Chevron (alternate)

ITEI Coalition:

Sabit Baghirov	President of the State Entrepreneurship and Market Economy Assistance Fund
Mahammad Talibli	Chairman of Economic Innovation Center
Mubariz Taghiyev	Chairman of Human Rights in Extractive Industry Public Union
Ilham Huseynli	Chairman of Democratic Development and Economical Cooperation Public Union (alternate member)

Assessment of the performance of 2013 work

2013 Work Plan reflects the objectives of EITI implementation in Azerbaijan, envisaged activities and expected execution dates of activities, responsible parties, and current status and achieved results (Appendix 1). The Work Plan was approved in the last meeting of MSG in 2012. Due to the significant changes in EITI process during 2013, MSG Work Plan 2013 was amended respectively and objectives and activity types related to the transition to the new EITI Standard were defined.

9 out of 10 main objectives set for implementation of EITI in Azerbaijan in 2013 were successfully and completely executed and finalized by the end of 2013.

Incomplete objective was the "Increasing the awareness of the Azerbaijani population on EITI". 1 out of 4 actions included in the Work Plan for this purpose was performed. The Secretariat and NGO Coalition have prepared and distributed special leaflets and brochures regarding the implementation of EITI in the country. Organization of roundtable discussions in universities, regions and regional and central TV stations is incomplete. As the Coalition is a responsible party for these activities, it gave the following explanation of failure to perform the aforementioned activities:

7.1. Coalition was not provided with funds for its projects for roundtable meetings in universities. Therefore no initiatives were taken for execution of this liability.

7.2. Roundtable organizational activities in the regions were not possible due to the unofficial prohibitions of actions in the regions.

7.3. The reason why the roundtables were not organized in central and regional TV channels was that no broadcast time was allocated in central TV channels despite of numerous requests by the Coalition.

Overview of EITI implementation status

In 2013 MSG convened 8 meetings. These meetings discussed the issues in the Work Plan related to the EITI implementation in the country and other matters arising throughout the year and passed relevant decisions. In order to ensure timely and high quality realization of the decisions, the close cooperation between the EITI Secretariat of Azerbaijan, MSG and, in general, all EITI parties was continued in 2013.

The Annual Report covering the implementation of EITI in 2012, which was included in the agenda of the first MSG meeting of 2013, was disclosed in mid-May. Elegantly printed report was distributed to the guests of National EITI Exhibition in Sydney as a presentation material and was sent to relevant authorities. The meeting of the EITI Board held in 23-24 May in parallel with National Exhibition within the framework of the 6th EITI Global Conference announced a new composition of the Board, which included the Executive Director of the State Oil Fund of the Republic of Azerbaijan, Chairman of EITI Commission Shahmar Movsumov and the member of the Board of Directors of the Economic Research Centre Gubad Bayramov as full members. In general, Azerbaijan was represented by large delegation in series of events held in Sydney and actively participated both in panel discussions and National Exhibition.

The 6th EITI Global Conference held on 23-24 May 2013 in Sydney also adopted a new EITI Standard. This Standard is the main document regulating EITI implementation process in all member states. The Standard shall replace the previously adopted regulating documents. MSG meeting held after the adoption of the Standard adopted a decision to ensure transition of Azerbaijan to the new Standard in a short time. Various measures have been taken in the country with regard to the transition to the new Standard. In addition to a workshop arranged in connection¹ with the Standard, an international conference dedicated to the 10th anniversary of Azerbaijan joining EITI and to the transition to the new Standard² was held. Moreover, the Standard was translated into Azerbaijani³, and analysed by professional law firm in accordance with Azerbaijan legislation⁴. 2014 Work Plan of MSG was also prepared according to the Standard and approved by the MSG.

The MSG meeting also has approved material EITI payments on lump sum basis subject to initiative of any party at any time. EITI Secretariat is instructed to investigate the annual payments of extractive industries to the State Social Protection Fund (SSPF) and MSG has analysed and identified the level of importance based on the investigation results. In 2013 the information received from SSPF indicated negligent share of social payments in overall production income and, therefore, MSG decided not to include these payments into EITI reports.

In the meeting held on 10 June 2013 the EITI State Commission disclosed the next (seventeenth) report (for 2012) on the aggregate income of the Government of the Republic of Azerbaijan from extractive industry audited by Moore Stephens audit firm. Moreover, the representatives of Moore Stephens have also submitted to the MSG the opinion based on reconciliation of the report presented by the Government with the individual reports of the companies. In total 26 companies submitted reports for 2012. Submitted reports were disclosed to the public by posting in the official web site of EITI Azerbaijan and by publishing in a state newspaper. The opinion submitted by the Auditor in 2012 on the basis of the analysis of EITI reports was improved compared to previous opinions and number of modifications and amendments were added. So that in 2013 the auditor implemented "spot check" (demand for confirming documents from selected companies even if no difference was observed) in collation process in order to increase the reliability of data in EITI reports. According to this method the auditor selected 4 reporting companies irrespective to the differences and performed 100% audit in selected companies. Implementation of the "spot check" has increased the reliability of figures approved by the companies and the Government.

1 In more detail: "Events" section

2 In more detail: "Events" section

3 See: <http://www.eiti.az/index.php/az/senedler/mhsht-standarti>

4 See: <http://www.eiti.az/index.php/az/senedler/mhsht-standarti/95-mhsht-qanuni-huquqi-rey> 5 In more detail: "2013 meetings and approved decisions of MSG" table, meeting dated 30th January.

The meeting held on 23 September 2013 reviewed and discussed 2012 NGO Coalition's opinion on EITI Commission Report (the 17th Report) and reports of independent accountants.

In addition, the works on renewal of official web site of EITI Azerbaijan that started in 2013 were completed in the middle of the year. The web page is presented in a new form with more improved structure and content.

Discussions on Memorandum planned to be signed in 2013 continued with numerous suggestions and additions of the parties. Works on the said document has been ongoing for 2 years. A special working group was created for this⁵ purpose, numerous meetings on preparation of documents were held. Prolonged process was due to the fact of Azerbaijan being the first country to transit to EITI Standard as per the MSG decision and restart of works on adaptation of Memorandum that was already ready during the adoption of the Standard. The Memorandum is expected to be signed in 2014.

⁵ In more detail: "Adaptation of Memorandum to the new EITI Standard" section

Activity of EITI parties: achievements and challenges

Group of Companies:

Group of Companies actively participated in MSG meetings, as well as representatives of BP and Chevron contributed to the drafting of a new Memorandum within the framework of a special Work Group⁶. Moreover, as a continuation of goodwill support of the Group of Companies to EITI process and a civil society, during the Sydney Conference of the International Secretariat held in May the NGO Coalition requested to give the seat intended for the Companies' Group to a representative of the civil society.

In 2013 the Group of Companies participated in various EITI events. In March BP representatives made two presentations to participants of six countries during the international trainings organized by Eurasia Production Industry Knowledge Center.

In September the representatives of the Group of Companies actively participated both in the workshop on transition to a new EITI Standard organized by the OSCE and Revenue Watch Institute and in the workshops on a new Standard held by the Secretariat.

In October BP has included to the delegation of the Multi-stakeholder Group represented the Companies' Group in the international workshop on a new EITI Standard held in Astana, Kazakhstan.

Government Commission:

In 2013 the Chairman and the members of the Government Commission closely participated in the activities related to the EITI implementation. The Chairman of the Commission, Executive Director of the State Oil Fund continued his activity on improvement of efficiency of MSG works, speeches and discussions about the Initiative in different meetings and events, control over the work of the EITI Secretariat, as well as in management of EITI at international level. He participated in meetings of the EITI Board held in February in Oslo and in May in Sydney.

Moreover, the members of the Commission and representatives of the Ministries of Taxes and Energy were represented in a special Work Group created for redevelopment of the Memorandum, participated in numerous meetings and contributed to the preparation of the document.

NGO Coalition of ITEI:

In 2013 the EITI Coalition performed number of investigations and public discussions in order to contribute to the process of implementation of the EITI in Azerbaijan. In order to evaluate the existing situation in this field the Coalition, with the participation of the international experts, has prepared the position paper: "Implementation of the EITI in Azerbaijan: Comparison with Mongolian and Norwegian experience". Ingilab Ahmadov, the director of Khazar University Eurasia Extractive Industries Knowledge Hub; Gubad Ibadoglu, the leading analyst of the Economic Research Centre; Delgermaa Boldbaatar, PR Manager for the Mongolian EITI Secretariat and the international consultant Abdul Omar were involved in preparation of the position paper of the ITEI NGO Coalition.

6 In more detail: "Adaptation of Memorandum to the new EITI Standard" section

Last year the ITEI Coalition experts also prepared the policy suggestions about identification of possibilities of impact of new regulations on report improvement, evaluation of changes arising from its implementation and impact of Dodd Frank Act of the USA Senate on EITI reports of Azerbaijan. One of the main activities of the Coalition last year was adaptation of draft Law on “Extractive Industries Transparency Initiative” prepared by the ITEI Coalition in 2010 to the Azerbaijan Republic Law on Statutory documents of 2013 and, at the same time, to the EITI Standards and preparation and submittal for discussions of the new edition of this draft Law.

ITEI NGO Coalition conducted General Meeting and elected new Council and MSG members on 13 December 2013.

According to the position of ITEI NGO Coalition, main challenges of ITEI NGO Coalition were related to the increasingly limited activity environment for NGO’s. Thus, after approval of amendments and modifications made by the Milli Majlis to the NGO Legislation on 13 December 2013, the administrative interferences to NGO activities and number of hindrances for organization of public discussions by NGO’s have increased. If NGOs had difficulties to organize events in regions till 2013, at present it is problematic even to rent conference halls in Baku.

EITI Secretariat:

In 2013 EITI Secretariat of Azerbaijan executed decisions made by MSG, rendered organizational and coordinative support to the parties and maintained regular contact with them, responded to the inquiries of the entities and organizations, which are not direct participants of EITI and performed other functions, as well as participated in local and international EITI and related events.⁷

In 2013 the representatives of the Secretariat participated in 3 EITI Board meetings, in “EITI communication” training held in Germany, in the workshop on EITI Standard held in Astana.

⁷ You can review 2013 budget of the EITI local Secretariat in Appendix 4.

Activity of the Work Group in 2013 with regard to adaptation of the Memorandum to the EITI Standard

On 23-24 May 2013 the 6th Global EITI Conference held in Sydney, Australia has adopted a new Standard to regulate EITI activities of implementing countries. The adopted Standard was the result of joint consultations and collaboration of the International EITI Board and EITI parties and was based on long-term experience of EITI countries in this field. EITI Standard encourages giving more reliable, suitable and necessary information to the population, paves the way for more large-scale reforms.

There was a necessity of adaptation of the Memorandum as a main document regulating the implementation of EITI in Azerbaijan and the Work Group consisting of the MSG members (2 people from ITEI Coalition, 2 people from the Companies Group, 2 people from EITI Commission) continued its activity in 2011.

In 2013 the Work Group held up to 10 meetings and the periodic discussions continued in electronic format. The meetings mainly consisted of the intense discussions about complete renewal of the Memorandum in accordance with the EITI Standard, improvement of the amendments to the Memorandum, especially reporting templates, the questionable cases were resolved in reference to the international experience. In December 2013 the Memorandum and amendments were redeveloped in accordance with the new Standard and submitted to the MSG.

Improvements on EITI in accordance with the recommendations of Validator and Auditor

In 2013 the works on improvement and upgrade of the EITI reporting content in our country continued. During the planning and implementation of these works the recommendations of the Auditor were also taken into account and active participation of all three EITI parties was observed. Enhancement of the information included in the reporting templates, as well as their renewal in accordance with the filling instructions were discussed and executed within the framework of numerous meetings of the Work Group held in 2013. These documents were completely updated in connection with the transition of the country to the new Standard and were submitted to the MSG.

International auditing of the figures approved by the Government and the companies in the EITI reports was one of the issues causing numerous discussions among the MSG members. The said issue was resolved by the implementation of the “spot check” (100% inspection of the certain number of organizations selected by the auditor as an example among the companies and state authorities). The “spot check” was considered as the most appropriate solution based on continuous correspondence and discussions among the MSG members, auditor and the EITI International Secretariat and based on the analysis of the existing situation in Azerbaijan.

Discussions with responsible technical representative of reporting entities were intended to reduce the mistakes in EITI reporting and to increase overall quality and this issue was once more discussed in the workshop on EITI Standard with relevant auditor presentation.

Immediately after successful Validation of Azerbaijan in 2009 the recommendations of the Validator started to be implemented and were completed within short period of time. Since, the works on continuous deepening of the EITI in the country were continued in ascending line. At present Azerbaijan has functional Multi-stakeholder Group where each EITI party is equally represented. The MSG operates on the basis of Work Plan reflecting measurable targets, main objectives and exact durations. The Initiative is steadily implemented as a result of cooperation of the extractive companies, non-government entities and government representatives and EITI reports are regularly disclosed to public.

Events

Visit of Afghani delegation

The delegation of Afghanistan consisting of the EITI. Multi-stakeholder group members visited Baku on 7 May 2013. During this visit the delegation met with the Chairman of EITI Commission Shahmar Movsumov and representatives of EITI Secretariat, studied the experience of Azerbaijan in revenue management gained from the Azerbaijan extractive industry and assurance of transparency.

The delegation of EITI Multi-stakeholder group of Afghanistan met with BP representatives.



EITI Global Conference in Sydney and National Exhibition within the Conference framework

The 6th Global Conference on EITI was held on 23-24 May 2013 in Sydney, Australia. Azerbaijan was represented with a big delegation in the conference. The meetings of the International EITI Board were held at the same time with the conference.

The Azerbaijan stand in the National Exhibition held within the framework of the conference gave the participants not only general information like the history of our country, geographical features, but also the information about the natural resources extracted in the country, revenues gained from these resources and leading role of our country in EITI. Various print and distribution materials were presented to the exhibition participants.



Workshop organized by the Revenue Watch Institute

On 23 September 2013 the Revenue Watch Institute (RWI) organized a workshop for civil society together with MSG Coalition. The workshop was organized before events week related to the EITI in order to prepare the civil society to the discussions about the Standard. The RWI instructions about the Standard were presented to the participants. The draft position document of the civil society was prepared at the end of the workshop. The document reflected the priorities selected with regard to the transition of the civil society to the new Standard.

Meeting organized by the RWI and OSCE Baku Office

On 24 September 2013 the Revenue Watch Institute and OSCE Baku Office organized a meeting with participation of the MSG parties with regard to the comparative analysis of EITI implementation in Azerbaijan, Norway and Mongolia and to the transition to the new regulations. In the meeting 4 experts - Gubad Ibadoglu, Delgermaa Boldbaatar, Abdul Omar and Ingilab Ahmadov made presentations related to the implementation of the EITI in various countries. The presentations also noted the advantages of the EITI and the necessity of transition to the new Standard. The meeting underlined the improvement of the potential of the MSG and civil society as a necessary element of the implementation of the EITI.

Workshop for the EITI parties about the new Standard

On 25 September 2013 the State Oil Fund of the Republic of Azerbaijan and OSCE jointly organized a training program for local and foreign companies engaged in extractive industry of Azerbaijan, the members of NGO Coalition. The main objective of the training was informing the parties about changes and analysis of the novelties related to the transition of Azerbaijan to the new EITI Standard, increase of quality of reporting and mitigation of mistakes made by the companies and comparative analysis of the Standard with the legislation of the Republic of Azerbaijan. Both local representatives and foreign experts participated in the workshop.

International conference dedicated to the 10th anniversary of Azerbaijan joining the EITI

On 26 September 2013 the State Oil Fund of the Republic of Azerbaijan has organized an international conference “Azerbaijan 10 years in the EITI. From history to a new step” dedicated to the 10th anniversary of Azerbaijan joining the EITI.

The main purpose of the conference was to discuss the recent global changes and discussions around the EITI, challenges and perspectives of transition to the new EITI Standard, successes achieved by Azerbaijan in 10 years of implementation of the EITI and to enable further development of the EITI, to share the EITI experience of Azerbaijan with other countries.



Debate in “Open Government” program of Azadlig Radio related to the transition of Azerbaijan to the new Standard

“Open Government” program of the Azadlig Radio broadcasted on 28 September 2013 coincided with EITI week in Azerbaijan; the program was aired after the conference dedicated to the 10th anniversary of EITI held by the government on 26 September. The main question of the program was “Are the extractive revenues of Azerbaijan transparent enough?” and the main focus was on transition of Azerbaijan to the new Standard. The MSG Coalition coordinator Zohrab Ismayil and the member of the International EITI Board Gubad Ibadoglu participated in the program. The expert of the Revenue Watch Institute Alexander Gilles also responded to the questions of Azadlig Radio and shared his thoughts during his visit to Baku.

General Meeting of the ITEI NGO Coalition

General Meeting of the Improving Transparency in Extractive Industry (ITEI) Coalition was held on 13 December 2013. 71 entities - coalition members participated in this event held in Kempinsky Hotel Badamdar. The ambassador of the United States of America Richard Morningstar, country director of the World Bank Larisa Leshchenko, and Eurasian coordinator of Publish What You Pay (PWYP) international coalition Olliana Vlaigura, as well as representatives of the EITI Secretariat and MSG entities were among the guests. Moreover, with support of the OSCE an international consultant (Abdul Omar) and 2 local experts (Ingilab Ahmadov and Gubad Ibadoglu) were involved to the project of assessment of the 10 year period of EITI in Azerbaijan, and the project also supported the involvement of the expert from Mongolia (Delgermaa Boldbaatar). The experts prepared a position document comparative with the experience of Norway and Mongolia. The General Meeting presented the participants the position document related to the EITI development in Azerbaijan and the works performed in the MSG with regard to the transition to a new standard.

Debate in Azadlig Radio

On 28 December 2013 the Open Government program of Azadlig Radio broadcast live “EITI new standard” debate and posted youtube video within the framework of the “National and regional TV, media, internet and social network campaigns in connection with the 10th anniversary of the EITI” project. 2 experts of the Coalition (Ilham Shaban and Zohrab Ismail), as well as the head of the EITI Secretariat Farid Farzaliyev and head of the Transparency and Public Reporting team of BP Araz Yusubov were among the guests of the program.

Appendix 1

2013 Work Plan for implementation of Extractive Industries Transparency Initiative (EITI) in the Republic of Azerbaijan

Agreed by the Multi-Stakeholder Group (MSG) (Government Commission, NGO Coalition, local and foreign companies operating in extractive industries)

Purpose	Actions	Implementation period	Implementation	Executor						Expected outcome	
				MSG ⁹	Secretariat ¹⁰	Committee ¹¹	Companies ¹²	NGOs ¹³	Other		
1. Preparation and disclosure of the annual EITI report covering year 2012	1.1. Placing a tender announcement in the official government newspaper and the websites of the State Oil Fund and EITI Azerbaijan about the selection of internationally recognized auditor for collation of EITI reports	23rd January	The announcement was placed.		*						Informing the community about the country's revenues from extractive industries
	1.2. Sending invitation letters to the internationally recognized auditors to participate in tender	24th January	Invitation letters were sent.		*	*					
	1.3. Selection of auditor for collation and analysis of EITI reports	13th February	Auditor was selected.	*							
	1.4. Signing contract with auditor	21st February	Contract was signed.			*					
	1.5. Sending reporting forms to local and foreign companies	22nd February	Reporting forms were sent.		*	*					
	1.6. Deadline for submission of Government's, local and foreign companies' reports to the auditor	15th March	Reports were submitted.			*	*				
	1.7. Disclosure of Government's report on aggregated receipts and placement of the auditor's opinion on the websites of the State Oil Fund, the EITI Secretariat of Azerbaijan Republic, NGO Coalition and International Secretariat of EITI	10th June	Auditor's Opinion was submitted and placed on appropriate websites	*	*			*	Auditor		
	1.8. Publication of the Government's report in the official newspaper	12th June	Report was published		*						
	1.9. NGO Coalition's presentation of its opinion about the annual reports to the MSG members, discussion on the reports	23rd September	Coalition's opinion was submitted and discussed	*				*	Auditor		

9 Multi-stakeholder Group on EITI

10 EITI Secretariat of Azerbaijan

11 National Committee on EIT

12 Group of local and foreign extractive industry companies

13 Coalition of Azerbaijan Civil Society Institutions for Improving Transparency in the Extractive Industries

Purpose	Actions	Implementation period	Implementation	Executor						Expected outcome
				MSG ⁹	Secretariat ¹⁰	Committee ¹¹	Companies ¹²	NGOs ¹³	Other	
1. Preparation and disclosure of the annual EITI report covering year 2012	1.10. The publication of EITI report incorporating by the Government's report, Independent Accountants' Report and Statement by the NGO Coalition (EITI Report 2012)	30th December	Not completed	*	*					Informing the community about the country's revenues from extractive industries
	1.11. Discussion of the EITI report outcomes on TV channel	27th December	Not completed	*						
2. Preparation and publication of the annual report covering EITI activities in Azerbaijan during year 2012	2.1. Discussion of the EITI annual report	25th January	Initial discussions were conducted	*						Reporting to the community about the EITI activities during the 2012 year
	2.2. Deadline for collecting the materials from MSG members	15th February	Materials were collected.	*	*					
	2.3. The discussion and approval of the draft annual report	15th April	The draft was approved.	*						
	2.4. Disclosure and placement of approved report on the EITI Azerbaijan website	6th June	Report was placed on the web-site.		*				Executing company	
	2.5. Publication of disclosed report	20th May	The report was published		*				Executing company	
3. Outreach initiatives to increase awareness about EITI in Azerbaijan and abroad	3.1. Distribution of printed materials (brochures, booklets)	In the course of Year	Distribution of printed materials is carried out.	*	*					Increased awareness about EITI process in local and international society, peer learning
4. Share of experience at international level	4.1. Participation at the EITI events abroad (conferences, seminars, trainings, exhibitions, exchange programs and etc.)	In the course of Year	The EITI events are attended.	*	*	*	*	*		Dissemination at the international level of information on the implementation of EITI in Azerbaijan, learning foreign experience
5. Organization of the EITI international conference in Azerbaijan	5.1. Discussion on the issue of conduction of the conference	25th January	Conduc-tion of the Conference was discussed.	*						Spreading the information about Azerbaijan's EITI experience, improve international relationships of MSG, getting familiar with other countries' EITI experience
	5.2. Discussion on progress in preparation for the Conference	15th April	Preparation work was discussed.	*				*		
	5.3. Conduction of the Conference	26September	Conference was held							

Purpose	Actions	Implementation period	Implementation	Executor						Expected outcome
				MSG ⁹	Secretariat ¹⁰	Committee ¹¹	Companies ¹²	NGOs ¹³	Other	
6. Participation of Azerbaijan at the Global Conference on EITI	6.1. Discussion on the preparation for the Global Conference and National Exhibition	25th January	Preparations for the Global Conference were discussed.	*						International promotion of Azerbaijan's EITI process, development of implementation of the Initiative, exchange of experience
	6.2. Preparation for Global Conference	15th April	Tasks for preparation were defined.	*	*					
	6.3. Participation in the Global Conference and National Exhibition	22-24th May	Attended.		*	*	*	*		
7. Raising awareness of Azerbaijan's community about EITI	7.1. Round tables at universities	In the course of Year	Not completed	*	*			*		Raising awareness of citizens
	7.2. Round tables in regions	In the course of year	Not completed					*		
	7.3. Round tables on central and regional TV channels	In the course of year	Not completed					*		
	7.4. Preparation and production of particular printed materials (brochures, booklets, books)	In the course of year	The brochure about EITI Implementation in Azerbaijan was published		*			*		
8. Conduction of training on EITI reporting and The New Standard for Group of companies and NGO's representatives	8.1. Preliminary discussions on organization of the training	10th June	Preliminary discussions were conducted	*						Increasing the quality of EITI reporting and increasing of awareness about the New Standard
	8.2. Conduction of the training	25th September	The training was held		*				Auditor, Law Company, EITI International Board	
9. Discussion of the Work plan for 2014	9.1. Preliminary Discussion on 2014 Work Plan	25th November	The draft Work plan was discussed	*	*					
	9.2. Approval of the Work Plan for 2014	3rd December	The Work plan was approved	*	*					
10. Preparation of Memorandum conformed to the New Standard	10.1. Preliminary discussion of the draft Memorandum prepared by Working Group	7th November	Memorandum was discussed	*	*	*	*	*		
	10.2. Continuation of discussions on the new draft Memorandum	25th November	Draft Memorandum was discussed	*	*	*	*	*		
	10.3. Discussion of appendixes of the new Memorandum	3rd December	Appendixes were discussed	*	*	*	*	*		

Note: All the suggestions should be communicated to all the MSG members not later than 10 days prior to the corresponding discussion.

Planned MSG meetings for 2013	Issues included to the Work Plan
25 January	2.1. 5.1. 6.1.
13 February	1.3.
15 April	2.3. 5.2. 6.2.
10 June	1.7. 8.1.
23 September	1.9.
7 November	10.1.
25 November	9.1. 10.2.
3 December	9.2. 10.3.

Appendix 2

2013 meetings and accepted decisions of MSG

Dates of MSG meetings	Agenda	Adopted decisions
30 January	<ol style="list-style-type: none"> <li data-bbox="391 764 699 856">1. Discussions with regard to the annual report on implementation of the EITI in Azerbaijan. <li data-bbox="391 867 699 940">2. Discussions of preparation works for International EITI conference in Azerbaijan. <li data-bbox="391 951 699 1003">3. Discussions of report on MSG decrees on EITI (December 2012 - January 2013); <li data-bbox="391 1014 699 1108">4. Discussion of preparation works for global conference and National Exhibition to be held within the conference framework <li data-bbox="391 1119 699 1192">5. Discussion of the material payments in extractive industry of Azerbaijan; 	<ul style="list-style-type: none"> <li data-bbox="699 764 1461 816">• The MSG members to submit suggestions and related information (photos, texts, other pictures, etc.) on annual report for EITI implementation in Azerbaijan in 2012 to the Secretariat by 15 February, 2013. <li data-bbox="699 827 1461 879">• The annual report on implementation of EITI in Azerbaijan in 2012 shall not include the quotes of the MSG members and analysis of EITI reports. <li data-bbox="699 890 1461 942">• The MSG members to submit suggestions with regard to the contents of EITI International Conference to be held in Azerbaijan on the occasion of the 10th anniversary of the country joining EITI by 28 February 2013. <li data-bbox="699 953 1461 1005">• Responses to the letters addressed to companies with regard to the disclosure of PSA context and individual EITI reports shall be discussed in next meetings. <li data-bbox="699 1016 1461 1068">• The MSG members to give their suggestions with regards to Azerbaijan participation in the National Exhibition within the framework of the 6th Global Conference in Sydney by 28 February 2013. <li data-bbox="699 1079 1461 1131">• Immediately start works with a professional company for the preparation to the National Exhibition. <li data-bbox="699 1142 1461 1194">• The EITI Secretariat is to clarify printing issues of Exhibition materials in Sydney with the International Secretariat. <li data-bbox="699 1205 1461 1257">• The EITI Secretariat to verify the deductions to the State Social Protection Fund in 2012 and to submit the information to the MSG members. <li data-bbox="699 1268 1461 1320">• Material EITI payments are to be confirmed on a one-time basis as follows subject to bringing forward at any time by the initiative of any party. <li data-bbox="699 1331 1461 1383">• "The level of materiality of income (in physical and monetary terms) transferred to the Azerbaijan government by all local and foreign companies engaged in extractive works in Azerbaijan shall be defined at following two levels: <ol style="list-style-type: none"> <li data-bbox="699 1394 1461 1446">1. Definition of material income sources included in the report; MSG considers the following as an important income source: <ul style="list-style-type: none"> <li data-bbox="699 1457 1461 1488">- in physical and monetary terms in oil production, <li data-bbox="699 1499 1461 1530">- natural and stripped gas in physical and monetary terms, <li data-bbox="699 1541 1461 1572">- main and precious metals in physical and monetary terms, - profit tax, <li data-bbox="699 1583 1461 1614">- signature and other bonuses, <li data-bbox="699 1625 1461 1656">- acre payments and transit fees, <li data-bbox="699 1667 1461 1719">- royalty, value added tax, land tax, property tax, difference in price, other taxes (with exception of income tax of individuals, deductions to the State Social Protection Fund and withholding tax) These income sources cover more than 99 percent (99.99%) of the income received from state extractive works. <li data-bbox="699 1730 1461 1782">2. Amount/volume limit for each defined income source. Any receipt of the Azerbaijan government from above sources in the amount/volume exceeding zero (0) is considered important."
	6. Other matters	<ul style="list-style-type: none"> <li data-bbox="699 1619 1461 1671">• The EITI Secretariat to submit support letter to MSG members with regard to the participation of MSG in 6th Global Conference and National Exhibition. <li data-bbox="699 1682 1461 1734">• After selection of the audit firm that will collate EITI reports for next period, the MSG members will be presented the "selection" method implementation ways. The matter of approval of the methodology is to be discussed again in the next MSG meeting.

Dates of MSG meetings	Agenda	Adopted decisions
13 February	<ol style="list-style-type: none"> 1. Selection of the audit firm to collate and analyse EITI reports covering 2012, 2013 and 2014. 2. Other matters. 	<ul style="list-style-type: none"> • Moore Stephens, an audit firm, to be announced a winner that will compare and analyse EITI reports covering 2012, 2013 and 2014. • Take into account deadlines set for submittal to the secretariat of the suggestions and information with regard to National EITI Exhibition to be in Sydney, 2012 report on implementation of EITI in Azerbaijan and International EITI Conference to be held in Azerbaijan.
15 April	<ol style="list-style-type: none"> 1. Discussion and approval of the draft annual report on EITI implementation in Azerbaijan. 2. Discussion of preparation works for the International Conference to be held in Azerbaijan. 3. Discussion of preparation works for EITI and 6th Global Conference. 4. Discussions of deductions to the State Social Protection Fund for 2011 and 2012. 	<ul style="list-style-type: none"> • The secretariat to start publishing the annual report on implementation of EITI in Azerbaijan for 2012 taking into account all corrections and suggestions made in the meeting. • EITI Secretariat is to define the preliminary schedule of EITI International Conference to be held in Azerbaijan and send to MSG members. • MSG members to give their suggestions about conference agenda to the secretariat according to this schedule by 25 April 2013 • Finalize the preparation works for National Exhibition to be held within the 6th Global Conference considering the suggestions made at the meeting. • Payments made to the State Social Protection Fund (SSPF) by the local and foreign companies engaged in oil, gas and mining industry in Azerbaijan shall not be included in the EITI report for 2012. • Starting from the next year, payments made by local and foreign companies engaged in oil, gas and mining production in Azerbaijan to the SSPF shall be analysed on annual basis.
10 June	<ol style="list-style-type: none"> 1. Disclosure of the reports of EITI Commission and Independent Accountants (for 2012). 2. Discussion of newly adopted EITI Standard and transition to the standard. 3. Discussion of preparation works for the EITI International Conference to be held in Azerbaijan. 4. Discussion of a new EITI Memorandum. 5. Other matters. 	<ul style="list-style-type: none"> • Consider the reports of EITI Commission and Independent Accountants (for 2012) disclosed. • Ensure participation of NGO Coalition members in MSG in selection of companies to be inspected 100% (stage of increase of confidence) by the auditor starting from the next reporting year of the EITI (reports covering 2013). • Publish press release covering the disclosure of the reports of EITI Commission and Independent Accountants (for 2012). • Azerbaijan to start the implementation of the new EITI Standard as soon as possible. • EITI Secretariat to inform the International Secretariat about the support by the MSG of the International Secretariat suggestion for transition of Azerbaijan from evaluation to EITI standard mainly in 2015. • Involve a specialized law firm to the analysis of conformance of the new EITI Standard to the legislation of the Republic of Azerbaijan. • Moore Stephens and the specialist law firm involved for analysis of the new EITI Standard shall organise workshops related to the new Standard for the EITI members in the beginning of September this year. • Coordinators shall submit the list of representatives of the Companies Group and NGO Coalition to participate in the International Conference to be held in Baku to the EITI secretariat by 21 June 2013. • The EITI Secretariat shall ensure the venue for the Conference. • The EITI Secretariat shall prepare final list of invitees to the Conference and the text of the invitation letters taking into account the suggestions made in the meeting. • MSG members S. Baghirov and A. Yusubov shall edit and prepare final draft version of Conference program. • A specialised firm shall be involved to the organization of the EITI International Conference in Baku. • MSG member S. Baghirov shall review, make appropriate corrections to the draft Memorandum and submit to MSG members by 18 June 2013. • The Working Group shall continue integration of the new EITI Standard to the Memorandum after signing of the Memorandum. • Updated Work plan shall be posted on EITI Azerbaijan web site. • Action due date in Work Plans shall be shown in increments starting from the next year. An additional column shall be added to the Work plan to record the actual execution date.

Dates of MSG meetings	Agenda	Adopted decisions
23 September	<ol style="list-style-type: none"> 1. Presentation of the NGO Coalition opinion on the reports of EITI Commission and Independent Accountants (for 2012). 2. Discussion of preparation works for the International Conference to be held in Azerbaijan. 3. Discussion of a draft Memorandum. 4. Discussion of legal opinion on the EITI Standard, transition to Standard and next Validation. 	<ul style="list-style-type: none"> • Consider the 2012 Report of the EITI Commission of NGO Coalition (the 17th Report) and opinion on the Independent Auditors' Report submitted and discussed. • Finalize the works on publication of the EITI report for 2012 • EITI Secretariat is to finalize other incomplete works related to the organization of EITI International Conference to be held in Azerbaijan. • MSG member Z. Fatizadeh shall be included in the Working group on drafting of Memorandum. • Final draft Memorandum shall be submitted to the MSG on 21 October 2013 for agreement with all EITI parties. • The Secretariat shall send the legal opinion on conformance of the new EITI Standard to Azerbaijan legislation to the International Secretariat.
7 November	<ol style="list-style-type: none"> 1. Discussion of a draft version of a new Memorandum. 2. Discussion of a new draft Work Plan on MSG activity. 3. Discussion of the results of the EITI reports for 2012 in TV program. 	<ul style="list-style-type: none"> • Continue works on improvement of the Memorandum taking into account the suggestions made in the meeting. • Reconsider the draft Memorandum reflecting expressed changes and additions in the next MSG meeting. • Include discussion of a draft EITI Work Plan of MSG for 2013 in the agenda of the next MSG meeting. • Include discussion of the results of the EITI reports for 2012 in TV program in the agenda of the next MSG meeting.
25 November	<ol style="list-style-type: none"> 1. Discussion of a draft version of a new Memorandum. 2. Discussion of a new draft Work Plan on MSG activity. 3. Discussion of the results of the EITI reports for 2012 in TV program. 	<ul style="list-style-type: none"> • Continue works on improvement of the Memorandum taking into account the suggestions made in the meeting. • Reconsider the draft Memorandum reflecting expressed changes and additions in the next MSG meeting. • Set the deadline for submittal of the opinions and suggestions of parties on MSG draft EITI Work Plan for 2014 to 2 December 2013. • Adopt MSG draft EITI Work Plan for 2014 as a main plan and submit to the next MSG meeting for final approval with included opinions and suggestions of parties. • EITI Secretariat shall send letters to two TV channels operating in Azerbaijan with regard to the broadcast of EITI implementation in Azerbaijan in one of the TV channels.
3 December	<ol style="list-style-type: none"> 1. Discussion of a new draft Work Plan on MSG activity. 2. Continuation of the draft New Memorandum discussion. 3. Other matters. 	<ul style="list-style-type: none"> • The Secretariat shall send the final draft version of MSG Work Plan for 2014 to all MSG members taking into account the suggestions made in the meeting. In case if no suggestion or correction is received from the members within 1 week after distribution of the document, the Work Plan shall be deemed accepted and shall be posted on the official web page of EITI Azerbaijan. • Continue works on improvement of the Memorandum taking into account the suggestions made in the meeting. • MSG chairman Sh. Movsumov, MSG members A. Yusubov, Z. Fatizadeh, S. Baghirov and the Coalition coordinator Z. Ismail shall meet to finalize the Memorandum on 10 December 2013. • MSG member A. Yusubov shall take poll to find out the attitude of companies to submittal of VAT reports. • Consider MSG Work Plan for 2013 executed.

Appendix 3

Validation of the EITI Implementation in Azerbaijan in 2013 against the EITI Rules and EITI Standard

As in many countries implementing EITI, EITI implementation in Azerbaijan in 2013 was remembered with innovations and changes. So that, our country performed reporting for 2013 in accordance with EITI Rules and started planning future activities as per the requirements of the EITI Standard adopted mid-year (renewed regulatory document replacing EITI Rules).

In 2013 Azerbaijan performed the EITI activity in full conformity with EITI Rules. Last year our country was one of the first countries transiting to a new Standard and in 2015 it will switch from Validation to a new Standard accordingly. Considering the above, the Validation of EITI implementation and reporting for 2013 was performed in accordance with both EITI Rules and separate requirements of EITI Standard (Tables 1 and 2).

Table 1

Requirements of EITI Rules	Progress of Azerbaijan per requirement
1. The government is required to issue an unequivocal public statement of its intention to implement the EITI.	+
2. The government is required to commit to work with civil society and companies on the implementation of the EITI.	+
3. The government is required to appoint a senior individual to lead on the implementation of the EITI.	+
4. The government is required to establish a multi-stakeholder group to oversee the implementation of the EITI.	+
5. The multi-stakeholder group, in consultation with key EITI stakeholders, should agree and publish a fully costed work plan, containing measurable targets, and a timetable for implementation and incorporating an assessment of capacity constraints.	+
6. The government is required to ensure that civil society is fully, independently, actively and effectively engaged in the process.	+
7. The government is required to engage companies in the implementation of the EITI.	+
8. The government is required to remove any obstacles to the implementation of the EITI.	+
9. The multi-stakeholder group is required to agree a definition of materiality and the reporting templates.	+
10. The organisation appointed to produce the EITI reconciliation report must be perceived by the multi-stakeholder group as credible, trustworthy and technically competent.	+
11. The government is required to ensure that all relevant companies and government entities report.	+
12. The government is required to ensure that company reports are based on accounts audited to international standards.	+
13. The government is required to ensure that government reports are based on accounts audited to international standards.	+
14. Companies comprehensively disclose all material payments in accordance with the agreed reporting templates.	+
15. Government agencies comprehensively disclose all material revenues in accordance with the agreed reporting templates.	+
16. The multi-stakeholder group must be content that the organisation contracted to reconcile the company and government figures did so satisfactorily.	+
17. The reconciler must ensure that the EITI Report is comprehensive, identifies all discrepancies, where possible explains those discrepancies, and where necessary makes recommendations for remedial actions to be taken.	+
18. The government and multi-stakeholder group must ensure that the EITI Report is comprehensible and publicly accessible in such a way as to encourage that its findings contribute to public debate.	+
19. Oil, gas and mining companies must support EITI implementation.	+
20. The government and multi-stakeholder group must take steps to act on lessons learned, address discrepancies and ensure that EITI implementation is sustainable. Implementing countries are required to submit Validation reports in accordance with the deadlines established by the Board.	+
21. Compliant countries must maintain adherence to all the requirements in order to retain Compliant status.	+

Table 2

Requirements of EITI Standard	Progress of Azerbaijan per item
1. The EITI requires effective oversight by the multi-stakeholder group.	
The government is required to issue an unequivocal public statement of its intention to implement the EITI.	+
The government is required to appoint a senior individual to lead the implementation of the EITI.	+
The government is required to commit to work with civil society and companies, and establish a multi-stakeholder group to oversee the implementation of the EITI.	+
The multi-stakeholder group is required to maintain a current work plan, fully costed and aligned with the reporting and Validation deadlines established by the EITI Board.	+
2. The EITI requires timely publication of EITI Reports.	
Implementing countries are required to produce their first EITI Report within 18 months of being admitted as an EITI Candidate. Thereafter, implementing countries are expected to produce EITI Reports on an annual basis.	+
EITI Reports must cover data no older than the second to last complete accounting period, e.g. an EITI Report published in calendar/financial year 2014 must be based on data no later than calendar/financial year 2012. Multi-stakeholder groups are encouraged to explore opportunities to publish EITI Reports as soon as practically possible. In the event that EITI reporting is significantly delayed, the multi-stakeholder group should take steps to ensure that EITI Reports are issued for the intervening reporting periods so that every year is subject to reporting.	+
The multi-stakeholder group is required to agree the accounting period covered by the EITI Report.	+
3. The EITI requires EITI Reports that include contextual information about the extractive industries.	
Compiling contextual information.	*
The EITI Report must describe the legal framework and fiscal regime governing the extractive industries.	*
The EITI Report should provide an overview of the extractive industries, including any significant exploration activities.	*
The EITI Report must disclose, when available, information about the contribution of the extractive industries to the economy for the fiscal year covered by the EITI Report.	*
The EITI Report must disclose production data for the fiscal year covered by the EITI Report, including:	*
Where state participation in the extractive industries gives rise to material revenue payments, the EITI Report must include:	*
a) An explanation of the prevailing rules and practices regarding the financial relationship between the government and state-owned enterprises (SOEs), e.g. the rules and practices governing transfers of funds between the SOE(s) and the state, retained earnings, reinvestment and third-party financing.	
b) Disclosures from SOE(s) on their quasi-fiscal expenditures such as payments for social services, public infrastructure, fuel subsidies and national debt servicing. The multi-stakeholder group is required to develop a reporting process with a view to achieving a level of transparency commensurate with other payments and revenue streams, and should include SOE subsidiaries and joint ventures.	
c) Disclosures from the government and SOE(s) of their level of beneficial ownership in mining, oil and gas companies operating within the country's oil, gas and mining sector, including those held by SOE subsidiaries and joint ventures, and any changes in the level of ownership during the reporting period. This information should include details regarding the terms attached to their equity stake, including their level of responsibility to cover expenses at various phases of the project cycle, e.g. fully-paid equity, free equity, carried interest. Where there have been changes in the level of government and SOE(s) ownership during the EITI reporting period, the government and SOE(s) are expected to disclose the terms of the transaction, including details regarding valuation and revenues. Where the government and SOE(s) have provided loans or loan guarantees to mining, oil and gas companies operating within the country, details on these transactions should be disclosed in the EITI Report.	
The EITI Report must describe the distribution of revenues from the extractive industries.	*
The multi-stakeholder group is encouraged to include further information on revenue management and expenditures in the EITI Report, including:	*
Registration of licenses	*
Allocation of licenses	*
Beneficial ownership	*
Contracts	*

Requirements of EITI Standard	Progress of Azerbaijan per item
4. The EITI requires the production of comprehensive EITI Reports that include full government disclosure of extractive industry revenues and disclosure of all material payments to government by oil, gas and mining companies.	
Defining the taxes and revenues to be covered in the EITI Report	+
Sale of the state's share of production or other revenues collected in kind:	*
Infrastructure provisions and barter arrangements:	*
Social expenditures:	*
Transportation	+
Defining which companies and government entities are required to report	+
5. The EITI requires a credible assurance process applying international standards.	
Appointment of the Independent Administrator	+
Agreement of Independent Administrator's Terms of Reference	+
Assessment and recommendations from the Independent Administrator	+
The multi-stakeholder group should endorse the EITI Report prior to its publication.	*
The EITI Report must describe the distribution of revenues from the extractive industries.	*
The multi-stakeholder group is encouraged to include further information on revenue management and expenditures in the EITI Report, including:	*
Registration of licenses	*
Allocation of licenses	*
Beneficial ownership	*
Contracts	*
6. The EITI requires EITI Reports that are comprehensible, actively promoted, publicly accessible, and contribute to public debate.	
The multi-stakeholder group must ensure that the EITI Report is comprehensible, actively promoted, publicly accessible and contributes to public debate.	+
The multi-stakeholder group is encouraged to make EITI Reports machine readable, and to code or tag EITI Reports and data files so that the information can be compared with other publicly available data.	*
7. The EITI requires the multi-stakeholder group to take steps to act on lessons learnt and review the outcomes and impact of EITI implementation.	
The multi-stakeholder group is required to take steps to act upon lessons learnt; to identify, investigate and address the causes of any discrepancies; and to consider recommendations for improvement from the Independent Administrator.	+
The multi-stakeholder group is required to review the outcomes and impact of EITI implementation on natural resource governance.	+

Appendix 4

2013 expenses of the EITI Secretariat

EITI - Publishing house	29,709.14
EITI - Business trip	11,003.50
EITI - Audit	37,323.40
EITI - Conference	12,041.26
Total	90,077.30

Appendix 5

Non-governmental Organisations participating in Azerbaijan EITI

1. "Aran" Environmental Enlightenment Public Union
2. "Aran" Human Rights Resource centre (Shirvan)
3. "Assistance to Social and Cultural Development of the Youth" Public Union
4. "Care for the Elderly Intellectuals" Public Union
5. "Caspian Barrel" Research Center
6. "Constitution" Researches Fund
7. "Democratic Society, Election and Monitoring of Media"
8. "Development Society and Civil Relations" Public Union
9. "ELS" Independent Research Center
10. "Guzaran" Social Investigation Center
11. "Legal Aid Center to Oilmen"
12. "Region" International Analytical Center
13. "Rescuer" Public Union
14. "Return to Native Place" Public Union
15. "Social Assistance for People with Disabilities and Families with Martyrs"
16. The Western Regional Representative of Azerbaijan National Committee of Helsinki Citizens' Assembly
17. "Trust for Future" Care for the Vulnerable People Public Union
18. "Ulduz" Electron Organization
19. "World of Law" Legal Propaganda Public Union
20. "Zengilan" Public Union
21. "Dalga" Environment and Protection of Nature Public Union
22. "Development of Knowledge and Enlightenment" Public Union
23. "Ecolife" Public Union
24. "Progress" Social Development Public Union
25. "Progress" Social Research Public Union
26. "Solidarity Among Women" Public Union

27. "Youth Club" Public Union
28. "Human Right - 2003" Public Union
29. Agro-Industrial Engineers Public Union
30. Azerbaijan Committee for Human Rights and Defense of Freedoms
31. Azerbaijan Independent Teachers Union
32. Azerbaijan National Committee of Helsinki Citizens' Assembly
33. Caucasus International Relations and Strategic Studies Center
34. Caucasus Media Investigations Center
35. Center for Citizen Initiatives and Legislation Improvement
36. Center for Democratic Reforms
37. Center for Economic and Legal Enlightenment of Journalists
38. Center for Economic and Social Development
39. Center for Legal Initiatives
40. Center for Research on Against Torture
41. Center for Studing of Economic Resources
42. Center for Support to Civic Initiatives
43. Center of Political Culture for Azerbaijani Women
44. Center of Women's Problems Research
45. Centre of Equal Opportunities
46. Centre on Legal Initiative for Civil Society
47. Citizens' Labor Rights Protection League
48. Democracy and NGO's development Resource Center
49. Democracy and Women Initiative Public Union
50. Democratic Development and Economic Cooperation Public Union
51. Democratic Development Platform
52. Democratic Initiatives and Social Development Public Union
53. Democratic Institutions and Human Rights Social Union
54. Development Watch Research Center
55. Digital Development Public Union
56. Ecological Renaissance Public Union
57. Ecologist Support to Protection of Environment Public Union
58. Economic and Environment Research Center
59. Economic and Political Research Center
60. Economic and Social Education Center
61. Economic Innovation Center
62. Economic Research Centre
63. Eco-World Public Union
64. Education of the "Young Generation" Public Union
65. Education Research Center
66. Election Researches Centre
67. Electron Election Public Union
68. Enlightenment on Genetic Engineering Public Union
69. Foundation for Defense of Democratic Values
70. Ganja Children Foundation
71. Human Rights and Enlightenment Social Union
72. Human Rights in the Extractive Industry Public Union
73. Humanitarian Research Society
74. Islam, Democracy and Human Rights Center
75. Journalist Initiative Center
76. Karabakh Fighters Association

77. Legal Aid Public Union (Lankaran)
78. Modern Woman and Society Public Union
79. Modern Development and Legal Aid Center
80. Monitor of Democracy Public Union
81. Mughan Human Rights Protection Public Union
82. Multimedia Center
83. Oil Workers' Rights Protection Organization
84. Promotion Human Rights and Law
85. Public Association for Assistance to Free Economy
86. Public Finance Monitoring Center
87. Public Union Civil Society Institute
88. Public Union for Democracy and Ecological Balance
89. Public Union for Solving Social-Economic Problems of Mortar Victims
90. Regional Development and Human Rights Public Union
91. Regional Enlightenment Public Union
92. Regional Garabagh Agriculture Association
93. Regional Gender Centre of
94. Regional Human Rights and Media Center (Barda)
95. Regional Human Rights and Social Research Centre
96. Regional Human Rights and Enlightenment Center
97. Regional Woman Initiatives Public Union
98. Road Construction Monitoring Center
99. Robust Development and Enlightenment Public Unity
100. Social Initiatives and Human Rights Public Union
101. Social Strategic Studies and Analytically Investigations Public Union
102. Society for "Care for Disabled People of Garabagh War"
103. Society for Democratic Reforms
104. Support for Economic Initiatives Public Union
105. Support for Young Poets Public Union
106. Support to Cultural Education and Folklore Activities Public Union
107. Support to Youth Scientific Development Public Union
108. Woman World Public Union
109. Carpet World Association
110. Young Democratic Reformers Public Union

Individuals

1. Hicran Hamidova
2. Arzu Soltan
3. Shamil Movsumov
4. Elmidar Aliyev
5. Dunya Sakit
6. Fuad Rasulov
7. Sadagat Pashayeva
8. Suheylya Jafarova

Appendix 6

Companies participating in Azerbaijan EITI

1. BP Exploration (Caspian Sea) Limited
2. State Oil Company of the Republic of Azerbaijan
3. Total E&P Azerbaijan B.V
4. ITOCHU Oil Exploration (Azerbaijan) Inc.
5. Statoil
6. Turkiye petrolleri A.O. (TPAO)
7. Commonwealth Qobustan
8. Exxon Azerbaijan Limited
9. Hess (ACG) Limited
10. Lukoil Overseas
11. Chevron Khazar LTD
12. Petro-Hong-Kong-Pirsaat Oil Limited
13. Salyan Oil Limited
14. Karasu Operating Company
15. GDF SUEZ E & P ABSHERON B. V.
16. Azgerneft Ltd.
17. Inpex Southwest Caspian Sea LTD
18. Binagadi Oil Operating Company
19. NOVATIS OIL FZE
20. Naftiran Intertrade Co LTD (NICO)
21. Apsheron Investments Ltd
22. Shirvan Operating Company Limited
23. Neftchala Operating Company Limited
24. Azerbaijan International Mining Company (AIMC)
25. Bahar Energy Limited
26. UQE-LANCER PTE. LTD

3. Other host government receipts from foreign companies (including receipts collected through the host state-owned company)

3.1.	Royalties								
3.2.	Profit tax		1476,344						
3.3.	Other tax (excluding employee income tax, social tax and withholding tax)								
3.4.	Signing bonuses and other bonuses	2,359							
3.5.	License fees, entry fees and other considerations for licenses								
3.6.	Other receipts, in total, including:								
	3.6.1. acreage fees	2,335							
	3.6.2. transit fees	10,278							
	3.6.3. dividends								

4. Other host government receipts from local companies

4.1	Taxes:									
	4.1.1 Royalties		119,342							
	4.1.2. Profit tax		15,809							
	4.1.3. Value added tax		108,633							
	4.1.4. Land tax		10,018							
	4.1.5. Property tax		38,128							
	4.1.6. Dividends		369,867							
	4.1.7. Other tax(excluding employee income tax, contributions to the State Social Protection Fund and withholding tax)		2,630							
4.2.	Signing bonuses and bonuses									
4.3.	License fees, entry fees and other considerations for licenses									
4.4.	Other receipts, in total, including:									
		USD dollar (million)	Azerbaijani manat (million)	oil (million barrel)	gas (thousands cubic meters)	gold (thousand ounces)	silver (thousand ounces)	Non-ferrous metals (thousand tonnes)	gold in concentrate of copper (thousand ounces)	silver in concentrate of copper (thousand ounces)
Total:		461,538	2140,771	157,130	2323599,842	6,715	2,601	0,107	0,022	21,136

MOORE STEPHENS

AZERBAIJAN

Azerbaijan Republic

EITI REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

16 July 2015

INDEPENDENT RECONCILERS' REPORT

To the Extractive Industries Transparency Initiative (“EITI”) Committee of the Republic of Azerbaijan:

We have examined the accompanying Statement of the EITI Committee of the Republic of Azerbaijan (henceforth the “Committee”) shown in Annex 1, that the schedule of payments/allocations received during the year ended 31 December 2013 by the Government of the Republic of Azerbaijan (the “Government”) from the extractive industry companies (the “Companies”) is prepared in accordance with the Memorandum of Understanding (MOU), the local and foreign Companies operating in the Extractive Industries of the Republic of Azerbaijan, specified in Annex 2, and the Non-Governmental Organisations and individuals specified in Annex 5 (the “MoU”). The Committee is responsible for the Statement of the Extractive Industries Transparency Initiative. Our responsibility is to express an opinion on the Statement based on our examination.

Except as described in the following paragraph, our examination was conducted in accordance with the International Standards on Auditing and, accordingly, included examining, on a test basis, evidence supporting the Statement of the Committee and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

The information available to test the Statement of the Committee consisted of written submissions by the Companies party to the MoU and the supporting details of payments/allocations received by the Government that were provided by the Committee. Our work did not extend to reviewing all payments/allocations received by the Government nor all payments/allocations made by the Companies. If payments/allocations were made by the Companies but omitted from both the Companies’ and Government’s submissions, our work would be insufficient to detect them.

Summary of Work Performed

To examine the Statement of the Committee (Annex 1) we have compared the schedule of payments/allocations received during the year ended 31 December 2013 by the Government (“Government’s schedule”) and the schedules prepared by the Companies (parties to the MoU) (“Companies’ schedule”) specified in Annex 2. We carried out procedures as considered necessary under the circumstances to determine the reasons for the differences between the above schedules. We have conducted certain assurance procedures by testing the amounts recorded in the Reports submitted by the companies on sample basis. We have applied assurance procedures to several extractive companies.

OPINION OF THE INDEPENDENT RECONCILERS

In our opinion, the accompanying Statement of the EITI Committee of the Republic of Azerbaijan is prepared in accordance with the aforementioned requirements and is fairly stated in all material respects, based on the work described in this report and except for adjustments, if any, which may have been required had we tested all payments/allocations made by the Companies and all payments/allocations received by the Government during the year ended 31 December 2013.

16 July 2015

1. INTRODUCTION

1.1. Background

The EITI supports improved governance in resource-rich countries through the full publication and verification of company payments and government revenues from oil, gas and mining industries. The EITI seeks to create that missing transparency and accountability. It is a voluntary initiative, supported by a coalition of companies, governments, investors and civil society organisations. Alongside other efforts to improve transparency in government budget practice, the EITI begins a process whereby citizens can hold their governments to account for the use of those revenues.

Azerbaijan joined the EITI in 2003 and volunteered to become a pilot country in the implementation of the initiative. Azerbaijan has instituted a regular process of disclosing, reconciling and publishing payments of extractive sector companies to the Government and Government receipts from those companies. The first EITI report in Azerbaijan was published in 2005. This is the 18th EITI Report in Azerbaijan, and covers the year ended 31 December 2013.

Admitted to EITI as a candidate country on 27 September 2007, Azerbaijan was granted the EITI compliant status on 16 February 2009.

In 2013 the EITI implementation in Azerbaijan is mainly focused on implementing the initiative and EITI reporting in the country in accordance with the new EITI Standard, improving readability and comprehensibility of the EITI reports for population, conducting awareness raising activities about EITI and upholding effective dialogue among government, civil society and companies.

1.2. Scope of work

The objective of the Independent Reconciler was to collect, review and reconcile payments by extractive companies with revenues received by the Government from extractive companies for the year ended 31 December 2013 within the agreed scope.

The EITI Report that covered the year of 2013 has been prepared in accordance with the new EITI Standards and hereby the Independent Reconciler has been requested to prepare the contextual information which is required in accordance with the new standards.

The scope of work has been comprised in the following phases, and has been performed in accordance with the TOR approved by the MSG as follows:

- We have collected the completed forms directly from the participating reporting entities and the Commission;
- We have compiled a database with the data provided by the reporting entities and the Commission;
- We have comprehensively reconciled the information disclosed by the reporting entities and the Commission, identifying any discrepancies in accordance with the agreed scope;
- We have contacted the reporting entities and the Commission in seeking to clarify any discrepancies in the reported data;

- We have prepared a draft EITI Report that comprehensively reconciled the information disclosed by the reporting entities and the Commission, identifying any discrepancies; and
- The final report was publicly presented after approved by the MSG.

We set out our findings in this report and associated annexes. The reconciliation procedures carried out were not designed to constitute an audit or review in accordance with International Standards on Auditing or International Standards on Review Engagements and as a result we do not express any assurance on the transactions beyond the explicit statements set out in this report

The report provides an introduction, approach and methodology, contextual information, reconciliation scope and results, attestation process and recommendations for improvement.

1.3. Confidentiality, completeness and accuracy of data

The clause on confidentiality has been included in the contract of the Independent Reconciler with the State Oil Fund of the Azerbaijan Republic dated 21 February 2013.

We completed the collection of the initial reports during the period from July to September 2014. We received all relevant and necessary reports from the companies and government. Upon completion of the submission procedure, we started to analyse and review all given information to identify any unresolved discrepancies. We found numerous discrepancies between the payment templates originally submitted by the extractive companies and the same data provided by the Government.

The number of extractive companies participating in the reconciliation process totalled 38 (thirty eight) foreign and local companies. The list of participating companies is included in the Annex 2 to this report (Annex 2. Extractive companies profile).

All companies that took part in the reconciliation process, have signed the Memorandum of Understanding on implementation of the Extractive Industries Transparency Initiative in the Republic of Azerbaijan and disclosed the information for the reporting period. Only HESS Company did not submitted a reporting template, and the explanation for that was non-inclusion of the company to the Memorandum due to the closure of the company representative branch in the Republic of Azerbaijan. The company did not participate in the reconciliation process and thus could not confirm the completeness of payment made to the Government as profit tax amounting to USD 29.9 mln and according to the government approval the difference has been solved.

1.4. Results of the reconciliation process

The net difference between the payments declared by extractive companies and the Government in Initial Reports and the remaining difference after reconciliation were as follows:

Revenue streams/In kind	Extractive companies	Government	Difference	Final difference
Oil & Gas				
oil (mln US dollars)	84.9	62.7	22.2	-
gas (mln US dollars)	383.8	383.8	-	-
oil (mboe)	157.8	157.1	0.7	-
natural gas (thousand m ³)	-	13,351.8	(13,351.8)	-
associated gas (thousand m ³)	2,167,562.6	2,310,248.0	(142,685.4)	-
Gold & Silver				
gold (thousand ounces)	6.7	6.7	-	-
silver (thousand ounces)	2.6	2.6	-	-
crude gold (thousand ounces)	0.02	0.02	-	-
crude silver (thousand ounces)	21.1	21.1	-	-
crude copper (thousand ounces)	0.1	0.1	-	-
Taxes and other payments				
Profit tax (mln US dollars)	1,838.0	1,881.9	(43.9)	(29.9)
Profit tax (mln manat)	32.8	15.8	17.0	-
Royalty (mln manat)	119.3	119.3	-	-
VAT (mln manat)	108.6	108.6	-	-
Property tax (mln manat)	38.1	38.1	-	-
Land tax (mln manat)	10.0	10.0	-	-
Price change (mln manat)	-	369.9	(369.9)	-
Other taxes (mln US dollars)	0.1	-	0.1	-
Other taxes (mln manat)	866.9	2.6	864.3	-
Acreage fees	2.3	2.3	-	-
Transportation tariff to SOFAZ	3.7	10.3	(6.6)	-
Bonus	2.32	2.36	(0.04)	-

Details of adjustments made to the reporting entities' initial amounts and the unresolved residual differences are presented in Section 5.6 of this report.

2. APPROACH AND METHODOLOGY

2.1. Scoping study

We have merged the scoping study report with the reconciliation process. We have covered the crucial matters which should be considered in determining the coverage of the reconciliation process for the year ended 31 December 2013. The following matters have been included:

- Materiality threshold for receipts and payments;
- Taxes and revenues to be covered;
- Companies and Government entities required to report (Section 4.1 and 4.2); and
- Assurances to be provided by reporting entities to ensure credibility of the data made available to us.

Azerbaijan has more than 10 years' experience in the process of the reconciliation and has enough resources to prepare a transparency report. We have prepared the database of companies which are registered in the Ministry of Taxes and operate in the extraction sector of the Republic of Azerbaijan.

2.2. Definition of materiality

In order to ensure that companies and government entities disclose all material payments and revenues, the MSG needs to define which payments and revenues are material. The assessment of materiality thresholds for revenues (in kind and in cash) received by the Government from foreign and local extractive companies operating in Azerbaijan was determined in two stages:

Determination of material revenue sources to be included in the report:

Material revenue sources defined by the EITI Multi-stakeholder group are as follows:

- Oil production revenues in kind and in cash;
- Natural and associated gas production revenues in kind and in cash;
- Base and precious metals production revenues in kind and in cash;
- Profit tax;
- Signing bonuses and other bonuses;
- Acreage and transit fees*; and
- Profit tax, Value Added Tax, Land tax, Property tax, price change and other taxes (excluding employee profit tax, contributions to the State Social Protection Fund and withholding tax).

It should be noted that due to absence of dividend payments, starting from the year 2013 dividend column was excluded from the reporting templates as per MSG decision dated on 12 April 2012.

* The definitions of transit fee and transportation tariffs are similar, and from now on this will be referred as transportation tariff in this report. The description of the transportation tariff can be found in the section 3.1 at page 45 of this Report.

Determination of the materiality threshold in terms of sum/volume considered for each revenue source above

Transfers to the Government of Azerbaijan from the mentioned revenue sources are considered material if their sum/volume exceeds zero (0).

2.3. Reconciliation process

Our report consists solely of the factual information obtained from the extractive Companies and Government and passed through the main stages mentioned below. Our approach was to reconcile the figures and solve all the questions and problems by giving certain recommendations during the reconciliation process.

Scoping study stage

This is the initial stage of collecting information:

- Gain/obtain a clear understanding of the operations;
- Conduct an analysis to gain the necessary understanding for the assignment; and
- Collect data on payments made by the Companies, and the benefits received by the Government within the operational areas of mineral resources.

Reconciliation stage:

This stage is the main part of the assignment. The activities undertaken at this stage included the following:

- Document review;
- Reconciliation and analysis of the reports; and
- Data reconciliation.

Fieldwork stage:

- This stage is performed on a sample basis to increase the level of assurance. The following steps were taken:
- Selection of companies from the list of extractive companies on a sample basis agreed with MSG;
- Conducting fieldwork to review primary supporting documents on site at the selected companies; and
- Conclusion on the completion of work performed.

Feedback stage:

The activities at this stage are as follows:

- Dissemination of draft EITI report to the MSG;
- Comments received for the draft EITI report;
- Presentation of the final report to the MSG; and
- Obtaining the comments from the coalition.

The main role of the Independent Reconciler is as follows:

Distribution of reporting templates: It was agreed that a letter from the EITI Secretariat would accompany the distribution of the Reporting Templates

Follow up tasks: This task entailed communicating with the Companies and the Government ensuring any queries were clarified and the deadlines adhered to.

- Once we received confirmation from the EITI Secretariat that the Reporting templates had been distributed to all the Companies, we requested a list of key contact details to commence our follow up exercise; and
- We update the EITI Secretariat with the list of extractive companies which have not sent the Reporting templates.

Collection of data: This task involved collecting completed Reporting Templates and supporting documentation.

- The deadline for submission of Reporting templates to the Independent Reconciler has been set by the EITI Secretariat and stated as 15 July 2015; and
- In order not to delay the process and to ensure our Final Report is published within the required timeline, we commenced the reconciliation process and submitted all the reports within the set deadline.

Payment by Companies

We received the reports from the extractive companies which have been included in the Memorandum signed between the MSG parties. The manuals with technical guidelines were attached to Reporting templates in order to give the proper instruction on filling out the Reports.

Receipt of Government Reports:

We received the Reports from the following Government agencies:

- State Oil Fund of the Republic of Azerbaijan;
- State Oil Company of the Azerbaijan Republic;
- Ministry of Taxes of the Republic of Azerbaijan; and
- Ministry of Ecology and Natural Resources of the Azerbaijan Republic.

Findings and discrepancies: This task entailed compiling all the information provided by the Companies and the Government agencies involved and identifying areas that did not reconcile.

- In order to facilitate our analysis of the completed Reporting Templates we developed a database for each of the Companies that set out all payment streams on the Reporting Template and the expected Government Agency recipient of the revenue;
- As soon as we received the information from the Companies and the Government, the payments and receipts were added into the database for further analysis; and
- After obtaining all the information we compared the payments and receipts from the Companies and the Government to identify any discrepancies on relevant payment/revenue streams.

When discrepancies were identified, we contacted the Companies and the Government agencies involved for additional clarifications to enable us to reconcile these discrepancies. The description of the work performed in this stage is the following:

- Using the database, we highlighted the additional information required in order to reconcile any identified discrepancies;
- We asked all Companies and Government agencies for the necessary supporting documentation so that the discrepancies identified could be reconciled; and
- If additional supporting documents were irrelevant or no initial/further supporting documentation could be provided, we concluded that the discrepancies were “undetermined /unexplained”.

2.4. Reliability of EITI data

In order to comply with EITI Requirements # 5 and to ensure the credibility of data submitted:

- Companies were requested to have their reporting templates signed by a senior official;
- All government template declarations must be signed by a senior official; and
- Reporting entities could provide evidence of the payments/receipts that have been processed on a payment by payment basis.

For any changes made to the original data reported in the templates, the agencies and companies were asked to provide supporting documents and/or confirmation before any adjustments were accepted.

2.5. Accounting policy

The cash basis of accounting was used for the reconciliation of the actual amounts paid by the extractive companies and received by the Government for the year 2013.

For the payments made in foreign currency, the reporting entities were required to report in the currency of payment. The payments made in United States dollars (USD) have been converted to AZN at the average exchange rate according to the Central Bank of the Republic of Azerbaijan. The average exchange rate of USD to AZN for the year ended 31 December 2013 was 0.7845.

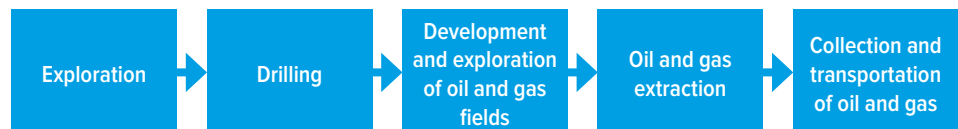
3 CONTEXTUAL INFORMATION ON THE EXTRACTIVE INDUSTRY

3.1. Background

The mining industry is comprised of the discovering major mineral deposits, extraction and processing of minerals. Azerbaijan is rich in mineral resources, especially oil and gas resources.

Oil and gas industry includes oil and gas fields exploration, drilling, extraction, oil products and gas transportation.

- **Exploration** – implies geological exploration, adjusting the drilling mechanism, evaluation of the field and industrial method of preparation;
- **Drilling** – caving the earth crust by use of the well drilling equipment for purpose of oil and gas extraction;
- **Development and exploration of oil and gas fields** – consists of running oil and gas wells, reproduction of idle oil wells and return to operation;
- **Oil and gas extraction** – is a activity used for a number of offshore and onshore oil productions; and
- **Transportation** – is a delivery of crude oil from extraction point to processing plants and other places with pipelines, tankers and other different tools.



Azerbaijan is one of the world's oldest oil-producing countries. Azerbaijan's main oil and gas reserves are located in the Absheron Peninsula and the Caspian Sea.

The history of oil and gas production in Azerbaijan¹:

¹ "State Oil Company of Azerbaijan Republic", 13 October 2014, <http://new.socar.az/socar/az/company/about-socar/oil-history-in-azerbaijan>

- As traveller Marco Polo wrote in fourteenth century, people in this region had been using oil for several purposes, as well as transporting it to adjacent countries;
- In 1847 the first oil wells were drilled in Bibiheybat and then Balakhany by means of modern technology;
- In 1901 Azerbaijan produced 11.5 mln tons of oil and was the world's leading oil producer;
- In 1941 Azerbaijan produced 23.5 mln tons of oil, which amounted to 71.4% of the Soviet Union's production;
- Azerbaijan was the world's first offshore oil producer. In 1949 the discovery of the Neft Daxlari ("Oil Rocks") made Azerbaijan and the Caspian Sea well known all over the world;
- In the late 1970s and early 1980s the Azeri, Chirag, Kapaz, and Gunashli fields were discovered in water 80 to 350 meters deep. Gunashli is currently producing more than 60% of SOCAR's oil; and
- The "Contract of the Century" was signed on 20 September 1994.

Fine Metals²

Azerbaijan regions have significant potential for the creation of sustainable and long-term mining industry. Gold and silver deposits are mainly located on the Small Caucasus and on the six fields of south-west Azerbaijan: Gadabay, Ordubad, Gosha Bulag, Gizil Bulag, Vejnali and Soyudlu.

Copper reserves of Azerbaijan are focused mostly in Balakan-Zaqatala, Gadabay, Qarabagh and Ordubad ore regions. Basic copper reserves in Balakan-Zaqatala ore region are centred in copper-pyrite, pyrite-polymetal type deposits and displays, while in ore regions of Minor Caucasus and Nakhchivan rugged zone they are focused in mostly copper-porphyry, molybdenum-copper-porphyry and gold-copper-pyrite type fields and displays.

Legal regime

According to the legislation of Azerbaijan, all subterranean mining is state-owned. The legislation applied to the extractive industry includes the following³:

- **The Constitution of the Republic of Azerbaijan dated 12 November 1995;**
- **International Agreements:**
 - Agreement on oil and oil products transit through the oil pipelines highways and coordinated policy signed in 12 April 1996 in Moscow; and
 - Framework Agreement on the creation of interstate oil and gas transportation systems for the organizational principles was signed by the Republic of Azerbaijan dated on 22 July 1999 in Kiev.
- **Codes:**
 - The Civil Code of the Republic of Azerbaijan approved according to the law number 779 IQ dated 28 December 1999;
 - The Tax Code of the Republic of Azerbaijan approved according to the law number 905 IQ dated 11 July 2000;
 - The Code of Administrative Offences of the Republic of Azerbaijan approved according to the law number 906 IQ dated 11 July 2000;
 - The Water Code of the Republic of Azerbaijan approved according to the law number 418 IQ dated 26 December 1997;
 - The Customs Code of the Republic of Azerbaijan approved according to the law number 164 IVQ dated 24 June 2011;
 - The Labor Code of the Republic of Azerbaijan approved according to the law number 618 IQ dated 01 February 1999; and
 - The Land Code of the Republic of Azerbaijan approved according to the law number 695 IQ 25 June 1999.

² "Ministry of Ecology and Natural Resources of Azerbaijan Republic", "Minerals of Azerbaijan" 13 October 2014, <http://www.eco.gov.az/en/faydaliqazintilar.php>.

³ "Ministry of Justice of Azerbaijan Republic", "Integrated internet based electronic database of normative legal acts", 13 October 2014, <http://e-qanun.az>

- **Laws:**

- The Law on “Usage of Energy Resources” of the Republic of Azerbaijan approved according to the 94 IQ numbered law dated 30 May 1996;
- The Law on “Special economic regime for export oil and gas activity” of the Republic of Azerbaijan approved according to the 766 IQ numbered law dated 2 February 2009;
- The Law on about “Gas Supply” of the Republic of Azerbaijan approved according to the 513 IQ numbered law dated 30 June 1998;
- The Law on about “Subsoil” of the Republic of Azerbaijan approved according to the 439 IQ numbered law dated 13 February 1998; and;
- Law on “Precious Metals and Precious Stones” of the Republic of Azerbaijan approved according to the 924 IIQ numbered law dated 10 June 2005; and
- Law on Energy of the Republic of Azerbaijan dated 24 November 1998.

In the event of any divergence between normative legal acts of the Republic of Azerbaijan with the legislative system (with the exception of the Constitution of the Republic of Azerbaijan) and the Production Sharing Agreements (PSA), these Agreements will prevail.

Fiscal regime

The general principles of taxation in the Azerbaijan Republic regulated by the Tax Code which consists of rules for determining, payment and collection of taxes, the rights and responsibilities of taxpayers and State tax authorities, as well as other parties to taxation procedures, tax control forms and methods, liability for tax law violations and the procedures for lodging complaints against unlawful actions (failure to take actions) committed by tax agencies and officials thereof.

As well as the main pipeline agreements, PSA enter into force after being approved by the National Assembly of Azerbaijan Republic. These agreements regulate the accounting and tax regimes of the operating companies, contractors and subcontractors’ activities.

In case there are any inconsistency regarding to taxes between the Tax Code and provisions, provision stipulated by agreements or laws on production sharing, main pipeline and other similar agreement and laws, provision stipulated by the legislation on oil and gas operations of export direction and special economic areas are given higher priority.

Activities on transportation of exported oil and natural gas is governed by tax regime agreements Main Export Pipeline (Baku–Tbilisi–Ceyhan) and South Caucasus Pipeline (Baku–Tbilisi–Arzurum). The accounting and tax regime of companies operating on behalf of these agreements, also MEP participants and their contractors’ activities are regulated by the tax code.

The Tax Code sets out the general taxation framework in Azerbaijan and establishes the following taxes:

- Profit tax;
- Value added tax (VAT);
- Property tax;
- Income tax;
- Mining tax;
- Land tax;
- Excise tax;
- Road tax; and
- Simplified tax.

A special tax regime is applied for legally approved PSA, companies functioning in Azerbaijan Republic and covers PSA concluded between State Oil Company of Azerbaijan Republic and a number of multinational companies and regulating discovering, exploitation, sale of oil-gas fields in Azerbaijan Republic and distribution of profits from the sale, as well as Protocols made on the basis of them and clarifying certain aspects of taxation:

- “Protocol on Profit tax”;
- “Protocol on Value Added Taxes”;
- “Protocol on taxation of foreign subcontractors”;
- “Protocol on taxation of employees and individuals”; and
- “Protocol on import and export taxes”.

The tax regimes applicable for entities working under the main Export Pipeline (Baku-Tbilisi-Ceyhan) HGA (“BTC”) and South Caucasus Pipeline (Shah Deniz Gas).

According to the legislation, payments made to the government in connection with the extractive industry are the following:

Payments to Government⁴	Description of Payment
Revenue from oil production	According to the PSA, extractive companies may transfer to the Government the interests in cash or in kind.
Revenue from gas production	According to the PSA, extractive companies may transfer to the Government interests in cash.
Profit tax	Profit tax is calculated on the basis of a company’s taxable profit. According to the legislation, profit tax is levied on the difference between a taxpayer’s taxable income and expenses.
Bonus	Bonuses represent fees paid by the oil Companies for the delegation and transfer of extractive rights. These fees are paid at certain stages of oil and gas field development according to appropriate agreements with the Government.
Transportation tariff	The transportation tariff is payable amount in relation to transit of crude oil and gas entitlement.
Acreage fees	Exploration of acreage fees period, as well as during the additional exploration period, other contracting parties deemed to fees payments for each square kilometre of Contract areas.
Mining tax	The extraction of mineral resources in the territory of Azerbaijan Republic, and also on Azerbaijani sector of the Caspian Sea is levied with tax on mining.
Other payments	Other payments are related to the payments which were not mentioned above. They include other taxes (Property tax, Land tax, Exchange Difference), government transfers in kind (gold and silver).

The state budget of the Republic of Azerbaijan for 2013 was approved with revenues amounting to 19.5 billion manats and expenditures amounting to 19.1 billion manats.

In accordance with the legislation of the state budget of the Republic of Azerbaijan for the year 2013 is considered that 96.37% of revenue sources in centralized manner are expected to be related to Baku, and the rest 3.63% is related to the local revenues of other cities and regions. The income is generated from the State Oil Fund, tax income, customs duties, the income from credits and other revenue streams, excluding the income relevant to “Motor Roads” Purpose Budget Fund.

⁴ “State Oil Fund of Azerbaijan Republic”, “Terminology”, 13 October 2014, http://www.oilfund.az/az_AZ/about_found/terminler.asp.

Roles and responsibilities of the relevant Government agencies

International agreements of the Republic of Azerbaijan with foreign states and international organizations are signed on behalf of the Republic of Azerbaijan (interstate agreements) and on behalf of the government of the Republic of Azerbaijan (intergovernmental agreements).

The main procedures for signing the PSA agreements are the following:

- Initial negotiations are held between SOCAR on behalf of the Ministry of Energy of Azerbaijan Republic which represents Azerbaijan government and the company that is interested in the PSA;
- A Memorandum of Understanding is signed as an initial agreement after negotiation;
- The inquiry for the delegation of authorities to SOCAR for negotiations on and signing of the PSA is submitted to the President of the Republic of Azerbaijan and such authorities are put in effect by appropriate statute of President;
- Principles and conditions of further partnership agreed on the basis of Memorandum of Understanding;
- Agreement signed on key principles and commercial terms of PSA;
- PSA project agreed by the basis of an agreement of key principles and commercial term;
- PSA signed and submitted to National Assembly for ratification; and
- PSA becomes effective after Presidential decree.

Government agencies

The National Assembly (“Milli Majlis”) of Azerbaijan Republic

The National Assembly of Azerbaijan Republic is an authority carrying out the legislative power. The governmental agreements of Azerbaijan Republic which provide for rules different from the laws of Azerbaijan Republic, including PSA are approved (ratified) by the National Assembly of Azerbaijan Republic.

Ministry of Taxes of Azerbaijan Republic⁵

The Ministry of Taxes is a central executive authority ensuring the implementation of state tax policy, timely and full collection of taxes and other revenues to state budget and fulfilling state control in this regard within the framework of integrated financial and budget policy carried out in Azerbaijan.

The Ministry of Ecology and Natural Resources of Azerbaijan Republic^{6,7}

The Ministry of Ecology and Natural Resources of Azerbaijan Republic is a central executive authority implementing state policy in the field of environmental protection, use of natural resources, effective use of subsoil waters, mineral raw resources and surface resources, their restoration, observation and forecast of hydro-meteorological processes in the territory of Azerbaijan Republic, including the part of the Caspian Sea belonging to Azerbaijan Republic.

One of the main goals of this authority is implementing state policy on studying natural resources, their use, restoration and protection and ensuring ecological safety in this regard and preservation of biodiversity.

Ministry of Energy of Azerbaijan Republic

The Ministry of Energy of Azerbaijan Republic is a central executive authority implementing state policy and its governing in fuel-energy sector. The fuel-energy sector consists of activity in the field of energy defined by the law of Azerbaijan Republic on Energy.⁸

5 “Ministry of Taxes of Azerbaijan Republic” <http://www.taxes.gov.az/vn/info/icmal.pdf>

6 “Ministry of Ecology and Natural Resources of Azerbaijan Republic”, 13 October 2014, <http://www.eco.gov.az>

7 “EITI Report”, November 2014, “1.3.4. Mining Industry”.

8 “Ministry of Energy of Azerbaijan Republic”, “The Law on Energy of Azerbaijan Republic”, 13 October 2014, http://www.minenergy.gov.az/db/Energetika_haqqinda.pdf

According to the regulations of Azerbaijan Republic, it develops drafts of agreements on use of hydrocarbon reserves on production sharing or other terms and conditions, carries on negotiations on these agreements, signs them in the defined manner, monitors the implementation of the concluded agreements.

State Oil Fund of Azerbaijan Republic⁹

State Oil Fund of Azerbaijan Republic ("SOFAZ") is a mechanism for implementing management of profit collection for the benefit of future generations. SOFAZ has been established as an extra-budgetary fund and functions as a legal entity having an independent management structure from the Government or the Central Bank of the Republic of Azerbaijan.

State Oil Company of Azerbaijan Republic¹⁰

SOCAR is a state oil and natural gas company of Azerbaijan. It produces oil and natural gas, carries out oil refining and implements operation of oil and gas pipelines in the territory of the country. Additional elaborated information can be found in the section # 3.5 "State Participation in Extractive Industry" of this Report.

Ongoing reform in extractive industry

During the fiscal year covered the EITI Report there were no important on-going reforms by Government in the extractive industry.

3.2. Overview of the Mining Industry

Oil and gas industry

In the Republic of Azerbaijan the major oil fields are located in the Caspian Sea shelf and the Absheron peninsula. The main oil reserves have been discovered in the south of Absheron waters. In the north part of Absheron peninsula–Siyazan and south and south-west part of Absheron–Gobustan, Shirvan and Salyan oil reserves are the main perspective resources. Naphtalan fields located near Ganja have unique renewable oil fields. There is a presence of significant amounts of gas extracted along with the oil.

Azerbaijan oil and gas reserves for the year ended 2013:

Industry result of 2013¹¹	2013
Approved oil field, thousand tons (according to Miller and Lents)	78,502
Approved gas reserves, mln m ³ (according to Miller and Lents)	61,150

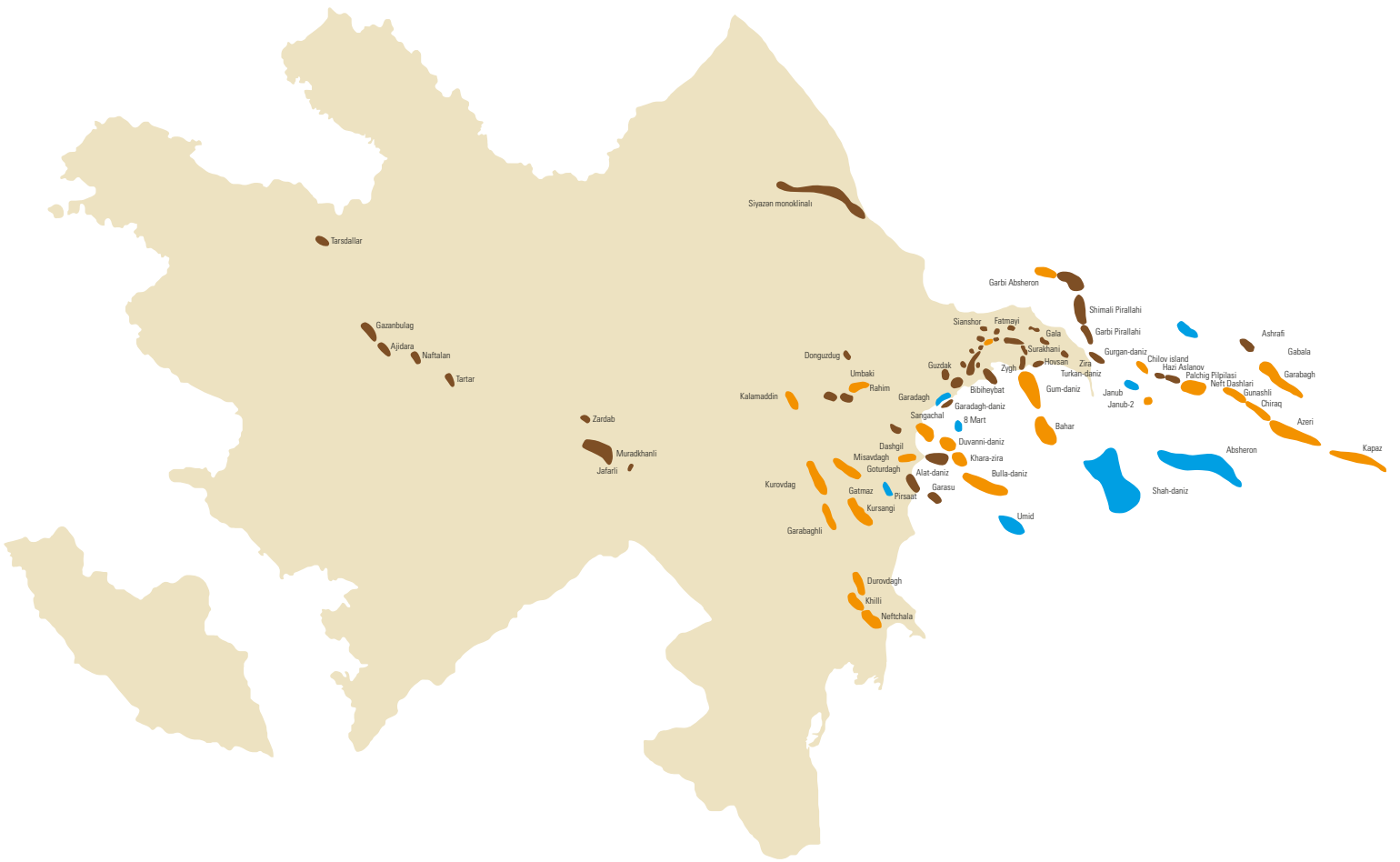
Multinational energy companies working on extraction of oil and gas reserves in Azerbaijan signed 31 PSAs (17 offshore and 14 onshore) on sharing of the resources.

9 "State Oil Fund of Azerbaijan Republic", 13 October 2014, <http://www.oilfund.az>.

10 "State Oil Company of Azerbaijan Republic", 13 October 2014, <http://new.socar.az/socar/en/home>.

11 "State Oil Company of Azerbaijan Republic", "About the company", page 6, November 2014, <http://www.socar.az/socar/assets/documents/en/socar-annual-reports/sus.dev.rep-2013.pdf>

Map of the Oil and Gas Fields



Active agreements on oil and gas resources:

Offshore

Date of signature	Contractors and their participating interests Name of the company	Reserves			
		%	Oil	Gas	Condensate
Azeri-Chirag-Deepwater Gunashli¹² (production stage)					
20.09.1994	BP Exploration (Caspian Sea) Limited	35.8	•		
	Azerbaijan (ACG) Limited	11.6			
	Chevron Khazar, Ltd	11.3			
	Inpex Southwest Caspian Sea, Ltd.	11.0			
	Statoil Absheron A.S	8.6			
	Exxon Azerbaijan Limited	8.0			
	Turkish Petroleum A.O.	6.8			
	Itochu Oil Exploration (Azerbaijan) Inc.	4.3			
	ONGC Videsh Limited	2.7			
Shahdeniz¹³ (production stage)					
04.06.1996	BP Exploration (Azerbaijan) Limited	25.5		•	
	Statoil Shah Deniz A.S	25.5			
	Azerbaijan (Shah Deniz) Limited	10.0			
	Lukoil Overseas Shah-Deniz Ltd	10.0			
	Naftiran Intertrade Co (NICO) Limited	10.0			
	Total E & P Azerbaijan B.V	10.0			
	Turkey Petroleum Overseas Company Ltd	9.0			
Absheron Gas field¹⁴ (exploration stage)					
27.02.2009	SOCAR Commercial Affiliate	40.0		•	
	Total E & P Absheron B.V	40.0			
	GDF SUEZ E&P Absheron B.V	20.0			
Shafag-Asiman¹⁵ (exploration stage)					
07.10.2010	BP Shafag-Asiman Limited	50.0		•	
	SOCAR Commercial Affiliate	50.0			

¹² "BP company", "Operations and projects", "Azeri-Chirag-Deepwater Gunashli" 14 October 2014, http://www.bp.com/az_az/caspian/operationsprojects/ACG.html.

¹³ "BP company", "Operations and projects", "Shahdeniz" 14 October 2014, http://www.bp.com/az_az/caspian/operationsprojects/Shahdeniz.html.

¹⁴ "State Oil Company of Azerbaijan Republic", "Activities", "Absheron" 14 October 2014, <http://new.socar.az/socar/az/activities/exploration/absheron>.

¹⁵ "BP company", "Operations and projects", "Shafag Asiman" 14 October 2014, http://www.bp.com/az_az/caspian/operationsprojects/Shafagasiman.html.

Onshore ^{16, 17}

Date of signature	Contractors and their participating interests Name of the company	Reserves			
		%	Oil	Gas	Condensate
Bahar Gum Deniz (production stage)					
22.12.2009	Bahar Energy Limited	80.0		•	
	SOCAR	20.0			
Balakhany, Sabunchu, Ramana and Kurdakhany (production stage)					
06.05.2011	UGE-LANCER PTE. LTD	75.0	•		
	SOCAR	25.0			
Kurovdagh (production stage)					
03.02.2009	Shirvan Investment Limited	80.0	•		
	SOCAR	20.0			
Kursengi and Garabaghy (production stage)					
15.12.1998	Salyan Oil	50.0	•		
	CNPC	25.0			
	Fortunamate Assets Limited	25.0			
Mishovdagh and Kelameddin (production stage)					
12.09.2000	Karasu Development Company	85.0	•		
	Ali-Bairamli Oil Ltd	15.0			
Neftchala (production stage)					
03.02.2009	Neftchala Investments Limited	80.0	•		
	SOCAR	20.0			
Pirsaat (production stage)					
04.06.2003	Petro Hong Kong Limited	50.0	•		
	Middle East	30.0			
	SOCAR	20.0			
Surakhany (production stage)					
16.08.2005	Novatis Oil F.Z.E.	75.0	•		
	SOCAR	25.0			

16 "State Oil Company of Azerbaijan Republic", "Company", "Production Sharing Agreements Onshore", 14 October 2014, <http://new.socar.az/socar/az/company/production-sharing-agreements-onshore>.

17 "State Oil Company of Azerbaijan Republic", "Activities", 14 October 2014, <http://new.socar.az/socar/az/activities/production>.

Zigh Hovsan (production stage)			
03.11.2006	Apsheon Investments Limited	75.0	•
	SOCAR	25.0	
Binagadi, Girmaki, Chakhnaglar, Sulutepe, Masazir, Fatmai, Shabandagh and Sianshor (production stage)			
29.09.2004	Azen Oil Company B.V.	75.0	•
	SOCAR	25.0	
Block of south-west "Gobustan" (production stage)			
02.06.1998	Commonwealth Gobustan Limited	80.0	•
	Gobustan Oil Ltd	20.0	
Qarachuxur oil field (exploration stage)			
18.06.2004	Noblskay	75.0	•
	SOCAR	25.0	
Padar (exploration stage)			
27.04.1999	Kura Valley Development Company LTD	80.0	•
	SOCAR	20.0	

PIPELINES

Azerbaijan has three export pipelines, and most (about 80%) of its oil and gas is exported via the BTC.

Baku-Tbilisi-Ceyhan (BTC)¹⁸

Baku-Tbilisi-Ceyhan (BTC) pipeline carries oil from the Azeri-Chirag-Deepwater Gunashli (ACG) field and condensate from Shah Deniz across Azerbaijan, Georgia and Turkey. It provides a connection between Sangachal terminal on the shores of the Caspian Sea and Ceyhan marine terminal on the Turkish Mediterranean coast. Also, crude oil from Turkmenistan is still transported via the pipeline. Transportation of some volumes of Tengiz crude oil from Kazakhstan through the BTC pipeline was resumed in October 2013.

South Caucasus pipeline¹⁹

The South Caucasus Pipeline (SCP) was constructed in order to export Shah Deniz gas from Azerbaijan to Georgia and Turkey. The pipeline begins in the Sangachal terminal near Baku. It follows the route of the Baku-Tbilisi-Ceyhan (BTC) crude oil pipeline through Azerbaijan and Georgia to Turkey, where it is connected to the Turkish gas distribution system.

The pipeline has been operational since late 2006 transporting gas to Azerbaijan and Georgia, and starting from July 2007 to Turkey from Shah Deniz Stage 1.

¹⁸ "BP company", "Operations and projects", "Pipelines", "Baku-Tbilisi-Ceyhan pipeline" http://www.bp.com/az_az/caspian/operationsprojects/ACG.html.

¹⁹ "BP company", "Operations and projects", "Pipelines", "South Caucasus pipeline" http://www.bp.com/az_az/caspian/operationsprojects/ACG.html.

Map of the pipeline routes through Azerbaijan



Western Route Export Pipeline ²⁰

The Western Route Export Pipeline (WREP) transports crude oil from offshore oil fields in the Caspian Sea to the Black Sea, from where the crude is further shipped via tankers through the Bosphorus to European markets.

Construction started following the ratification of the intergovernmental agreement between Azerbaijan and Georgia in April 1996 and was completed in November 1998. WREP has been in operation since February 1999.

Baku–Novorossiysk Pipeline ^{21,22}

The agreement on transfer of Azerbaijani oil to Novorossiysk port in Black Sea through Russian Federation was signed on 18th February 1996. Filling the pipeline with oil started in October 1996. Maximum throughput capacity of the pipeline is 105 thousand barrels a day.

20 "BP company", "Operations and projects", "Pipelines", "Western Route Export Pipeline" http://www.bp.com/az_az/caspian/operations/projects/ACG.html.

21 "Ministry of Energy of the Republic of Azerbaijan", "Main export pipelines", "Baku–Novorossiysk", <http://www.minenergy.gov.az/?e=525&a=7>

22 "SOCAR", "Transportation", "Baku–Novorossiysk Pipeline", <http://www.socar.az/socar/az/activities/transportation/baku-novorossiysk-oil-pipeline>

GOLD AND SILVER EXTRACTION ²³

In recent years, the discovery of gold deposits has become an important geological discovery. Gizilbulag gold-copper-gold deposits of pyrites located in Karabakh (currently under Armenian occupation). The quartz gold deposits were found by geological expeditions in Vejnali in Zangilan, Aghyurd, Piyasbashi, Shakardara, Ordubad and Aghduzdag Dalidagh.

On 20 August 1997, contract on exploration, use, and share production of Gadabay, Gosha, Ordubad group (Piyazbashi, Agturd, Shakardara, Kalaki), Soyudlu, Gizilbulag, and Vejnali perspective gold deposits was signed between the "Azergizil" State Company and "R.V. Investment Group Services" in accordance with the decree of the President of the Republic of Azerbaijan "on exploration and use of several gold deposits of the Republic of Azerbaijan" dated 5 February, 1996. In 2000, according to the decree of the President of the Republic of Azerbaijan "Azergizil" was abolished and the company, was transferred to the Ministry of Ecology and Natural Resources of Azerbaijan Republic. The Government share on Gadabay copper-gold project is 51%. The remain share of the project is led by the Azerbaijan International Mineral Resources Operating Company.²⁴

Map of the Gold Fields



²³ "Ministry of Ecology and Natural Resources of Azerbaijan Republic", "Minerals of Azerbaijan", 13 October 2014, <http://www.eco.gov.az/faydaliqazintilar.php>.

²⁴ "President of Azerbaijan", 13 October 2014, <http://www.president.az/articles/9268>.

Mining PSAs

Mining PSA

Date of signature	Contractors and their participating interests		Reserves
	Name of the company	%	Gold and silver
Gadabay gold-copper project (production stage)			
22.12.2009	Ministry of Ecology and Natural Resources of Azerbaijan Republic	51.0	•
	R.V. Investment Group Services	49.0	

SIGNIFICANT EXPLORATION ACTIVITIES

In 2013, exploratory-prospecting drilling works were performed in onshore and offshore fields (in oil and gas deposits and prospective structures) of Azerbaijan Republic and they were funded by SOCAR and foreign companies.

In total, exploratory-prospecting drilling works to the extent of 8,234 m, of which 6,991 m were attributable to SOCAR and 1,243 m jointly with foreign companies were performed in six fields - in "Northern Shikhiqaya" (N°5) and "Tumbul" (N°1, N°2) fields onshore, as well as in "Bulla-deniz" (N°90), "Alat-deniz" (N°23), "Shah Deniz" (by BP operatorship N° SDX-7) fields and at "Goshadash" area (N°2) offshore.

Shafag-Asiman ²⁵

After early 2012 when the Gilavar seismic vessel finished the planned 3D seismic acquisition on the Shafag-Asiman structure, the first 3D seismic ever conducted on the area specified in the contract, the company have been analyzing the acquired data. This analysis seems to be the largest 3D survey ever processed within the country. After completing this phase of the 3D seismic acquisition programme, approximately 18 months will be needed for data interpretation and one more year to plan the first exploration well.

Apsheron Gas field ²⁶

TOTAL is the operator for the exploration phase of the Apsheron Block in the Caspian Sea, on which a discovery and commercial declaration was filed in 2012. The development plan for the field is being prepared at the moment.

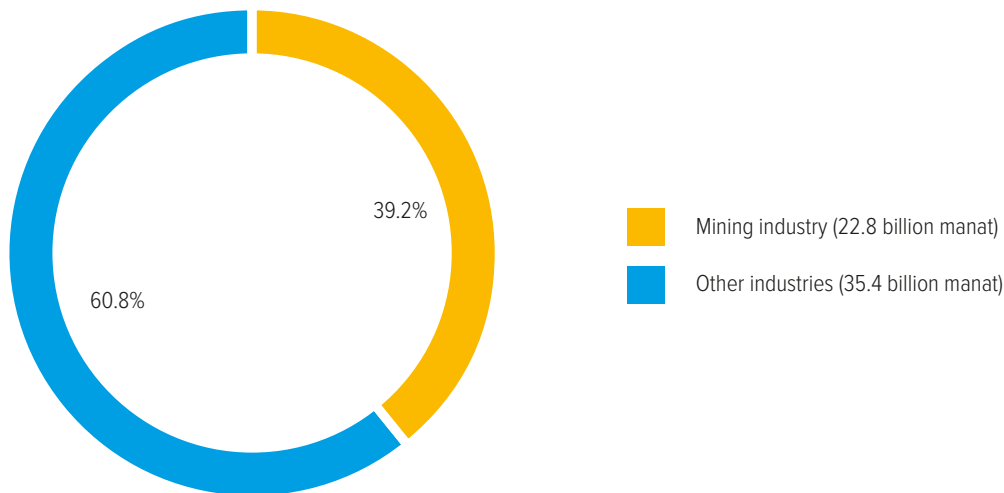
²⁵ "BP company", "Operations and projects", "Shahdeniz", http://www.bp.com/en_az/caspian/operationsprojects/Shahdeniz/projecthistory.html

²⁶ "Total", "Factbook 2014", http://www.total.com/sites/default/files/atoms/files/factbook_2014_v2_0.pdf

3.3. Contribution of the extractive industry to the economy of Azerbaijan

The economic growth in Azerbaijan was coped to protect during the year 2013. The growth rate of the Gross Domestic Product (GDP) was 5.8% with the amount of 58.2 billion manat and per capita GDP amounted to 6.2 thsd. manat. The value added by mining industry production constitutes the major part in national GDP structure and it's share in industry GDP was 39.2%.

Industry structure of GDP (2013) ²⁷



Government revenues from the extractive industry.

Consolidated total income of the state budget amounted to 23.2 ²⁸ billion manat. During the reporting period receipts from the mining industry amounted to 15.3 billion manat and this made 65.8% of the total budget revenues.

²⁷ The State Statistical Committee of the Republic of Azerbaijan, "Statistic factbook", "GDP (annual)", 14 October 2014, http://www.stat.gov.az/source/system_nat_accounts/

²⁸ "Azerbaijan Republic Chamber of Accounts", "Activities of Chamber of Accounts", "Expert – analytical activity", "The opinion on project Law of the Republic of Azerbaijan and annual report on state budget activity of Chamber Accounts of the Republic of Azerbaijan on "State budget activity of the Republic of Azerbaijan for 2013", 15 October 2014, <http://www.ach.gov.az/?az/content/468/>.

The receipts from the extractive industry for the year 2013 covered by EITI

Types of revenues	Amount (mln manat)	Percentage
State Oil Fund of Azerbaijan Republic ²⁹		
Receipts from the sale of profit oil and gas	13,108.0	56.44%
Bonuses	1.9	0.01%
Acreage fees	1.8	0.01%
Transit fees	8.1	0.04%
State Treasury Agency of the Ministry of Finance of Azerbaijan Republic ³⁰		
Profit tax	1,504.7	6.48%
Mining tax	119.3	0.51%
Value Added Tax	108.6	0.47%
Land tax	10.0	0.04%
Property tax	38.1	0.16%
Exchange difference	369.9	1.60%
Other taxes	2.6	0.01%
Total	15,273.0	65.77%

Total production volumes in 2013 (in kind) ³¹

Production on raw materials	Volume (thsd. tons)	
	Onshore	Offshore
Oil Production (including gas condensate)	1,695	41,468

Production on raw materials	Volume (mln cubic meters)	
	Associated gas	Natural gas
Gas production	13,945	15,300

²⁹ "State Oil Fund of Azerbaijan Republic", "Annual report 2013", 14 October 2014, page 36, http://www.oilfund.az/uploads/annual_2013az.pdf.

³⁰ "State Oil Fund of Azerbaijan Republic", "Government reports on EITI", November 2014, <http://www.oilfund.az>

³¹ "The State Statistical Committee of the Republic of Azerbaijan", "Publications", "E-versions of publications", "Industry of Azerbaijan – Statistical yearbook", page 323 and page. 325, 15 October 2014, http://www.stat.gov.az/menu/6/statistical_yearbooks.

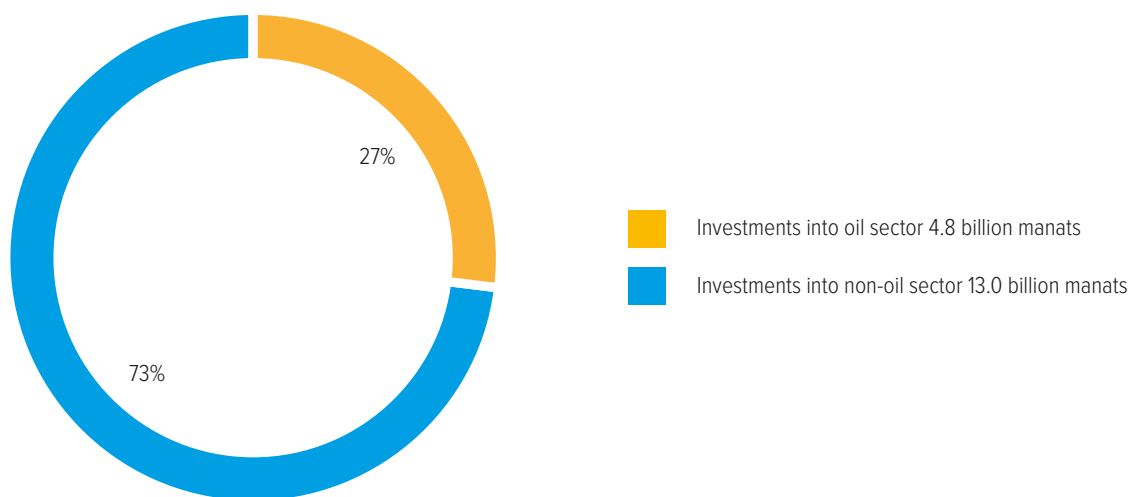
The share of the export in the extractive industry³²

Oil and gas are the main export products of Azerbaijan. Total exports in 2013 amounted to 18.8 billion manats. Exports related to the oil sector amounted to 92% of the total exports.

Products exported during 2013 were as follows:

Name of the product	Volume ³³	Amount (mln manat) ³⁴	Percentage
Crude oil (thsd. ton)	24,855.9	15,881.5	84%
Oil products (thsd. ton)	1,631.1	948.1	5%
Natural gas (thsd. m ³)	3,035.1	550.7	3%
Other products	-	1,428.4	8%

Total investment in main capital (2013)



³² "The State Customs Committee of the Republic of Azerbaijan", "Custom Statistics of Foreign Trade of the Republic of Azerbaijan", 15 October 2014, <http://customs.gov.az/statistika/2013.12.pdf>.

³³ "The State Customs Committee of the Republic of Azerbaijan", "Most exported products", 15 October 2014, http://customs.gov.az/ixrac_az_2013.html.

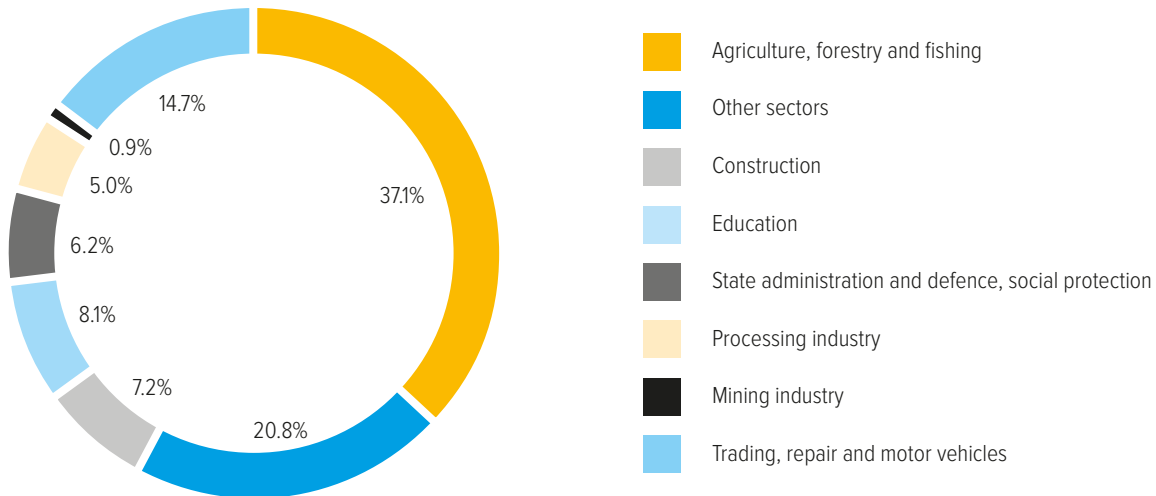
³⁴ "The State Customs Committee of the Republic of Azerbaijan", "Custom Statistics of Foreign Trade of the Republic of Azerbaijan", "3.3.2. Based on custom declarations"; 15 October 2014, <http://customs.gov.az/statistika/2013.12.pdf>.

Characteristics of employment in the sectors of economy.

In 2013 the economically active population was 4,757.8 thsd. people, and among them 4,521.2 thsd. people were employed. The rate of mining industry to employment was 0.9%, which is 42.3 thsd. people.³⁵

Employment	2013 (thsd. people)
Number of economically active population	4,757.8
Number of people employed in the economy	4,521.2
Number of people in Mining industry	42.3
Percentage	0.9 %

The employment structure (2013)³⁶



Key regions/areas where production is concentrated

Most of the oil reserves i.e. 80% are located in Absheron Peninsula, Baku and Absheron archipelago at the depth of 3000-4000 meters in the shelf of the Caspian Sea. The formation of oil deposits in rocks belongs to Cenozoic period. Oil production is connected with the excavation works in Balakhany-Sabunchu-Ramana with inclusion of Bibiheybat.

³⁵ "Ministry of Economy and Industry of the Republic of Azerbaijan", "Social areas", 15 October 2014, http://economy.gov.az/index.php?option=com_content&view=article&id=1183:ss2013&catid=110:eig-2013&lang=az.

³⁶ "The State Statistical Committee of the Republic of Azerbaijan", "Publications", "E-versions of Publications", "The Statistical Indicators of Azerbaijan", "3.5. Distribution of employed population by economic activity", page 102, 15 October 2014, http://www.stat.gov.az/menu/6/statistical_yearbooks.

The main oil producing areas are located near Baku. There are 5 areas onshore of oil and gas condensate put into exploration at the territory of Absheron peninsula and the Lower and Middle Kura, coastal areas of the Caspian Sea and Shamakhi-Gobustan. There are 43 oil, gas and condensate regions in the Republic of Azerbaijan from which 38 are suitable for exploitation.

Oil (including condensates), mln tons ³⁷:

Regions	2011	2012	2013
Baku	44,673	42,346	42,558
Siyazan	48	48	49
Neftchala	39	37	41
Salyan	209	193	187
Imishli	27	24	20
Shirvan	379	333	308
Total	45,375	42,981	43,163

The main oil producing areas, such as Sabunchu, Surakhany and Bibiheybat, are located near Baku. In Baku oil production reached 42,558 thsd. tones, and this consisted 98% of the total oil production.

Natural gas, mln. cubic meters. (Raw Material)

Regions	2011	2012	2013
Baku	25,685	26,745	29,196
Siyazan	8	8	7
Neftchala	4	9	-
Salyan	23	24	30
Shirvan	8	10	12
Total	25,728	26,796	29,245

37 "The State Statistical Committee of the Republic of Azerbaijan", "Publications", "E-version of Publications", "Industry of Azerbaijan – Statistical yearbook", "39. "Main types of industry products in kind", page 302, 15 October 2014, http://www.stat.gov.az/menu/6/statistical_yearbooks.

Gold, kg (the main production)³⁸

Region	2011	2012	2013
Gadabay	1,775	1,562	1,619
Total	1,775	1,562	1,619

Silver, kg (the main production)³⁹

Region	2011	2012	2013
Gadabay	1,216	626	630
Total	1,216	626	630

Other relevant information - Investment in the extractive industry⁴⁰

In the reporting year a significant rise in the volume of capital investment has been recorded by both the internal and the external sources. In 2013 the volume of capital investment increased by 15% reaching 17.8 billion manats. The investments were directed to 13.0 billion manats for the non-oil sector and 4.8 billion manats for oil sector.

3.4. Production volume

The production volume given to the Government by foreign and local extractive companies are shown in the table below:⁴¹

38 "The State Statistical Committee of the Republic of Azerbaijan", "Publications", "E-version of Publications", "Industry of Azerbaijan – Statistical yearbook", page 177, 15 October 2014, http://www.stat.gov.az/menu/6/statistical_yearbooks.

39 "The State Statistical Committee of the Republic of Azerbaijan", "Publications", "E-version of Publications", "Azerbaijan Regions–Statistical yearbook", page 197, 15 October 2014, http://www.stat.gov.az/menu/6/statistical_yearbooks

40 "Ministry of Economy and Industry of the Republic of Azerbaijan", "Fixed capital investments on January-December 2013", 15 October 2014, http://economy.gov.az/index.php?option=com_content&view=article&id=1121:2013-inv-haq&catid=17:investisiyalar&lang=az.

41 "State Oil Fund of Azerbaijan Republic", "Government reports on EITI", November 2014, <http://www.oilfund.az>.

Production on Raw materials	Volume			
	Mln barrel	Thsd. m ³	Thsd. ounces	Thsd. tons
Crude Oil	1571	-	-	-
Natural Gas	-	13,351.8	-	-
Associated Gas	-	2,310,248.0	-	-
Gold	-	-	6.7	-
Silver	-	-	2.6	-
Copper	-	-	-	0.1
Copper-bearing gold	-	-	0.02	-
Copper-bearing silver	-	-	21.1	-

3.5. State participation in extractive industry

a) Background

The State Oil Company of Azerbaijan Republic (SOCAR) is an entity acting on behalf of the government to carry out commercial activity for the government. It engages in commercial activity wholly or partly belonging to the government.

During the initial stage of selection criteria in PSA is reliability for the previous experience on selection the companies willing to in the PSA; there are some criteria examples as follows: interested party should have relevant experience in the energy sector, should have reputation and preferred shares in industry, and should not be associated with terrorist organizations and any other negative situations.

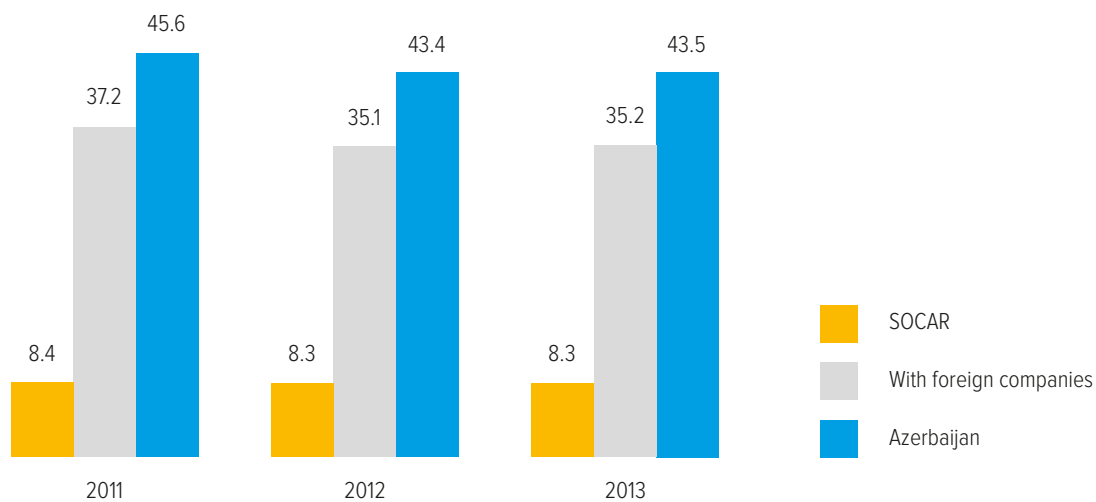
The next stage after review the company profiles, the interested party is having discussion with SOCAR taking into consideration the maximum protection level of government interests.

SOCAR is an oil company engaging in exploration and development of oil and gas fields in the territory of Azerbaijan, production, refining of oil and gas and the sale of oil and gas and petrochemical products in domestic and foreign markets.

SOCAR was established to supercede 'Azneft' State Concern and 'Azerneftkimya' Production Unit by Decree No.200, dated 13 September 1992 of the President of Azerbaijan Republic. At present, enterprises of SOCAR are functioning in every region (excluding the occupied territories) of the Azerbaijan Republic as well as having offices in 22 countries of the world. In 2013 SOCAR had 61,088 employees and 22 legal entities. It was the largest company in the country and held a major place in the economy of the Azerbaijan Republic. It is a partner for PSAs Azerbaijan and is 100% owned by the Government of Azerbaijan.

Production by volume⁴²

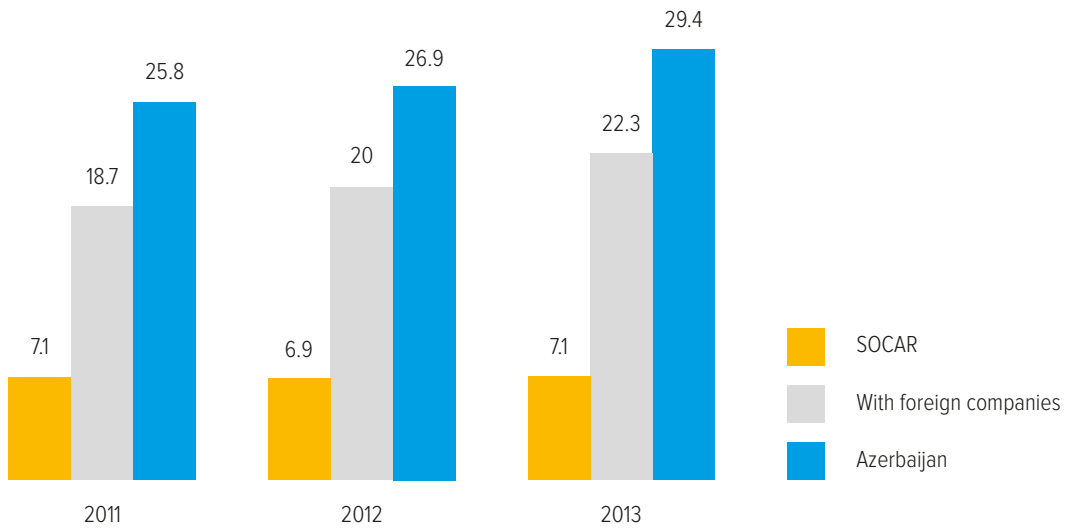
Industry results 2011-2013	2011	2012	2013
Approved oil field, thsd. tons, (according to Miller and Lents)	78,744	71,661	78,502
Approved gas reserves, mln m ³ , (according to Miller and Lents)	30,453	23,817	61,150
Oil production, thsd. ton	8,401	8,290	8,315
Gas production, mln m ³	7,084	6,925	7,140
Oil processing, mln ton	6,327	6,173	6,533

Oil production of Azerbaijan Republic (million tons)⁴³


42 "State Oil Company of Azerbaijan Republic", "About the company", page 6, November 2014, <http://www.socar.az/socar/assets/documents/en/socar-annual-reports/sus.dev.rep-2013.pdf>

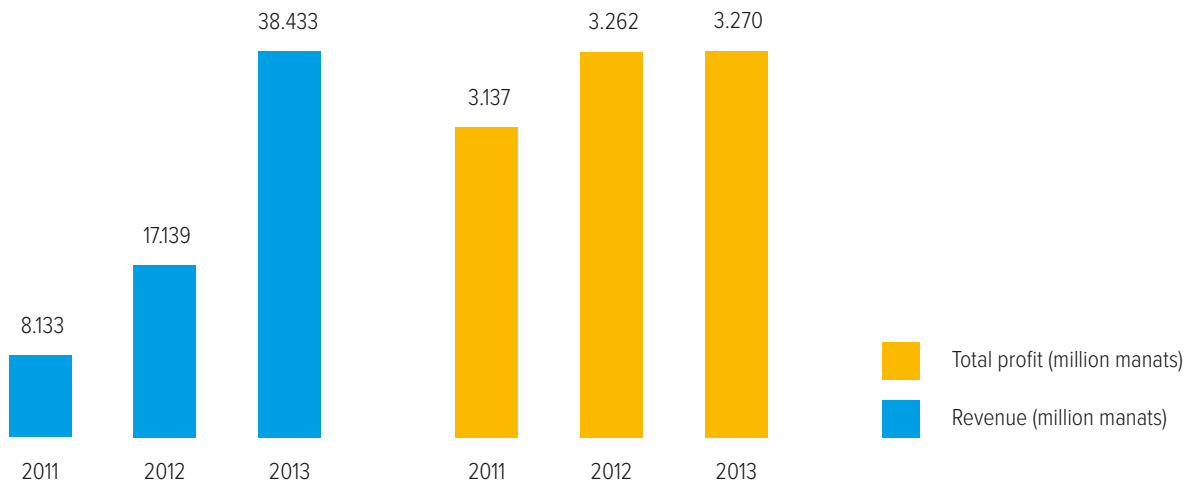
43 "State Oil Company of Azerbaijan Republic", "Sustainable Development Report, 2013", "About the company", page 7, November 2014, <http://www.socar.az/socar/assets/documents/en/socar-annual-reports/sus.dev.rep-2013.pdf>

Gas production of Azerbaijan Republic (billion m³)⁴⁴



Financial Results⁴⁵

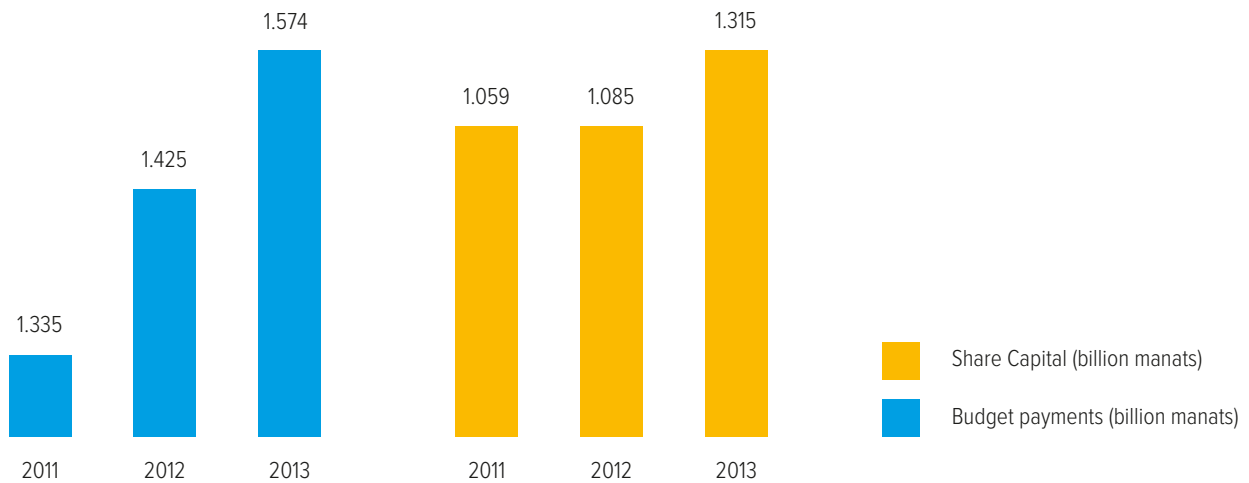
SOCAR's revenue and total profit for the years 2011 to 2013:



44 "State Oil Company of Azerbaijan Republic", "Sustainable Development Report, 2013", "About the company", page 7, November 2014, <http://www.socar.az/socar/assets/documents/en/socar-annual-reports/sus.dev.rep-2013.pdf>

45 "State Oil Company of Azerbaijan Republic", "Financial Report, 2013", "Consolidated Statement of Profit or Loss and other Comprehensive Income", page 4, November 2014, <http://www.socar.az/socar/assets/documents/en/socar-financial-reports/2013.pdf>

SOCAR's budget payments and share capital for the years 2011 to 2013:



Revenues from the sale of crude oil are indicated in the amount of the difference between prices of oil exported to the international market and the internally regulated price margin after deducting relevant taxes. The difference between the market price and the internally regulated price is taxed at 30% and the amount of tax is transferred to the State Budget. Revenue from sales of oil products amounting to 570 million manats (2012: 482 million manats) are shown net of excise tax.

b) The level of beneficial ownership in mining, oil and gas companies operating within the country's extractive industry⁴⁶

Joint ventures and associates, the participating interest and changes in participating interest in the reporting period, revenue, assets and borrowings of SOCAR during 2013 are shown in the table below:

⁴⁶ "State Oil Company of Azerbaijan Republic", "Financial Report, 2013", "Note 16, Investment in jointly controlled entities", page 45-48, November 2014, <http://www.socar.az/socar/assets/documents/en/socar-financial-reports/2013.pdf>

Joint ventures:

Name of the Joint Ventures and subsidiary companies	SC participating interest (%)	Changes of participating interest during the reporting period(%)	Revenue (mln manats)	Assets (mln manats)	Borrowings (mln manats)
AGRI LNG Project Company	33%	Unchanged	-	-	-
AZFEN	60%	Unchanged	138.0	72.0	(23.0)
Azerbaijan Rigs	10%	Unchanged	-	192.0	(4.0)
Azeri- Furgo	60%	Unchanged	-	-	-
Azeri M.I. Drilling Fluids	51%	Unchanged	139.0	53.0	(24.0)
Azgerneft LLC	40%	Unchanged	47.0	79.0	(29.0)
Caspian Shipyard Company	20%	Unchanged	7.0	46.0	(35.0)
Ekol Engineering Services	51%	Unchanged	23.0	19.0	(5.0)
Oil and Gas ProServis	30%	Unchanged	3.0	17.0	(7.0)
Sarmatia	27%	Unchanged	-	1.0	-
SOCAR AQS	51%	Unchanged	116.0	340.0	(128.0)
SOCAR Aurora Terminal	50%	Unchanged	7.0	87.0	(28.0)
SOCAR Baghlan CJSC	51%	Unchanged	2.0	15.0	(20.0)
SOCAR CAPE	51%	Unchanged	36.0	16.0	(21.0)
SOCAR CNG	51%	Unchanged	-	-	-
SOCAR Construction	97%	Unchanged	-	13.0	(1.0)
SOCAR Foster Viler Engineering Services	65%	Unchanged	9.0	5.0	(4.0)
SOCAR KPS	50%	Unchanged	2.0	16.0	(16.0)
SOCAR Umid	80%	Unchanged	-	408.0	(24.0)

Associates:

Name of the Associates and subsidiary companies	SC Participating Interest (%)	Changes of participating interest during the reporting period(%)	Revenue (mln manats)	Assets (mln manats)	Borrowings (million manat)
Ateshgah Insurance Company CJSC	10%	Unchanged	38.0	29.0	(21.0)
Azerbaijan Gas Supplier Company	28%	Unchanged	1,720.0	710.0	(709.0)
AzLab	50%	Unchanged	2.0	1.0	-
Caspian Geofisical Company BM	45%	Unchanged	36.0	37.0	(15.0)
Caspian Payp Costings LLC	50%	Unchanged	6.0	7.0	(3.0)
Cross Caspian Oil and Gas Logistics	34%	Unchanged	89.0	9.0	(9.0)
Interfax Azerbaijan	49%	Unchanged	-	4.0	-
Trans Adriatic Pipeline ("TAP")	20%	Unchanged	-	252.0	(157.0)
Western Caucas pipeline Hold Co	10%	Unchanged	1.0	17.0	(1.0)

Changes in the level of beneficial ownerships ⁴⁷

- There were no changes in the level of the Government's ownership of SOCAR during the reporting period;
- There were no changes in the level of beneficial ownership in joint ventures and subsidiaries during the reporting period; and
- The equity method was used in the process of treating equity investment in associate companies.

Loans and loan guarantees ⁴⁸

SOCAR was awarded a loan amounting to 750 mln manats by International Bank of Azerbaijan Republic (IBAR) dated 16 July 2009 under the guarantee of the State on behalf of the Central Bank of the Republic of Azerbaijan.

In accordance with the loan agreement the Central Bank acts on behalf of a lender, IBAR OJSC acts on behalf of a borrower, and SOCAR acts on behalf of a borrower as well. The period of the loan agreement was 7 years and total annual interest rate has amounted to 3.15%. Due to changes made to the agreement on 23 April 2013 the duration of the contract was extended to 2023. As of 13 December 2013 a part of the contractual amount of 500 mln manats remains unpaid. According to the agreement, the principal amount of the annual repayment is 50 mln manats.

There was no third party financing during reporting period to other companies from SOCAR.

The Central Bank of the Republic of Azerbaijan, SOCAR and IBAR OJSC have signed an agreement which has been guaranteed by the Ministry of Finance who acted on behalf of the Government.

⁴⁷ "State Oil Company of Azerbaijan Republic", "Official Letter", February 2015

⁴⁸ "State Oil Company of Azerbaijan Republic", "Official Letter", February 2015

c) Disclosure of quasi-fiscal expenditures

During the EITI Reporting period no quasi-fiscal expenditures such as payments for social services, public infrastructure, fuel subsidies and national debt servicing were made by SOCAR.

SOCAR's payments to the State Budget⁴⁹

In accordance with the decision of the Government the state budget, various government agencies and government implementation projects invested in cash or financing form by the Group. This kind of investments accounted for as reduction of capital. Distributions in the form of cash is recorded in the carrying amount of the assets transferred.

The consolidated changes in equity during 2013 (mln manats)

Classification of Capital	Additional Capital Paid	Share Capital	Retained Earnings	Total
Increase in the Share Capital	(230)	230	-	-
Additional Paid in Capital	170	-	-	170
Appropriations to the Government	-	-	(666)	(666)

3.6. Allocation of revenues from production industry to SOFAZ

In 2013, SOFAZ's revenues amounted to 13.6 billion manats. Revenues include the proceeds from the sale of Azerbaijan's share in hydrocarbons, transit fees, bonus payments, acreage fees, revenues from the management of the Fund's assets and other revenues.

49 "State Oil Company of Azerbaijan Republic", "Financial Report, 2013", "Consolidated Statement of Changes in Equity", page 5, November 2014, <http://www.socar.az/socar/assets/documents/en/socar-financial-reports/2013.pdf>

Structure of SOFAZ revenues sources in 2013 (AZN mln)⁵⁰

Sources	Amount (mln manat)
Proceeds from profit oil and gas sales	13,108.0
Revenues management of the Fund assets	480.5
Transit fee revenues	8.1
Bonus payments	1.9
Acreage fees	1.8
Other revenues and receipts	0.1
Total	13,600.4

Structure of expenditures of the Fund in 2013 (AZN mln)⁵¹

Sources	Amount (mln manat)
Transfer to State Budget	11,350.0
Construction of "Star" Oil Refinery Project	372.6
Improvement of the social conditions of refugees and internally displaced person	300.0
Samur-Absheron irrigation system	173.9
Administrative expenses of the oil fund	47.5
Education of Azerbaijani youth abroad	33.0
New Baku-Tbilisi-Kars railway construction project	25.7
Total	12,302.7

3.7. Register of licenses

A single license registry function in Azerbaijan is carried out by the Ministry of Economy and Industry (MEI). Pursuant to the Regulations on carrying on a single license registry in Azerbaijan Republic approved by Order No.68, dated 30 September 2002 of MEI, registry of all licenses issued in Azerbaijan is publicly available. On the other hand, the Regulations have been adopted according to Decree No.782 by the President and thus, it can be concluded that the registry of licenses made in accordance with the Regulations comprises the information only about the licenses (for example, licenses for sale of oil and gas products, licenses for production, processing, use and circulation of valuable metals and etc.) falling within the scope of the mentioned decree. Licenses regarding exploration or exploitation of oil, gas and minerals resources do not fall within the scope of the Decree No.782 and under Azerbaijan legislation there exists no procedure for obtaining such licenses. However, according to Presidential Decree No.310, dated 28 March 2000 exploration and exploitation of oil and gas belongs to exclusive competence of the state and may be conducted only by state entities or state controlled joint stock companies.

50 "State Oil Fund of Azerbaijan Republic", "Annual Report 2013", 14 October 2014, p.36, http://www.oilfund.az/uploads/annual_2013az.pdf.

51 "State Oil Fund of Azerbaijan Republic", "Annual Report 2013", 14 October 2014, p.41, http://www.oilfund.az/uploads/annual_2013az.pdf.

Azerbaijan government retains all rights to execute such activities and engage internationally recognized and experienced contractors. On the other hand these rights and licenses to engage in activities regarding the exploration and exploitation of oil and gas may be granted to third parties by way of signing Production Share Agreements between the state (represented by state company) and third parties and these PSAs enter into effect after the official confirmation by the Parliament of Azerbaijan Republic. The law acts confirming the PSAs explicitly stipulate that the participating parties to PSA are granted all permits and licenses to operate within the scope of PSAs (including explore or exploit oil, gas and minerals resources) and these law acts are publicly available, there exists no other licensing instrument for this purpose.

3.8. Allocation of licenses

As it was described in the above section, there is a single license registry in Azerbaijan Republic approved by Order No.68, dated 30 September 2002 of MEI and the registry of all licenses issued in Azerbaijan is publicly available.

The process of allocation of licences is similar to their registration process. So, if there is any need for further information or clarification, refer to the section that describes register of licences (Section 3.7. Register of licenses).

3.9. Beneficial ownership

The “Beneficiary owner” concept is not recognized in the law of Azerbaijan and there is no publicly available registry of beneficiary owners of cooperative enterprises in Azerbaijan. State registry of legal entities reflects the registered owners of shares of cooperative enterprises, not the beneficial owners of such enterprises. Thus no publicly available registry in Azerbaijan reflects information on beneficial ownership and therefore submission of such information by governmental or state enterprises does not seem to be possible. In addition, according to the law dated 12 June 2012 about changes to the law “On state registration and state registry of legal entities”, information relating to the founder of legal entities has been considered to be a commercial secret. Such information may be obtained by third persons only with the consent of shareholders of these enterprises.

Taking into consideration that there is no legal obligation on the disclosure of the beneficial ownership in Azerbaijan, disclosure of information on beneficial ownership shall not be binding obligation for companies participating in Extractive Industries Transparency Initiative.⁵²

⁵² “MGB Law Offices”, “Legal opinion on the analysis of New Mineral Reserves in the Extractive Industries Transparency Initiative in the terms of legislation requirement of Azerbaijan Republic”, “4.2 Beneficial ownership”, 12 September 2013.

3.10. Contracts

Production Sharing Agreements (PSA) concluded between the host governments (Azerbaijan) and a contractor govern the exploitation of oil, gas and minerals in Azerbaijan and these PSAs are effective only after the ratification by the Parliament of Azerbaijan Republic. However, the Azerbaijan government and the contractors act as commercial counterparties in the scope of such PSAs and Azerbaijan has waived any sovereign immunity rights. By waiving its sovereign immunity rights the Azerbaijan government accepts itself and the contractors to be regarded as equal commercial parties.

There exists no requirement or restriction pursuant to the Azerbaijan legislation for the PSAs to be officially disclosed, but may be disclosed based on mutual consent of the parties thereto. Under the existing legislation the parties to commercial contracts are not restricted in the release such contracts to a third party unless they are bound by the confidentiality clause. Under the Azerbaijan law, the party disclosing a commercial secret (i.e. information related to production, technological, management, finance or other activities of individuals or legal entities or disclosure without an owner's consent of which may adversely affect its legal interests) to third parties in violation of the confidentiality clause shall be responsible before its counterparty (Article 7 of the Law of the Republic of Azerbaijan on Commercial Secret dated 4 December 2001).

As mentioned above the Azerbaijan government as a commercial party to the contract is not able to enjoy its sovereign rights over other parties and impose on them any obligation regarding the disclosure of the PSA which contains confidential information. Therefore under the EITI Standard, the text of any commercial contracts may be disclosed to third parties only by observing confidentiality clauses in contracts or upon consent of the parties of the contract.

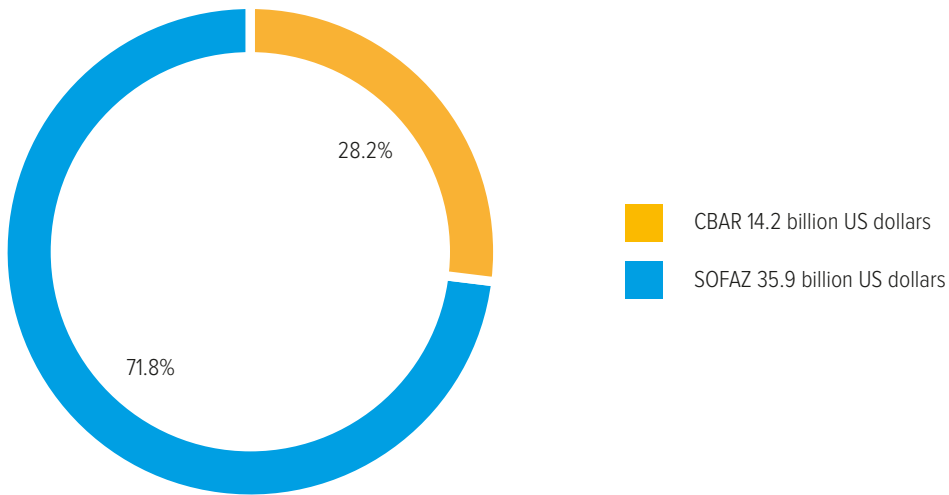
The secretariat has conducted a survey in order to obtain permission to upload the PSAs into AzEITI website for public use. There are only five PSAs that were uploaded after a survey and they are available to public on the official website of EITI in Azerbaijan.

3.11. Other information

Population income⁵³. In comparison with the previous year income of the population increased by 8% and reached 37.6 billion manats in 2013. The amount of income per capita increased by 6.6% and reached 4 thousand manats. Consumption expenditure was made main part of income—64.3%. The Government has spent 8.3% of its revenues for taxes, social insurance and membership fees, 1.8% for interest on loans and 25.6% for increasing deposits portfolios and share capital. According to the “Human Development Report 2014” published by United Nations in 2013, Azerbaijan ranked 76th out of 187 countries with regard to “high human development”.

⁵³ “Ministry of Economy and Industry of Azerbaijan Republic”, “Social areas”, 15 October 2014, http://economy.gov.az/index.php?option=com_content&view=article&id=1183:ss2013&catid=110:eig-2013&lang=az.

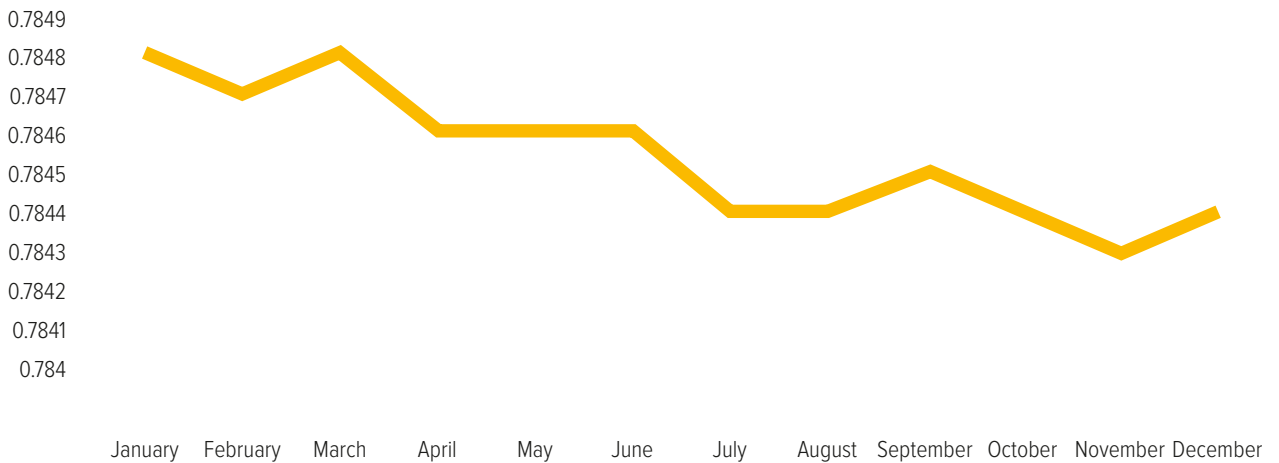
Strategic Currency Reserves



Source: State Oil Fund of Azerbaijan Republic and Central Bank of Azerbaijan Republic

The amount of investment in fixed capital from foreign sources amounted to 4.7 billion manats and the highest share was with respect to the UK (1.5 billion manats).

Exchange rate of USD to AZN during 2013⁵⁴



⁵⁴ "Central Bank of Azerbaijan Republic", "AZN exchange rates", 15 October 2014, <http://www.cbar.az/other/azn-rates>

4. RECONCILIATION SCOPE

4.1. Extractive companies

According to the materiality threshold which has been set at nil, it is mandatory for all the Companies within the extractive industry to participate in the process of reconciliation for the year ended 31 December 2013. The list of Companies is given in the Annex 2 of this Report.

4.2. Government agencies

Based on the list of Companies and payment streams recommended to be included in the scope, the government agencies which have been involved in the 2013 reconciliation process are detailed as follows:

N°	Government agencies/departments
1	State Oil Fund of the Republic of Azerbaijan
2	State Oil Company of the Azerbaijan Republic
3	Ministry of Taxes of the Republic of Azerbaijan
4	Ministry of Ecology and Natural Resources of the Azerbaijan Republic

4.3. Infrastructure provisions and barter arrangements

Information regarding infrastructure provisions and barter arrangements was not included in EITI Report for the year ended 2013 due to the fact that at the 34th meeting of EITI Multi Stakeholder Group which took place on 10 December 2014 it was decided to eliminate this information from the EITI report as it was not applicable in the Republic of Azerbaijan.⁵⁵

4.4. Social expenditures

Information regarding social expenditures was not included in EITI Report for the year ended 2013 due to the fact that at the 34th meeting of EITI Multi Stakeholder Group which took place on 10 December 2014 it was decided to eliminate this information from the EITI report as it was not applicable in the Republic of Azerbaijan.⁵⁶

4.5. Sub-national payments and transfers

Information regarding sub-national payments and transfers was not included in EITI Report for the year ended 2013 due to the fact that at the 34th meeting of EITI Multi Stakeholder Group which took place on 10 December 2014 it was decided to eliminate this information from the EITI report as it was not applicable in the Republic of Azerbaijan.⁵⁷

The Republic of Azerbaijan is unitary state and therefore it does not have any sub-national payments and sub-national transfers. There are local budgets, but they are governed by and accumulated from the central budget. All collected duties and taxes are incorporated into the single budget. Nakhichevan AR is the only exception as it collects the taxes to its budget and is supported by the central budget at the same time.

55 "EITI website", "documents", "extract from minutes", <http://www.eiti.az/index.php/en/senedler-2/extracts-from-minutes>

56 "EITI website", "documents", "extract from minutes", <http://www.eiti.az/index.php/en/senedler-2/extracts-from-minutes>

57 "EITI website", "documents", "extract from minutes", <http://www.eiti.az/index.php/en/senedler-2/extracts-from-minutes>

5. RECONCILIATION RESULTS

We present below detailed results of our reconciliation exercise, as well as differences noted between amounts paid by extractive Companies and amounts received by Government entities. We have included the amounts initially reported and the adjustments made following our reconciliation work, as well as the final amounts and unresolved differences.

5.1. Reconciliation by revenue stream (foreign companies)

The table below shows the total basic payments reported by foreign extractive Companies and Government entities, taking into account all adjustments:

(USD mln)

Revenue streams	Template originally lodged			Adjustments		Final Amounts		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Monetary inflow from oil	84.9	62.7	22.2	(22.2)*	-	62.7	62.7	-
Monetary inflow from gas	383.8	383.8	-	-	-	383.8	383.8	-
Bonuses	2.32	2.36	(0.04)	0.04	-	2.36	2.36	-
Transportation tariff to SOFAZ	3.7	10.3	(6.6)	6.6	-	10.3	10.3	-
Acreage fee	2.3	2.3	-	-	-	2.3	2.3	-
Profit tax	1,838.0	1,881.9	(43.9)	30.0	16.0	1,868.0	1,897.9	(29.9)
Other taxes	0.1	-	0.1	(0.1)	-	-	-	-

*Bracket represents the reduction of total amount

We present in the table below a summary of the in kind transfers to the Government (aggregated figures) reported by the foreign extractive Companies and Government:

In kind payments	Template originally lodged			Adjustments		Final Amounts		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (oil (mboe)	157.8	157.1	0.7	(0.7)	-	157.1	157.1	-
Natural Gas (thsd. m ³)	-	13,351.8	(13,351.8)	13,351.8	-	13,351.8	13,351.8	-
Associated Gas (thsd. m ³)	2,167,562.6	2,310,248.0	(142,685.4)	142,685.4	-	2,310,248.0	2,310,248.0	-
Gold (thsd. ounces)	6.7	6.7	-	-	-	6.7	6.7	-
Silver (thsd. ounces)	2.6	2.6	-	-	-	2.6	2.6	-
Parent Metals-Gold (thsd. ounces)	0.02	0.02	-	-	-	0.02	0.02	-
Parent Metals-Silver (thsd. ounces)	21.1	21.1	-	-	-	21.1	21.1	-
Parent Metals-Coppers (tonnes)	0.1	0.1	-	-	-	0.1	0.1	-

5.2. Reconciliation by extractive Company (foreign companies)

The table below shows the total basic payments reported by foreign extractive companies and Government entities, taking into account all adjustments:

(USD mln)

Foreign Extractive Companies	Template originally lodged			Adjustments		Final amount		
	Extractive Company	Government	Difference	Extractive Company	Government	Extractive Company	Government	Difference
Apsheron Investments Limited	11.6	11.6	-	-	-	11.6	11.6	-
Ali-Bairamli Oil Ltd	16.5	1.5	15.0	(15.0)	-	1.5	1.5	-
Azen Oil Company B.V.	6.1	6.1	-	-	-	6.1	6.1	-
Azerbaijan (ACG) Limited	170.8	170.8	-	-	-	170.8	170.8	-
Azerbaijan (Shah Deniz) Limited	38.4	74.8	(36.4)	36.4	-	74.8	74.8	-
Bahar Energy Limited	2.0	1.9	0.1	(0.1)	-	1.9	1.9	-
Binagadi Oil Company	15.0	9.8	5.2	(5.2)	-	9.8	9.8	-
BP Exploration (Azerbaijan) Limited	170.4	170.4	-	-	-	170.4	170.4	-

Foreign Extractive Companies	Template originally lodged			Adjustments		Final amount		
	Extractive Company	Government	Difference	Extractive Company	Government	Extractive Company	Government	Difference
BP Exploration (Caspian Sea) Limited	559.0	552.6	6.4	(6.4)	-	552.6	552.6	-
BP Shafag-Asiman Limited	2.1	2.1	-	-	-	2.1	2.1	-
Chevron Khazar, Ltd.	167.5	167.5	-	-	-	167.5	167.5	-
CNPC	2.9	3.2	(0.3)	0.3	-	3.2	3.2	-
Exxon Azerbaijan Limited	120.4	120.4	-	-	-	120.4	120.4	-
Fortunamate Assets Limited	2.9	3.2	(0.3)	0.3	-	3.2	3.2	-
Inpex Southwest Caspian Sea, Ltd.	166.6	166.6	-	-	-	166.6	166.6	-
Itochu Oil Exploration (Azerbaijan) Inc.	62.6	62.6	-	-	-	62.6	62.6	-
Karasu Development Company	12.3	12.3	-	-	-	12.3	12.3	-
Lukoil Overseas Shah-Deniz Ltd	88.4	88.3	0.1	(0.1)	-	88.3	88.3	-
Naftiran Intertrade Co (NICO) Limited	38.40	38.44	(0.04)	0.04	-	38.4	38.4	-
Neftechala Investments Limited	1.2	1.2	-	-	-	1.2	1.2	-
Novatis Oil F.Z.E.	28.0	28.0	-	-	-	28.0	28.0	-
ONGC Videsh Limited	22.2	22.2	-	-	-	22.2	22.2	-
R.V. Investment Group Services	0.8	0.8	-	-	-	0.8	0.8	-
Salyan Oil	3.5	0.9	2.6	(2.6)	-	0.9	0.9	-
Shirvan Investment Limited	13.1	13.1	-	-	-	13.1	13.1	-
Statoil Apsheron A.S	142.5	142.5	-	-	-	142.5	142.5	-
Statoil Shah Deniz A.S	167.5	167.5	-	-	-	167.5	167.5	-
Total E & P Azerbaijan B.V	80.5	80.5	-	-	-	80.5	80.5	-
Turkish Petroleum A.O	94.7	94.7	-	-	-	94.7	94.7	-
Turkish Petroleum Overseas Company Ltd	74.2	74.2	-	-	-	74.2	74.2	-
UGE-LANCER PTE.LTD	33.0	17.0	16.0	-	16.0	33.0	33.0	-

The table below shows the list of companies which has not made payments to the Government.

(USD mln)

Foreign Extractive Companies	Template originally lodged			Adjustments		Final amount		
	Extractive Company	Government	Difference	Extractive Company	Government	Extractive Company	Government	Difference
Commonwealth Gobustan Limited	-	-	-	-	-	-	-	-
GDF SUEZ E&P Absheron B.V	-	-	-	-	-	-	-	-
Kura Valley Development Company LTD	-	-	-	-	-	-	-	-
Total E & P Absheron B.V	-	-	-	-	-	-	-	-

HESS had not submitted a reporting template and the reason was non-inclusion of the company in the Memorandum because the company has closed its branch in the Republic of Azerbaijan. The company did not participate and thus could not confirm the completeness of payments made to the Government for profit tax in the amount of USD 29.9 mln and according to the Government approval the difference have been solved.

(USD mln)

Foreign Extractive Companies	Template originally lodged			Adjustments		Final amount		
	Extractive Company	Government	Difference	Extractive Company	Government	Extractive Company	Government	Difference
HESS	-	29.9	(29.9)	-	-	-	29.9	(29.9)

5.3. Reconciliation by extractive Company (local companies)

We present in the table below a summary of the figures (in cash payments) reported by the local extractive Companies and Government:

(AZN mln)

Local Extractive Companies	Template originally lodged			Adjustments		Final amount		
	Extractive Company	Government	Difference	Extractive Company	Government	Extractive Company	Government	Difference
AzGerceft	4.2	4.2	-	-	-	4.2	4.2	-
SOCAR	1,171.5	660.1	511.4	(511.4)	-	660.1	660.1	-

5.4. Reconciliation by revenue stream (local companies)

We present in the table below a summary of the revenue streams (aggregated figures) reported by the local extractive Companies and Government:

(AZN million)

Revenue streams	Template originally lodged			Adjustments		Final Amounts		
	Extractive Company	Government	Difference	Extractive Company	Government	Extractive Company	Government	Difference
Monetary inflow from Oil	-	-	-	-	-	-	-	-
Monetary inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transportation tariff to SOFAZ	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	32.8	15.8	17.0	(17.0)	-	15.8	15.8	-
Royalty	119.3	119.3	-	-	-	119.3	119.3	-
VAT	108.6	108.6	-	-	-	108.6	108.6	-
Property tax	38.1	38.1	-	-	-	38.1	38.1	-
Land tax	10.0	10.0	-	-	-	10.0	10.0	-
Price changes	-	369.9	(369.9)	369.9	-	369.9	369.9	-
Other taxes	866.9	2.6	864.3	(864.3)	-	2.6	2.6	-

We present in the table below a summary of the in kind transfers to the Government (aggregated figures) reported by the local extractive Companies and Government:

In kind payments	Template originally lodged			Adjustments		Final Amounts		
	Extractive Company	Government	Difference	Extractive Company	Government	Extractive Company	Government	Difference
Crude Oil (mboe)	1571	1571	-	-	-	1571	1571	-
Natural Gas (thsd. m ³)	13,351.8	13,351.8	-	-	-	13,351.8	13,351.8	-
Associated Gas (thsd. m ³)	2,176,837.6	2,310,248.0	(133,410.4)	133,410.4	-	2,310,248.0	2,310,248.0	-

5.5. Payments made to Government according to PSA

Payment to Government by Foreign Extractive Companies due to Azeri-Chirag-Gunashli PSA in 2013:

Foreign Extractive Companies	Final Amounts (USD mln)	
	Extractive company	Government
Azerbaijan (ACG) Limited	170.8	170.8
BP Exploration (Caspian Sea) Limited	552.6	552.6
Chevron Khazar, Ltd.	167.5	167.5
Exxon Azerbaijan Limited	120.4	120.4
Inpex Southwest Caspian Sea, Ltd.	166.6	166.6
Itochu Oil Exploration (Azerbaijan) Inc.	62.6	62.6
ONGC Videsh Limited	22.2	22.2
Statoil Apsheron A.S	142.5	142.5
Turkish Petroleum A.O	94.7	94.7

Payment to Government by Foreign Extractive Companies due to Shah Deniz PSA in 2013:

Foreign Extractive Companies	Final Amounts (USD mln)	
	Extractive company	Government
Azerbaijan (Shah Deniz) Limited	74.8	74.8
BP Exploration (Azerbaijan) Limited	170.4	170.4
Lukoil Overseas Shah-Deniz Ltd	88.3	88.3
Naftiran Intertrade Co (NICO) Limited	38.4	38.4
Statoil Shah Deniz A.S	167.5	167.5
Total E & P Azerbaijan B.V	80.5	80.5
Turkish Petroleum Overseas Company Ltd	74.2	74.2

Payment to Government by Foreign Extractive Companies due to other PSAs in 2013:

Foreign Extractive Companies	Final Amounts (USD mln)	
	Extractive company	Government
BINAGADI, GIRMAKI, CHAKHNAGLAR, SULUTEPE, MASAZIR, FATMAI, SHABANDAGH AND SIAN SHOR		
Azen Oil Company B.V.	6.1	6.1
Binagadi Oil Company	9.8	9.8
BAHAR AND GUM DENIZ		
Bahar Energy Limited	1.9	1.9
ZIGH HOVSAN		
Apsheron Investments Limited	11.6	11.6
SHAFAG-ASIMAN		
BP Shafag-Asiman Limited	2.1	2.1
KURSENGI AND GARABAGHLY		
CNPC	3.2	3.2
Fortunamate Assets Limited	3.2	3.2
Salyan Oil	0.9	0.9
MISHOVDAGH AND KELAMADDIN		
Karasu Development Company	12.3	12.3
Ali-Bairamli Oil Ltd	1.5	1.5
NEFTCHALA, KHILLI, AND DUROVDAGH – BABAZAN		
Neftechala Investments Limited	1.2	1.2
SURAKHANY		
Novatis Oil F.Z.E.	28.0	28.0
BALAKHANY		
UGE-LANCER PTE. LTD	33.0	33.0
KUROVDAGH		
Shirvan Investment Limited	13.1	13.1
GOLD, SILVER AND COPPER		
R.V. Investment Group Services	0.8	0.8

5.6. Adjustments

Foreign extractive Company adjustments

The adjustments were carried out on the basis of confirmations from the extractive Companies and were supported by proper evidence for justifications. We reconciled and proposed the necessary adjustments upon obtaining evidence documentation from the extractive Companies. The breakdown of adjustments is shown below:

Cash inflows from foreign Companies' oil production revenue:

(USD mln)

Revenue streams	Extractive company
Monetary inflow from Oil	(22.2)

The total negative difference of profit oil was USD 22.2 mln. The table below demonstrates the Companies which have incorrectly included the data into the reporting template:

(USD million)

Foreign extractive Company	Per Company			Per Government			Final Difference
	Original	AJE	Final	Original	AJE	Final	
Ali-Bairamli Oil Ltd	14.4	(14.4)	-	-	-	-	-
Bahar Energy Limited	1.8	(0.1)	1.7	1.7	-	1.7	-
Binagadi Oil Company	14.9	(5.1)	9.8	9.8	-	9.8	-
Salyan Oil	2.6	(2.6)	-	-	-	-	-

- The negative amount of difference USD 0.1 mln indicates payment made to SOCAR by the extractive Company which should not be included to the report.
- The negative amount of difference USD 5.1 mln indicates payment made to SOCAR by the extractive Company which should not be included to the report.
- The negative amount of difference USD 14.4 mln was incorrectly included in the initial reporting template. The Company had not transferred any profit oil to SOFAZ.
- The negative amount of difference USD 2.6 mln was incorrectly included in the initial reporting template. The Company did not transfer any amount to SOFAZ.

Bonus payment to SOFAZ:

(USD mln)

Revenue streams	Extractive Company
Bonus	0.04

The total positive difference related to bonuses was USD 0.04 mln. The table below demonstrates the Companies which had incorrectly included the data into the reporting template:

(USD mln)

Foreign extractive Company	Per Company			Per Government			Final Difference
	Original	AJE	Final	Original	AJE	Final	
Naftiran Intertrade Co (NICO) Limited	-	0.04	0.04	0.04	-	0.04	-

- The Company had omitted to indicate the payment amounting to USD 0.04 mln in the initial reporting template.

Transportation tariff:

(USD mln)

Revenue streams	Extractive Company
Transportation tariff	6.6

The positive difference of USD 6.6 mln included in the Government's schedule relates to transit fees that were paid by the Government to itself for the transit of its own oil entitlement. Each month SOFAZ and contractors pay fees to the Azerbaijan International Operating Company (AIOC), the operating company of the ACG oilfield, the levels of which are determined by the Republic of Azerbaijan and Georgia for the transportation of oil (Government's entitlement to oil profits) through Western Route Pipeline and operating costs (operational and capital expenditure). AIOC pays Georgia's share from the total fees collected. SOFAZ receives only the transportation tariff's share determined by the Republic of Azerbaijan. Because of the nature of the transaction this is a permanent difference.

Profit tax:

(USD mln)

Revenue streams	Extractive Company
Profit taxes	30.0

The total positive difference of profit taxes were USD 30.0 mln. The table below demonstrates the Companies which had incorrectly included the data into the reporting template:

(USD mln)

Foreign Extractive Company	Per Company			Per Government			Final Difference
	Original	AJE	Final	Original	AJE	Final	
Ali-Bairamli Oil Ltd	2.1	(0.6)	1.5	1.5	-	1.5	-
Azerbaijan (Shah Deniz) Limited	-	36.4	36.4	36.4	-	36.4	-
BP Exploration (Caspian Sea) Limited	557.7	(6.4)	551.3	551.3	-	551.3	-
CNPC	2.9	0.3	3.2	3.2	-	3.2	-
Fortunamate Assets Limited	2.9	0.3	3.2	3.2	-	3.2	-

The company had omitted the amount of payment of profit tax amounting to USD 36.4 mln in the the initial reporting template.

The negative difference of USD 6.4 mln was in relation to the penalty audit settlement not covered in the year ended 31 December 2013, the amount of penalty in regards of previous year.

The company had included the negative amount of difference USD 0.6 mln based on accrued figures instead of cash paid.

The company did not include the amount of 4th quarter of 2012 amounting of USD 0.3 mln. We have adjusted and added up into the recorded amount (CNPC and Fortunamate Assets Limited had the same error).

Other taxes:

(USD mln)

Revenue streams	Extractive company
Other taxes	(0.1)

The total negative difference of other taxes was USD 0.1 mln. The table below shows the company which had incorrectly included the data into the reporting template:

(USD mln)

Foreign Extractive company	Per Company			Per Government			Final Difference
	Original	AJE	Final	Original	AJE	Final	
Lukoil Overseas Shah-Deniz Ltd	0.1	(0.1)	-	-	-	-	-

- The company had included the negative amount of USD 0.1 mln in relation to withholding taxes in the reporting templates. In accordance to the guideline, those taxes should not be included by the extractive Companies.

Local Extractive Company adjustments

Profit taxes:

(AZN mln)

Revenue streams	Extractive company
Profit taxes	17.0

The total positive difference of profit taxes was AZN 17.0 mln. The table below demonstrates the company which had incorrectly included the data into the reporting template:

(AZN mln)

Local Extractive company	Per Company			Per Government			Final Difference
	Original	AJE	Final	Original	AJE	Final	
SOCAR	28.6	(17.0)	11.6	11.6	-	11.6	-

- The explanation of difference was given as follows: in 2013, there was a mutual protocol of government budget tax liabilities of SOCAR. In February 2013, according to tax reconciliation form of SOCAR, its debtor liabilities decreased, so that creditor liabilities of AZN 11.0 mln, as for profit tax of "AZNEFT IB", were reduced; in June, the debtor liabilities of head office of SOCAR decreased on tax reconciliation for, so that creditor liabilities of "AZNEFT IB" were decreased by AZN 6.0 mln. Thus, in addition to the payment AZN 17.0 mln of profit tax was decreased in accordance with the tax protocol.

Price Changes:

(AZN mln)

Revenue streams	Extractive company
Price Changes	369.9

The total positive difference of price changes was AZN 369.9 mln. The table below demonstrates the company which had incorrectly included the data into the reporting template:

(AZN mln)

Local Extractive company	Per Company			Per Government			Final Difference
	Original	AJE	Final	Original	AJE	Final	
SOCAR	-	369.9	369.9	369.9	-	369.9	-

- The company has indicated the price changes in the total of other taxes. We have obtained the breakdown of other taxes in order to deduct the amount and adjust.

Other taxes

(AZN mln)

Revenue streams	Extractive company
Other taxes	(864,3)

The total negative difference of other taxes was AZN 864.3 mln. The table below demonstrates the company which had incorrectly included the data into the reporting template:

(AZN mln)

Local Extractive company	Per Company			Per Government			Final Difference
	Original	AJE	Final	Original	AJE	Final	
SOCAR	866.9	(864.3)	2.6	2.6	-	2.6	-

- We have adjusted the amount of other taxes in accordance to the breakdowns of the following types payment:

(AZN mln)

Other taxes	Amount
Export tax	176.3
Excise tax	493.5
Road tax	2.6
Other taxes	0.9
Marketing export tax	40.6
Gas export tax	153.0

Government agencies' adjustments

The adjustments were carried out on the basis of confirmations received from extractive companies supported by original payment receipts wherever deemed appropriate. We have reconciled and proposed the necessary adjustments upon obtaining evidence documentation from the extractive companies. The adjustments are detailed as follows:

Profit taxes:

(USD mln)

Revenue streams	Extractive company
Profit taxes	16.0

The total positive difference of profit taxes were USD 16.0 mln. We set out in the table below a summary of the adjustments made to Government payments, by company:

(USD mln)

Foreign Extractive company	Per Company			Per Government			Final Difference
	Original	AJE	Final	Original	AJE	Final	
UGE-LANCER PTE.LTD	16.0	-	16.0	-	16.0	16.0	-

- The Government had omitted to include the amount of profit taxes in relation to UGE-LANCER PTE. LTD.

Adjustments of in kind volumes

Crude oil:

In kind transfers	Extractive company (mboe)
Crude Oil	(0.7)

The total difference of crude oil were 0.7 mln barrels. We set out in the table below a summary of the adjustments made:

Foreign Extractive company	Per Company (mboe)			Per Government (mboe)			Final Difference
	Original	AJE	Final	Original	AJE	Final	
Ali-Bairamli Oil Ltd	0.5	(0.5)	-	-	-	-	-
CNPC	0.1	(0.1)	-	-	-	-	-
Neftechala Investments Limited	0.1	(0.1)	-	-	-	-	-

- The company mistakenly included the quantity of crude oil of 0.1 mboe in the initial reporting template.
- The company mistakenly included the quantity of crude oil of 0.1 mboe in the initial reporting template.
- The company mistakenly included the quantity of crude oil of 0.5 mboe in the initial reporting template.

Natural gas:

In kind transfers	Extractive company (thsd. m ³)
Natural Gas	13,351.8

The total difference of natural gas was 13,351.8 thsd. m³. We set out in the table below a summary of the adjustments made:

Foreign Extractive company	Per Company (thsd. m ³)			Per Government (thsd. m ³)			Final Difference
	Original	AJE	Final	Original	AJE	Final	
Bahar Energy Limited	-	13,351.8	13,351.8	13,351.8	-	13,351.8	-

- The company did not include the amount of natural gas transferred to SOCAR. We have reviewed the acts of transfer to SOCAR and adjusted.

Associated Gas:

In kind transfers	Extractive company (thsd. m ³)
Associated Gas	142,685.3

The total difference of associated gas was 142,685.3 thsd. m³. We set out in the table below a summary of the adjustments made:

Foreign Extractive company	Per Company (thsd. m ³)			Per Government (thsd. m ³)			Final Difference
	Original	AJE	Final	Original	AJE	Final	
Apsheron Investments Limited	42,449.0	0.1	42,449.1	42,449.1	-	42,449.1	-
Binagadi Oil Company	-	1,294.7	1,294.7	1,294.7	-	1,294.7	-
BP Exploration (Caspian Sea) Limited	2,077,272.5	130,101.3	2,207,373.8	2,207,373.8	-	2,207,373.8	-
Shirvan Investment Limited	-	11,288.3	11,288.3	11,288.3	-	11,288.3	-
CNPC	30,221.0	0.9	30,221.9	30,221.9	-	30,221.9	-

- The difference occurred as a result of a rounding error made by Apsheron Investment Limited and CNPC companies respectively.
- The remaining differences were due to the omission from the report made by two foreign extractive companies (Binagadi Oil Company and Shirvan Investment Limited).

Volume of gas delivered to the Sangachal Terminal

A foreign extractive company reported the volume measured in Normal Cubic Metres (Nm³) at 0°C whereas the Government reported the volume measured in Standard Cubic Metres (Sm³) at 20°C.

Government	1,759,581.6
Company	1,649,272.4
Difference	110,309.2

The Nm³ can be converted to Sm³ by using coefficient of Nm³= Sm³/1.07322.

Volume of gas delivered to Oil Rocks

A foreign extractive company reported the volume measured in Normal Cubic Metres (Nm³) at 0°C whereas the Government reported the volume measured in Standard Cubic Metres (Sm³) at 15°C.

Government	447,792.2
Company	428,000.1
Difference	19,792.1

The Nm³ can be converted to Sm³ by using coefficient of Nm³= Sm³/1.05491.

Also the difference between those figures is the result of transportation losses and parties using different measurement times. It needs to be noted that, during the inspection of the SBQ Intersection held in April 2013 by specialists from Oil & Gas Scientific Research Institution it was detected that the Intersection did not meet the standards, and it was decided to deduct 0.5 per cent from daily gas volumes. And also due to exclusion of percentage of indicators affecting gas report - the component composition, N₂ and CO₂ components contained in the gas were not accounted for during period from 1 March 2013 to 24 April 2013. The difference was taken into account in April 2013.

5.7. Amount confirmed by Government

The summaries of differences which have not been solved are stated as follows:

(USD mln)

Revenue streams	Template originally lodged			Adjustments		Adjustments		
	Extractive company	Government	Difference	Extractive company	Government	Extractive company	Government	Difference
Profit taxes	1,838.0	1,881.9	(43.9)	30.0	16.0	1,868.0	1,897.9	(29.9)

HESS had not submitted a reporting template and the reason was non-inclusion of the company in the Memorandum because the company had closed the branch in the Republic of Azerbaijan. The company did not participate and thus could not confirm the completeness of payments made to the Government for profit tax in the amount of USD 29.9 mln and according to the Government approval the difference have been solved.

6. SPECIAL AUDIT PROCEDURES

Attestation process

We have performed procedures to obtain reasonable assurance over the transactions involved in the reconciliation process. The assurance engagement involves selection of items for testing from the population of monetary and non-monetary transfers.

There are different sampling options, such as:

- Selecting all items (100% testing);
- Selecting specific items according to their characteristics; and
- Statistical and non-statistical sampling.

100% testing

In certain circumstances the assurance provider may decide that it will be most appropriate to examine the entire population. It is most likely to be appropriate where the population constitutes a small number of large value items, when there is a significant risk and other means do not provide sufficient appropriate audit evidence.

Selecting specific items

The assurance provider may decide to select specific items from a population based on factors such as his/her understanding of the reporting entity (extractive company or government agency), the assessed risk of material misstatement and the characteristics of the population being tested. The types of item that the assurance provider is likely to select using this method include:

- High value or key items – the assurance provider may decide to select specific items within a population because they are of high value or have some other characteristic, for example they appear suspicious, unusual, and particularly risk-prone or have a known history of error.
- All items over a certain amount – the assurance provider may decide to examine all items whose values exceed a certain amount in order to verify a large proportion of the total amount of a class of transactions.

Statistical and non-statistical sampling

If it is the intention to analyze the results of a test based on statistical methods it will be necessary to ensure that sample items are selected at random so that each sampling unit has a known chance of being selected.

With non-statistical sampling items can be selected on the basis of professional judgement rather than using random selection. However, since the purpose of sampling is to use the sample selected to draw conclusions about the population as a whole it is important that the assurance provider exercise professional judgement to ensure as far as possible that the assurance provider selects a sample that is representative of the population as a whole and that bias is avoided.

There were 38 participating countries on the reconciliation process in 2013. We selected 7 (seven) extractive companies and tested all items (100% testing) related to those Companies.

According to our internal procedures we have selected seven companies using RAND formula in “Microsoft Excel”:

N°	Name of the company	Date of the testing
1	Ali-Bairamli Oil Ltd	29.10.2014
2	Azen Oil Company B.V.	28.10.2014
3	Bahar Energy Limited	03.11.2014
4	Binagadi Oil Company	28.10.2014
5	Neftechala Investments Limited	29.10.2014
6	Novatis Oil F.Z.E.	30.10.2014
7	Shirvan Investment Limited	29.10.2014

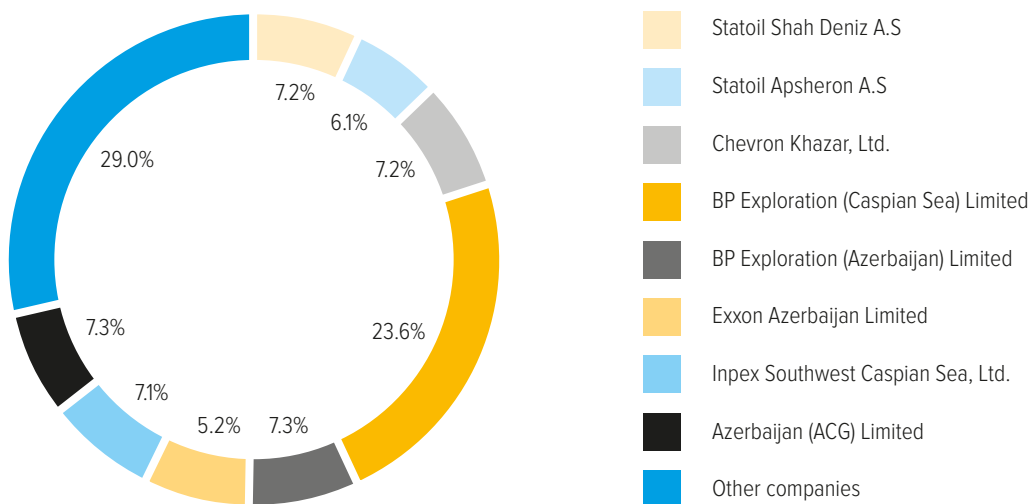
We have obtained reasonable assurance on the amounts stated by the Companies. We vouched the recorded amounts from the reporting templates to original supporting documents including:

- Profit tax declarations;
- Payment orders;
- Letters on transfer to relevant government agencies;
- Reconciliation acts; and
- Act of acceptance of gas.

7 ANALYSIS OF GOVERNMENT REVENUES

Analysis of payments by companies' contribution

The analysis of Government revenues by companies' contribution indicates that 8 foreign companies contributed approximately 71% of total Government revenues for the year ended 31 December 2013.

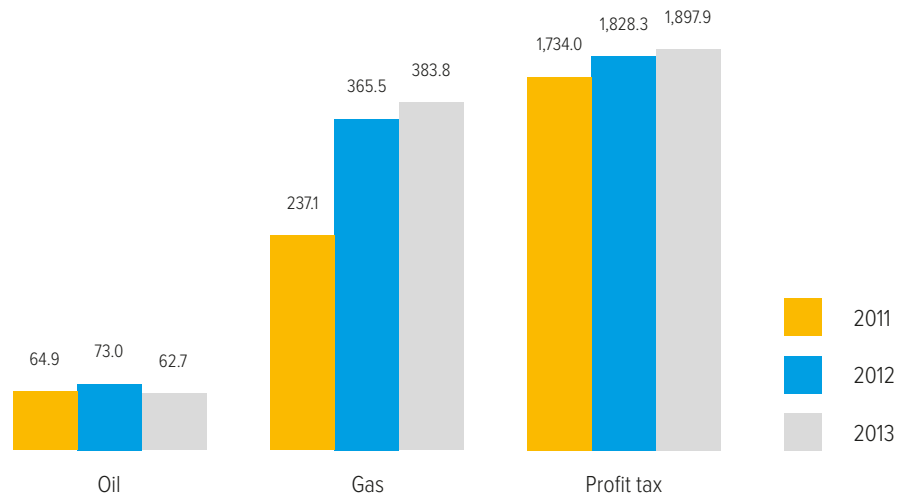


Comparison of Adjusted Data of 2011, 2012 and 2013

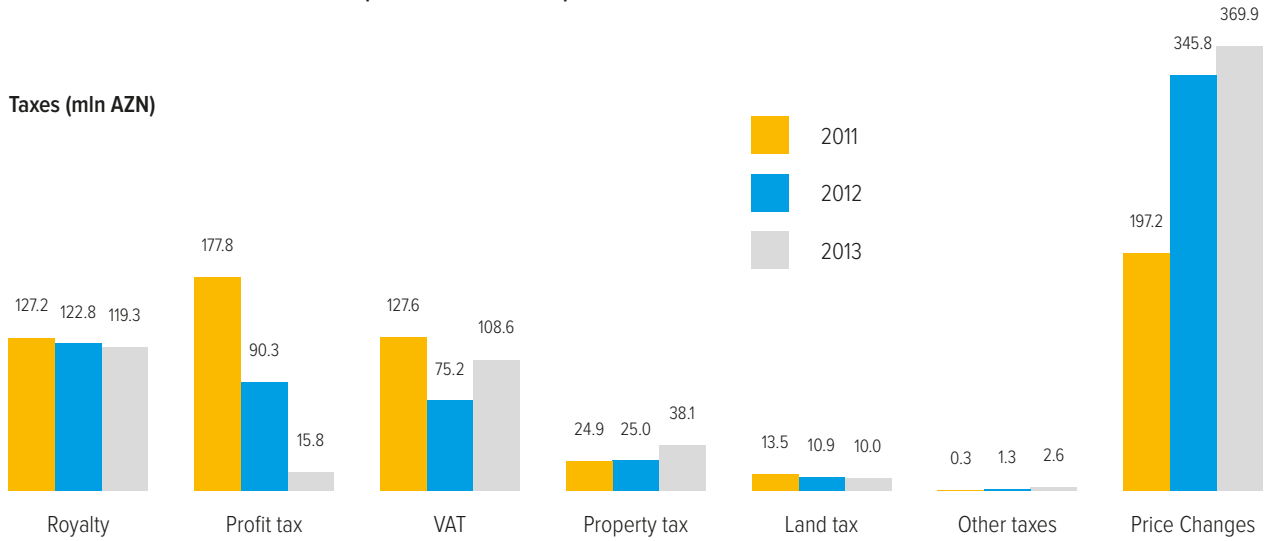
Government's interest in the foreign Companies' extractive output

Monetary Inflow from Oil and Gas
mIn US dollars

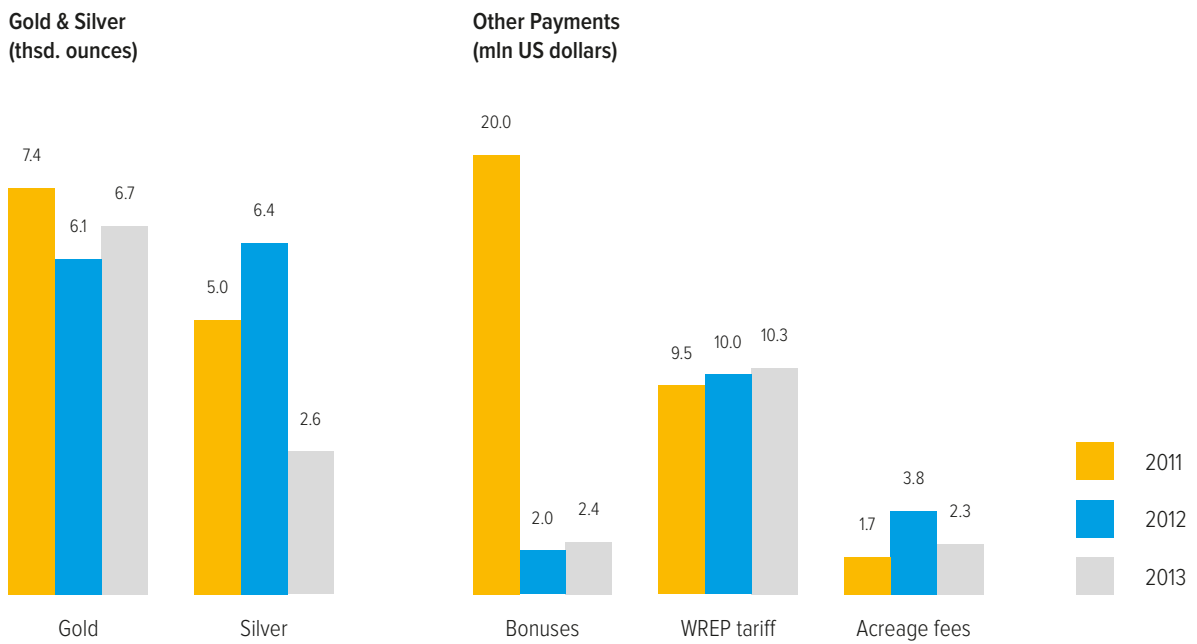
Profit tax
mIn US dollars

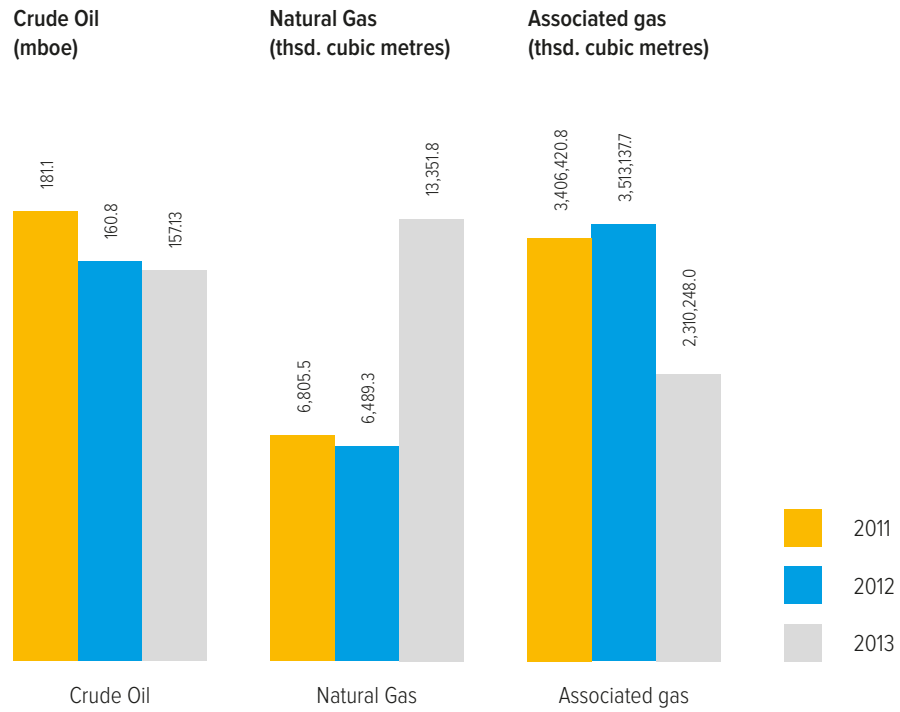


Government's interest in the local Companies' extractive output

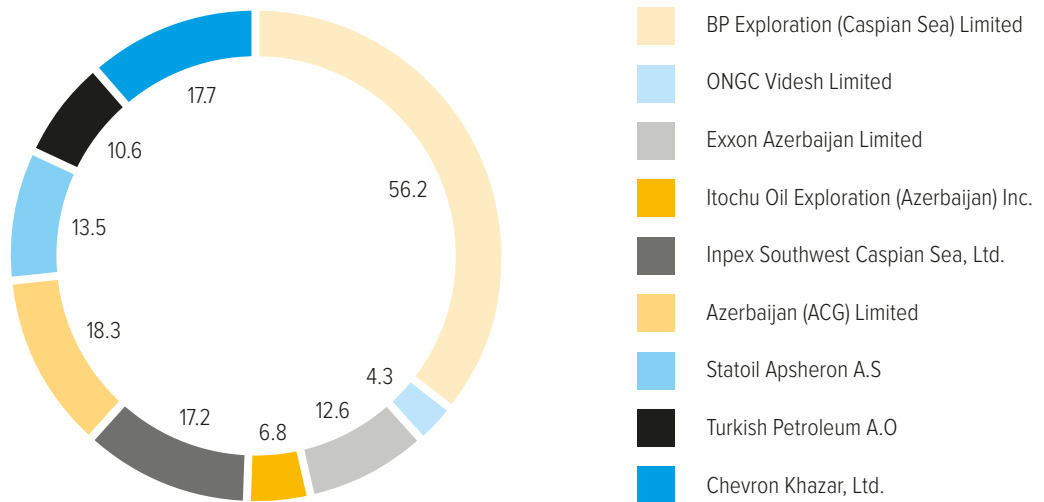


Government's interest in the foreign Companies' extractive output

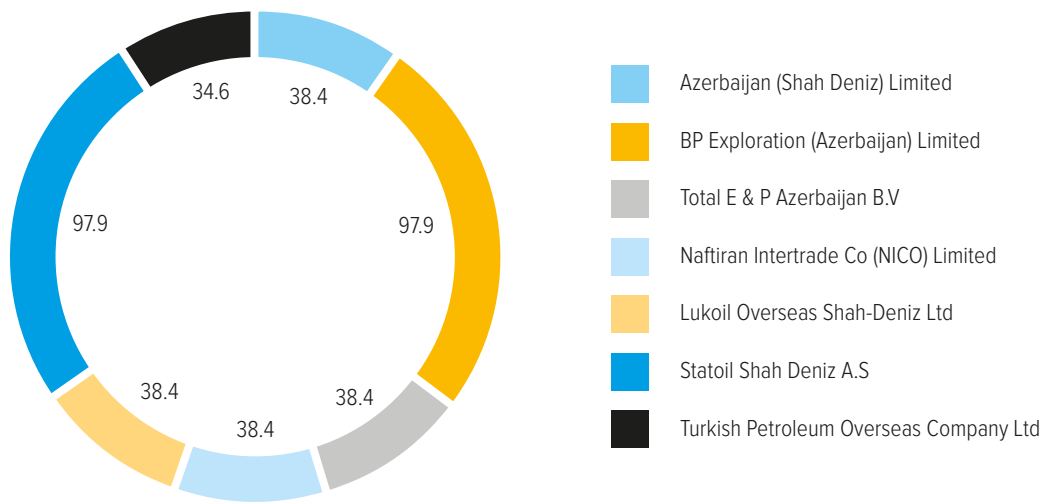




Transferred crude oil from Foreign Extractive Companies to the Government in 2013. (million barrels).



Cash inflow from Gas transportation in 2013. (million USD).



8. RECOMMENDATIONS

8.1. Lessons learned from the 2013 reconciliation

We have observed that almost all recommendations of the previous year have been implemented during the year ended 31 December 2013. The EITI Report of the Republic of Azerbaijan has been prepared in accordance with new EITI Standards issued by EITI International Secretariat on 11 July 2013.

During the reconciliation process we have observed that the extractive Companies made common mistakes while filling out the reporting template. The nature of errors was rounding problems and omissions figures from the reporting templates, including the amount and volume which should not be included in the reports and etc.

We recommend notifying and informing the companies that produce erroneous reports on a regular basis. It would be useful to include additional comments on their previous experience.

We recommend organizing seminars and training for the participants of the reconciliation process. It would increase the level of productivity and decrease the number of recurrent errors repeated each year.

8.2. Follow up of the recommendations of the 2012 EITI Report

Recommendation	Implemented (Yes/No/On - going)	Description of action undertaken
Format of the reporting forms		
Recommendation		
Taxes should be separately reported and royalties should also be reported	Yes	The MSG has approved new reporting template in accordance with the new requirements and all taxes separately shown as well as royalties.
Irrelevant items should be deleted from the forms	Yes	The new Reporting template does not contain any irrelevant items and all requested information included in the new form.
In kind and in cash payments to the Government should be split into separate lines.	Yes	In kind and in cash payments to the Government are shown separately in the new form of the reporting template which made easier for participants of reconciliation to fill in.
Certified reporting templates		
Recommendation		
It was recommended that the Committee takes necessary steps to ensure that reports submitted by oil companies and governmental agencies are certified by an external auditor (in the case of extractive companies), or a public entity/authority in the case of Government agencies.	Yes	It was agreed with the MSG to consider the credibility of data and included in the TOR. The credibility of the information has been agreed to be signed-off by a senior company and government official who gives assurance that the figures are complete and accurately recorded. The companies within the extractive industry will be requested to provide an additional letter from their external auditors on the completeness and accuracy of the figures included in the reporting templates.
Training & seminars		
Recommendation		
It was recommended organising seminars and training for the participants of the reconciliation process. This would increase the level of productivity and decrease the number of recurrent errors repeated each year.	Yes	The training has been organized in 2013 which covered the topics in relation to the new EITI requirements.

ANNEXES

Annex 1. Statement of the EITI Committee of the Republic of Azerbaijan

The schedule of payments/allocations received during the year ended 31 December 2013 by the Government of the Republic of Azerbaijan (the "Government") from the local and foreign Companies operating in the extractive industries of the Republic of Azerbaijan, specified in Annex 2 (collectively-the "Companies"), is prepared in accordance with the Memorandum of Understanding (the "MoU"), dated 10 June 2014 signed between the National Committee of the EITI, the local and foreign Companies operating in the extractive industries of the Republic of Azerbaijan and the non-governmental organizations detailed in Annex 5.

Annex 2. Extractive companies profile

Foreign Extractive Companies

#	Company Name	Responsible	TIN	Reporting Date	Stamped & Signed	PSA
1	Apsheiron Investments Limited	İqor Kindoda	1401089201	11/07/2014	•	Zigh Hovsan
2	Ali-Bairamli Oil Ltd	Musayev Sayyad	9900076291	10/07/2014	•	Mishovdagh and Kalamaddin
3	Azen Oil Company B.V.	Sara Suleymanova	1700357251	N/A	•	Binagadi, Girmaki & Chakhnaglar
4	Azerbaijan (ACG) Limited	Latifov Yashar	9900025071	14/07/2014	•	Azeri-Chirraq-Guneshli
5	Azerbaijan (Shah Deniz) Limited	Aliyarov Rauf	9900050981	08/07/2014	•	Shah Deniz
6	Bahar Energy Limited	Mammadov Azer	1401921221	22/07/2014	•	Bahar and Gum Deniz
7	Binagadi Oil Company	Sara Suleymanova	1700368391	N/A	•	Binagadi, Girmaki & Chakhnaglar
8	BP Exploration (Azerbaijan) Limited	Gordon Birrell	9900070341	08/07/2014	•	Shah Deniz
9	BP Exploration (Caspian Sea) Limited	Gordon Birrell	9900070211	08/07/2014	•	Azeri-Chirraq-Guneshli
10	BP Shafag-Asiman Limited	Gordon Birrell	1701289681	08/07/2014	•	Shafag-Asiman
11	Chevron Khazar, Ltd.	Eric Walker	9900046581	02/07/2014	•	Azeri-Chirraq-Guneshli
12	CNPC	Aliusmanov Yaqub	1700489661	N/A	•	Kursangi and Garabaghli
13	Commonwealth Gobustan Limited	Richard Pegge	9900007571	14/07/2014	•	Gobustan
14	Exxon Azerbaijan Limited	Austar Mac Leod	9900061191	15/07/2014	•	Azeri-Chirraq-Guneshli
15	Fortunamate Assets Limited	Aliusmanov Yagub	9900058401	N/A	•	Kursangi and Garabaghli
16	GDF SUEZ E&P Absheron B.V.	Heike Liebold	1701157271	09/07/2014	•	EDPSA Absheron
17	Gobustanneft LLC	Rasim Gurbanov	9900076161	21/07/2014	•	Gobustan
18	Inpex Southwest Caspian Sea, Ltd.	Yasuhisa Kanehara	990003863	10/07/2014	•	Azeri-Chirraq-Guneshli
19	Itochu Oil Exploration (Azerbaijan) Inc.	Nerio Yamazaki	9900017401	30/06/2014	•	Azeri-Chirraq-Guneshli
20	Karasu Development Company	Anar Shushali	9900028001	14/07/2014	•	Mishovdagh and Kalamaddin
21	Kura Valley Development Company LTD	Igor Kindoda	9900051361	10/07/2014	•	Padar
22	Lukoil Overseas Shah-Deniz Ltd	Y.M. Popliko	9900074991	14/07/2014	•	Shah Deniz
23	Naftiran Intertrade Co (NICO) Limited	Mehdi Javadi	9900072741	23/07/2014	•	Shah Deniz
24	Neftechala Investments Limited	Babayev Kamil	1401551781	14/07/2014	•	Neftchala, Khilli Durovdagh-Babazanan
25	Novatis Oil F.Z.E.	Mammadov Azer	1700478091	09/07/2014	•	Surakhani

#	Company Name	Responsible	TIN	Reporting Date	Stamped & Signed	PSA
26	ONGC Videsh Limited	N/A	1701431501	25/07/2014	•	Azeri-Chirraq-Guneshli
27	R.V. Investment Group Services	Bahruz Rustamov	9900047931	15/07/2014	•	Gold, silver and copper
28	Salyan Oil	Aliyev Ziyafet	9900076031	07/07/2014	•	Kursangi and Garabaghli
29	Shirvan Investment Limited	Davlyatov V.O	1401553101	10/08/2014	•	Kurovdagh
30	Statoil Apsheron A.S	Aynur Sultanli	9900066351	09/07/2014	•	Azeri-Chirraq-Guneshli
31	Statoil Shah Deniz A.S	Aynur Sultanli	1701175611	09/07/2014	•	Shah Deniz
32	Total E & P Absheron B.V	Cristian Giudicelli	1401620891	14/07/2014	•	EDPSA Absheron
33	Total E & P Azerbaijan B.V	Cristian Giudicelli	9900034931	14/07/2014	•	Shah Deniz
34	Turkish Petroleum A.O	Ayhan Durukan	9900006091	09/07/2014	•	Azeri-Chirraq-Guneshli
35	Turkish Petroleum Overseas Company Ltd	Ayhan Durukan	9900005861	09/07/2014	•	Shah Deniz
36	UGE-LANCER PTE.LTD	Nikolay Partnov	1501980421	09/07/2014	•	Balakhani

Local Extractive Companies

#	Company Name	Responsible	TIN	Reporting Date	Stamped & Signed
1	AzGerneft	Chingiz Isayev	9900047091	30/07/2014	•
2	SOCAR	Rashid Huseynov	9900003871	23/07/2014	•

Annex 3. Reporting templates

Report on payments made by an extractive industry company to the government of the Republic of Azerbaijan

Company: _____ TIN: _____

Ownership: Foreign Local

Extractive Industry: _____

Activity type: _____

Reporting period: 1 Jan– 31 December 2013

Type of payment		Volume and value of payments	
1. Company transfers to the government (in kind)		volume	unit of a measure
1.1.	Oil		million barrels
1.2.	Natural gas		thousand cubic metres
1.3.	Associated gas		thousand cubic metres
1.4.	Gold		ounce
1.5.	Silver		ounce
1.6.	Parent metals:		tonnes
	a)		
	b)		
1.7.	Other allocations:		
	a)		
	b)		

Type of payment		Volume and value of payments	
2. Company payments to the government (in cash) *		million US dollars	million Azerbaijani manats
2.1.	Oil		
2.2.	Natural gas		
2.3.	Associated gas		
2.4.	Gold		
2.5.	Silver		
2.6.	Parent metals:		
	a)		
	b)		
2.7.	Bonuses		
2.8.	Acreage fee		
2.9.	Transit fee		
2.10.	Other payments:		
	a)		
	b)		
2.Total			
3.Taxes			
3.1.	Royalty		
3.2.	Profit tax		
3.3.	Value Added Tax		
3.4.	Property tax		
3.5.	Land tax		
3.6.	Other taxes (except for income tax for physical persons, allocations into the State Social Protection Fund and withholding tax)		
3.Total:			
4.Other			
4.1.			

Company representative: _____ Stamp
(signature, first and last names)

Date: _____

* Only one of the value columns (dollar or manat) shall be filled. There shall be three digits after the point.

* Use the space below to indicate parameters for measuring gas.

Other notes _____

Kura Valley Development Company LTD

(USD mln)

Revenue streams (in cash)	Template originally lodged			Adjustments		Final Amounts		
	Extractive company	Government	Difference	Extractive company	Government	Extractive company	Government	Difference
Monetary inflow from Oil	-	-	-	-	-	-	-	-
Monetary inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transportation tariff to SOFAZ	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

In kind payments	Template originally lodged			Adjustments		Final Amounts		
	Extractive company	Government	Difference	Extractive company	Government	Extractive company	Government	Difference
Crude Oil (mboe)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m ³)	-	-	-	-	-	-	-	-
Associated Gas (thsd. m ³)	-	-	-	-	-	-	-	-

Lukoil Overseas Shah-Deniz Ltd

(USD mln)

Revenue streams (in cash)	Template originally lodged			Adjustments		Final Amounts		
	Extractive company	Government	Difference	Extractive company	Government	Extractive company	Government	Difference
Monetary inflow from Oil	-	-	-	-	-	-	-	-
Monetary inflow from Gas	38.4	38.4	-	-	-	38.4	38.4	-
Bonuses	0.04	0.04	-	-	-	0.04	0.04	-
Transportation tariff to SOFAZ	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	49.9	49.9	-	-	-	49.9	49.9	-
Other taxes	0.1	-	0.1	(0.1)	-	-	-	-

R.V. Investment Group Services

(USD mln)

Revenue streams (in cash)	Template originally lodged			Adjustments		Final Amounts		
	Extractive company	Government	Difference	Extractive company	Government	Extractive company	Government	Difference
Monetary inflow from Oil	-	-	-	-	-	-	-	-
Monetary inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transportation tariff to SOFAZ	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	0.8	0.8	-	-	-	0.8	0.8	-
Other taxes	-	-	-	-	-	-	-	-

In kind payments	Template originally lodged			Adjustments		Final Amounts		
	Extractive company	Government	Difference	Extractive company	Government	Extractive company	Government	Difference
Crude Oil (mboe)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m ³)	-	-	-	-	-	-	-	-
Associated Gas (thsd. m ³)	-	-	-	-	-	-	-	-
Gold (thsd. ounces)	6.7	6.7	-	-	-	6.7	6.7	-
Silver (thsd. ounces)	2.6	2.6	-	-	-	2.6	2.6	-
Parent Metals-Gold (thsd. ounces)	0.02	0.02	-	-	-	0.02	0.02	-
Parent Metals-Silver (thsd. ounces)	21.1	21.1	-	-	-	21.1	21.1	-

Salyan Oil

(USD mln)

In kind payments	Template originally lodged			Adjustments		Final Amounts		
	Extractive company	Government	Difference	Extractive company	Government	Extractive company	Government	Difference
Crude Oil (mboe)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m ³)	-	-	-	-	-	-	-	-
Associated Gas (thsd. m ³)	-	11,288.3	(11,288.3)	11,288.3	-	11,288.3	11,288.3	-

SOCAR

(AZN mln)

Revenue streams (in cash)	Template originally lodged			Adjustments		Final Amounts		
	Extractive company	Government	Difference	Extractive company	Government	Extractive company	Government	Difference
Monetary inflow from Oil	-	-	-	-	-	-	-	-
Monetary inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transportation tariff to SOFAZ	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	28.6	11.6	17.0	(17.0)	-	11.6	11.6	-
Royalty	119.3	119.3	-	-	-	119.3	119.3	-
VAT	108.6	108.6	-	-	-	108.6	108.6	-
Property tax	38.1	38.1	-	-	-	38.1	38.1	-
Land tax	10.0	10.0	-	-	-	10.0	10.0	-
Price changes	-	369.9	(369.9)	369.9	-	369.9	369.9	-
Other taxes	866.9	2.6	864.3	(864.3)	-	2.6	2.6	-

In kind payments	Template originally lodged			Adjustments		Final Amounts		
	Extractive company	Government	Difference	Extractive company	Government	Extractive company	Government	Difference
Crude Oil (mboe)	1571	1571	-	-	-	1571	1571	-
Natural Gas (thsd. m ³)	13,351.8	13,351.8	-	-	-	13,351.8	13,351.8	-
Associated Gas (thsd. m ³)	2,176,837.6	2,310,248.0	(133,410.4)	133,410.4	-	2,310,248.0	2,310,248.0	-

UGE-LANCER PTE.LTD

(USD mln)

Revenue streams (in cash)	Template originally lodged			Adjustments		Final Amounts		
	Extractive company	Government	Difference	Extractive company	Government	Extractive company	Government	Difference
Monetary inflow from Oil	15.0	15.0	-	-	-	15.0	15.0	-
Monetary inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	2.0	2.0	-	-	-	2.0	2.0	-
Transportation tariff to SOFAZ	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	16.0	-	16.0	-	16.0	16.0	16.0	-
Other taxes	-	-	-	-	-	-	-	-

In kind payments	Template originally lodged			Adjustments		Final Amounts		
	Extractive company	Government	Difference	Extractive company	Government	Extractive company	Government	Difference
Crude Oil (mboe)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m ³)	-	-	-	-	-	-	-	-
Associated Gas (thsd. m ³)	5,328.8	5,328.8	-	-	-	5,328.8	5,328.8	-

Annex 5. List of Non-Governmental Organisations (“NGO”s) and individuals party to the Memorandum of Understanding (MOU)

#	Non-government organisations
1.	Agro-Industrial Engineers Public Union
2.	Aran Environment Enlighten Public Union
3.	Aran Human Rights Resource Centre (Shirvan)
4.	Assistance to Social and Cultural Development of the Youth Public Union
5.	Azerbaijan Committee for Human Rights and Defence of Freedoms
6.	Azerbaijan Independent Teachers Union

Non-government organisations

7.	Care for the Elderly Intellectuals Public Union
8.	Carpet World Association (Guba)
9.	Caspian Barrel Research Centre
10.	Caucasus International Relations and Strategic Studies Centre
11.	Caucasus Media Investigations Centre
12.	Centre for Citizen Initiatives and Legislation Improvement
13.	Centre for Democratic Reforms
14.	Centre for Economic and Legal Enlightenment of Journalists
15.	Centre for Economic and Social Development
16.	Centre for Legal Initiatives
17.	Centre for Research on Against Torture
18.	Centre for Studying of Economic Resources
19.	Centre for Support to Civic Initiatives
20.	Centre of Equal Opportunities
21.	Centre of Political Culture for Azerbaijani Women
22.	Centre of Women's Problems Research
23.	Centre on Legal Initiative for Civil Society
24.	Citizens' Labour Rights Protection League
25.	Constitution Researches Fund
26.	Dalgha Environment and Protection of Nature Public Union
27.	Democracy and Women Initiative Public Union
28.	Democratic Development and Economic Cooperation Public Union
29.	Democratic Development Platform
30.	Democratic Institutions and Human Rights Social Union
31.	Democratic Initiatives and Social Development Public Union
32.	Democratic Society, Election and Monitoring of Media Public Union
33.	Democracy and NGO's development Resource Centre
34.	"Development of Knowledge and Enlightenment" Public Union
35.	"Development Society and Civil Relations" Public Union
36.	Development Watch research Centre
37.	Digital Development Public Union
38.	Ecological Renaissance Public Union
39.	Ecologist Support to Protection of Environment Public Union
40.	Economic and Environment Research Centre

Non-government organisations

- | | |
|-----|--|
| 41. | Economic and Political Research Centre |
| 42. | Economic and Social Education Centre |
| 43. | Economic Innovation Centre |
| 44. | Eco Life Public Union |
| 45. | Economic Research Centre |
| 46. | Eco-World Public Union |
| 47. | “Education of the Young Generation” Public Union |
| 48. | Education Research Centre |
| 49. | Election Researches Centre |
| 50. | Electron Election Public Union |
| 51. | ELS Independent Research Centre |
| 52. | Enlightenment on Genetic engineering Public Union |
| 53. | Foundation for Defence of Democratic Values |
| 54. | Ganja Children Foundation |
| 55. | “Guzaran” Social Investigation Centre |
| 56. | Human Rights and Enlightenment Social Union |
| 57. | Human Rights in the Extractive Industry Public Union |
| 58. | Human Right-2003 Public Union |
| 59. | Humanitarian Research Society |
| 60. | Islam, Democracy and Human Rights Centre |
| 61. | Journalist Initiative Centre |
| 62. | Karabakh Fighters Association |
| 63. | Legal Aid Centre to Oilmen |
| 64. | Legal Aid Public Union (Lankaran) |
| 65. | Modern Development and Legal Aid Centre |
| 66. | Modern Woman and Society Public Union |
| 67. | Monitor of Democracy Public Union |
| 68. | Mughan Human Rights Protection Public Union |
| 69. | Multimedia Centre |
| 70. | Oil Workers’ Rights Protection Organization |
| 71. | Progress Social Development Public Union |
| 72. | Progress Social Research Public Union |
| 73. | Promotion Human Rights and Law |
| 74. | Public Association for Assistance to Free Economy |

#	Non-government organisations
75.	Public Finance Monitoring Centre
76.	Public Union Civil Society Institute
77.	Public Union for Democracy and Ecological Balance
78.	Public Union for Solving Social-Economic Problems of Mortar Victims
79.	Regional Development and Human Rights Public Union
80.	Regional Enlightenment Public Union
81.	Regional Garabagh Agriculture Association
82.	Regional Gender Centre
83.	Regional Human Rights and Enlightenment Centre
84.	Regional Human Rights and Media Centre (Barda)
85.	Regional Human Rights and Social Research Centre
86.	Region International Analytical Centre
87.	Regional Woman Initiatives Public Union
88.	Rescuer Public Union
89.	“Return to Native Place” Public Union
90.	Robust Development and Enlightenment public unity
91.	Road Construction Monitoring Centre
92.	Social Assistance for People with Disabilities and Families with Martyrs Public Union
93.	Social Initiatives and Human Rights Public Union
94.	Social Strategic Studies and Analytically Investigations Public Union
95.	Society for “Care for disabled People of Garabagh War”
96.	Society for Democratic Reforms
97.	Solidarity Among Women Public Union
98.	Support for Economic Initiatives Public Union
99.	Support for Young Poets Public Union
100.	Support to Cultural Education and Folklore Activities Public Union
101.	Support to Youth Scientific Development Public Union
102.	The Western Regional Representative of Azerbaijan National Committee Of Helsinki Citizens' Assembly
103.	“Trust for Future” Care for the Vulnerable People Public Union
104.	Ulduz Electron Organization
105.	World of Law Legal Propaganda Public Union
106.	Woman World Public Union
107.	Young Democratic Reformers Public Union

Non-government organisations

- | | |
|------|-------------------------|
| 108. | Youth Club Public Union |
| 109. | Zengilan Public Union |

Individuals

- | | |
|---|-------------------|
| 1 | Arzu Soltan |
| 2 | Dunya Sakit |
| 3 | Elmidar Aliyev |
| 4 | Fuad Rasulov |
| 5 | Hijran Hamidova |
| 6 | Sedaget Pashayeva |
| 7 | Shamil Movsumov |
| 8 | Suheyly Jafarov |

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A Review of the NGO Coalition for “Improving Transparency in Extractive Industries” (ITEI) on 2013 EITI report

(This review has been discussed and endorsed at the Council meeting of the NGO Coalition for "Improving Transparency in Extractive Industries" held on August 24, 2015)

INTRODUCTION

Azerbaijan develops and discloses EITI reports annually since 2004. However it is a first EITI report based on the EITI Standard adopted at Global EITI Conference held in Sydney on May 25, 2013 and in line with a schedule set by the International EITI Board.

Report was developed by “Moore Stephens-Azerbaijan” firm based on the request of the Multi-stakeholder Group (MSG) and the relevant contract and covers the fiscal year ended on December 31, 2013.

Experts of the ITEI NGO Coalition prepared this Review by thoroughly examining 2013 EITI report of the Republic of Azerbaijan, through collation and assessment of the Report’s content and structure with the requirements of the EITI Standard and necessary analysis and investigations in line with the article 2.4.9 of the Memorandum of Understanding “On Application of the Extractive Industries Transparency Initiative in the Republic of Azerbaijan” signed in 2014 between Parties. Review puts an emphasis on the distinctive features of the 2013 EITI Report and notes the data deficiencies in the “Contextual information” section of the report (as compared to the requirements of the EITI Standard) and inconsistencies arising from the reconciliation process data. In the meantime the Review provides essential recommendations to eliminate these shortcomings and deficiencies.

The Review has been discussed and endorsed at the Council meeting of the NGO Coalition for “Improving Transparency in Extractive Industries” held on August 24, 2015 and it was decided to present it to MSG.

Distinctive features of the • 2013 EITI Report

1.1. Given that the requirements arising from the EITI Standard set by the Global EITI Conference held in Sydney with respect to the EITI reports (report's content, structure, information content, scope etc.) are different from the EITI reports of previous periods, larger by scope and more compound it took up to 12 months period to develop and present 2013 EITI Report of the Republic of Azerbaijan.

The initial version of the report was presented by the "Moore Stephens-Azerbaijan" firm to MSG in October, 2014. ITEI NGO Coalition communicated the identified shortcomings and recommendations to MSG and to "Moore Stephens-Azerbaijan", the author of the report. In the meantime, based on the decision of the International EITI Board during the validation of the EITI process in Azerbaijan in January-March 2015, Validators assessed the compliance of the Report with the standards and communicated the shortcomings and recommendations.

Thus, the report was improved based on the numerous discussions held in MSG and with the assistance of the Working Group created by MSG represented by the Coalition experts too. The final version of the report which we are providing a review of was adopted by MSG on July 16, 2015.

1.2. Active involvement of the Working Group created by the decision of the MSG with equal representation of the parties in the process of development and improvement of this report was also a different approach versus the experience of previous years. Parties played significant role in the improvement of the final document by contributing to the report and particularly to the development of contextual information section.

1.3. Previous years' EITI reports contained only the aggregated information regarding the payments of the companies to the government. However, 2013 EITI Report contains disaggregated data collected on all the extracting companies which joined EITI process, with all variety of payments made and active PSAs. It will allow local citizens and everyone concerned to get more detailed and comprehensive information.

1.4. In line with the requirements of EITI Standard the "Contextual information" section of the 2013 EITI report contains the following information: information regarding the legal and fiscal regime regulating the operations in the extractive industry; production and export data in the extractive industry and the territorial structure of the production; exploration activities; government's share in the production; employment; various aspects of the operation of the national oil company SOCAR; payments by the production companies and share of the extractive revenues in government receipts and some other information and statistical indicators. It should be considered as a factor which improves the accessibility of more comprehensive information regarding production industry and its role in a national economy for the citizens and stakeholders.

1.5. The other distinctive feature of the 2013 EITI report versus the reports of previous years is the full disaggregation of data based on the companies' names and tax ID and products and partial disaggregation based on the contracts. Additionally inclusion of the templates presented to the Independent Auditor (Audit Firm) for the reconciliation purposes at the stage of report development to the report is yet another distinction of the 2013 EITI report. It allows identifying and disclosing the identity of the companies that committed errors and deviations in the template report data.

1.6. One of the important features of the 2013 EITI report is the implementation of some attestation procedures by selection method for Independent Auditor (Audit Firm) to get further assurance regarding the operations within reconciliation process.

II. Analysis of the “Contextual information” section of the report

Based on the third requirement of the EITI Standard the EITI Report should include contextual information regarding extractive industries’ sectors. Standard also specifies the content of the contextual information that has to be reflected in the reports. Although it is a statutory requirement to have part of the contextual information available in the reports, it is only recommended to avail some other remaining information. Given the fact that it is a first time when report is being developed under the new EITI Standard it was agreed during MSG discussions to ensure that only the information required by Standard is provided in 2013 EITI report.

2.1. Assessment of the information developed on the basis of the requirement of the Chapter 3 of EITI Standard shows that major portion of the information was included and presented in the report primarily in the sequence identified by Standard.

2.2. Assessment of the compliance and gap analysis showed that the disclosed information based on the requirement 3.2 of the Standard regarding legal norms, fiscal mode and role of the government agencies primarily describes the current situation. It would be a good practice to put a special focus on the changes (reforms) made to legal norms, fiscal mode and role of the government agencies specifically in the reporting year of 2013. Page 47 of the report states that “there wasn’t any significant reform conducted by government in the extractive industries for the financial year covering EITI Reporting period. However, it was a year of 2013 when the Ministry of Energy of the Republic of Azerbaijan was established by the decree No. 3 of the President of the Republic of Azerbaijan dated 22nd of October 2013. Based on that decree the Ministry of Industry and Energy was reorganized into the Ministry of Energy by delegating its authorities on regulation of the industry to the Ministry of Economy and Industry⁵⁸. This change can be recognized as an institutional reform and has to be noted in the Report.”

Review of the decisions and ordinances of the Cabinet of Ministers pertaining to the extractive industries and fiscal mode in Azerbaijan also is missing in this part of the Report. Mutual substitution of tax liabilities is noted in the Section 5.6 “Amendments” of the Report as the reason of the discrepancy to the amount of 17 million AZN in the profit tax paid by SOCAR to the government. As long as the legal reason for such substitution is related to the fiscal mode, it has to be mentioned in this part of the Report (for example, Ordinance of the Cabinet of Ministers No. 443, dated December 30, 2011 is a document regarding tax liabilities substitution mechanism of the enterprises under SOCAR’s structure⁵⁹).

Based on the requirement 3.2 of the Standard information on fiscal devolution should also be stated in the EITI Report. Under the existing laws of the Republic of Azerbaijan mineral tax on the construction materials of local significance (brick and ceramic clays, construction sands and gravel raw material) is paid to the local budget (municipal budget)⁶⁰. We consider it is necessary to include this information into EITI Report.

In the first sentence of the section on page 46 of the Report which explains the procedures for conclusion of Product Sharing Agreements in the Republic of Azerbaijan, SOCAR is mentioned as subordinated by Ministry of the Energy of the Republic of Azerbaijan. We believe this information is wrong and it is necessary to correct an error as long as there is not any provision in the national legislation stating SOCAR as a company subordinated by any government institution.

58 <http://www.minenergy.gov.az/?e=501&a=2>

59 <http://e-qanun.gov.az/framework/22855>

60 Tax Code of the Republic of Azerbaijan, Chapter XVI (Mining Tax), Article 217, paragraph 217-5

2.3. Under a paragraph 3.3 of the 3rd requirement of EITI Standard, the extractive industries and any significant exploration activities must be summarized in EITI Reports. Section 3.2 of the 2013 EITI Report contains the information on oil and gas industry, including total oil and gas reserves of the country, current contracts on oil and gas fields, oil and gas pipelines, production of gold and silver and some data regarding exploration activities on specific fields. Inclusion of the information on all the range of fields and products (oil, gas, condensate, gold, silver etc.) into the next years' reports would boost the transparency (for example, this information is disclosed in 2013 EITI Report of Kazakhstan). It would be a good practice to expand information regarding pipelines in the report (transmission capacity and exported products' statistics).

2.4. Section 3.3 of the EITI Report under the requirement 3.4 of the Standard also contains the information pertaining to the contribution of the extractive industries to the economy (share in annual GDP, public revenues, export, total employment, share of the extractives in fixed capital investments, regional structure of the production) for the fiscal year within the reporting period. However, there is room for further enrichment of this information in the reports for next years. Disclosure of the information on investment and employment presented in this section in disaggregated company based form could improve the quality of the report. In the meantime, disclosure of the information on the employed personnel of the extractive companies classified into locals and expatriates could allow evaluating the compliance with the norms established in the product sharing agreements. Therefore we believe it would make a sense to improve information and complete the data in this section of the reports in next years.

2.5. Section 3.4 of the EITI Report titled as "Volume of production" (page 60) contains general information on the products in volume terms submitted by the local and international extractive companies to the government of Azerbaijan in 2013 under the requirement 3.5 of the EITI Standard. However Requirement 3.5 of the Standard requires a disclosure of production and export indicators in the reporting period. Standard clearly requires the following information for the fiscal year of the reporting period to be disclosed in EITI Report:

- Value of the products based on total production volumes and type of the products (even the value of production per region where relevant);
- Value of the export of products based on total export volumes and type of the products (even the value of the export per region where relevant).

Consequently, conducted compliance assessment suggests that the information containing in the section 3.4 of the Report is not in compliance with the requirement 3.5 of the EITI Standard. Therefore, we believe it is necessary to further improve this section of the Report and bring it into conformance with the requirement 3.5 of the Standard.

2.6. Paragraph 3.6 of the 3rd requirement of Standard lays emphasis on the inclusion of information regarding the engagement of government in the extractive industry to the EITI reports. We would like to express following in regards to the compliance of Report with the requirement 3.6 of the Standard:

2.6.1. There is a need for some editing in the section 3.5a of the EITI Report. A phrase "completely" in the second sentence of the section's first paragraph must be replaced with a phrase "partially". Second paragraph must be edited from stylistics point of view and a reference to a legal source of the procedure mentioned in this paragraph must be included. SOCAR's Company Charter must be referred to as the source of the remarks in 3rd paragraph. There has to be clarity brought to the statement in this paragraph, i.e. "SOCAR, which shares is 100% owned by the state has the obligations towards the government institutions" (what are those obligations specifically?);

2.6.2. In accordance with semi-paragraph 3.6 a) of 3rd Requirement' if the participation of a government in the extractive industry entails significant increase in payments from the revenues then the practices and rules of regulation of financial relations amongst government and state enterprises must be included into the EITI Report. Based on the requirement of this semi-paragraph, there is general information about SOCAR, production and financial figures of SOCAR's performance in last 3 years, payments to state budget, loans and guarantees information included into Report. Nevertheless, information in the table "Production in volume terms" on page 61 of the Report doesn't reflect a

share of SOCAR in PSAs (from oil and gas reserves point of view). Diagrams presented in the Report next to this table have the same shortcoming which prevents from having a picture of SOCAR's strength and capabilities. This approach doesn't properly reflect the capitalization of SOCAR. Assessment of the report that we conducted by matching it to EITI Standard showed that majority of the information required by this semi-paragraph of Standard is not reflected in the Report. For example, there is no data available in the Report regarding the obligations of SOCAR towards Ministry of Finance, State Oil Fund, Social Protection Fund, Central Bank, and International Bank of Azerbaijan Republic and the allocations from the government to SOCAR. In the meantime, there isn't any information available in the Report regarding financial investment operations conducted by SOCAR through its foreign subsidiaries and particularly the flow of funds between company and foreign enterprises, reinvestment and funding of third parties. In our opinion and based on the requirement of this particular semi-paragraph of the Standard, 2013 EITI Report should have contained explanations of the Charter of the State Oil Company of the Azerbaijan Republic, Law of the Republic of Azerbaijan "On State Budget of the Republic of Azerbaijan for 2013", Tax Code of the Republic of Azerbaijan, Decision No. 102 of the Cabinet of Ministers dated June 9, 2005 "On Income and Expenditure Budget Estimate"⁶¹, paragraph 1.1.4 of the "Fiscal Transparency Guidelines" of IMF, section "Mutual relations between Government and Public Corporations" and some other documents.

2.6.3. Should participation of the government in the extractive industry bring about significant increase of revenues then based on semi-paragraph 3.6.b) of the Standard, EITI Report must contain disclosed information regarding such quasi-fiscal expenditures as social services of the government agencies, public infrastructure, fuel subsidies and repayment of a state debt. By the way, we have to mention that employing large national mining companies in implementation of the social and infrastructural functions which fall under the obligations of government's and some government institutions is a widely occurring practice in many countries. In majority of cases this practice shows up as essential and effective measure due to the current conditions (for example, such conditions could be: limited financial resources of government; fostering local producers by selling energy inputs to them at relatively low prices; national mining company having more reliable financial control mechanisms etc.). Quasi-fiscal operations of the national mining companies shouldn't be recognized as totally negative process or a corruptive element. Pertaining to this requirement EITI Report says the following: "SOCAR didn't participate in the repayment of state debt, provision of social services, creation of public infrastructure and quasi-fiscal expenditures such as fuel subsidies, whatsoever" (page 67). However, findings of the investigations by EITI NGO Coalition experts were completely opposite to it. We can list at least 3 out of 4 quasi-fiscal activity types identified by IMF in the case of SOCAR.

2.6.3.1. Quasi-fiscal activities in the energy inputs field – SOCAR is constrainedly providing fuel and energy inputs at lower than actual market prices to the local consumers. As a matter of fact, the prices of fuel, oil products and gas provided by SOCAR to domestic consumers and set by the decisions of the Tariff Council of the Republic of Azerbaijan dated January 6, 2007 were lower than the global market prices of oil, oil products and gas for 2013, videlicet Company constrainedly provided oil products to domestic consumers at lower than market prices level. Collection of the price margin between contract (sale) price (less export costs) and domestic wholesale price for the domestically produced products which prices are regulated by the "Law on State Budget" since 2007 is reasoned by above mentioned fact and confirms our conclusion. We would like to notice that in 2013 state budget received 370,56 million AZN from this specific payment source.⁶²

2.6.3.2. Quasi-fiscal activities in the field of public expenditures–Examination of SOCAR's annual reports for 2013 figured that within a reporting year Company provided numerous social services which are originally assigned to the functions of individual state agencies and undertook cost-intensive projects on creation of infrastructure.⁶³ Although, SOCAR's Charter provides for the participation of Company in the government implemented events under the socio-economic development programs, there are no regulations for such participation of SOCAR developed by Cabinet

⁶¹ <http://e-qanun.gov.az/framework/10044>

⁶² Law of the Republic of Azerbaijan No 958-IVQ dated May 16, 2014 on implementation of 2013 state budget of the Republic of Azerbaijan

⁶³ SOCAR: Sustainability Report – 2013, Page 48-50 <http://socar.az/socar/az/social-responsibility/social-support/care-about-displaced-persons>; SOCAR: Annual Report 2013, pages 103-104 <http://socar.az/socar/assets/documents/az/socar-annual-reports/illik-hesabat2013az.pdf>

of Ministers or other government agencies to this effect. There are some programs related to the improvement of living conditions of IDPs where the instructions made to SOCAR are displayed in more descriptive terms, however it is not the case with other national programs where SOCAR's participation is outlined in general terms. SOCAR's 2013 reports and web pages as well as reports and web pages of the relevant state agencies do not contain any information regarding the implemented works and key contracts signed in this regard. By the way, the Ordinance of the Cabinet of Ministers of the Republic of Azerbaijan No.443, dated December 30th, 2011 provides for "the accomplishment of measures to ensure a fulfillment of liabilities arising from relevant national programs and international projects where SOCAR is an executive agency at the domestic expense⁶⁴".

2.6.3.3. Quasi-fiscal activities in the field of employment - Several steps are taken over the recent years towards the improvement of SOCAR's structure and optimization of employment size, decrease of the number of employees, setting Company free from excessive employment and excessive social expenditures. However, findings from the investigations of SOCAR's activities in the sphere of sports give reason to suggest, that the funding mechanisms of such activities are not transparent and there are quasi-fiscal operations of Company in the field of employment. Although, information⁶⁵ regarding the activities and achievements of Company in the sphere of sports and particularly "Neftchi" Sports and Health Center is disclosed in the annual reports of SOCAR, still there is no information to verify whether professional athletes and coaches are the staff members of SOCAR and who is defraying the sport facilities' and athletes' expenses. Although, "Neftchi" Football Club belongs to SOCAR there isn't any information in the Company's accounts, its official web page or web page of the football club available in this regard. Relations of SOCAR with Azerbaijan Association of Football Federations (AFFA) and CBC television channel also require some clarity from costs viewpoint.

Having all above in mind, we believe it is essential to increase focus on quasi-fiscal operations of SOCAR in EITI Reports.

2.6.4. Semi-paragraph 3.6.c of the 3rd requirement of the Standard requires state companies to include beneficiary ownership information in EITI report. Information on SOCAR's beneficiary ownership disclosed in 2013 EITI Report identifies a share of state-owned company in joint ventures and associated companies, size of revenues, assets and liabilities. All this information pertains to SOCAR only. However, EITI standards require state-owned companies to include information regarding their share in joint ventures and associated companies, responsibility to defray the costs at various stages of the project for example: capital paid in full, disposable capital and semi-active (nominal) equity interest (Report describes information on government's takes). In the meantime, government and state authorities are required to disclose the details of transaction including assessment and revenues details may changes occur in the ownership level of government- and state-owned organizations within EITI reporting period. In the event that government- and state-owned enterprises provide loans and loan guarantees to domestically operating mining, oil and gas companies, the details of such transactions must be disclosed in EITI Report. 2013 EITI Report states that there were no changes in the beneficiary ownership level between government and SOCAR within this reporting period. Meanwhile, there wasn't any change in the beneficiary ownership of SOCAR-affiliated enterprises and joint ventures within a reporting period (pages 64-66). However, when reconciled with SOCAR's Consolidated Financial Report⁶⁶ it appears that the government didn't disclose much of the information and changes regarding beneficiary ownership of company in EITI report. It also becomes apparent from SOCAR's Consolidated Financial Report that increments were made to the chartered capital of the joint ventures and associated companies of SOCAR along with investments and other modifications in the same year. Let's review below extracts from the Consolidated Financial Report of Company regarding the modifications in the capital of joint ventures and associated companies, investments and other changes⁶⁷:

⁶⁴ <http://e-qanun.gov.az/framework/22855>

⁶⁵ SOCAR: Annual Report – 2013. Page 108; SOCAR: Sustainability report – 2013, page 51

⁶⁶ SOCAR: Financial Report 2013, <http://socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye.hesabat.2013.pdf>

⁶⁷ SOCAR: Financial report 2013, pages 46 - 52

- Back in 2013 Socar Turkey Yatirim A.S. which was established by SOCAR bought all the shares of STEAS for STAR processing plant. Subsequently, Socar Turkey Yatirim A.S. sold 40% of shares to the Ministry of Economy and Economic Development and 18.5% to Turcas. Group's share in Socar Turkey Yatirim A.S. is 41.5% and recorded by capital method of accounting.
- During 2013 Group invested 144 million AZN into chartered capital of Socar Turkey Yatirim A.S. In July 2013, SOCAR Group bought remaining 50% of shares of SOCAR International DMCC. As a consequence Group took a control of SOCAR International DMCC.
- During 2013, SOCAR invested accordingly additional 84 million AZN and 19 million AZN into chartered capital of SOCAR Umid MMC and Azerbaijan Rigs MMC enterprises which are under common control of SOCAR.
- In July 2013, shareholders' agreement with Star Gulf FZCO was modified and SOCAR took a control over this joint venture (without any payment by SOCAR). Consequently Star Gulf FZCO and "BosSelf" MMC (Star Gulf FZCO has 50% interest in this company) were transformed into subsidiary enterprises of SOCAR.
- In the second half of 2013 subsidiary company of SOCAR – SOCAR Overseas obtained remaining 49% of the interest from SOCAR Petroleum and as a result took a control over this company. In July 2013, SOCAR obtained remaining 50% of the shares of the associated company SOCAR International DMCC. As a result 30 million AZN investment of SOCAR International DMCC into SOCAR Aurora Terminal made the latter one a joint venture of SOCAR.

It means that improvement of this section of EITI Report also must be in the focus.

2.7. Paragraph 3.7 of the 3rd requirement of Standard requires a description of revenues' distribution and use in EITI reports. Based on this requirement EITI report should reflect specifically those extractive revenues (in monetary and volume terms) which are noted in the national budget. Revenues distribution must be explained if revenues are not reflected in national budget. Section 3.6 of 2013 EITI Report contains revenue generation sources and cost allocation of SOCAR for 2013. However, there is no information regarding state budget revenues there versus a Standard's requirement. Detailed information regarding state budget revenues from extractive industries is available in the budget envelope which is submitted along with draft budget bill by government to Milli Mejlis (National Parliament). Systematization of those data and including them into this section of the Report would make sense from compliance to Standard's requirements point of view and further improvement of the Report itself.

2.8. Paragraph 3.8 of the Standard encourages the inclusion of the additional information on revenue management and costs. Although, it was generally agreed with MSG not to include the information which inclusion is encouraged by the Standard into the 2013 report, NGO Coalition Council considers inclusion of such information in next years' report as a contribution towards sprucing up our country's transparency image.

2.9. Relevant remarks were made in EITI Report pertaining to the paragraphs 3.9 and 3.10 of the Standard. However, we believe it is essential to improve such information and express it in more exact terms in next years' reports. It is known, that issuance of permissions (licenses) for some business activities in the Republic of Azerbaijan is regulated by the Decrees of the President of the Republic of Azerbaijan.⁶⁸ However there is no special licensing and permission (licenses) issuance for exploration and production activities in the extractive industry. Permitting of operations in this field (PSA termination procedures) is briefly noted in the section of this Report titled as "Roles and responsibilities of the relevant state agencies". Charter of the Ministry of Energy is shown as a key regulatory instrument in this regard⁶⁹. However procedure is described in very general and brief terms in the Charter. Generally speaking, regulatory instru-

⁶⁸ <http://e-qanun.az/framework/898>

⁶⁹ http://www.minenergy.gov.az/db/EN_Esasname.pdf

ments regulating the operations in the extractive industries in Azerbaijan must be reflected in the legislation in more precise and comprehensive terms both for local and foreign investors.

2.10. Disclosure of the beneficiary ownership information based on the paragraph 3.11 of the Standard will be required only from 2016 onwards. As it was mentioned in our EITI Report Review and based on the Law on introduction of amendments into the Law of the Republic of Azerbaijan on “State registration of the legal entities and state register” dated June 12, 2012 information regarding the founder of the legal entities in Azerbaijan is treated as commercial secret. That information can be obtained by third parties only with consent of the shareholders of same enterprise. Thus, NGO Coalition Council deems it appropriate to run discussions in MSG and apply to the relevant state agencies in order to resolve this issue prior to the beginning of EITI Report development for 2016.

2.11. Last paragraph of the 3rd requirement of the Standard 3.12 pertains to the information on contracts. It says that, EITI applying countries are encouraged to publicly disclose any contracts and licenses regarding the terms for regulation of the production of the oil, gas and minerals. We have to note that, pages 49-51 of the 2013 EITI Report contains a list of oil and gas field contracts, date of contracts signing, contract parties and their shares. Although, there is a decision of MSG on posting of oil and gas contracts in Azerbaijan on EITI web page, due to some reason the solution of this issue is set aside. It is essential in our view to increase a focus of EITI Secretariat on solution to this issue.

III • Analysis of the main section of the report (reconciliation process and its results).

4th Requirement of the Standard requires a full reflection of all government revenues and all significant payments by the extractive companies to the government in EITI report. Section 4.1 of the Standard describes the requirements pertaining to payments and revenue types to be covered by EITI Report.

EITI Report states that, based on the discussions at the 34th MSG meeting held on December 10, 2014, information on infrastructure provisions and barter operations, sub-national payments and transfers and social expenditures are not included into 2013 EITI Report as they are not applied in the Republic of Azerbaijan. In other word, apart from above listed information on all other payment and proceeds pertaining to the extractive industries was reflected in EITI Report.

By examining and analyzing this section of the report we identified the following:

3.1. An explanation of discrepancy of 22.2 million USD in the amount of payments made by foreign oil companies from their revenues to the government can't be considered as exhaustive.

In the "5.6 Amendments" section of the report there is an explanatory table of this discrepancy (page 81). It appears that, although Bahar Energy Limited and Binagadi Oil Company transferred accordingly 0.1 and 5.1 million USD to SOCAR, these transfers were recorded as transfers to government in the report templates. Such mistake is understandable. However there is no explanation of the reason for wrong recording of the amounts of 14,4 million USD and 2.6 million USD of Ali Bayramli MMC and Salyan Neft MMC in report templates. How could these amounts possibly be not transferred to any institution if they happened to be recorded in report templates? We assume that, the amounts were somehow transferred and mistakenly included into report template. We believe it is necessary to bring clarity over this issue.

3.2. There is some ambiguity in transportation and transit revenues information. EITI Standard (paragraph 4.1 f) says that "if revenues from the transportation of oil, gas and mineral resources constitute one of the major revenue streams in the minerals production sector, the information regarding such revenues is required to be disclosed by government and state owned enterprises". Currently transportation revenues seem to be very minor compared to the large revenues of production sector. Nevertheless, considering large transportation infrastructure of the country (strategically important oil and gas pipelines, sea and railway transportation) and strategic transit potential MSG must gradually strive to have that revenues information included into EITI report. Transportation and (or) transit revenues information is provided in very vague and superficial way both in contextual and reconciliation part of the report. Transportation and transit revenues information is presented in diverse places of the report by different names, which causes complexity:

1) Section 3.6 (page 68) in the table of sources of revenues of SOFAZ, "payment of transit fees" is indicated as 8.1 million AZN;

2) Section 5.1 in reconciliation table on foreign production companies (page 74), “transportation tariff to SOFAZ” indicated as 10.3 million USD. According to the exchange rate of the relevant period these indicators appear to be identical. Additionally, the source of this revenue is presented as “revenues from the conveyance of oil and gas through the territory of the Republic of Azerbaijan” in the decree of the President of the Republic of Azerbaijan dated May 22, 2014 pertaining to the budget implementation of SOFAZ for 2013 (the amount is 8.1 million AZN).⁷⁰ It is presented as “transit fees payments” in 2013 Annual Report of SOFAZ (page 36) (amount is 10.3 million USD)⁷¹. It is necessary to have clearer explanation of a discrepancy of 6.6 million USD identified in reconciliation process on this type of payment pertaining to what extracting companies and government provided in reconciliation table (page 36) in the Report (“5.6. Amendments section”, page 42). It says in explanation that this amount is the amount paid by SOFAZ for the transportation of the profit oil of the government of Azerbaijan through Western Route Export Pipeline. Hence from explanation it appears that this amount was defrayed by SOFAZ to AIOC. Explanation stresses that “due to the specificity of transaction this difference is permanent”. Therefore, we find it necessary to have more precise description of the flow mechanism of this amount in the report. Information on the dividends obtained by government from the main export pipeline BTC was available neither in 2013 EITI nor in SOFAZ reports despite the fact that this information used to be available in those reports until 2012.

3.3. 17 million AZN difference in the amount of the profit tax paid by SOCAR to the government requires additional comments. Protocol of reciprocal settlement of taxes payable in the individual account sheets of SOCAR enterprises before the state budget is mentioned as the reason for the 17 million AZN difference in the profit tax amount paid by the company to the government in “5.6 Amendments Section” of the report. We deem Independent Administrator should have mentioned a legal basis for such reciprocal settlement of taxes payable, because only then reciprocal settlement of taxes payable can be viewed as compliant with regulations.

3.4. There is an ambiguity of information on natural gas delivered to government in volume terms. In accordance with the initial report templates on page 9 of the EITI Report there is a table which reflects the net difference between the payments indicated by companies and by government and the amount of revenues following the completion of the reconciliation process and elimination of discrepancies. As it appears from table, in reporting year Government received 13351,8 thousand m³ of natural gas from extracting companies. However companies didn’t include information in this regard to the initial report information and only following a reconciliation relevant corrections were made. Page 36 of the report in sub-section 5.1 contains a table 2, which represents information pertaining to the summary transfers of foreign extracting companies to the government in volume terms. Based on the information presented in that table, Government received **13351.8 thousand m³** of natural gas from foreign extracting companies. The companies didn’t include information in this regard to the initial report information and only following reconciliation extracting company confirmed the information and eliminated the difference. It appears from the information on page 44 of the report that it was Bahar Energy Ltd the foreign company which made a mistake, i.e. the one who delivered the same amount of natural gas and didn’t include that information into report. Auditor wrote that “Company didn’t include information regarding the amount of the natural gas transferred to SOCAR. We have reviewed these transfer operations and corrected to the discrepancies”.

Summary table pertaining to Bahar Energy on page 64 of the report also reflects transfer of gas by company to the government. In the meantime, table 2 of the sub-section 5.4 on page 39 of the report there is summary information on transfers from extracting companies to the government in volume terms. It appears from the table that **13351.8 thousand m³ of natural gas** was delivered by extracting company to the government and government acknowledged a receipt of the delivered gas. It appears from the summary table pertaining to SOCAR on page 87 of the report that SOCAR is a company which delivered the same volume of natural gas to government. So it ultimately appears that on page 9 of the report a volume of the gas delivered to and received by the government is **13351.8 thousand m³**, however based on information in the section 5 of the report both foreign and local extracting companies delivered

⁷⁰ http://www.oilfund.az/az_AZ/huequqi-senedler/fondun-buedcesine-dair/fondun-budcesine-dair-22052014.asp

⁷¹ http://www.oilfund.az/uploads/annual_2013az.pdf

same amount of natural gas to government in volume terms. It is mentioned that Bahar Energy Ltd transferred natural gas to SOCAR in section 5.6 "Amendments" of the report. It appears that, the same gas volume was delivered by Bahar Energy Ltd to SOCAR and SOCAR in its turn transferred that gas to government. There is a fuzziness (or ambiguity) here: what is a meaning of SOCAR delivering a natural gas to government while being a gas user on behalf of the government? We think that ambiguity of this issue must be eliminated. Although report indicates that extracting company delivered a natural gas to the government (actually to SOCAR as government's representative) it also indicates that same gas was delivered to government by SOCAR. Subsequently a same indicator appears in two different forms in Report which creates unnecessary ambiguity.

3.5. Above mentioned same deficiency can be observed in the case with an associated gas too. Sub-sections 5.1 and 5.4 of the report contain information on delivery of same volumes of the associated gas by both foreign and local extracting companies to SOCAR. However, it appears from investigation that same volume of the associated gas was delivered by extracting companies to SOCAR.

3.6. There is an ambiguity in the report pertaining to the volumes of the natural gas delivered in kind by UGE-Lancer PTE LTD to government. From the table of payments of UGE-Lancer PTE Ltd on page 128 ("Amendments" section of the report) it appears that this company delivered **5328.8 thousand m³** of natural gas to the government in reporting year and the government acknowledged it. However, this fact was not reflected in the payments made by extracting companies to the companies in kind, i.e. neither in the general table 9 nor in the table 2 of the sub-section 5.1 on the page 75 of the report. As we have stated above there report (table 2 of the sub-section 5.1) indicates to a delivery of 13351.8 thousand m³ of natural gas by extracting companies to the government and the company which defrayed this amount - Bahar Energy Ltd. In this instance why the natural gas delivered by UGE-Lancer PTE Ltd (which government acknowledged a receipt of) in volume terms was not included into summary tables?

3.7. Information on the volumes of the associated gas delivered by foreign extracting companies to the Government is ambiguous. Table 2 of the sub-section 5.1 on the page 75 of the report indicates 2310248 thousand m³ of associated gas delivered by foreign extracting companies to the Government. If to make calculations based on the relevant data in the tables from the attachments section of the report it appears that companies delivered 2304919,1 thousand m³ of associated gas to the government which creates 5328,9 thousand m³ difference. Independent Administrator is required to bring clarity over this issue.

IV. Results and Recommendations

EITI Council of NGO Coalition has arrived at the following conclusions by thoroughly examining EITI Report of the Republic of Azerbaijan for 2013, assessing its compliance with EITI Standards and necessary investigations and analyses:

- There is a large amount of information accumulated in 2013 EITI Report pertaining to a role of the extractive industry in public revenues and national economy representing significance for the citizens of the country and all stakeholders, which used to be undisclosed for the society so far. Thus, we can consider this Report as a step forward towards increasing transparency in the activities of government and extractive companies;
- 2013 EITI Report of the Republic of Azerbaijan has been developed in compliance with majority of the requirements of EITI Standard;
- However, there are cases of partial and total non-compliance with the requirements of EITI Standard including deficiencies in reconciliation process and ambiguities mentioned above.

EITI Council of NGO Coalition brings forward below proposals and recommendations to eliminate non-compliances and ambiguities versus EITI Standard and deficiencies from reconciliation process noted in the 2013 EITI Report of the Republic of Azerbaijan and to further improve EITI Reports for the next years to come:

1. Multi-Stakeholder Group is recommended to:

- 1.1 Ensure that review of relevant ordinances and decisions of Cabinet of Ministers is included into Report along with laws and decrees regulating the activities of extracting industry and pertained to fiscal mode.
- 1.2 Ensure that modifications (reforms) of the legal norms, fiscal mode and role of state agencies within a reporting year is included separately into report along with comments;
- 1.3 Include investment and employment indicators of individual extractive companies in the EITI Report along with contribution of the extractive industry to the economy throughout a reporting year as it would be a reasonable practice.
- 1.4 Include the information regarding the size of reserves of all field and product types (oil, gas, condensate, gold, silver etc.) as it would contribute to further enhancement of the transparency;
- 1.5 Ensure that information based on the requirement 3.5 of the EITI Standard (value of the products based on the total production volumes and types, value of the exported products based on the total export volumes and types) is included into EITI country reports for next years;
- 1.6 Undertake necessary measures to include integrated data on debt liabilities of the state-owned company and particularly the data which characterizes financial relations of SOCAR pertaining to the balance of account of SOCAR on the transactions with related entities into reports;
- 1.7 Have in mind inclusion of information regarding transfer and distribution of assets, reinvestment and funding of third parties between SOCAR and government and government agencies and also other state-owned companies including SOCAR and large privately owned companies and banks;

- 1.8 Increase a focus on quasi-fiscal operations of SOCAR in EITI Report and request the Independent Administrator to provide more comprehensive data on sub-section 3.6b of the Standard for the next year report;
- 1.9 Set up a discussion with participation of experts in MSG on the scope of beneficiary ownership pertaining to state-owned enterprises, SOCAR's quasi-fiscal activities and social expenditures and bring clarity over the requirements arising from EITI Standard in those specific directions;
- 1.10 Undertake measures to include information on general assets managed by SOCAR's subsidiaries, associated companies and joint ventures operating overseas, changes in capital and liabilities to defray costs of the project at its various stages;
- 1.11 Discuss opportunities of taking steps towards inclusion of information which is encouraged by EITI Standard to be disclosed into next years' EITI report as it is important from enhancement of transparency reputation of our country;
- 1.12 Undertake discussions in MSG in order to resolve an issue of beneficiary ownership and make requests to relevant state agencies pertaining to the necessary steps before the 2016 EITI Report preparations start;
- 1.13 Bring a matter of necessity to expedite the implementation of MSG's decisions adopted earlier in regards to posting of oil and gas contracts of Azerbaijan on EITI website into the attention of EITI Secretariat. Complete the actions on making product sharing agreements available for the public within a short time;
- 1.14 MSG should strive to bring clarity over concepts of transportation and transit considering the high significance of the transportation revenues for Azerbaijan and come up with initiative before EITI Board in this regard;
- 1.15 Include transportation revenues into Work Plan for next years and allocate measures to implement Work Plan and make a request to EITI Board to receive a technical assistance in this field;

2. Independent Administrator is recommended to:

- 2.1 Add information about contribution of fiscal devolution – extractive industry into local (municipal) budgets into report;
- 2.2 Correct the issue of subordination between SOCAR and the Ministry of Energy on the page 46 and also undertake necessary editing and stylistics works in the section 3.5a of the report;
- 2.3 Provide explanations of rules and practices regulating financial relations between SOCAR and government pertaining to the participation of state-owned company (SOCAR) in the extractive industry and expand information about reciprocal transfers. Include information regarding payments made by SOCAR to state agencies and the amounts received from government;
- 2.4 Accomplish further expansion of the information section regarding SOCAR by using SOCAR's consolidated financial statements and other annual reports and ensure that information in the report reflects a real strength and capabilities of the Company in more comprehensive terms;
- 2.5 Take actions to include information regarding quasi-fiscal operations of the company by requesting relevant data from SOCAR and carrying out necessary calculations;

- 2.6 Expand information in line with Standard regarding the ownership of SOCAR in joint ventures, associated companies and subsidiaries and changes in the degree of ownership and include information regarding all joint and related ventures of SOCAR into the report;
- 2.7 Obtain from the Ministry of Finance detailed information in line with requirement 3.7 of the Standard regarding the budget revenues coming from the extractive industry (from the budget envelope presented together with an annual budget bill to National Parliament) and include that information into EITI Report;
- 2.8 Clarify the concepts of transportation tariffs and transit revenues in the section of both contextual information and also reconciliation process results;
- 2.9 Ensure an explanation of the discrepancy to the amount of 6.6 million USD between the foreign extracting companies and the government emerged in the reconciliation table provided along with more evident description of movement of the amount paid by SOCAR for the transportation of the government's profit oil through Western Route Export Pipeline;
- 2.10 Bring clarity over the ambiguities in the opinion regarding the reconciliation results presented in the Report (volumes of the natural gas and associated gas delivered to the government, reciprocal payments pertaining to SOCAR's profit oil, payments made by foreign companies from oil revenues to the government etc.) and ensure that necessary measures are taken to prevent reoccurrence of such deficiencies in next years' reports;
- 2.11 Ensure based on the requirements of the EITI Standard that companies and state agencies engaged in the report have gone through the audit in accordance with audit standards.

3. SOCAR is recommended to:

- 3.1 Conduct a presentation of SOCAR's annual financial report to the experts-members of the EITI Coalition and provide responses to the questions that may come up pertaining to financial report;
- 3.2 Conduct special investigation of the impact of forced sale of oil, gas and oil products to domestic consumers at lower than market prices level at Company and particularly its financial situation and evaluate its quantitative and qualitative effects;
- 3.3 Conclude necessary contracts with relevant state agencies pertaining to all social type of activities (projects) which are not directly related to SOCAR's terms of reference and separate state programs that company participates in implementation of;
- 3.4 Ensure that company's annual reports reflect its annual expenditures pertaining to all social type of activities including all activities in the sphere of sports;
- 3.5 Expand cooperation with MSG and Independent Administrator in order to have more comprehensive and improved information regarding Company in EITI Reports for next years.

4. Government is recommended to:

- 4.1 It would be reasonable to have series of measures taken towards reduction of quasi-fiscal activities of SOCAR;
- 4.2 Specify precisely the cases when SOCAR can participate in state programs where such participation is not in line with its functions and regulations for participation of Company in implementation of such projects;
- 4.3 Take necessary actions to eliminate cases of engagement of SOCAR in the implementation of social activities which are related to the responsibilities of other individual state agencies;
- 4.4 Make a request to EITI Board with an initiative to include transportation revenues into 2015 EITI report as the pilot country considering the increase of the extractive products' transportation and transit.
- 4.5 Considering the complexity and technical difficulty of the EITI transportation accountability it would be reasonable to conduct a transition in two stages: to ensure full inclusion of the information regarding revenues generated from the pipeline transportation at 1st stage into report; to include both railway and sea transportations from 2016 onwards too;
- 4.6 Government should develop a communication to relevant agencies and transportation companies (particularly sea and railway transportations) and ask them to provide support in provision of the required information;
- 4.7 Take necessary measures to ensure that state agencies engaged in the report based on the requirements of EITI Standard are audited under the international audit regulations.

EITI Council of NGO Coalition encourages MSG to show activeness and take extensive measures to bring 2013 EITI Report of the Republic of Azerbaijan to the knowledge of general public. Council of NGO Coalition hopes that Government Commission and companies will give serious consideration to these proposals which are designed to further improve Azerbaijan's EITI experience.

It can play significant role in boosting trust and confidence of civil society to EITI process and accountability system.





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