

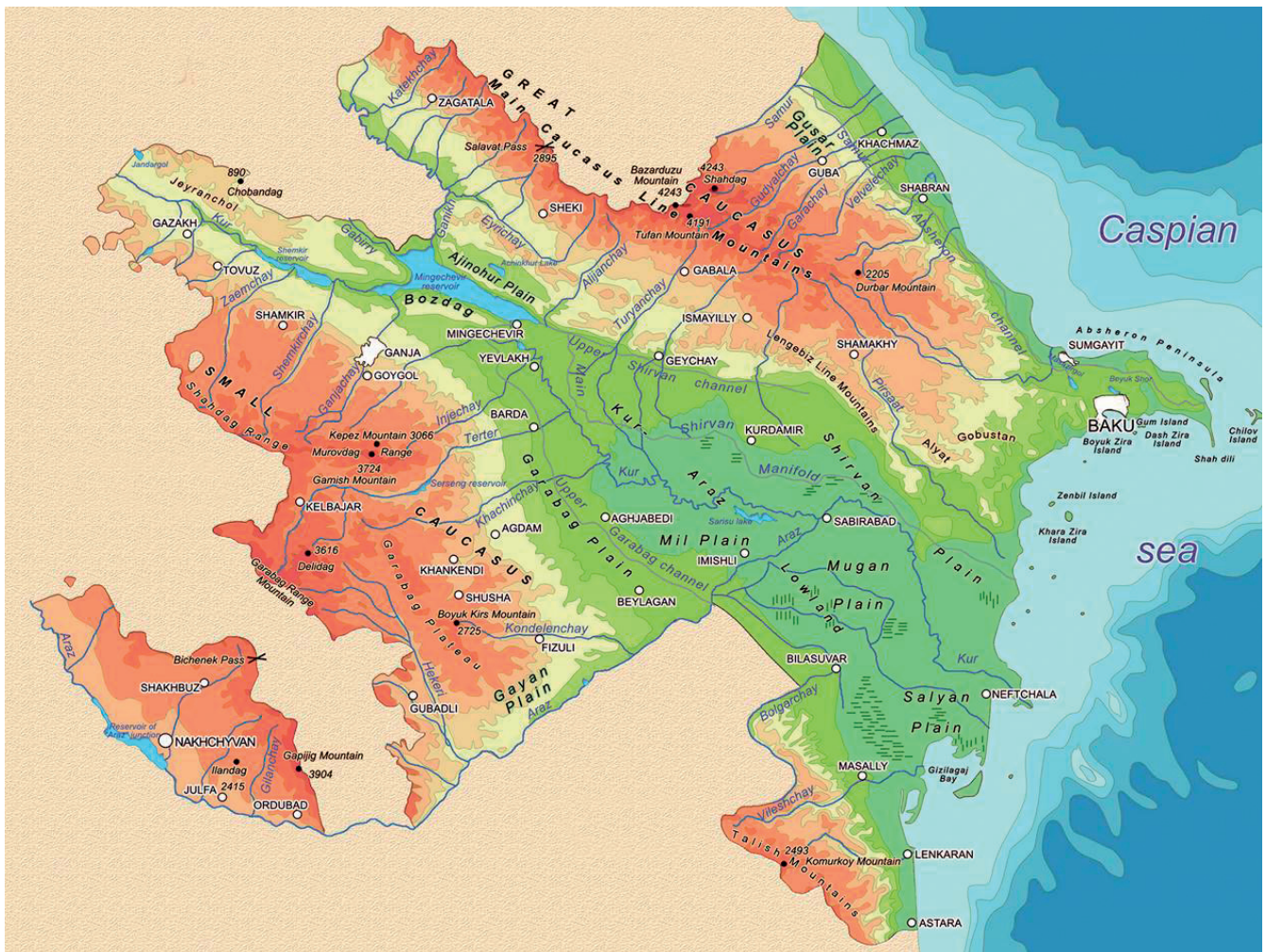
# EITI AZERBAIJAN ANNUAL REPORT 2014

# Republic of Azerbaijan

State Emblem of the Republic of Azerbaijan

National Flag of the Republic of Azerbaijan

Area: 86,6 thousand sq. km  
Population: 9593.0 thousand  
Capital: Baku  
Official language: Azerbaijani  
Currency: Manat



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## LIST OF ABBREVIATIONS

<b>ACG</b>	Azeri–Chirag–Gunashli
<b>AHGA</b>	Amendments to the Host Government Agreement
<b>AIOC</b>	Azerbaijan International Operating Company
<b>AJ</b>	Adjustment
<b>AS</b>	Aksjeselskap - Norwegian term for a stock-based company
<b>AZN</b>	Azerbaijani manats
<b>BP</b>	British Petroleum
<b>BTC</b>	Baku–Tbilisi–Ceyhan
<b>CBAR</b>	Central Bank of the Republic of Azerbaijan
<b>CNG</b>	Compressed Natural Gas
<b>CNPC</b>	China National Petroleum Corporation
<b>Committee</b>	EITI Committee of the Republic of Azerbaijan
<b>Commission</b>	Government agencies
<b>DESFA</b>	National Natural Gas System Operator S.A.
<b>EITI</b>	Extractive Industries Transparency Initiative

<b>EITI Secretariat</b>	Azerbaijan EITI National Secretariat
<b>FZE</b>	Free Zone Enterprise
<b>GDF</b>	Gas de France
<b>GDP</b>	Gross Domestic Product
<b>Government</b>	Government of Azerbaijan
<b>Group</b>	State Oil Company of the Azerbaijan Republic and its subsidiaries
<b>HGA</b>	Host Government Agreement
<b>IMF</b>	International Monetary Fund
<b>ITEI</b>	Improving Transparency in Extractive Industry
<b>JV</b>	Joint Venture
<b>k</b>	Thousand
<b>Kcm</b>	Thousand cubic metres
<b>Kg</b>	Kilograms
<b>LLC</b>	Limited liability Company
<b>LTD</b>	Limited Company
<b>m</b>	Metre

<b>m<sup>3</sup></b>	Cubic metres
<b>Mboe</b>	millions of barrels of oil equivalent
<b>MEP</b>	Main Export Pipeline
<b>Mln</b>	Million
<b>MMBTU</b>	1 million British Thermal Unit
<b>MOI</b>	Memorandum of Intentions
<b>MOU</b>	Memorandum of Understanding
<b>MSG</b>	Multi Stakeholder Group
<b>MSI Integrity</b>	Institute for Multi-Stakeholder Initiative Integrity
<b>NGO</b>	Non-Governmental Organisation
<b>NICO</b>	Naftiran Intertrade Company
<b>Nm<sup>3</sup></b>	Normal cubic metres
<b>ONGC</b>	Oil and Natural Gas Corporation
<b>PSA</b>	Production sharing agreement
<b>PU</b>	Production units
<b>PWYP</b>	Publish What You Pay
<b>Rules</b>	Single license registry rules of the Republic of Azerbaijan

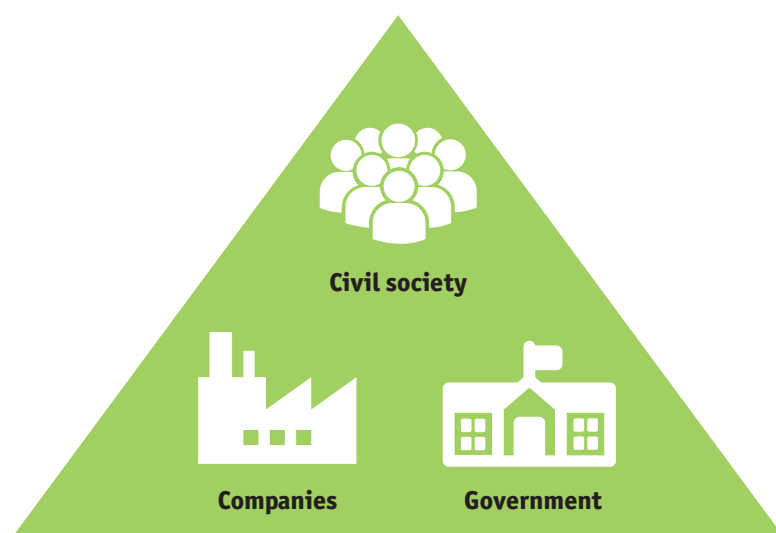
<b>Sm<sup>3</sup></b>	Standard cubic metres
<b>SCP</b>	Southern Caucasus Pipeline
<b>SGC</b>	The Southern Gas Corridor
<b>SOCAR</b>	State Oil Company of the Azerbaijan Republic
<b>SOE</b>	State Owned Enterprises
<b>SOFAZ</b>	State Oil Fund of the Republic of Azerbaijan
<b>SSPF</b>	State Social Protection Fund
<b>STYAS</b>	SOCAR Turkey Yatirim A.S
<b>TAP</b>	Trans Adriatic Pipeline
<b>TANAP</b>	Trans Anatolian Natural Gas Pipeline
<b>THSD.</b>	Thousand
<b>TIN</b>	Taxpayer Identification Number
<b>TPAO</b>	Turkish Petroleum Anonim Ortakligi
<b>TOR</b>	Terms of Reference
<b>USD</b>	United States Dollars
<b>VAT</b>	Value Added Tax
<b>WREP</b>	The Western Route Export Pipeline

# EITI AZERBAIJAN ANNUAL ACTIVITY REPORT 2014

## Multi-Stakeholder Group (MSG)

The MSG plays a role of the decision making authority in the implementation of the EITI in the country. The Group was established in January, 2010 and consists of the representatives of the parties of the Memorandum (the NGO Coalition, the Group of Companies and the EITI Commission) with the purpose of providing stronger and more efficient multilateral supervision and management on the implementation of the Initiative in Azerbaijan. So, each of the EITI parties appoints 3 primary and up to 3 (three) alternate members having equal rights to MSG (total 9 primary members + up to 9 alternate members). The chairman of the EITI Commission becomes the member of the MSG on behalf of the Azerbaijani government and chairs the group meetings. The composition of the MSG is updated every year.

The group meets at least four times a year.



## The members of Multi-Stakeholder Group in 2014

### The EITI Commission:

Shahmar Movsumov	The Executive Director of SOFAZ, the chairman of the EITI Commission, MSG chairman
Iftikhar Huseynov	Representative of Ministry of Energy
Zaur Fatizadeh	Representative of Ministry of Taxes
Shahmirza Safarov	Representative of Ministry of Ecology and Natural Resources (alternate)

### Group of Companies:

Araz Yusubov	Representative of "BP"
Jamila Hadiyeva	Representative of "Statoil"
Kamran Maharramov	Representative of the State Oil Company of the Azerbaijan Republic (SOCAR)
Bakhtiyar Akhundov	Representative of "Chevron" (alternate)
Rasim Akhundov	Representative of "Total" (alternate)
Vagif Abdullayev	Representative of "Neftechala" company (alternate)

### ITEI Coalition:

Gubad Ibadoglu	Economic Research Center
Azer Mehtiyev	"Support for Economic Initiatives" Public Union
Elchin Abdullayev	"Democratic Institutions and Human Rights" Public Union
Mehrigan Vazir	The Political Culture Center of the Azerbaijani Women (alternate member)
Dunya Sakit	Individual member (alternate member)
Iliham Huseynli	Chairman of the Public Union "Democratic development and Economic Cooperation" (alternate member)

## Assessment of the implementation of the 2014 Work Plan

The 2014 work plan reflects the priorities set forth in implementation of the EITI in Azerbaijan, envisaged steps of action, planned and actual execution dates of the activities, responsible parties, funding source, allocated funds, current status and obtained results (Appendix 2). The work plan was approved in the last MSG meeting of 2013.

The implementation of the following activities in the 2014 Work Plan was not completed: 1.1. Collect contextual information, 1.3. Discuss and approve the contextual information, 1.8. Approve the Auditor report, 1.9. Place the Government's report, Auditor's report and companies' individual reports on the websites of the EITI Azerbaijan, SOFAZ, the Coalition and the International Secretariat, 1.10. Publish the Government's final report in the official government newspaper, 1.11. Present the NGO Coalition's opinion, 1.16. Discuss the draft document wherein the EITI report and Activity Report will be published together, 1.17. Publish the EITI report and Activity report for 2013 in a single document, 2.1. Discuss and endorse the adaptation of the Auditor's Terms of Reference to the Standard, 2.3. Prepare a summary of the EITI report to ensure its readability and comprehensibility for population considering the inclusion of new information to the report, 3.1. Prepare and publish special printed materials (brochure, booklet, book), 3.5. Conduct round tables and lectures at universities, 3.6. Organize round tables in regions, on central and regional TV channels, 4.1. Discuss and make preparations for the training, 4.2. Conduct training.

The reason for some of the action steps (for example, Gathering contextual information, approval of the Auditor's report, publishing the EITI report and Activity report 2013 in a single document, etc.) not being implemented by the planned execution dates of MSG on the EITI implementation in Azerbaijan for 2014 was due to the late signing of the new Memorandum of Understanding prepared in accordance with the EITI Standard. Even though the planned execution date for signing of the Memorandum was January 22 – 31, the actual execution date was June 10.

## The overview of the EITI implementation

8 meetings of the MSG were held in 2014. Besides, the working groups of the MSG have conducted 4 meetings and continued the works through electronic communication. During the held meetings, the other issues related to the EITI implementation in the work plan arising along the year were discussed and relevant decisions were adopted. In order to ensure timely and highly qualitative execution of the decisions, the cooperation between the EITI Secretariat of Azerbaijan, MSG and in general, all the EITI parties continued in 2014.

In-depth discussions were conducted on the Memorandum in the MSG meetings in the first half year of 2014 and the work in the working group for adaptation of the Memorandum to the EITI standard continued. On June 10, 2014, in the 31st meeting of the MSG, new Memorandum of Understanding was signed among the EITI parties of Azerbaijan and the reporting period covering 2013 was started. The 2013 EITI Report began to be compiled based on the EITI Standard adopted in the 6th EITI Global Conference held in Sydney. According to the decision adopted in the MSG meeting dated June 10, 2014, in order to give support to preparation of the synthetic tables and contextual information that would be included to the report, the working group was established. Detailed discussions were conducted with the auditor in the MSG meetings and meetings of the working group as well as through electronic communication on the 2013 EITI report and relevant work was done throughout the year. At the end of 2014, the initial draft of the 2013 EITI Report was submitted to the MSG.

The EITI Board meetings were held in Norway, Mexico and Myanmar in 2014 and the chairman of the State Commission on EITI of Azerbaijan, the representatives of the local secretariat have taken part in the above stated meetings.



On June 29, 2014, the 2013 EITI Annual Activity Report was disclosed and placed in the official website of Azerbaijan EITI. In the 28th meeting of the EITI International Board (held in Naypyidaw, the capital of Myanmar on October 14-15, 2014), the EITI Board has adopted a decision on conducting of early Validation on EITI in Azerbaijan. Detailed discussions were conducted in the MSG on the decision of the EITI Board and based on the decision of the MSG the Validation group for Validation was established. In addition, the workshop "prior to Validation" on the EITI was held in SOFAZ on December 24.

## The working groups of the MSG

### **The activities of the working group for adaptation of the Memorandum to the EITI Standard were continued in 2014.**

As we know, the need for adaptation of the Memorandum - the major document regulating the implementation of the EITI in Azerbaijan, to the new Standard arose and the working group consisting of the MSG members continued its activities in 2011. The discussions of the working group continued regularly in electronic form in 2014. During the discussions, the update of the Memorandum and its preparation in accordance with the EITI standards, the improvement of Appendixes of the memorandum and especially the report forms were widely discussed, and the issues creating questions were settled by applying to the International EITI Secretariat. In the 31st meeting of the MSG on June 10, 2014, the EITI parties of Azerbaijan have signed a new Memorandum of Understanding.

### **The working group was established consisting of the MSG members for "providing support to the preparation of synthetic tables and contextual information to be included to the auditor report".**

According to the requirement of the new Standard adopted in 2013, the contextual information that gives the summary of the extractive industry should be reflected in the EITI reports. In the MSG meeting dated June 10, 2014, the working group was established consisting of the MSG members for "providing support to the preparation of synthetic tables and contextual information to be included to the auditor report" (2 persons from the ITEI Coalition, 2 persons from the group of companies, 2 persons from the EITI Commission). In accordance with the decision of the MSG, the Auditor was assigned to collect contextual information and it was decided to continue the work under the supervision of the working group. The working group has held 5 meetings starting from August 2014, and the discussions were regularly continued in electronic form. The activities of the working group continued in 2015 too.

### **The working group for "Validation" was established.**

The Validation decision of the International Management Board was widely discussed in the MSG meetings and according to the decision of the MSG, the working group for Validation was established consisting of the MSG members (1 person from the ITEI Coalition, 1 person from the group of companies, 1 person from the EITI Commission). The work of the working group for "Validation" was continued in 2015 too.

## The activities of the EITI parties: achievements and constraints

### **The NGO Coalition for the ITEI:**

In both characterized periods of 2014, the stability prevailed in the activities of the Coalition within the framework of the MSG, and the NGO representatives obtained some achievements by contributing to EITI implementation in this format.

The discussion of the new Memorandum of Understanding was completed among the parties during the period and the document was adopted and signed by the MSG, the members of the NGO Coalition represented in the MSG took part in the working group for the preparation of the “contextual information” section of the EITI report for 2013, the experts of the Coalition have prepared their opinions on the initial report for 2013. Overall, the participation of the civil society in the MSG was productive.

Nonetheless, there were also constraints in the activity of the NGO Coalition for ITEI.

The detailed information about this was provided in the Statement of the Coalition in the Appendix 1.

### **The Group of Companies:**

Intensive consultations were conducted inside the group of companies during 2014 on the new Memorandum of Understanding and preparations for the reporting cycle according to the new requirements. The representatives of BP and Chevron have contributed to the preparation of the new draft Memorandum within the relevant working group by also taking active part in the meetings of the group of companies. Throughout the year, the representatives of SOCAR and BP have actively taken part in the other working groups of the MSG. Besides, on the recommendation of the EITI Secretariat and the NGO Coalition, the members of the group of companies have received the official delegation of Russia (May), “MSI Integrity” (May), the representatives of the World Bank (September) and the representatives of the special mission of the international EITI Board in various times, and took part in various events by the invitation of the NGO Coalition.

### **The Government Commission:**

In 2014, the chairman of the Government Commission and its members have actively participated in the EITI related activities. The Chairman of the Commission, Executive Director of SOFAZ has continued his work on improving the efficiency of the work of the MSG, delivering speeches and holding discussions in various meetings and events, supervising the work of the local EITI Secretariat in addition to participating in the administration of the EITI on an international scale.

The delegation led by the chairman of the Government Commission on EITI, the member of the EITI Board, the Executive Director of SOFAZ Shahmar Movsumov has taken part in the following meetings:

On March 18-19 2014, Oslo, Norway, the 26th meeting of the International Board on EITI.

July 1-2 2014, Mexico City, Mexico, the 27th meeting of the International Board on EITI.

December 3, 2014, Moscow, Russian Federation, an international conference on “The influence of the Transparency Initiative of the Extractive Industries to the environment of business administration: international practice”.

Additionally, the members of the Government Commission were represented in the working groups composed of the MSG members, repeatedly took part in the meetings and contributed to the works for preparation of relevant documents.

### **The EITI Secretariat:**

The EITI Secretariat of Azerbaijan has taken part in the local, international and EITI related events while implementing of the decisions adopted by the MSG, providing organizational and coordinative support to the parties, keeping regular contacts with them, responding to the inquiries not directly related to the EITI.

## The EITI improvements based on the recommendations of the Validator and the Auditor

After successfully passing the Validation in 2009, Azerbaijan immediately started to execute the recommendations set forth by the Validator and achieved the implementation of all the suggestions within a short period of time. Since that period on, the work for deepening the EITI in the country has been continued with an increasing tendency.

During 2014, the work for enhancing the context and increasing the quality of the EITI reporting in the country has been continued. The draft EITI report for 2013 has been prepared in accordance with the EITI Standard by taking into account all recommendations made by the auditor on the 2012 EITI report.

## The EITI related events

### The discussions on the topic of “Anonymous Azerbaijan and pseudo transparency” in Baku

The ITEI Coalition has organized a public discussion on the SOCAR-related report of the non-governmental organization “Global Witness”, titled “Anonymous Azerbaijan” and also held a public discussion on “Anonymous Azerbaijan and pseudo transparency” in Baku on January 15. The member of the Coalition, the chairman of the Oil Research Center Ilham Shaban made a speech in the event and noted that the accusations directed against SOCAR were mainly concentrated on the activities of the “SOCAR Trading SA” company specialized on the sale of crude oil.

The chief of the legal department of the State Oil Company of the Azerbaijan Republic Eldar Orujov taking part in the event noted that the malicious and wrong position was expressed against Azerbaijan in this report and stated that the unclear points in the report of “Global Witness” were clarified by SOCAR and all the arguments were proved to be groundless. In addition, he stressed that the publication of this report in the start of realization of the large scale international projects implemented by SOCAR was not accidental and all of these were done with the purpose of damaging the positive image of SOCAR gained in the international level and preventing it from participation in large scale projects.



### Campaign on TV, media, internet and social networks in respect of the 10th anniversary of the EITI

Within the framework of the project “campaign on the national and regional TVs, media, internet and social networks in respect of the 10th anniversary of the EITI”, the programs titled “new standard of the EITI” was broadcasted in Azadlig radio on December 28, 2013, and “the reporting procedure and reports to the State Oil Company” on February 1, 2014.



### **The Transparency Coalition has celebrated its 10th anniversary**

The ITEI Coalition for Improving Transparency in Extractive Industry of the Public Unions established on May 13, 2004 has celebrated its 10th anniversary.

The members of the Coalition, the representatives of the media and civil society, the representatives of the EITI Secretariat and as well as the representatives of the international organizations and diplomatic corps took part in the jubilee event. The jubilee event was ended by the demonstration of the film dedicated to the 10-year-activities of the Coalition.

### **The workshop prior to Validation in Istanbul**

On December 5-7, 2014, the ITEI Coalition of Azerbaijan has met in Istanbul for preparation and discussion of the early Validation process to be held in January of 2015 by the decision of the International Board on the EITI. Jonas Moberg, Sam Bartlett and Dvyeke Rogan from the International EITI Secretariat joined the session through the skype. The head of the International EITI Secretariat Jonas Moberg gave information about the early Validation decision of the EITI Board, the scale of the Validation process and the role of the civil society in this process. The early Validation in Azerbaijan also includes Validation of 3 specific conditions connected with the country along with the EITI requirements": Mr. Moberg noted.



## **Appendix 1 – Statement of the NGO Coalition on the ITEI activities for 2014**

2014 was a difficult year for the Coalition for Improving Transparency in Extractive Industry of the Public Unions (ITEI). So that, the common difficulties encountered by civil society have also affected the NGO Coalition. It is possible to divide the program activity of the Coalition in 2014 into 2 groups as periodically. While the activities of the ITEI Coalition in the first period - until July of 2014, were implemented with small limitations, in the second period – starting from the end of June, it became rather difficult. The technical, legal, administrative and financial restrictions aggravating the situation of the civil society in the country have also caused certain stagnation in the activities of the NGO Coalition. Thus, the NGO Coalition has faced difficulty in renting the assembly hall in big hotels for conducting the 10th year jubilee event in June. From the second half of the year, the changes in the legislative acts regulating the activities of the NGOs have actually deprived the Coalition from the donor contribution. The difficulties encountered by the civil society organizations in this period negatively affected the Coalition, too. The bank accounts of some organizations who are the members of the Coalition were closed, and some of them were involved to the investigation and tax inspections started against the NGOs from April of 2014. They underwent inspections in the border check points during traveling abroad. Therefore, the NGO Coalition failed to implement the activities under their responsibility on the 2014 EITI Work Plan during the period.

## **Appendix 2 - 2014 Work Plan for implementation of EITI in the Republic of Azerbaijan**

In 2014 the EITI implementation in Azerbaijan will be mainly focused on implementing the Initiative in the country in accordance with the Standard, improving readability and comprehensibility of the EITI reports for population, conducting awareness raising activities about EITI, upholding effective dialogue among government, civil society and companies.

Priorities for 2014	Action steps	Estimated implementation date	Actual implementation date	Responsible party(s)	Funding source	Allocated funds	Implementation status	Outcome
1. Preparation, disclosure of the EITI Report and Activity Report for 2013 in accordance with the EITI Standard and publication of them in a single document	EITI report <sup>1</sup> 1.1. Collect contextual information	January 15- May 30		Secretariat <sup>3</sup> , MSG <sup>5</sup> , Auditor <sup>4</sup>	SOFAZ <sup>9</sup>	4,995 AZN	In progress	Informing society about the country's revenues from extractive industries, enhancing the content and increasing the volume of EITI reports; increasing benefits and easing the use of the EITI data
	1.2. Check the materiality of payments <sup>2</sup> by companies to the State Social Protection Fund (SSPF) for 2013	February 3-17	15.0.4.2014	MSG, Secretariat	Funding is not required		Completed	
	1.3. Discuss and approve contextual information	February 17- June 10	24.01.2014; 19.02.2014; 13.03.2014; 15.04.2014; 10.06.2014; 21.07.2014; 12.09.2014; 17.10.2014	MSG	Funding is not required		1. Was discussed with Moore Stephens company at the MSG meetings 2. In progress	
	1.4. Send reporting templates to local and foreign companies	March 3-7	19.06.2014	Secretariat	Funding is not required		Completed	
	1.5. Submit the government's, local and foreign companies' reports to the Auditor	by May 1	10.08.2014	Committee <sup>6</sup> , Group of companies <sup>7</sup>	Funding is not required		Completed	
	1.6. Conduct the reconciliation process	May 1 - July 1	August 4-October 2	Auditor	SOFAZ	24,849 AZN	Completed	
	1.7. Present Auditor's reconciliation report, companies' individual reports and government's report to the MSG.	July 1-15	03.10.2014	Auditor	Funding is not required		Completed	
	1.8. Approve the Auditor's report	July 15-30		Auditor, MSG	Funding is not required			
	1.9. Place the government's report, auditor's report and companies' individual reports on the websites of the EITI Azerbaijan, SOFAZ, Coalition and International Secretariat	Within 5 days after execution of action 1.8		Secretariat	Funding is not required			
	1.10. Publish the government's report in the official government newspaper	Within 5 days after execution of action 1.8		Secretariat	SOFAZ	400 AZN		
	1.11. Present the NGO Coalition's opinion	by September 1		Coalition <sup>8</sup>	Funding is not required			

Priorities for 2014	Action steps	Estimated implementation date	Actual implementation date	Responsible party(s)	Funding source	Allocated funds	Implementation status	Outcome	
	Annual Activity report <sup>2</sup>	1.12. Conduct preliminary discussions on Activity report	January 17-24	24.01.2014	MSG	Funding is not required	Completed		
		1.13. Prepare the draft text of the report	February 5 - March 14	19.03.2014	MSG, Secretariat	Funding is not required	Completed		
		1.14. Send required information and materials to the Secretariat	February 5 - March 14	19.03.2014	Coalition, Group of companies, Committee	Funding is not required	Completed		
		1.15. Approve the draft text of the report, place it on the EITI Azerbaijan website	March 14 - April 1	29.06.2014	MSG, Secretariat	Funding is not required	Completed		
	Publication of reports	1.16. Discuss the draft document combining EITI report and Activity Report	August 15-September 1		MSG, Secretariat	Funding is not required			
		1.17. Publish the EITI report (2013) and Activity report (2013) in a single document	September 1 - November 17		Secretariat	SOFAZ			
2. Achieving complete transition to the EITI Standard in Azerbaijan	2.1. Discuss and endorse the adaptation of the Auditor's Terms of Reference to the Standard	January 17-February 17	24.01.2014; 19.02.2014; 13.03.2014; 15.04.2014; 10.06.2014; 21.07.2014; 12.09.2014; 17.10.2014	Coalition	Funding is not required		1. Was discussed with Moore Stephens company at MSG meetings 2. In progress	Conforming the EITI implementation in Azerbaijan to the requirements and rules of the EITI Standard	
	2.2. Sign a new Memorandum of Understanding prepared in accordance with the Standard	January 22 - 31	10.06.2014	MSG, Group of Companies, Committee, Coalition	Funding is not required	Completed			
	2.3. Prepare a summary of the EITI report in order to maintain readability and comprehensibility for population considering the inclusion of new information to the report	July 1-30		MSG	Funding is not required				
	2.4. Discussions on the creation of the legal Basis for the EITI implementation	May 1 - June 30	10.06.2014	MSG	Funding is not required	Completed			
	2.5. Discussions on the challenges in the activities of the member organizations of NGO Coalition for Improving Transparency in Extractive Industries	July 21-September 30	21.07.2014; 03.10.2014	MSG	Funding is not required	Completed			

Priorities for 2014	Action steps	Estimated implementation date	Actual implementation date	Responsible party(s)	Funding source	Allocated funds	Implementation status	Outcome
3. Fostering outreach initiatives to increase awareness about EITI implementation in Azerbaijan and exchange of experience within the country and abroad	3.1. Prepare and publish special print materials (brochure, booklet, book)	in the course of the year		Secretariat, Coalition	SOFAZ, International Donor organizations			Raising awareness of population about EITI implementation in Azerbaijan, extensive promotion of EITI's general philosophy and Azerbaijan's EITI report, exchange of experience with other countries
	3.2. Place the materials on website and distribute hard copies	in the course of the year	in the course of year	Secretariat, MSG, Coalition	Funding is not required		In progress	
	3.3. Participate at the EITI events abroad (conferences, seminars, trainings, exhibitions, exchange programs and etc.)	in the course of the year	in the course of year	MSG, Secretariat, Committee, Group of companies, Coalition	SOFAZ, Companies Group International Donor organizations	29.000 AZN	In progress	
	3.4. Regularly upgrade and update the EITI Azerbaijan official website	in the course of the year	in the course of year	Secretariat	SOFAZ		In progress	
	3.5. Conduct round tables and lectures at universities	in the course of the year		Coalition	International Donor organizations, Group of companies			
	3.6. Organize round tables in regions, on central and regional TV channels	in the course of the year		Coalition, Group of companies	International Donor organizations, Group of companies			
4. Organizing a training for Group of Companies in order to increase the quality of EITI reporting	4.1. Discuss and make preparations for the training	September 15 - October 20		Secretariat, Group of companies, MSG	Funding is not required			Enhancing the competence of companies in filling out EITI reporting templates and increasing the quality of the EITI reporting
	4.2. Conduct the training	October 24-31		Secretariat, Group of companies	SOFAZ	6.000 AZN		

1 Annual report covering the reconciliation of government's and extractive companies' reports by Auditor, analysis as well as explanation of differences and contextual information

2 Annual report on EITI Implementation in the country and MSG's annual activities

3 Azerbaijan EITI Secretariat

4 Audit company conducting reconciliation of EITI reports and preparing final report. Auditor company is selected for 3-year term for reconciliation of EITI reports in Azerbaijan according to the MSG's decision. "Moore Stephens" audit company was selected in 2013 by the MSG to reconcile EITI reports for 2012, 2013, 2014.

5 Multi-stakeholder group where each 3 EITI party (government, companies, NGO's Coalition) is equally represented

6 Government Committee established by the ordinance of the Cabinet of Ministers of the Republic of Azerbaijan

7 Local and foreign companies operating in the extractive industries of Azerbaijan

8 The Coalition of Azerbaijan Non-Government Organizations "For Improving Transparency in Extractive Industries

9 State Oil Fund of the Republic of Azerbaijan



The Work Plan was approved at the MSG's meeting dated 03.12.2013. Agreed updates and amendments to the Work plan by MSG members are carried out on monthly basis.

The meetings of the MSG planned for 2014	The issues included in the Work Plan
January 24	2.1. 1.12. 2.2.
February 19	1.1. 1.3. 1.16. 2.2.
March 13	2.1. 2.2. 2. 12.
April 15	2.1. 2.3. 1.2.
June 10	2.4. 2.2. 2.1. 1.16
July 21	2.5
October 3	10.1
December 10	1.11

## Appendix 3 – The meetings of the MSG held in 2014 and the adopted decisions

The dates of the MSG meetings	Agenda	The adopted decisions
January 24	Discussion on the adaptation of the Terms of Reference of the Auditor to the EITI Standard	<ol style="list-style-type: none"> <li>1. The EITI Secretariat of Azerbaijan to obtain information from the International Secretariat on the necessity of reselection of an auditor for reconciling the reports of 2013 in the next reporting period.</li> <li>2. Moore Stephens audit company to make necessary changes and amendments to the Terms of Reference to be used in Azerbaijan, to submit the draft of that document and the methodology of collection of contextual information in the next MSG meeting.</li> </ol>
	Discussions around the EITI activity report (2013)	<ol style="list-style-type: none"> <li>1. To send the draft text of the report to the MSG members via e-mail and to submit the opinions and suggestions about the report to the Secretariat until February 03, 2014.</li> <li>2. To review the final version of the report in the next MSG meeting.</li> </ol>

The dates of the MSG meetings	Agenda	The adopted decisions
	Discussion of the final draft of the New Memorandum	<p>1. The members of the NGO Coalition in the MSG to share the results of the discussions in the Council about the opinions and suggestions sounded at the last MSG meeting on Memorandum at the next MSG meeting.</p> <p>2. To include the issue of disclosure of the minutes to the agenda of the next meeting.</p> <p>3. The EITI Secretariat to write to the International Secretariat and clarify the following questions:</p> <ul style="list-style-type: none"> <li>- May there be obstacles for Azerbaijan in passing of the Validation process if the MSG signs the memorandum, but implements the reporting in accordance with the new Standard? May there be obstacles in passing the Validation if the MSG starts the new Standard without signing the Memorandum and finalizes the process of signing the memorandum prior to commencement of the Validation process in Azerbaijan?</li> <li>- is there necessity of reselection of the auditor with the purpose of conducting the 2012 reporting process in accordance with the New Standard? Or is it sufficient to attach the Terms of Reference prepared by the EITI Board in accordance with the new Standard to the contract with the auditor company (Moore Stephens) selected for the next 3 reporting periods.</li> </ul>
February 19	1. Discussion on collection of contextual information	<p>Azerbaijan EITI Secretariat to send the reporting forms prepared by the NGO Coalition to the Auditor.</p> <p>The Auditor to present the new Terms of Reference updated in accordance with the Standard, the reporting forms and the methodology of collecting contextual data by 23th February of 2014.</p> <p>The Inception Report not to be prepared for the next reporting year.</p>
	2. Discussion on final draft of the New Memorandum	<p>Azerbaijan EITI Secretariat to send the request for recommendations of the International Secretariat on below listed issues in relation with the new Memorandum:</p> <ul style="list-style-type: none"> <li>- The status of the Azerbaijan EITI Secretariat</li> <li>- "Confidentiality" clause</li> <li>- "Power of this Memorandum" clause</li> </ul> <p>In "Structure of MSG" clause, the number of alternate members to be increased to maximum 3 members for each MSG party.</p> <p>Azerbaijan EITI Secretariat to prepare the last version of the draft Memorandum which reflects all suggestions of both Group of Companies and NGO Coalition and send it to the MSG.</p>
	3. Discussion of the draft text of the EITI activity report (2013)	<p>MSG members to send all information and suggestions on Annual Activity Report to the Azerbaijan EITI Secretariat by 28th February 2014.</p> <p>MSG members to send their suggestions on whose quotes will be included to the Report by 28th February 2014.</p>

The dates of the MSG meetings	Agenda	The adopted decisions
	4. Discussion of the issue of disclosure of the minutes.	The extracts from the last 3 MSG meetings' minutes in Azerbaijani to be sent to the PWYP Secretariat. Azerbaijan EITI Secretariat to prepare the extracts from the minutes starting from the 28th MSG meeting in defined format and place them in Azerbaijan EITI official web-site in the appropriate section in two languages (Azerbaijani and English).
	5. Discussion of the reporting forms of the NGO Coalition	Auditor to review and check by 28th February whether the information in the reporting forms prepared by the working group is sufficient for filling out the summary tables prepared by the NGO Coalition.
	6. The other issues	Azerbaijan EITI Secretariat to send the request to the International Secretariat on solving the technical problems and lack of information in the section about Azerbaijan.
March 13	1. Discussion of the issues of collection of contextual information and adaptation of the collection of conditions of the Auditor to the Standard	The Auditor to complete the Terms of Reference by having it translated into Azerbaijani and send to the Azerbaijan EITI Secretariat by not later than 19 March. The selection methodology to be inserted into the Terms of Reference of the Auditor.
	2. Discussion on final draft of the New Memorandum	1. Azerbaijan EITI Secretariat to prepare a final draft of the Memorandum on the basis of the comments shared at the meeting and send to the parties for their approval by not later than 14 March. 2. A review of the issue of creating a legal base for the Azerbaijan EITI to be added to the Work Plan for 2014.
	3. Discussion of the report forms prepared by the NGO Coalition	1. The Auditor to complete the work by comprehensively reviewing the reporting forms and send the final forms to the Secretariat by 19 March.
	4. Discussion of the draft text of the EITI activity report (2013)	G. Ibadoglu, member of the MSG, to send the Coalition-related information for the Activity Report to the Azerbaijan EITI Secretariat by 19 March. If the members of the MSG have any final comments or proposals regarding the text of the Activity Report for 2013, for them to accordingly notify the Azerbaijan EITI Secretariat by 19 March. The list of website addresses of the members of the EITI not to be included in the Activity Report.
	5. The other issues	Regarding broadcasting about the EITI, G. Ibadoglu, member of the MSG, to prepare and send to the Azerbaijan EITI Secretariat by 19 March a draft broadcast for the purpose of making an application to Ictimai TV Channel (Public TV).

The dates of the MSG meetings	Agenda	The adopted decisions
April 15	1. Discussion on final draft of the New Memorandum	The NGO Group to form the opinion of the EITI Coalition of Public Associations on the two amendments to the final draft of the Memorandum made by the Group of Companies and to advise the EITI Secretariat accordingly.
	2. Discussion of the report forms and new TOR for Auditor	1. The contextual information and summary tables prepared by the EITI NGO Coalition to be added to the Terms of Reference of the Auditor. The Auditor to complete the Terms of Reference, along with the representatives of the Secretariat and SOCAR, by considering the comments made in the meeting, and the Secretariat in its turn to share the final document with the MSG.
	3. Discussion of the information received from the SSPF	As of the next reporting period, the receipts from the extractive industry companies to the SSPF for mandatory state social insurance contributions to be included in the contextual information section of EITI Report.
	4. The other issues	The Secretariat to add a column for the forecast finance to the 2014 Work Plan and send the updated Work Plan to the members of the MSG. Each member of the MSG to review the comment of the EITI International Secretariat concerning the Work Plan for Azerbaijan for 2014 and share his/her opinions with the members of MSG.
June 10	1. Discussion on establishment of the legal base on implementation of the EITI	Presentation of the draft EITI law prepared by the NGO Coalition to be considered as reviewed.
	2. Signing of New Memorandum	New EITI Memorandum to be considered as signed on 10 June 2014 and the Memorandum dated to 24 November 2004 and Agreement on MSG's activity on implementation of the EITI in Azerbaijan to be considered as invalid. New EITI Memorandum to be placed on the EITI official website and invalid documents should be removed. The press-release on signing the New Memorandum among Azerbaijan's EITI parties to be published.
	3. Discussion of the Collection of Conditions of the Auditor	The main text of Auditor's Terms of Reference to be considered as approved by the MSG. In order to support the development process of synthetic schedules and contextual data to be included in the report of the auditor a Working group should be created consisting of G.Ibadoglu, K.Maharramov, Z.Fatizadeh as the primary members and A.Mehtiyev, A.Yusubov as the alternative members.
	4. Discussion on commencement of 18th reporting period for the EITI (covering 2013)	18th EITI reporting period (covering 2013) to be launched and appropriate actions should be taken by EITI Secretariat.

The dates of the MSG meetings	Agenda	The adopted decisions
July 21	<p>1. Discussion on emerged difficulties in the activity of Members of the EITI Coalition of Civil Society Organizations.</p> <p>2. Discussion on the activity of a Working Group consisting of MSG members on supporting the development process of synthetic schedules and contextual data to be included in the Auditor's report.</p>	<p>If the emerged difficulties and problems have not been solved until September 2014, the EITI Secretariat to organize the next MSG meeting in September of the current year in order to discuss these issues.</p> <p>Auditor to introduce draft structure of the report on contextual information to Working Group. Working Group's meeting to be organized between August 26 and September 9 by the Secretariat.</p>
October 3	<p>1. Presentation of final draft of the Auditor Report and the Government Report covering 2013</p> <p>2. Discussion on the difficulties encountered by the Public Unions in the activities of the organizations being members of ITEI Coalition</p> <p>3. The other issues</p>	<p>The presented EITI report for the year 2013 to be considered and comments and notes to be shared by the parties within a month The Coalition to prepare the opinion on report for the year 2013 and present on the next MSG's meeting</p> <p>The EITI Secretariat to prepare a summary on the implementation of Work Plan for 2013 and send it to the MSG members and this issue to be discussed at the next MSG meeting.</p>

<b>The dates of the MSG meetings</b>	<b>Agenda</b>	<b>The adopted decisions</b>
December 10	1. Presentation of the opinion of the NGO Coalition on the reports of the EITI Commission and Independent Accountants (for 2013)	The local Secretariat to request information from the international Secretariat on the criteria against which the Validator will be selected as well as inform the International Secretariat that it is unfeasible to approve a Validator company within such a short period of time.
	2. Discussion on the Validation to be conducted in Azerbaijan	The following information not to be included in the EITI report and to explain the grounds of that in the EITI report for 2013: infrastructure provisions and barter arrangements subnational payments and subnational transfers social expenditures Register and allocation of licenses beneficial ownership

## Appendix 4 – Validation of implementation of the EITI in Azerbaijan in 2014 in accordance with the requirements of the EITI Standard

Requirements of EITI Standard <sup>10</sup>	Progress of Azerbaijan per item
<b>1. The EITI requires effective oversight by the multi-stakeholder group.</b>	
1.1 The government is required to issue an unequivocal public statement of its intention to implement the EITI.	+ <sup>11</sup>
1.2 The government is required to appoint a senior individual to lead the implementation of the EITI.	+
1.3 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.	+
1.4 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.	+
<b>2. The EITI requires timely publication of EITI Reports</b>	
2.1 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.	+
2.2 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.	+
2.3 The multi-stakeholder group is required to agree the accounting period covered by the EITI Report.	+
<b>3. The EITI requires EITI Reports that include contextual information about the extractive industries.</b>	
3.1 Compiling contextual information.	+
3.2 The EITI Report must describe the legal framework and fiscal regime governing the extractive industries.	+
3.3 The EITI Report should provide an overview of the extractive industries, including any significant exploration activities.	+
3.4 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.	+
3.5 The EITI Report must disclose production data for the fiscal year covered by the EITI Report, including:	+
a) Total production volumes and the value of production by commodity, and, when relevant, by state/region.	
b) Total export volumes and value of exports by commodity, and, when relevant by state/region of origin.	

10 For more detailed information on EITI Standard's requirements see the Azerbaijan EITI official website, <http://www.eiti.az/index.php/en/senedler-2/eiti-standards>

11 Meets EITI Standard's requirement

Requirements of EITI Standard <sup>10</sup>	Progress of Azerbaijan per item
<p>3.6 Where state participation in the extractive industries gives rise to material revenue payments, the EITI Report must include:</p> <p>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.</p> <p>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.</p> <p>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. full-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.</p>	+
3.7 The EITI Report must describe the distribution of revenues from the extractive industries.	+
3.8 The multi-stakeholder group is encouraged to include further information on revenue management and expenditures in the EITI Report, including:	* <sup>12</sup>
3.9 Registration of licences	+
3.10 Allocation of licences	+
3.11 Beneficial ownership	*
3.12 Contracts	+
<p><b>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.</b></p>	
4.1 Defining the taxes and revenues to be covered in the EITI Report	+
4.2 Defining which companies and government entities are required to report	+
<p><b>5. The EITI requires a credible assurance process applying international standards.</b></p>	
5.1 Appointment of the Independent Administrator	+
5.2 Agreement of Independent Administrator's Terms of Reference	+
5.3 Assessment and recommendations from the Independent Administrator	+
5.4 The multi-stakeholder group should endorse the EITI Report prior to its publication.	+

<sup>12</sup> \* means: the required information is not disclosed since it does not exist in Azerbaijan / or works on meeting the EITI Standard's requirement are being continue / since requirement is encouraged it is either partially met or unmet in Azerbaijan



Requirements of EITI Standard	Progress of Azerbaijan per item
<b>6. The EITI requires EITI Reports that are comprehensible, actively promoted, publicly accessible, and contribute to public debate.</b>	
6.1 The multi-stakeholder group must ensure that the EITI Report is comprehensible, actively promoted, publicly accessible and contributes to public debate.	+
6.2 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.	*
<b>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.</b>	
7.1 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.	+
7.2 The multi-stakeholder group is required to review the outcomes and impact of EITI implementation on natural resource governance.	+

## Appendix 5 – The costs of the EITI Secretariat in 2014

The direction of expenses	The costs (AZN)
EITI – publication	3,929.40
EITI – travelling costs	11,082.48
EITI - Audit	23,457.46
<b>Total</b>	<b>38,469.34</b>

## Report of the Government of the Republic of Azerbaijan about aggregated receipts from the extractive industries

Reporting period: 1 January – 31 December, 2014

	VALUE		VOLUME						
	mln USD dollar	mln AZN manat	Oil (mln barrel)	Gas (thousand cubic meters)	Gold (thousand ounces)	Silver (thousand ounces)	Non-ferrous metals (thousand tonnes)	In concentrate of copper	
	2	3	4	5	6	7	8	gold (thousand ounces)	silver (thousand ounces)
1								9	10
<b>1. Receipts by Host government from foreign companies operating in the country</b>									
1.1	Oil	65.071	160.820						
1.2.	Natural gas	523.153		27,379.408					
1.3.	Associated gas			2892987.824					
1.4.	Non-ferrous metals						0.071		
1.5	Gold				7.702				
1.6	Silver					0.972			
1.7	Other receipts to the government, in total, including:								
	1.7.1. gold in concentrate of copper							0.003	
	1.7.2. .silver in concentrate of copper								3.196
<b>2. Receipts by the Host Government from local companies.Host's Government Production entitlement in local company's</b>									
2.1.	Oil								
2.2.	Natural gas								
2.3.	Associated gas								
2.4.	Parent metals								
2.5.	Gold								
2.6	Silver								
<b>3. Other host government receipts from foreign companies ( including receipts collected through the host stete-owned company)</b>									
3.1.	Royalties								
3.2.	Profit tax		1,265.693						
3.3.	Other tax (excluding employee income tax,social tax anx withholding tax)								
3.4.	Signing bonuses and other bonuses	17.010							

		VALUE		VOLUME						
		mln USD dollar	mln AZN manat	Oil (mln barrel)	Gas (thousand cubic meters)	Gold (thousand ounces)	Silver (thousand ounces)	Non-ferrous metals (thousand tonnes)	In concentrate of copper	
								gold (thousand ounces)	silver (thousand ounces)	
3.5.	License fees,entry fees and other considerations for licenses									
3.6.	Other receipts,in total,including:									
	3.6.1. acreage fees	2.118								
	3.6.2. transit fees	11.360								
	3.6.3. proceeds resulting from price change in the gas sale agreement									
<b>4. Other host government receipts from local companies</b>										
4.1	Taxes:									
	4.1.1 Royalties		112.643							
	4.1.2. Profit tax		22.964							
	4.1.3. Value added tax		140.647							
	4.1.4. land tax		10.720							
	4.1.5. Property tax		38.143							
	4.1.6. Dividends		311.730							
	4.1.7. Other tax(excluding employee income tax,contributions to the State Social Protection Fund and withholding tax)		0.502							
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:		618.712	1,903.042	160.820	2,920,367.232	7.702	0.972	0.071	0.003	3.196

# MOORE STEPHENS

AZERBAIJAN

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Azərbaycan Respublikası

# EITI REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

26 January 2016

## 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 2014 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 (the "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 2014 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 2014.

26 January 2016

# 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. EITI is a voluntary initiative, supported by a coalition of companies, governments, investors and civil society organisations. Alongside with 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 19th EITI Report in Azerbaijan, and covers the year ended 31 December 2014.

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

In 2014, the EITI implementation in Azerbaijan was 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.

Azerbaijan was downgraded to 'candidate' country at the 29th EITI Board meeting in Brazzaville in 2015. The validation report carried out earlier in 2013, despite to the fact that the final version of that report was not finalised, was presented.

## 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 2014 within the agreed scope.

The EITI Report that covered the year of 2014 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 Terms of Reference ("TOR").

The scope of work is comprised of 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, special audit procedures, analysis of Government revenues 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 The Republic of Azerbaijan (“SOFAZ”) dated 21 February 2013.

We completed the collection of the initial reports during the period from July to August 2015. 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 originally submitted by the extractive companies and the same data provided by the Government.

The number of foreign and local extractive companies participating in the reconciliation process totalled 39 (thirty nine). SGC Upstream became the 39th extractive sector company that joined the MOU on implementation of the Extractive Industries Transparency Initiative (EITI) in Azerbaijan by signing the Instrument of Accession to MOU on 12 November 2015. The list of participating companies is included in 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 submitted their reports for 2014.

### 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
<b>Oil &amp; gas</b>				
oil (mln US dollars)	77.5	65.1	12.4	-
gas (mln US dollars)	523.2	523.2	-	-
oil (mboe)	160.9	160.8	0.1	-
natural gas (thousand m3)	27,379.4	27 379,4	-	-
associated gas (thousand m3)	2,720,827.9	2,892,987.8	(172,159.9)	-
<b>Gold &amp; silver</b>				
gold (thousand ounces)	7.7	7.7	-	-
silver (thousand ounces)	1.0	1.0	-	-
gold concentrate (thousand ounces)	0.003	0.003	-	-
silver concentrate (thousand ounces)	3.2	3.2	-	-
copper concentrate (thousand tonnes)	0.07	0.07	-	-
<b>Taxes and other payments</b>				
profit tax (mln US dollars)	1,543.1	1,613.7	(70.6)	-
profit tax (mln manat)	22.9	22.9	-	-
royalty (mln manat)	112.6	112.6	-	-
VAT (mln manat)	140.7	140.7	-	-
property tax (mln manat)	38.1	38.1	-	-
land tax (mln manat)	10.7	10.7	-	-
price change (mln manat)	-	311.7	(311.7)	-
other taxes (mln manat)	1,083.3	0.5	1,082.8	-
acreage fees	2.1	2.1	-	-
transportation tariff to SOFAZ	3.9	11.4	(7.5)	-
bonus	8.4	17.0	(8.6)	-

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

The table gives final information on revenue streams made in cash from the extractive companies involved in the process of EITI to the government.





Extractive companies	Revenue streams (in kind)							
	(mboe)	(thsd. m <sup>3</sup> )	(thsd. m <sup>3</sup> )	(thsd. ounces)				(thsd. tonnes)
	Crude oil	Natural gas	Associated gas	Gold	Silver	Gold concentrate	Silver concentrate	Copper concentrate
Gobustan Neft LLC	-	-	-	-	-	-	-	-
Inpex Southwest Caspian Sea, Ltd.	17.6	-	-	-	-	-	-	-
Itochu Oil Exploration (Azerbaijan) Inc.	6.9	-	-	-	-	-	-	-
Karasu Development Company	-	-	-	-	-	-	-	-
Kura Valley Development Company LTD	-	-	-	-	-	-	-	-
Lukoil Overseas Shah Deniz	-	-	-	-	-	-	-	-
Naftiran Intertrade Co (NICO) limited	-	-	-	-	-	-	-	-
Neftchala Investments limited	-	-	-	-	-	-	-	-
Novatis Oil F.Z.E.	-	-	4,783.6	-	-	-	-	-
ONGC Videsh limited	4.4	-	-	-	-	-	-	-
R.V. Investment Group Services	-	-	-	7.7	1.0	0.003	3.2	0.07
Salyan Neft LLC	-	-	16,304.2	-	-	-	-	-
SGC Upstream LLC	-	-	-	-	-	-	-	-
Shirvan Investment limited	-	-	9,441.9	-	-	-	-	-
Statoil Apsheron A.S	13.8	-	-	-	-	-	-	-
Statoil Shah Deniz AS	-	-	-	-	-	-	-	-
Total E & P Apsheron B.V	-	-	-	-	-	-	-	-
TOTAL E & P Azerbaijan B.V.	-	-	-	-	-	-	-	-
Turkish Petroleum A.O	10.9	-	-	-	-	-	-	-
Turkish Petroleum Overseas Company ltd	-	-	-	-	-	-	-	-
UGE-LANCER PTE.LTD	-	-	986.2	-	-	-	-	-
SOCAR	-	-	-	-	-	-	-	-
SOFAZ	-	-	-	-	-	-	-	-
AzGerneft	-	-	-	-	-	-	-	-
	160.8	27,379.4	2,892,987.8	7.7	1.0	0.003	3.2	0.07

# 2. APPROACH AND METHODOLOGY

## 2.1. Scoping study

We have covered the scoping study by determining the coverage of the reconciliation process for the year ended 31 December 2014. 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 EITI 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 defines 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 the Republic of Azerbaijan is determined in two stages:

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

Material revenue sources defined by the EITI Multi-stakeholder groups 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 and other bonuses;
- Acreage and transit fees<sup>13</sup>; and
- Royalty, 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).
- The extractive companies transfer the acreage fees, transit fees and bonuses to the State Oil Fund of Azerbaijan Republic;
- The extractive companies transfer the natural and associated gas to the State Oil Company of Azerbaijan Republic; and
- The extractive companies transfer the taxes including (profit tax, VAT, land tax, property tax, price change and other taxes) to the Ministry of Taxes of the Republic of Azerbaijan.

<sup>13</sup> 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 19 of this Report.

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

***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 on the factual information obtained from the extractive companies and Government and has 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 most important part of the assignment. The activities undertaken at this stage included the following:

- Document review;
- Reconciliation and analysis of the reports; and
- Solving the discrepancies.

***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 selected companies; and
- Conclusion to be included into the report 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 on the draft EITI report;
- Presentation of the final report to the MSG; and
- Comments received 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 receive confirmation from the EITI Secretariat that the Reporting Templates have distributed to all the Companies, we request 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 involves collecting completed Reporting Templates and supporting documentation.

- The deadline for submission of Reporting templates to the Independent Reconciler was set by the EITI Secretariat and stated as 28 August 2015; and
- In order to accelerate 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 breakdown of figures stated in the Government Report from the following Government agencies:

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

**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
- The figures mentioned in the Reporting templates must be referred to the relevant evidence documentation to ensure the reliability of the information provided by the companies.

We have performed special audit procedures to obtain reasonable assurance over the transactions involved in the reconciliation process. The special audit procedures were performed according to relevant procedures outlined in the scope of work. Detailed information about this could be found in Annex 6 of the report. The special audit procedures involve selection of items for testing from the population of monetary and non-monetary transfers.

The companies within the extractive industry engaged in PSAs have to fulfil contractual obligation. According to PSAs accounting procedure, all the companies have to be audited by internationally-recognised independent auditors no later than 7 months of the calendar year.<sup>14</sup>

The audit of the financial statements of the companies is conducted in accordance with International Standards on Auditing. While the financial statements of the Companies are prepared on the accrual basis of accounting, the EITI reports are prepared on cash basis of accounting.

In Azerbaijan, the companies operating based on PSA should submit accounting and tax reports, together with a profit tax declaration and a relevant audit act, for each reporting period (year) to tax authorities not later than 15 March or 15 April of the year respectively following the reporting period.<sup>15</sup>

There is no practise of auditing the EITI Reports by the independent auditors; therefore, the Reports are signed by the senior officials of the companies. In order to ensure the credibility of data, the Term of Reference outlines that the EITI reports should be signed by the senior officials of the companies.

The report submitted by the government is prepared by the Ministry of Taxes of Azerbaijan Republic, Ministry of Ecology of the Republic of Azerbaijan, State Oil Company of Azerbaijan Republic and State Oil Fund of Azerbaijan Republic and signed by the Chairman of the EITI on behalf of the government.

According to the requirement outlined by 5.3. c) clause of EITI standard, the reports submitted by the companies and the government have been reconciled and assessed on the comprehensiveness, reliability and accuracy of data included in reports for the year ended 2014. The figures indicated in the reports submitted by the extractive companies and the Government during the reconciliation process were fully reconciled, relevant adjustments were made and outlined in this report. According to the results of the reconciliation process, all discrepancies were fixed.

<sup>14</sup> “PSA-“Shafaq-Asiman” perspective structure” “Addition 3-Accounting Procedure”, “1.3 Audits”, <http://www.eiti.az/index.php/az/senedler/sazishler/44-shefeq-asiman-hasilatin-pay-bolgusu>  
<sup>15</sup> [http://tedris.taxes.gov.az/uploads/files/1\\_2\\_7\\_-Xususi%2Bvergi%2Brejimi,%2Bbelediyye%2Bvergi.pdf](http://tedris.taxes.gov.az/uploads/files/1_2_7_-Xususi%2Bvergi%2Brejimi,%2Bbelediyye%2Bvergi%2Bvergi.pdf)



According to the requirement outlined by 5.3 d) clause of the EITI standard, reports obtained from the companies that have signed the MOU were reconciled with the reports submitted by the Government. As required by the clause, there were not any disclosures provided due to the absence of any discrepancies.

According to the requirement outlined by 5.3. e) clause of EITI standard, the financial statements of government entities prepared in accordance with international reporting standards and audited in accordance with the International Standards of Auditing are published on the official website.<sup>16</sup> The Government agencies are audited annually by the Chamber of Accountants of Azerbaijan Republic. The revenue and expenditure streams are a part of the state budget approved in the form of law by the President of the Republic of Azerbaijan. The financial statements of the State Oil Company of Azerbaijan Republic are audited annually in accordance with the International Standards on Auditing and published on the official website.<sup>17</sup>

## 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 2014.

For the payments made in foreign currency, the reporting entities were required to report in the currency of payment. 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 ("CBAR"). The average exchange rate of USD to AZN for the year ended 31 December 2014 was 0.7843.

<sup>16</sup> <http://www.socar.az/socar/az/economics-and-statistics/economics-and-statistics/socar-reports>

<sup>17</sup> [http://www.oilfund.az/uploads/auditor\\_report\\_2014\\_az.pdf](http://www.oilfund.az/uploads/auditor_report_2014_az.pdf)

# 3. CONTEXTUAL INFORMATION ON THE EXTRACTIVE INDUSTRY

## 3.1. Background

The mining industry is comprised of the discovery, extraction and processing of major mineral deposits. 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 an activity used for a number of offshore and onshore oil productions; and
- *Transportation* – is the delivery of crude oil from extraction points to processing plants and other locations with pipelines, tankers and other means of conveyance.



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

The history of oil and gas production in Azerbaijan <sup>18</sup>:

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

- As a traveller, Marco Polo wrote in the 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 million tonnes of oil and was the world’s leading oil producer;
- In 1941 Azerbaijan produced 23.5 million tonnes 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 Caspian waters 80 to 350 metres deep. Gunashli is currently producing more than 60% of SOCAR’s oil; and
- The “Contact of the Century” was signed on 20 September 1994.
- Up to now, the Government of the Republic of Azerbaijan has signed a number of PSAs with foreign companies. The detailed information related to oil and gas industry, gold and silver production was outlined in clause 3.2. Overview of the Mining Industry of the EITI report.

### Fine Metals <sup>19</sup>

Azerbaijan regions have significant potential for the creation of a sustainable and long-term mining industry. Gold and silver deposits are mainly located in 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 the Balakan–Zaqatala ore region are centred in copper-pyrite, pyrite-polymetal type deposits and displays, while in the ore regions of the Minor Caucasus and the Nakhchivan rugged zone are focused in mostly copper-porphyry, molybdenum-copper-porphyry and gold-copper-pyrite type fields and displays.<sup>20</sup>

### Legal regime

According to the Constitution of the Republic of Azerbaijan, the laws of the Republic of Azerbaijan, Decrees of the President of the Republic of Azerbaijan, decisions of the Cabinet of Ministers and normative acts of central executive power bodies of the legal system, including international contracts according to the Constitution are considered as an integral part of the system international treaties of the Republic of Azerbaijan constitute the legal basis for the mining industry.

According to the legislation of Azerbaijan, all subterranean mining is state-owned. The existing legal framework governing the activities of the mining industry, which is not limited to the following regulatory and legal documents created by the government is publicly available and can be found on <http://www.e-qanun.az/>, <http://www.president.az/>, <http://www.meclis.gov.az/> and <http://www.cabmin.gov.az/> official websites.

According to the legislation of Azerbaijan, all subterranean mining is state-owned. The legislation applied to the extractive industry includes the following <sup>21</sup>:

19 “Ministry of Ecology and Natural Resources of Azerbaijan Republic”, “Minerals of Azerbaijan”, <http://www.eco.gov.az/en/faydaliqazintilar.php>

20 <http://eco.gov.az/en/148-minerals>

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

- The Constitution of Azerbaijan Republic 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 organisational 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.

#### **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;
- 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.

#### **E-qanun portal <sup>22</sup>**

The Ministry of Justice of the Republic of Azerbaijan has developed the single Internet portal for the judicial system, which provides an access to all legal and normative acts of the Republic of Azerbaijan. The portal includes all the legislative information related to the extractive industry. All new legal and normative acts issued or amended are included in the portal and are regularly updated. The e-qanun portal is available to the public, which makes it easy to get the necessary legislative information from a single source.

<sup>22</sup> <http://www.e-qanun.az/>

## Fiscal regime

The general principles of taxation in the Republic of Azerbaijan are 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.

Together with the main pipeline agreements, the PSA enter into force after being approved by the National Assembly of the Republic of Azerbaijan. These agreements regulate the accounting and tax regimes of the operating companies, contractors and sub-contractors' activities.

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

Activities on the transportation of exported oil and natural gas are governed by tax regime agreements Main Export Pipeline ("MEP") (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;
- Property tax;
- Mining tax;
- Excise tax;
- Simplified tax.
- Value added tax ("VAT");
- Income tax;
- Land tax;
- Road tax; and

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 the Republic of Azerbaijan 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"), the Host Government Agreement ("HGA") 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 Government <sup>23</sup>	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. Profit taxes are paid to the state budget
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. Bonuses are transferred in regards with SOFAZ.
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. Acreage fees are transferred in regards with SOFAZ.
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. Mining tax is transferred to the state budget.
Other payments	Other payments are related to the payments which were not mentioned above. They include other taxes (Property tax, land tax, VAT, Exchange Difference, gas, and oil products export of the product in the contract (sale) price (export costs less) the difference between the wholesale price of domestic saving (export tax character), the difference in price rise causes handed over to the government in the form of in-kind products (gold and silver). Other taxes are also paid to the state budget.

\* There are 4 oil and gas pipelines in Azerbaijan:

- Baku-Tbilisi-Ceyhan;
- Baku-Erzurum;
- Baku-Supsa; and
- Baku-Novorossiysk.

Each pipeline has its own transportation tariff set. The source of formation of the tariff depends on the ownership structure of a pipeline. Transit revenues are formed as the result of payments of transportation tariffs for each pipeline. The companies that transport oil through a pipeline make tariff payments based on transportation expenses incurred.

The mechanism of transportation tariff related to this pipeline is as follows:

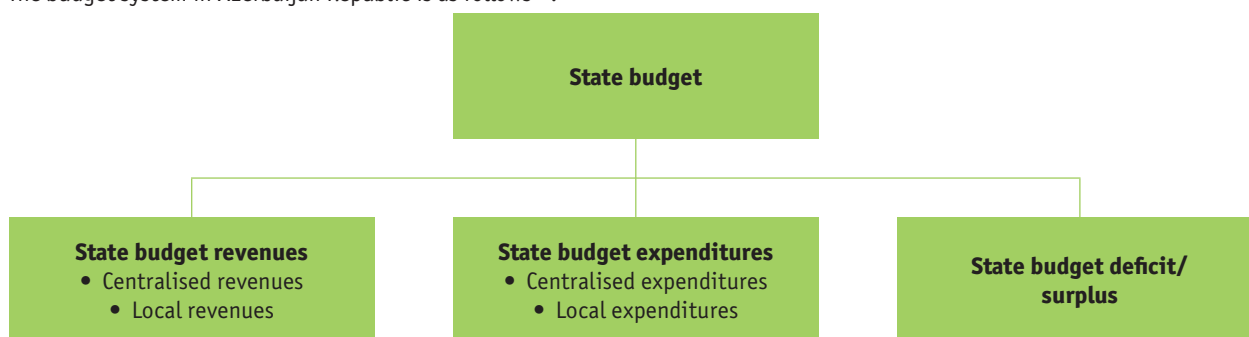
- The part that goes through the territory of the Republic of Azerbaijan;
- The part that goes through the territory of Georgia; and
- Pipeline maintenance costs incurred over the relevant periods.

Transit revenues to be achieved from next pipelines depend on transportation tariffs on the territory of the Republic of Azerbaijan. The profits of the Government are generated from oil revenues and transferred directly to SOFAZ; therefore expenses related to hydrocarbons transportation are paid by the Fund itself. Thus, to cover the service of oil transportation through the pipeline; monthly transit fees are paid to the Azerbaijan International Operating Company (AIOC), which is the operating company of

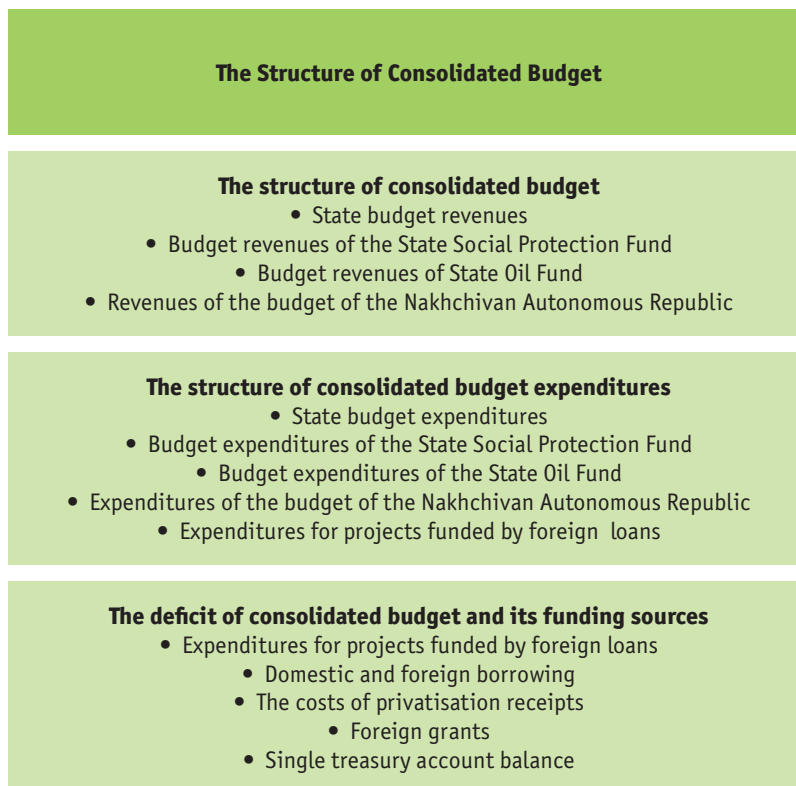
<sup>23</sup> "State Oil Fund of Azerbaijan Republic", "Terminology", [http://www.oilfund.az/az\\_AZ/about\\_found/terminler.asp](http://www.oilfund.az/az_AZ/about_found/terminler.asp)

Baku-Supsa pipeline.

The budget system in Azerbaijan Republic is as follows<sup>24</sup> :



The objective of the state budget of Azerbaijan Republic is to solve the economic, social, and other strategic programs and problems of the country, to ensure the collection and effective use of financial funds for the exercise of state functions as defined by legislation. The state budget of Azerbaijan Republic consists of centralised revenues and expenditures, local revenues and expenditures.



24 <http://maliyye.gov.az/sites/default/files/kitab.compressed.protected.pdf>

The budget of Nakhchivan Autonomous Republic is established by the Constitutions of Azerbaijan Republic and Nakhchivan Autonomous Republic, by this law and other legislative acts.

The state budget of Azerbaijan Republic for 2014 was approved with revenues amounting to 18.4 billion manats and expenditures amounting to 18.7 billion manats.

#### State budget revenues and expenditures, 2012-2014 (million manats).<sup>25</sup>

Revenue	2012	2013	2014
Profit tax of physical entities	813.0	859.7	980.3
Profit tax of legal entities	2,252.0	2,374.8	2,302.7
Tax on land	30.6	33.1	35.4
Property tax	105.1	125.1	141.3
Value added tax	2,366.9	2,710.0	3,119.6
Excise	531.5	593.3	797.3
Tax on mining	125.8	121.5	116.2
Tax related with foreign economic activities	592.5	675.2	684.7
Other taxes	157.6	161.5	192.7
Other returns (Including SOFAZ transfer to the state budget)	10,306.5	11,842.1	10,030.4
Total	17,281.5	19,496.3	18,400.6

Expenditure	2012	2013	2014
National economy	6,960.7	8,207.5	7,596.6
Education	1,453.2	1,437.7	1,553.9
Culture, art, information and activities not included in other categories	184.7	226.6	248.5
Health care	609.4	618.9	665.3
Physical training	56.1	48.3	45.5
Social protection	1,750.7	1,730.9	1,946.8
Social security	18.8	19.4	24.4
Science	116.7	117.0	124.2
Court authority, law enforcement agencies	929.2	1,049.3	1,103.6
Legislation, executive and governmental authorities	342.3	349.3	449.7
Other expenditures	4,994.7	5,338.6	4,940.8
Total	17,416.5	19,143.5	18,699.3

25 "State Statistical Committee of the Republic of Azerbaijan, "Azerbaijan in Figures", [http://www.stat.gov.az/menu/6/statistical\\_yearbooks/indexen.php](http://www.stat.gov.az/menu/6/statistical_yearbooks/indexen.php)



Budget data has been obtained from the official website of the State Statistic Committee of Azerbaijan Republic. This data can also be obtained from the official website of the Ministry of Finance of Azerbaijan Republic.<sup>26</sup>

During 2014, the amount of receipt from the mining industry to the state budget was 14.2 billion manat. The amount of 14.2 billion manat includes the transfers made by the State Oil Fund of Azerbaijan Republic. The amount transferred from the State Oil Fund of Azerbaijan Republic to the state budget was 9.3 billion manat in 2014.<sup>27</sup> The budget revenue classification with the heading of "Allocation of revenues from production industry to state budget and SOFAZ" is indicated on the 59th page of the this report.

In accordance with the legislation of the state budget of Azerbaijan Republic for the year 2014, approximately 97% of revenue sources are centred around the Baku region. The remaining 3% is anticipated to be sourced from 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.<sup>28</sup>

Local self-governance principles, formulated in accordance with the status of the implementation of the municipal budget outline the municipal powers, which are defined by the Constitution and laws of Azerbaijan Republic in order to ensure the appropriate implementation of available financial resources. The formation of local budget funds for municipalities is regulated by law № 772-IQ "On the basics of municipal finance", signed on 7 December 1999.

The revenues of local budgets are formed from the following taxes:

- land tax from individuals;
- property tax from individuals;
- the mining tax on construction materials of local importance;
- income tax, municipal owned enterprises and organisations;
- and other taxes.

Information about other revenue-generating sources for municipalities is included in the law № 772-IQ "On the basics of municipal finance".<sup>29</sup>

### **Roles and responsibilities of the relevant Government agencies**

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

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

- Initial negotiations are held between SOCAR which represents Azerbaijan government and the company that is interested in the PSA;
- A Memorandum of Intentions ("MOI") is signed as an initial agreement after negotiation;
- SOCAR executes MOI with the party (foreign oil company), whose offer is considered reasonable and acceptable by SOCAR;
- After MOI is signed, SOCAR starts negotiations with that party on relevant terms and conditions of prospective PSA;
- The inquiry for the delegation of authorities to SOCAR for negotiations on and signing of the PSA is submitted to the President

<sup>26</sup> <http://maliyye.gov.az/node/1720>

<sup>27</sup> [http://www.oilfund.az/az\\_AZ/huequqi-senedler/fondun-buedcesine-dair/azerbaycan-respublikasi-doevlet-neft-fondunun-2013-cue-il-buedcesinin-icrasi-haqqinda-azerbaycan-respublikasi-prezidentinin-serencami-22-05-2014.asp](http://www.oilfund.az/az_AZ/huequqi-senedler/fondun-buedcesine-dair/azerbaycan-respublikasi-doevlet-neft-fondunun-2013-cue-il-buedcesinin-icrasi-haqqinda-azerbaycan-respublikasi-prezidentinin-serencami-22-05-2014.asp)

<sup>28</sup> [http://www.oilfund.az/uploads/2014\\_budget\\_law.pdf](http://www.oilfund.az/uploads/2014_budget_law.pdf)

<sup>29</sup> <http://e-qanun.az/framework/5231>

- of Azerbaijan Republic 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 Intentions;
- 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 the Parliament of Azerbaijan Republic for ratification; and
- PSA becomes effective after Presidential decree.

#### *President of the Republic of Azerbaijan*

In the Republic of Azerbaijan the executive authority belongs to the President of the Republic of Azerbaijan. The executive authority consists of centralised and local executive agencies and its main function is to implement the execution of laws. This system has a wide range of rights and covers a significant majority of the civil servants.

#### *The Cabinet of Ministers of the Republic of Azerbaijan*

It is the executive authority agency subordinated directly to the president, which is established for the implementation of the President's responsibilities. They are also responsible for the preparation and presentation of the state budget to the president, its execution, financial and monetary policies, to ensure the implementation of state and social programs are included into the responsibilities of the Cabinet of Minister of the Republic of Azerbaijan.

#### *The National Assembly ("Milli Majlis") of the Republic of Azerbaijan*

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

#### *Ministry of Taxes of the Republic of Azerbaijan*<sup>30</sup>

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.

#### *Ministry of Finance of the Republic of Azerbaijan*

The Ministry of Finance of the Republic of Azerbaijan is the central executive authority agency implementing financial policy of the country. The Ministry implements its activities on the basis of Regulations that approved by the President Decree numbered 48 dated on 9 February 2009.

#### *State Social Protection Fund of the Republic of Azerbaijan*

State Social Protection Fund of the Republic of Azerbaijan is the extra-budgetary fund and the form of creation and use of a centralised monetary fund in order to organise social protection of the population. The Fund's revenues are formed of the social insurance fees and allocations from the state budget.

#### *The Ministry of Ecology and Natural Resources of the Republic of Azerbaijan*<sup>31 32</sup>

The Ministry of Ecology and Natural Resources of the Republic of Azerbaijan 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 the Republic of Azerbaijan, including the part of the Caspian Sea belonging to the Republic of Azerbaijan.

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.

30 "Ministry of Taxes of the Republic of Azerbaijan" <http://www.taxes.gov.az/vn/info/icmal.pdf>

31 "Ministry of Ecology and Natural Resources of the Republic of Azerbaijan", <http://www.eco.gov.az>

32 "EITI Report 2014", "3.2.Overview of the Mining Industry"

#### *Ministry of Energy of the Republic of Azerbaijan*

The Ministry of Energy of the Republic of Azerbaijan 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 (hereafter—in the relevant filed) of energy defined by the law of Azerbaijan Republic on Energy.<sup>33</sup>

According to the regulations of the Republic of Azerbaijan, 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 Republic*<sup>34</sup>

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. The mission of SOFAZ transforming depletable hydrocarbon reserves into financial assets generating perpetual income for current and future generations.

#### *State Oil Company of Azerbaijan Republic (SOCAR)*<sup>35</sup>

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 reforms in extractive industry**

During the fiscal year covered the EITI Report there were some reforms applied to the extractive industry:

- Under resolution No.35 dated 6 February 2014 changes has been applied to the ordinance No. 333 made by the Cabinet of Ministers on 2 December 2013. According to the decision made by the Cabinet of Ministers the rate of excise tax applied to oil products has been changed. These changes came into force from 1 January 2014;<sup>36</sup>
- As per “On regulation of tariffs of petroleum products across the country”, the Tariff (Price ) Council Decision No.14, dated 2 December 2013 and the amendments to the Tariff (Price) Council Decision No.1, dated 10 February 2014 new tariffs related to sales of oil products across the country were introduced;<sup>37</sup>
- The Decree of the President of Azerbaijan Republic on the Amendments to the Decree No. 57 dated 19 December 2013 on the “Approval of the Budget of the State Oil Fund of Azerbaijan Republic for 2014”;<sup>38</sup>
- Decree of the President of the Republic of Azerbaijan on amendments made to the Decree of the President of Azerbaijan Republic number 844 dated 24 January 2003 on “improvement of the structure of the State Oil Company of the Azerbaijan Republic” dated 24 February 2014;<sup>39</sup> and
- Based on the Decree of the President of the Republic of Azerbaijan No.3 dated 22 October 2013 the Ministry of Fuel and Energy was eliminated and transformed into the Ministry of Energy. At the present time the Ministry of Energy executes it’s operations based on the Decree of the President of the Republic of Azerbaijan No.149 dated 11 April 2014.<sup>40</sup>

33 “Ministry of Energy of the Republic of Azerbaijan”, “The law on Energy of the Republic of Azerbaijan”, [http://www.minenergy.gov.az/db/Energetika\\_haqqinda.pdf](http://www.minenergy.gov.az/db/Energetika_haqqinda.pdf)

34 “State Oil Fund of Azerbaijan Republic”, <http://www.oilfund.az>.

35 “State Oil Company of Azerbaijan Republic”, <http://new.socar.az/socar/en/home>.

36 Cabinet of Ministers “Orders and Decrees” 2014, <http://www.cabmin.gov.az>

37 <http://www.tariffcouncil.gov.az/?/az/resolution/view/118/>

38 [http://www.oilfund.az/en\\_US/huequqi-senedler/fondun-buedcesine-dair/ferman\\_deyishiklik\\_11042014.asp](http://www.oilfund.az/en_US/huequqi-senedler/fondun-buedcesine-dair/ferman_deyishiklik_11042014.asp)

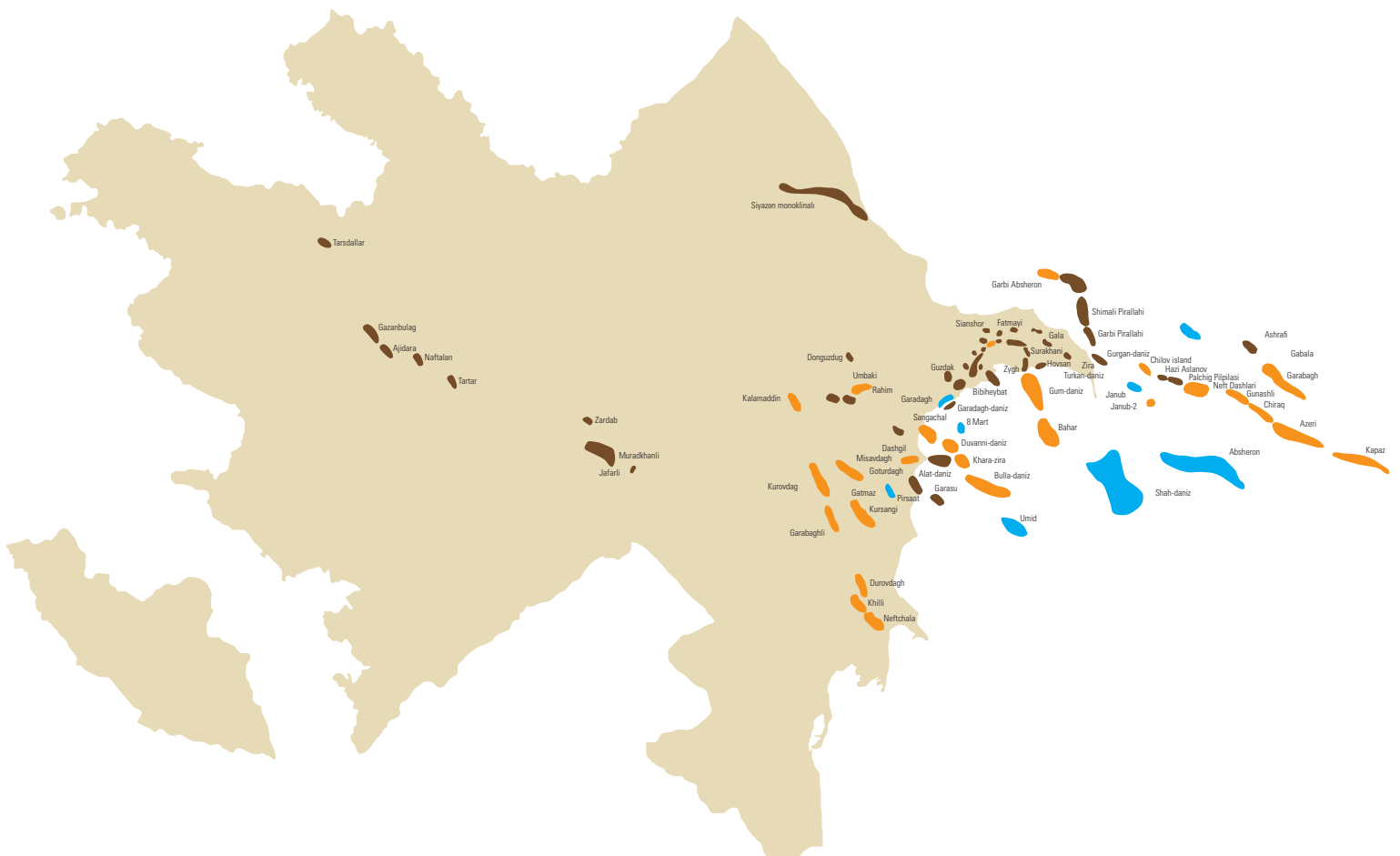
39 <http://www.e-qanun.az/framework/29789>

40 [http://www.minenergy.gov.az/db/EN\\_Esasname.pdf](http://www.minenergy.gov.az/db/EN_Esasname.pdf)

## 3.2. Overview of the Mining Industry

### Oil and gas industry

In Azerbaijan Republic, the major oil fields are located in the Caspian Sea shelf and the Apsheron peninsula. The main oil reserves have been discovered in the south of Apsheron waters. In the north part of Apsheron peninsula—Siyazan and south and south-west part of Apsheron—Gobustan, Shirvan and Salyan oil reserves are the main prospective 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 2014:

Industry results	
Oil reserves million barrel <sup>40</sup>	7 000
Natural gas reserves, billion m <sup>3</sup> <sup>41</sup>	1 300

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. The total number of active PSA agreements on oil and gas resources during the year 2014 was 17 out of 31:

Offshore					
Date of signature	Contractors and their participating interests			Reserves	
	Name of the company	Year end 2013 %	Year end 2014 %	Oil	Gas
<b>Azeri-Chirag-Deepwater Gunashli <sup>42</sup> (production stage)</b>					
20.09.1994	BP Exploration (Caspian Sea) limited	35.8	35.8	•	
	Azerbaijan (ACG) limited	11.6	11.6		
	Chevron Khazar, ltd.	11.3	11.3		
	Inpex Southwest Caspian Sea, ltd.	11.0	11.0		
	Statoil Apsheron A.S	8.6	8.6		
	Exxon Azerbaijan limited	8.0	8.0		
	Turkish Petroleum A. O.	6.8	6.8		
	Itochu Oil Exploration (Azerbaijan) Inc.	4.3	4.3		
	ONGC Videsh limited	2.7	2.7		
<b>Shahdeniz <sup>43</sup> (production stage)</b>					
04.06.1996	BP Exploration (Azerbaijan) limited	25.5	28.8	•	
	Statoil Shah Deniz AS	25.5	15.5		
	Azerbaijan (Shah Deniz) limited	10.0	10.0		
	Lukoil Overseas Shah Deniz	10.0	10.0		
	Naftiran Intertrade Co (NICO) limited	10.0	10.0		
	Total E & P Azerbaijan B.V.	10.0	-		
	Turkey Petroleum Overseas Company ltd	9.0	19.0		
	SGC Upstream LLC	-	6.7		

<sup>41</sup> "OPEC", "Annual Statistical Bulletin", "Section 3 – Oil data: upstream", page. 21. [http://www.opec.org/opec\\_web/static\\_files\\_project/media/downloads/publications/ASB2015.pdf](http://www.opec.org/opec_web/static_files_project/media/downloads/publications/ASB2015.pdf)

<sup>42</sup> "OPEC", "Annual Statistical Bulletin", "Section 8 – Natural gas data", page 93. [http://www.opec.org/opec\\_web/static\\_files\\_project/media/downloads/publications/ASB2015.pdf](http://www.opec.org/opec_web/static_files_project/media/downloads/publications/ASB2015.pdf)

<sup>43</sup> "BP company", "Operations and projects", "Azeri-Chirag-Deepwater Gunashli", [http://www.bp.com/az\\_az/caspian/operationsprojects/ACG.html](http://www.bp.com/az_az/caspian/operationsprojects/ACG.html).

<sup>44</sup> "BP company", "Operations and projects", "Shahdeniz", [http://www.bp.com/az\\_az/caspian/operationsprojects/Shahdeniz.html](http://www.bp.com/az_az/caspian/operationsprojects/Shahdeniz.html)

<b>Apsheron Gas field <sup>44</sup> (exploration stage)</b>					
27.02.2009	SOCAR Commercial Affiliate	40.0	40.0		•
	Total E & P Apsheron B.V	40.0	40.0		
	GDF SUEZ E&P Apsheron BV	20.0	20.0		
<b>Shafag-Asiman <sup>45</sup> (exploration stage)</b>					
07.10.2010	BP Shafag-Asiman limited	50.0	50.0		•
	SOCAR Commercial Affiliate	50.0	50.0		

- On 1 May 2014, Statoil sold 10% out of 25.5% of its interest in the South Caucasus Pipeline and Shah Deniz PSA to BP (3.33%) and SOCAR (SGC Upstream<sup>47</sup>) (6.67%).<sup>48</sup> Detailed information on the SGC Upstream Company was mentioned in the paragraph of SOCAR's "Changes in the level of the beneficial ownership" (joint ventures and associates) in 2014.
- On 30 May 2014, Total sold its 10% interest in the Shah Deniz PSA to the Turkish state-owned exploration and the production company ("TPAO").<sup>49</sup>

<b>Onshore <sup>49,50,51,52</sup></b>					
Date of signature	Contractors and their participating interests			Reserves	
		Name of the company	Year end 2013 %	Year end 2014 %	Oil
<b>Bahar Gum Deniz (production stage)</b>					
22.12.2009	Bahar Energy limited	80.0	80.0		•
	SOCAR	20.0	20.0		
<b>Balakhany, Sabunchu, Ramana and Kurdakhany (production stage)</b>					
06.05.2011	UGE-LANCER PTE. LTD	75.0	75.0	•	
	SOCAR	25.0	25.0		
<b>Kurovdagh (production stage)</b>					
03.02.2009	Shirvan Investment limited	80.0	80.0	•	
	SOCAR	20.0	20.0		
<b>Kursengi and Garabaghly (production stage)</b>					
15.12.1998	Salyan Neft LLC	50.0	50.0	•	
	CNPC	25.0	25.0		
	Fortunamate Assets limited	25.0	25.0		

45 "State Oil Company of Azerbaijan Republic", "Activities", "Apsheron", <http://new.socar.az/socar/az/activities/exploration/apsheron>.

46 "BP company", "Operations and projects", "Shafag Asiman", [http://www.bp.com/az\\_az/caspian/operations/projects/Shafagasiman.html](http://www.bp.com/az_az/caspian/operations/projects/Shafagasiman.html)

47 "On July 24, 2014, State Oil Company Of Azerbaijan Republic established company in the framework of the "Southern Gas Corridor" project: "SOCAR Upstream Management International": <http://www.socar.az/socar/assets/documents/en/socar-annual-reports/sus.dev.rep-2014.pdf> "Sustainable Development Report – 2014", page 24.

48 "On July 24, 2014, State Oil Company Of Azerbaijan Republic established company in the framework of the "Southern Gas Corridor" project: "SOCAR Upstream Management International": <http://www.socar.az/socar/assets/documents/en/socar-annual-reports/sus.dev.rep-2014.pdf> "Sustainable Development Report – 2014", page 24.

49 <http://www.total.com/en/energies-expertise/oil-gas/exploration-production/projects-achievements/other-projects/shah-deniz-stage-2-project-azerbaijan>

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

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

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

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

<b>Onshore</b> <sup>49,50,51,52</sup>					
<b>Date of signature</b>	<b>Contractors and their participating interests</b>			<b>Reserves</b>	
	<b>Name of the company</b>	<b>Year end 2013 %</b>	<b>Year end 2014 %</b>	<b>Oil</b>	<b>Gas</b>
<b>Mishovdagh and Kelameddin (production stage)</b>					
12.09.2000	Karasu Development Company	85.0	85.0	•	
	Ali-Bayramli Neft LLC	15.0	15.0		
<b>Neftchala (production stage)</b>					
03.02.2009	Neftchala Investments limited	80.0	80.0	•	
	SOCAR	20.0	20.0		
<b>Pirsaat (production stage)</b>					
04.06.2003	Petro Hong Kong limited	50.0	50.0	•	
	Middle East	30.0	30.0		
	SOCAR	20.0	20.0		
<b>Surakhany (production stage)</b>					
16.08.2005	Novatis Oil F.Z.E.	75.0	75.0	•	
	SOCAR	25.0	25.0		
<b>Zigh Hovsan (production stage)</b>					
03.11.2006	Apsheron Investments limited	75.0	75.0	•	
	SOCAR	25.0	25.0		
<b>Binagadi, Girmaki, Chakhnaglar, Sulutepe, Masazir, Fatmai, Shabandagh and Sianshor (production stage)</b>					
29.09.2004	Azen Oil Company B.V.	75.0	75.0	•	
	SOCAR	25.0	25.0		
<b>Block of south-west "Gobustan" (production stage)</b>					
02.06.1998	Commonwealth	80.0	80.0	•	
	Gobustan Neft LLC	20.0	20.0		
<b>*Garachukhur oil field (exploration stage)</b>					
18.06.2004	Noblskay	75.0	75.0	•	
	SOCAR	25.0	25.0		
<b>Padar (exploration stage)</b>					
27.04.1999	Kura Valley Development Company LTD	80.0	80.0	•	
	SOCAR	20.0	20.0		

\*The Garachukhur oil field PSA was terminated in 2009.<sup>54</sup>

<sup>54</sup> The official letter of SOCAR to SOFAZ, 16 February 2016, Baku, Azerbaijan.

## Pipelines

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

### Map of the pipeline routes through Azerbaijan



### Baku-Tbilisi Ceyhan (“BTC”) <sup>55</sup>

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.

<sup>55</sup> “BP company”, “Operations and projects”, “Pipelines”, “Baku-Tbilisi-Ceyhan pipeline” [http://www.bp.com/az\\_az/caspian/operationsprojects/ACG.html](http://www.bp.com/az_az/caspian/operationsprojects/ACG.html).



In 2014 BTC exported about 262 million barrel (34,8 million tonnes) of crude oil loaded in 362 tankers at the Ceyhan terminal in Turkey. On 11 August 2014, BTC celebrated the loading of the 2 billionth barrel of oil at the Ceyhan terminal in Turkey.<sup>56</sup>

### **South Caucasus pipeline**<sup>57</sup>

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 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.

In 2014, the optimisation of existing Shahdeniz facilities in the technical capacity raised the level of the maximum daily capacity of the production system from 27.3 million standard cubic metres to 29.5 million standard cubic metres.<sup>58</sup>

### **Western Route Export Pipeline**<sup>59</sup>

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**<sup>60, 61</sup>

The agreement on transfer of Azerbaijani oil to Novorossiysk port in Black Sea through Russian Federation was signed on 18 February 1996.

Filling the pipeline with oil started in October 1996. Maximum throughput capacity of the pipeline is 105 thousand barrels a day.

## **Gold and silver extraction**<sup>62</sup>

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 Aghdudzag 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 Azerbaijan Republic “on exploration and

56 [http://www.bp.com/en\\_az/caspian/operationsprojects/pipelines/BTC.html](http://www.bp.com/en_az/caspian/operationsprojects/pipelines/BTC.html)

57 “BP company”, “Operations and projects”, “Pipelines”, “South Caucasus pipeline” [http://www.bp.com/en\\_az/caspian/operationsprojects/ACG.html](http://www.bp.com/en_az/caspian/operationsprojects/ACG.html)

58 [http://www.bp.com/en\\_az/caspian/operationsprojects/Shahdeniz/SDstage1.html](http://www.bp.com/en_az/caspian/operationsprojects/Shahdeniz/SDstage1.html)

59 “BP company”, “Operations and projects”, “Pipelines”, “Western Route Export Pipeline” [http://www.bp.com/en\\_az/caspian/operationsprojects/ACG.html](http://www.bp.com/en_az/caspian/operationsprojects/ACG.html)

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

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

62 “Ministry of Ecology and Natural Resources of Azerbaijan Republic”, “Minerals of Azerbaijan”, <http://www.eco.gov.az/faydatiqazintilar.php>

use of several gold deposits of Azerbaijan Republic” dated 5 February 1996. In 2000, according to the decree of the President of Azerbaijan Republic “Azerqızıl” was abolished and the company, was transferred to the Ministry of Ecology and Natural Resources of the Republic of Azerbaijan. The Government share on Gadabay copper-gold project is 51%. The 49% share of the project is led by the Azerbaijan International Mineral Resources Operating Company. <sup>63</sup>



Approved reserves of the gold and silver of Azerbaijan for the year end 2014 is indicated on the table below as follows:

Industry results	
Gold reserves, tonnes <sup>64</sup>	30.2
Silver reserves, tonnes <sup>65</sup>	1,300

<sup>63</sup> “President of Azerbaijan”, <http://www.president.az/articles/9268>.

<sup>64</sup> “World Gold Council”, “Statistics”, “Foreign reserves statistics”, <http://www.gold.org/statistics>

<sup>65</sup> “OPEC”, “Annual Statistical Bulletin”, “Section 8 – Natural gas data”, page. 93, [http://www.opec.org/opec\\_web/static\\_files\\_project/media/downloads/publications/ASB2015.pdf](http://www.opec.org/opec_web/static_files_project/media/downloads/publications/ASB2015.pdf)

## Mining PSA

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

- On 22 December 2014, BP and SOCAR signed a new PSA to jointly explore and develop potential prospects in the shallow water area around the Apsheron Peninsula in the Azerbaijan sector of the Caspian Sea.<sup>66</sup>
- On 28 January 2014, oil production started in the West Chirag platform as part of the ACG field development in the Azerbaijan sector of the Caspian Sea.<sup>67</sup>
- 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 analysing the acquired data. This analysis seems to be the largest 3D survey ever processed within the country. The data processing was completed and interpretation of the seismic data set started during 2014.<sup>68</sup>

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

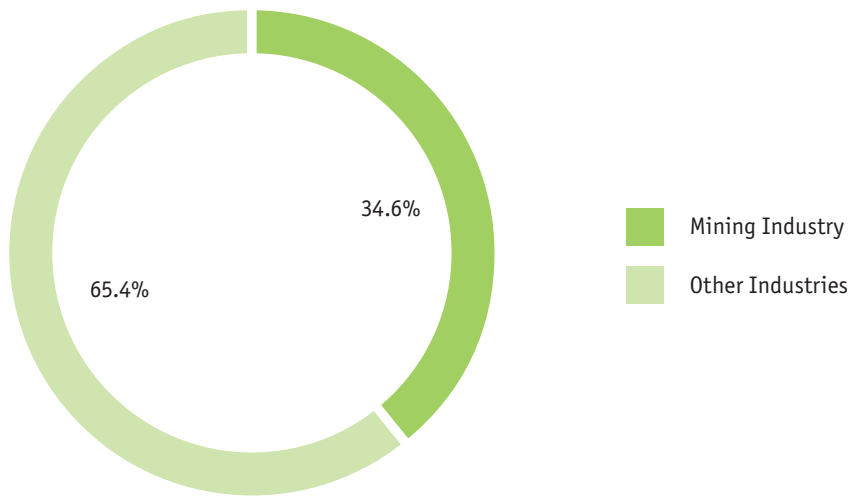
GDP growth amounted to AZN 59.0 billion manat in 2014 and per capita GDP amounted to 6.3 thousand manat. Added value creation in the production process of industrial products exhibited leading position in sectoral structure of GDP with 41.5% share. The value added by mining industry production constitutes the significant part in GDP structure and its share in industry was 34.6%.

<sup>66</sup> <http://www.bp.com/en/global/corporate/press/press-releases/bp-and-socar-sign-an-agreement-to-explore-shallow-water-apsheon.html>

<sup>67</sup> [http://www.bp.com/en\\_az/caspian/operationsprojects/ACG/projecthistory.html](http://www.bp.com/en_az/caspian/operationsprojects/ACG/projecthistory.html)

<sup>68</sup> "BP company", "Operations and projects", "Shahdeniz", [http://www.bp.com/en\\_az/caspian/operationsprojects/Shahdeniz/projecthistory.html](http://www.bp.com/en_az/caspian/operationsprojects/Shahdeniz/projecthistory.html)

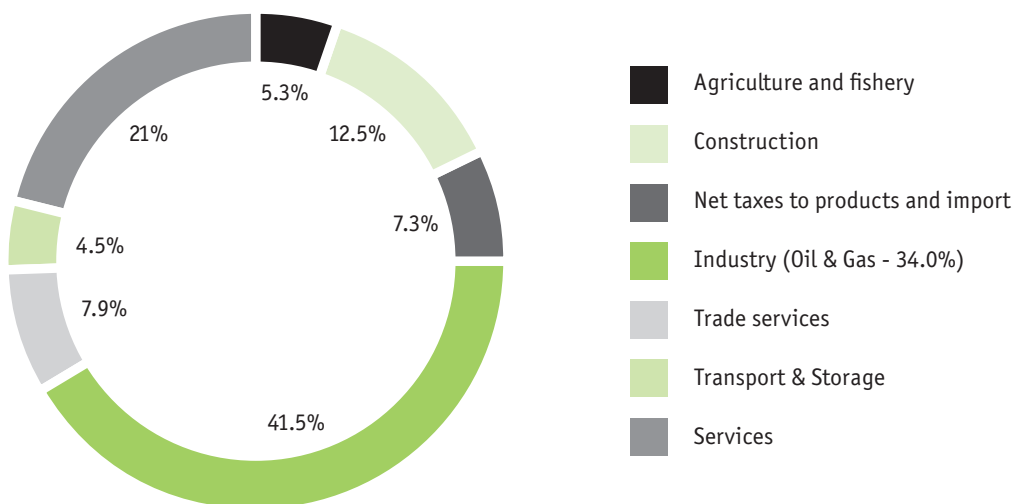
### Industry structure of GDP (2014) <sup>69</sup>



The size of mining industry in absolute terms was AZN 20.4 billion manat (34.6%) out of total GDP amount of AZN 59.0 billion manat.

In the calculation of macroeconomic indicators the shadow economy is also taken into account. The share of shadow economy observed in GDP Azerbaijan consists of 9.1%. Although this information is not publicly available and no official record of this information, the State Statistics Committee, "Statistical News" was referring to an article published in a scientific journal. <sup>70</sup>

### Structure of GDP by kinds of economic activity for 2014 (percentage)



<sup>69</sup> "The State Statistical Committee of the Republic of Azerbaijan", "Statistic factbook", "GDP (annual)", [http://www.stat.gov.az/source/system\\_nat\\_accounts/](http://www.stat.gov.az/source/system_nat_accounts/)

<sup>70</sup> <http://az.trend.az/business/economy/2445536.html>

### Government revenues from the extractive industry.

Consolidated total income of the state budget amounted to 23.1 billion manat in 2014. During the reporting period receipts from the mining industry amounted to 14.2 billion manat and this made 61.7% of the total budget revenues.

The receipts from the extractive industry for the year 2014 covered by EITI		
Types of revenues	Amount (mln manat)	Percentage
<b>State Oil Fund of Azerbaijan Republic <sup>68</sup></b>		
Receipts from the sale of profit oil and gas	12,320	53.37%
Bonuses	13.3	0.06%
Acreage fees	1.7	0.01%
Transit fees	8.9	0.04%
<b>State Treasury Agency of the Ministry of Finance of the Republic of Azerbaijan</b>		
Profit tax	1,289	5.58%
Mining tax	112.6	0.49%
Value Added Tax	140.6	0.61%
Land tax	10.7	0.05%
Property tax	38.1	0.17%
Exchange difference	311.7	1.35%
Other taxes	0.5	0.00%
<b>Total</b>	<b>14,247.1</b>	<b>61.73%</b>

Key regions/areas where production is concentrated in 2014 (in kind and value)

Most of the oil reserves (i.e. 80%) are located in Apsheron Peninsula, Baku and Apsheron archipelago at the depth of 3000-4000 metres 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.

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 the Apsheron 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 Azerbaijan Republic from which 38 are suitable for exploitation.

71 "State Oil Fund of Azerbaijan Republic", "Annual report 2014", page 30, [http://www.oilfund.az/uploads/annual\\_2014az.pdf](http://www.oilfund.az/uploads/annual_2014az.pdf).

### Oil (including condensates), ths tonnes<sup>72</sup>

Regions	2012	2013	2014
Baku	42,346	42,558	41,366
Siyazan	48	49	50
Neftchala	37	41	44
Salyan	193	187	184
Imishli	24	20	19
Shirvan	333	308	290
<b>Total</b>	<b>42,981</b>	<b>43,163</b>	<b>41,953</b>

The main oil producing areas, such as Sabunchu, Surakhany and Bibiheybat are located near Baku. Oil production in Baku reached 41,366 thousand tonnes, which represents 98.6% of the total oil production.

In 2014, onshore and offshore oil production in kind (including condensates) was 1,679 ths tonnes and 40,273 ths tonnes respectively.

### Natural gas, million cubic metres. (raw materials) <sup>73</sup>

Regions	2012	2013	2014
Baku	26,745	29,196	29,505
Siyazan	8	7	7
Neftchala	9	-	-
Salyan	24	30	33
Shirvan	10	12	10
<b>Total</b>	<b>26,796</b>	<b>29,245</b>	<b>29,555</b>

In 2014, the natural and associated gas production volumes was 15,610 million cubic metres and 13,945 million cubic metres, respectively.

### Gold, kg (the main production) <sup>74</sup>

Region	2012	2013	2014
Gadabay	1,562	1,619	1,873
<b>Total</b>	<b>1,562</b>	<b>1,619</b>	<b>1,873</b>

<sup>72</sup> "The State Statistical Committee of the Republic of Azerbaijan", "Publications", "E-versions of publications", "Industry of Azerbaijan", page 308, [http://www.stat.gov.az/menu/6/statistical\\_yearbooks](http://www.stat.gov.az/menu/6/statistical_yearbooks).

<sup>73</sup> "The State Statistical Committee of the Republic of Azerbaijan", "Publications", "E-versions of publications", "Industry of Azerbaijan", page 308 and page 105, [http://www.stat.gov.az/menu/6/statistical\\_yearbooks](http://www.stat.gov.az/menu/6/statistical_yearbooks).

<sup>74</sup> "The State Statistical Committee of the Republic of Azerbaijan", "Publications", "E-versions of publications", "Industry of Azerbaijan", page 177, [http://www.stat.gov.az/menu/6/statistical\\_yearbooks](http://www.stat.gov.az/menu/6/statistical_yearbooks).

**Silver, kg (the main production) <sup>75</sup>**

Region	2012	2013	2014
Gadabay	626	630	240
<b>Total</b>	<b>626</b>	<b>630</b>	<b>240</b>

**Copper ores and concentrates, tonne (the main production) <sup>76</sup>**

Region	2012	2013	2014
Gadabay	505	329	675
<b>Total</b>	<b>505</b>	<b>329</b>	<b>675</b>

**Value of products <sup>77</sup>**

The total value of the mining industry in 2014 was 21,981 million manat which consist of crude oil and natural gas production amounted 20,977 million manat and the metal ores production amounted 55 million manat.

**The share of the export in the extractive industry <sup>78</sup>**

Oil and gas are the main export products of Azerbaijan. Total exports in 2014 amounted to 21.8 <sup>79</sup> billion US dollars. Products exported during 2014 were as follows:

Name of the product	Volume	Amount (mln manat)	Percentage
Cruide oil (thsd. tonnes)	23,611.9	18,404.9	84.3%
Natural gas (thsd. m <sup>3</sup> )	1,825.7	304.7	1.4%
Silver unwrought or in semi-manufactured forms,kg	242.3	0.2	-
Other products	-	3,119.2	14.3%

In 2014, global trade grew by 3.2% compared to 2013. According to International Monetary Fund ("IMF"), foreign trade increased by 3.3% in developed countries, and 3.4% in developing countries.

Declining oil prices in 2014 had also negative impact on foreign trade operations of Azerbaijan. According to data by The State Customs Committee of the Republic of Azerbaijan, the volume of foreign trade operations was USD 31.0 billion in the reporting year. The volume of export in trade operations was USD 21.8 billion. The value of imported products to Azerbaijan amounted to USD 9.2 billion. Compared to 2013, foreign trade operations declined by 10.6% in 2014; in addition, the volume of export decreased by 9.0% while the volume of import to Azerbaijan declined by 14.2%.

<sup>75</sup> "The State Statistical Committee of the Republic of Azerbaijan", "Publications", "E-versions of publications", "Industry of Azerbaijan", page 177, [http://www.stat.gov.az/menu/6/statistical\\_yearbooks](http://www.stat.gov.az/menu/6/statistical_yearbooks).

<sup>76</sup> "The State Statistical Committee of the Republic of Azerbaijan", "Publications", "E-versions of publications", "Industry of Azerbaijan", page 177, [http://www.stat.gov.az/menu/6/statistical\\_yearbooks](http://www.stat.gov.az/menu/6/statistical_yearbooks).

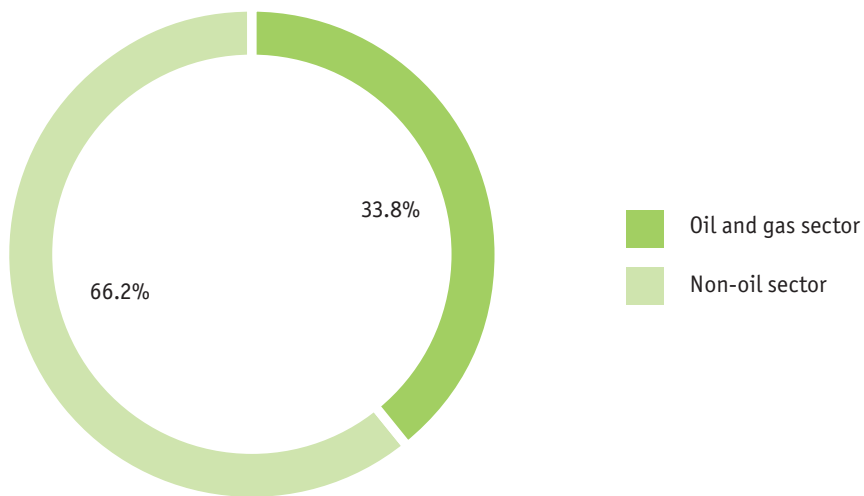
<sup>77</sup> "The State Statistical Committee of the Republic of Azerbaijan i", "Publications "E-versions of publications", "Industry of Azerbaijan", page 29, [http://www.stat.gov.az/menu/6/statistical\\_yearbooks](http://www.stat.gov.az/menu/6/statistical_yearbooks).

<sup>78</sup> "The State Statistical Committee of the Republic of Azerbaijan", "Publications", "E-versions of publications", "Foreign Trade 2015", page 80 and page 253, [http://www.stat.gov.az/menu/6/statistical\\_yearbooks](http://www.stat.gov.az/menu/6/statistical_yearbooks).

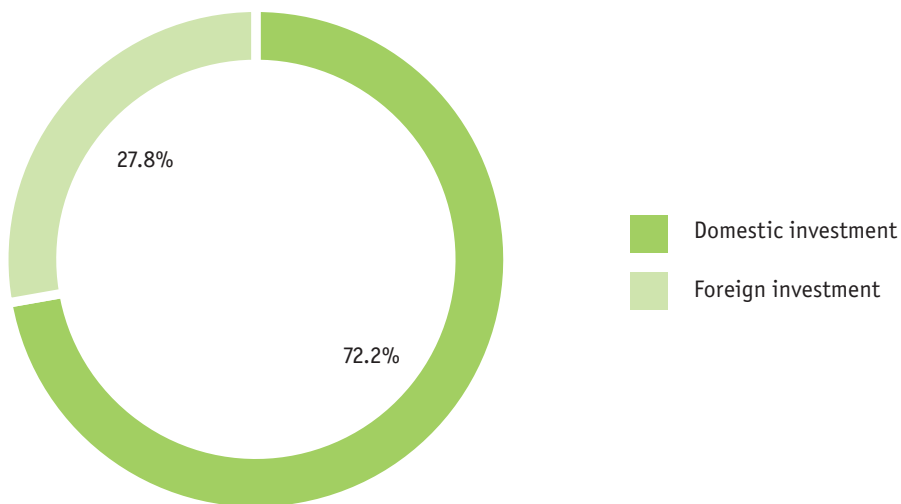
<sup>79</sup> "The State Customs Committee of the Republic of Azerbaijan", "Most exported products", <http://customs.gov.az/files/ix122014.pdf>

**Total investment in main capital (2014)**<sup>80</sup>

In 2014, total capital investments amounted to AZN 17.6 billion. 66.2% and 33.8% of total capital investment was invested in non-oil and oil sectors, respectively.



In addition, domestic investment exceeded foreign investments. 72.2% of total investment were from domestic sources while 27.8% of total investment generated from foreign sources.



<sup>80</sup> "The State Statistical Committee of the Republic of Azerbaijan", "Statistical Yearbook of Azerbaijan-2015", [http://www.stat.gov.az/menu/6/statistical\\_yearbooks/](http://www.stat.gov.az/menu/6/statistical_yearbooks/).



### Characteristics of employment in the sectors of economy

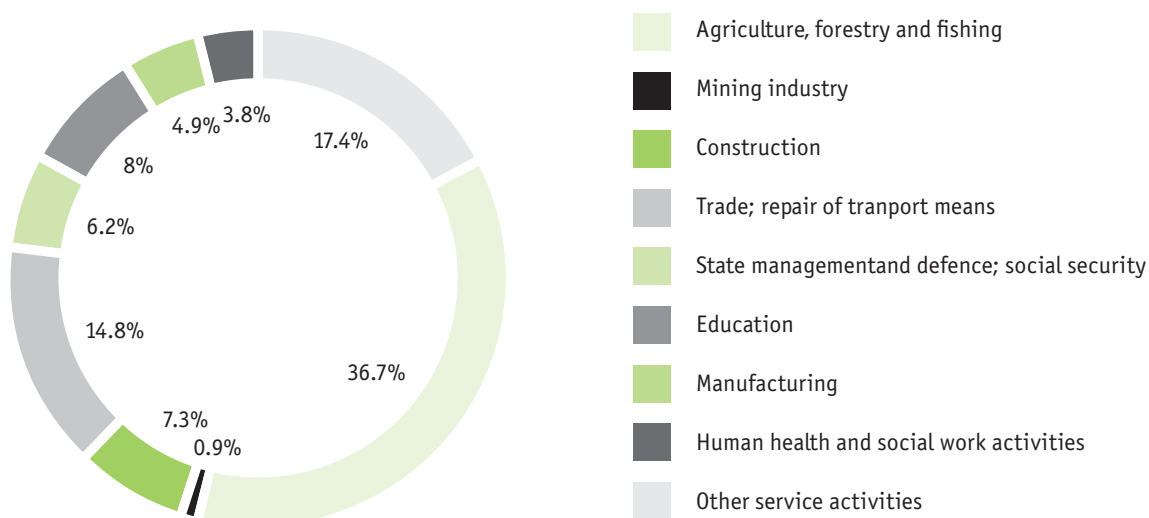
In 2014 the economically active population was 4,840.7 thousand people, and among them 4,602.9 thousand people were employed. The rate of mining industry to employment was 0.9%, which is 41.5 thousand people.<sup>81</sup>

Employment	2014 (thsd. people)
Number of economically active population	4,840.7
Number of people employed in the economy	4,602.9
Number of people in Mining industry	41.5

### Payments made to SSPF

In accordance with the Memorandum of Understanding in 2014, EITI reported total mandatory premiums paid to SSPF by local and foreign companies as AZN 59.3 million. This information has been obtained from the SSPF by the EITI secretariat.

### The employment structure (2014)<sup>82</sup>

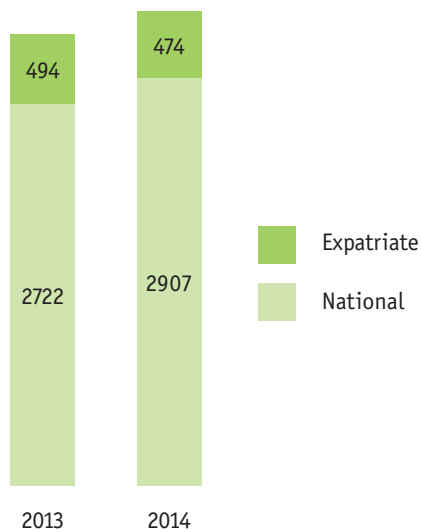


<sup>81</sup> "Ministry of Economy of the Republic of Azerbaijan", "Social areas", [http://economy.gov.az/index.php?option=com\\_content&view=article&id=1183:ss2013&catid=110:eig-2013&lang=az](http://economy.gov.az/index.php?option=com_content&view=article&id=1183:ss2013&catid=110:eig-2013&lang=az).

<sup>82</sup> "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](http://www.stat.gov.az/menu/6/statistical_yearbooks).

In November 2013, BP signed three cooperation agreements with SOCAR in increasing the number of Azerbaijani nationals involved in its activities as the operator of the Azeri-Chirag-Gunashli (“ACG”), Shah Deniz, Baku-Tbilisi-Ceyhan (“BTC”) and South Caucasus Pipeline (“SCP”) projects. The agreements re-benefit the two organisations’ commitment to cooperate closely in the areas of nationalisation of BP’s staff, development and training of professionals specialising in petroleum disciplines, and workforce involved in oil and gas development projects in Azerbaijan.<sup>83</sup>

### Workforce of BP company for 2 years



In September 2014, BP signed a Memorandum of Understanding with SOCAR in order to agree their engagement in BP’s recruitment processes. By the end of 2014, the percentage of national citizens among regular professional staff of BP in Azerbaijan was 86%.<sup>84</sup>

BP in Azerbaijan developed a five-year nationalisation plan for increasing the share of national staff with an ultimate target of reaching 90% by the end of 2018.

<sup>83</sup> [http://www.bp.com/en\\_az/caspian/press/pressreleases/BP-signs-agreement-for-nationalization.html](http://www.bp.com/en_az/caspian/press/pressreleases/BP-signs-agreement-for-nationalization.html)

<sup>84</sup> <http://www.bp.com/content/dam/bp/pdf/sustainability/country-reports/bp-sustainability-report-azerbaijan-2014-english.pdf>

## 3.4. Production volume

The production volume and amount of extraction by the foreign and local extractive companies in 2014 are shown in the table below:

The value of mineral resources extracted in the Republic of Azerbaijan is estimated at market prices.

<b>Baku</b>				
<b>In kind</b>	<b>Volume (ths tonnes)</b>	<b>Volume (ths barrel)</b>	<b>Price (dollars USD)</b>	<b>Amount (ths dollar USD)</b>
Oil (including condensate) production	41,366	295,471	100.8 <sup>81</sup>	29,783,477
<b>In kind</b>	<b>Volume (mln m<sup>3</sup>)</b>	<b>Volume (MMBTU)</b>	<b>Price (dollars USD)</b>	<b>Amount (ths dollar USD)</b>
Natural gas production	15,572	549,679,404	10.1 <sup>82</sup>	5,551,762
<b>Siyazan</b>				
<b>In kind</b>	<b>Volume (ths tonnes)</b>	<b>Volume (ths barrel)</b>	<b>Price (dollars USD)</b>	<b>Amount (ths dollar USD)</b>
Oil (including condensate) production	50	357	100.8	35,986
<b>In kind</b>	<b>Volume (mln m<sup>3</sup>)</b>	<b>Volume (MMBTU)</b>	<b>Price (dollars USD)</b>	<b>Amount (ths dollar USD)</b>
Natural gas production	5	182,717	10.1	1,845
<b>Neftchala</b>				
<b>In kind</b>	<b>Volume (ths tonnes)</b>	<b>Volume (ths barrel)</b>	<b>Price (dollars USD)</b>	<b>Amount (ths dollar USD)</b>
Oil (including condensate) production	44	314	100.8	31,651
<b>In kind</b>	<b>Volume (mln m<sup>3</sup>)</b>	<b>Volume (MMBTU)</b>	<b>Price (dollars USD)</b>	<b>Amount (ths dollar USD)</b>
Natural gas production	1	24,238	10.1	245
<b>Salyan</b>				
<b>In kind</b>	<b>Volume (ths tonnes)</b>	<b>Volume (ths barrel)</b>	<b>Price (dollars USD)</b>	<b>Amount (ths dollar USD)</b>
Oil (including condensate) production	184	1,314	100.8	132,451
<b>In kind</b>	<b>Volume (mln m<sup>3</sup>)</b>	<b>Volume (MMBTU)</b>	<b>Price (dollars USD)</b>	<b>Amount (ths dollar USD)</b>
Natural gas production	23	803,581	10.1	8,116

85 [http://www.maliyye.gov.az/sites/default/files/6265-izahat%20\(1\)\(1\).pdf](http://www.maliyye.gov.az/sites/default/files/6265-izahat%20(1)(1).pdf)

86 "World bank quarterly report", "Commodity Markets Outlook", "Appendix – Table A.1", page 22, [https://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015b/Global-Economic-Prospects-CommodityMarketOutlook\\_Jan2015.pdf](https://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015b/Global-Economic-Prospects-CommodityMarketOutlook_Jan2015.pdf)

<b>Imishli</b>				
<b>In kind</b>	<b>Volume (ths tonnes)</b>	<b>Volume (ths barrel)</b>	<b>Price (dollars USD)</b>	<b>Amount (ths dollar USD)</b>
Oil (including condensate) production	19	136	100.8	13,709
<b>Shirvan</b>				
<b>In kind</b>	<b>Volume (ths tonnes)</b>	<b>Volume (ths barrel)</b>	<b>Price (dollars USD)</b>	<b>Amount (ths dollar USD)</b>
Oil (including condensate) production	290	2,071	100.8	208,757
<b>In kind</b>	<b>Volume (mln m3)</b>	<b>Volume (MMBTU)</b>	<b>Price (dollars USD)</b>	<b>Amount (ths dollar USD)</b>
Natural gas production	10	343,060	10.1	3,465

*Oil production:* As the volume indicator of oil extraction in Azerbaijan is in tonnes this volume was converted to barrels by using a special formula (1 tonnes oil=7.1428571428571 barrels of oil)<sup>87</sup>. In 2014, the average price of “Azeri light” crude oil per barrel in the world market was USD 100.8;

*Natural gas production:* As the volume indicator of natural gas in Azerbaijan is million m3 this volume was converted to MMBTU (1 million of British Terminal Unit) by using a special formula<sup>88</sup>. In 2014, the average price per natural gas on the world market was USD 10.1;

<b>Gadabay</b>				
<b>In kind</b>	<b>Volume (kg)</b>	<b>Volume (ounces)</b>	<b>Price (dollars USD)</b>	<b>Amount (dollar USD)</b>
Gold production	1,873	60,218	1,266 <sup>85</sup>	76,235,988
<b>In kind</b>	<b>Volume (kg)</b>	<b>Volume (ounces)</b>	<b>Price (dollars USD)</b>	<b>Amount (ths dollars USD)</b>
Silver production	240	7,716	19 <sup>86</sup>	146,604
<b>In kind</b>	<b>Volume (tonnes)</b>	<b>Volume (tonnes)</b>	<b>Price (dollars USD)</b>	<b>Amount (ths dollars USD)</b>
Copper and concentrates	675	675	6,863 <sup>87</sup>	4,632,525

*Gold and silver production:* As the volume indicator of gold and silver produced in Azerbaijan Republic is kg, its volume is calculated by special formula and indicated as ounces. (1 kg=35.2739619 ounces)<sup>92</sup>. In 2014, the average price of gold and silver on the world market was USD 1,266 and 19, respectively.

In accordance with the requirements of the EITI Standards the volume and value of products that are produced should be indicated in the report. We have obtained the information on value of the products from the available sources, and then calculated the total amount of the products produced. These are reflected in the table above.

87 <https://www.unitjuggler.com/convert-energy-from-toe-to-boe.html?val=41953>

88 <http://www.delekenergy.co.il/?pg=calc&CategoryID=198>

89 “World bank quarterly report”, “Commodity Markets Outlook”, “Appendix – Table A.1”, page 23, [https://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015b/Global-Economic-Prospects-CommodityMarketOutlook\\_Jan2015.pdf](https://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015b/Global-Economic-Prospects-CommodityMarketOutlook_Jan2015.pdf)

90 “World bank quarterly report”, “Commodity Markets Outlook”, “Appendix – Table A.1”, page 23, [https://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015b/Global-Economic-Prospects-CommodityMarketOutlook\\_Jan2015.pdf](https://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015b/Global-Economic-Prospects-CommodityMarketOutlook_Jan2015.pdf)

91 “World bank quarterly report”, “Commodity Markets Outlook”, “Appendix – Table A.1”, page 23, [https://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015b/Global-Economic-Prospects-CommodityMarketOutlook\\_Jan2015.pdf](https://www.worldbank.org/content/dam/Worldbank/GEP/GEP2015b/Global-Economic-Prospects-CommodityMarketOutlook_Jan2015.pdf)

92 [http://calculator-converter.com/converter\\_kg\\_to\\_oz\\_kilograms\\_to\\_ounces\\_calculator.php](http://calculator-converter.com/converter_kg_to_oz_kilograms_to_ounces_calculator.php)

## 3.5. State participation in extractive industry

### Background

The State Oil Company of Azerbaijan Republic (“SOCAR”) is an entity acting on behalf of the government to carry out its activities in the extractive industry. SOCAR was established on the base of “Azerineft” State Concern and “Azerneftkimya” Production Association under Decree dated 13 September 1992 of the President of the Republic of Azerbaijan for the purpose of using oil reserves of Azerbaijan Republic in accordance with single public policy, improving structure of management in oil industry and ensuring development of oil and energy complex. Under Decree No.430, dated 22 December 2014 of President of the Republic of Azerbaijan amendments were made to the decree No.844, dated 24 January 2003 of Azerbaijan Republic and full official name of the Company was specified as State Oil Company of Azerbaijan Republic and short name as SOCAR.

At present, enterprises of SOCAR are functioning in every region (excluding the occupied territories) of the Republic of Azerbaijan as well as having offices in 22 countries across the world. In 2014, SOCAR had 54,714<sup>93</sup> employees and 22 legal entities. It is the largest company in the country and held a major place in the economy of the Republic of Azerbaijan. It is a partner for PSAs Azerbaijan and is 100% owned by the Government of the Republic of Azerbaijan.

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’s relationship with relevant Government agencies:***

SOCAR implements its activity in accordance with The Constitution of the Republic of Azerbaijan, legislation, the decrees and orders of the President of the Republic of Azerbaijan, the decisions and orders of the Cabinet of Ministers of the Republic of Azerbaijan, other normative-legal acts, international treaties of the Republic of Azerbaijan and international agreements on oil and gas exploration and production areas approved by the laws of the Republic of Azerbaijan and the Regulations.<sup>94</sup>

SOCAR continually reports to the appropriate state authorities on its activity. This list includes the Ministry of Ecology and Natural Resources, the Ministry of Emergency Situations, the Ministry of Finance, the Ministry of Taxes, the Ministry of Economy, the Ministry of labour and Social Protection of Population and the State Statistics Committee of the Republic of Azerbaijan.

In accordance with the decree No.906-IIIQ dated 26 November 2009 all income and expenditure figures and estimations of the investment programs of state-owned companies are affirmed with the Ministry of the relevant area, as well as the Ministry of Finance and Ministry of Economy of the Republic of Azerbaijan until 25 February of each year. SOCAR must submit the reports on forms prepared by the Ministry of Finance and the Ministry of Economy related to the amount of funds received in bank accounts and usage of these funds during the previous month by the 15th of the following month. SOCAR has tightened financial discipline and taken effective measures to avoid delays in payments from creditors related to consumption of oil and gas products and submits reports to the Cabinet of Ministers on a quarterly basis.<sup>95</sup>

According to Clause 6 of the main Charter (“accounting, reporting and control in a company”), approved by Decree No 844 of the President of the Republic of Azerbaijan and dated 24 January 2003, SOCAR prepares its annual financial statements and submit it to the Ministry of Taxes of the Republic of Azerbaijan in accordance with the Tax Code of Azerbaijan Republic and conducts accounting procedures in accordance with the law of the Republic of Azerbaijan on “Accounting”. The Company also prepares “Official statistics” in accordance with the relevant legislation and submit it to the State Statistical Committee of the Republic of

93 “SOCAR”, “Sustainable development report”, “Personnel”, page 53, <http://www.socar.az/socar/assets/documents/az/socar-annual-reports/davamlı-inkisaf2014.pdf>

94 <http://socar.az/socar/az/company/regulations/socar-charter>

95 [http://archive.president.az/articles.php?item\\_id=20091222035643032&sec\\_id=29](http://archive.president.az/articles.php?item_id=20091222035643032&sec_id=29)

Azerbaijan. The Company's consolidated financial statements together with the auditor's report is published in the official website no later than 30 June of the subsequent year. SOCAR and its subsidiary companies must report to the Ministry of Finance of the Republic of Azerbaijan when engaged in receiving a state loan or while participating in the projects in order to settle the government debt as well as the projects involving allocation of subsidies, subventions and grants.<sup>96</sup>

Based on previous experience, the process of fund allocation to SOCAR by the government is carried out by the means of share capital and loans allocation. Under the state guarantee the Central Bank acts as a lender, the Azerbaijani banks act as a borrower and SOCAR acts as re-borrower of the loan. The Central Bank of the Republic of Azerbaijan, the Ministry of Finance of the Republic of Azerbaijan, SOCAR and Azerbaijan Banks sign an agreement which is guaranteed by the Ministry of Finance who acted on behalf of the Government.

According to Clause 6 of the main Charter ("accounting, reporting and control in a company"), approved by Decree No 844 of the President of the Republic of Azerbaijan and dated 24 January 2003 any request from the government agencies on relevant reports and information must be prepared and submitted by SOCAR to them.<sup>97</sup>

#### ***SOCAR's payments to the State Budget***<sup>98</sup>

##### *Additional Paid in Capital*

During 2014, the Government contributed to the charter capital of SOCAR in the amount of AZN 178 million. The increase in charter capital was not registered as of 31 December 2014.

##### *Distribution to the Government*

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 SOCAR. These kinds of investments were accounted for as a reduction of capital. Distributions in the form of cash are recorded in the carrying amount of the assets transferred. The amount of such direct cash transfers to the Government amounted to AZN 476 million.<sup>99</sup>

<sup>96</sup> <http://www.e-qanun.az/framework/28955>

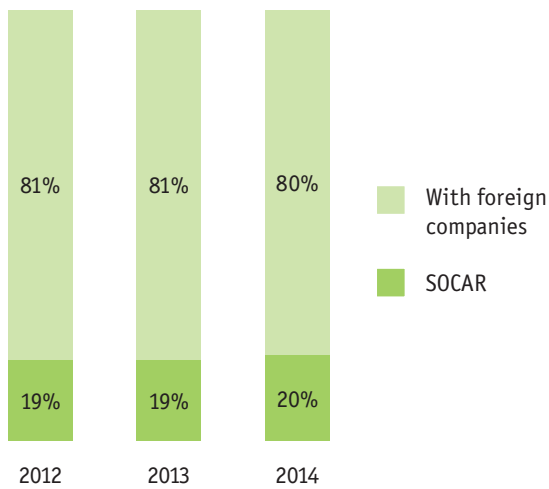
<sup>97</sup> E-qanun: Charter of SOCAR, <http://www.e-qanun.az/framework/1899>

<sup>98</sup> "State Oil Company of Azerbaijan Republic", "Financial Report, 2014", "Note 26, Charter capital, additional paid-in-capital, and retained earnings", page 62, <http://www.socar.az/socar/assets/documents/en/socar-financial-reports/2014.pdf>

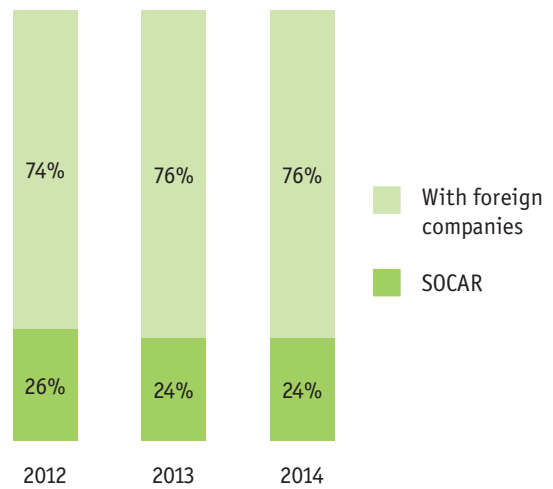
<sup>99</sup> "State Oil Company of Azerbaijan Republic", "Financial Report, 2014", "Note 26, Charter capital, additional paid-in-capital, and retained earnings", page 68, <http://www.socar.az/socar/assets/documents/en/socar-financial-reports/2014.pdf>

**Oil and gas production of SOCAR in 2012-2014:**

*Oil production of Azerbaijan Republic (by percentage):* <sup>100</sup>



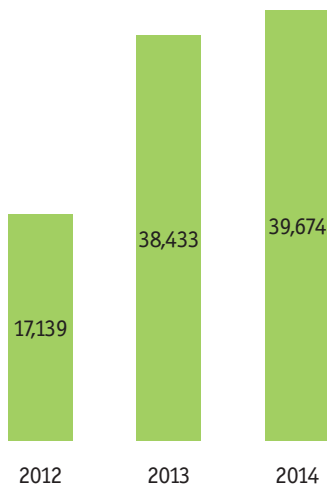
*Gas production of Azerbaijan Republic (by percentage):* <sup>101</sup>



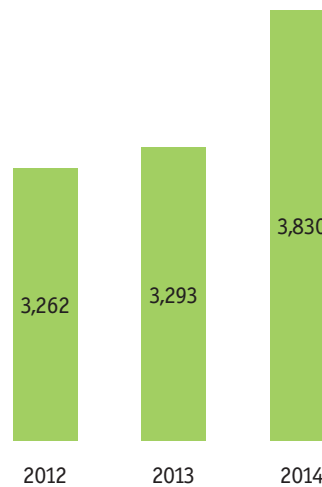
**Economic indicators of SOCAR in 2012-2014** <sup>102</sup>

SOCAR's revenue and total profit for the years 2012 to 2014:

*Revenue (million manats):*



*Total profit (million manats):*



<sup>100</sup> "State Oil Company of Azerbaijan Republic", "Sustainable Development Report 2014", "About the company", page 7, <http://socar.az/socar/assets/documents/en/socar-annual-reports/sus.dev.rep-2014.pdf>

<sup>101</sup> "State Oil Company of Azerbaijan Republic", "Sustainable Development Report 2014", "About the company", page 7, <http://socar.az/socar/assets/documents/en/socar-annual-reports/sus.dev.rep-2014.pdf>

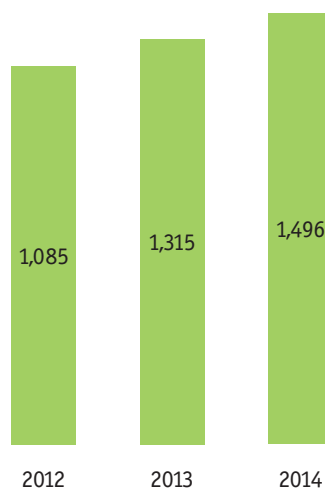
<sup>102</sup> "State Oil Company of Azerbaijan Republic", "Financial Report 2014", "Consolidated Statement of Profit or loss and other Comprehensive Income", page 4, <http://www.socar.az/socar/assets/documents/en/socar-financial-reports/2014.pdf>

SOCAR's budget payments and share capital for the years 2012 to 2014:

*Budget payments (billion manats):*



*Share Capital (billion manats):*



SOCAR is one of the biggest taxpayers in the Republic of Azerbaijan. The Company has made a record contribution to the budget in the amount of AZN 1,855 million in 2014.

Revenues from the crude oil sales are stated net of price margin tax which is levied in the Republic of Azerbaijan on the margins between the international market and the internally regulated price on crude oil. The difference between the market price and the internally regulated price is taxed at the rate of 30% and the amount of tax is transferred to the State Budget. Revenue from sales of oil products amounting to 458 million manats (2013: 570 million manats) are shown net of excise tax.<sup>103</sup>

Before the establishment of SOCAR Trading, SOCAR initially exported its crude through Georgia and Russia, until the much larger BTC pipeline was completed in 2005. The BTC allowed SOCAR access to the Mediterranean through Ceyhan, Turkey and allowed it to load Very large Crude Carriers which gave SOCAR the opportunity to deliver Azeri crude to a wider range of customers, in the Mediterranean area, as well as further out to Asia and America. SOCAR has successfully loaded near 1 billion barrels of Azeri light crude on a global scale since its establishment in 2008. As a trading company, SOCAR Trading was able to successfully manage the sale of Azeri crude through increased pricing flexibility and the ability to adapt to volatile global needs, in addition to enhanced market knowledge stemming from its large network of partners and counter-parties.

SOCAR Trading was incorporated in December 2007 as the marketing division of SOCAR with a mandate to market Azeri barrels produced from the Azeri-Chirag-Guneshli field and other surrounding fields in Azerbaijan.

Azeri crude is delivered through mainly two pipelines: the Western Route Export Pipeline in Georgia and the Baku-Tbilisi-Ceyhan pipeline in Turkey.

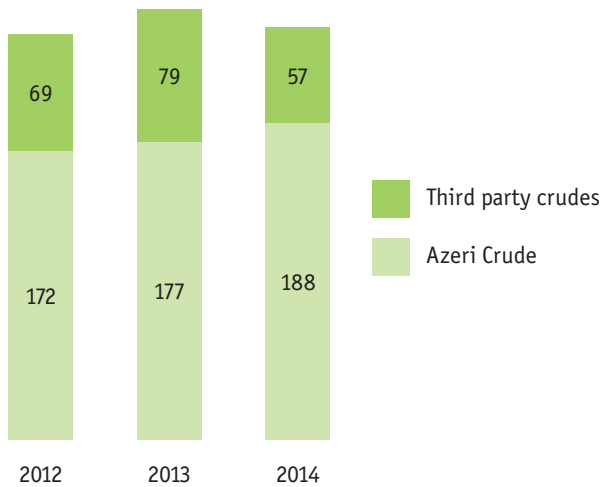
The Western Route Export Pipeline eliminated SOCAR's necessity to transport crude through trucks and rail which is being only used for product carrying and diversified SOCAR's marketing options.

<sup>103</sup> "State Oil Company of Azerbaijan Republic", "Financial Report 2014", "Notes to the Consolidated Financial Statements", "Note 27 – Analysis of revenue by categories", page 63, <http://www.socar.az/socar/assets/documents/en/socar-financial-reports/2014.pdf>



The construction of the BTC pipeline was a major accomplishment for Azerbaijan. Gaining access to the Mediterranean market provided additional opportunities to transport Azeri crude to different partners in the region. It also facilitated the development of markets for Azeri crude in the United States and Asia.<sup>104</sup>

SOCAR Trading transacts a wide range of third party crudes. The Company made efforts to develop business in Africa and Asia through long term relationships, the company is able to leverage its position as a major supplier of Azeri crude as well as its status as a state owned company to gain access to several opportunities worldwide. *(million barrels)*



The Company's revenues increased to USD 38.8 billion in 2014 and these also reflects the growth rate compared to previous years.<sup>105</sup> *(billion dollars USD)*



<sup>104</sup> <http://www.socartrading.com/marketing/marketing-export>

<sup>105</sup> "SOCAR", "Key Statistics", <http://www.socartrading.com/about-us/key-statistics>.

SOCAR manages an oil products terminal located in Fujairah, United Arab Emirates. It is a recently constructed plant strategically located on the Indian Ocean side of the Straits of Hormuz.

Construction of phase 1 (115,00 cubic metres, fuel oil storage) was finished in Q1 2012, while Phase 2 (235,000 cubic metres, fuel oil blending and clean products storage) became operational during Q3 2013. Extension of the terminal (construction Phase 3, 298,000 cubic metres) is continuing. This plant is used by SOCAR Trading to support its trading activities in the Middle East region, by empowering the penetration of new markets in the Arabian Gulf and East Africa. <sup>106</sup>

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

Joint ventures and associates, the participating interest and changes in participating interest in the reporting period, revenue, assets and borrowings of SOCAR during 2014 are shown in the table below:

##### Associates <sup>107</sup>

Name of the Associates and subsidiary companies	SC Participating Interest (%)	Changes of participating interest during the reporting period (%)	Revenue (mln manats)	Assets (mln manats)	Liabilities (mln manat)
Ateshgah Insurance Company CJSC	10%	Unchanged	36.0	32.0	(25.0)
Azerbaijan Gas Supplier Company	28%	Unchanged	1,842.0	391.0	(391.0)
AzLab	50%	Unchanged	2.0	1.0	-
Caspian Geophysical Company BM	45%	Unchanged	6.0	23.0	(1.0)
Caspian Pipe Coatings LLC	50%	Unchanged	19.0	11.0	(3.0)
Cross Caspian Oil and Gas logistics	34%	Unchanged	53.0	6.0	(6.0)
Interfax Azerbaijan	49%	Unchanged	-	4.0	-
Tankanlagen Mellingeri AG (TAMAG)	33%	Unchanged	3.0	6.0	(2.0)
Tanklager Taegerschen AG (TLT)	21%	Unchanged	1.0	1.0	-
SOGEP AG	34%	Unchanged	5.0	1.0	(1.0)
UBAG AG	24%	Unchanged	12.0	14.0	(12.0)
SAPPRO SA	13%	Unchanged	10.0	3.0	(1.0)
SARACO SA	20%	Unchanged	10.0	8.0	(7.0)
South Caucas Pipeline Hold Co	10%	Unchanged	-	27.0	-
Cooperatief Saiph	20%	Changed	-	73.0	(82.0)

<sup>106</sup> <http://www.socartrading.com/trading/storage>

<sup>107</sup> "State Oil Company of Azerbaijan Republic", "Financial Report, 2014", "Note 17, Investments in associates", page 52-55, <http://www.socar.az/socar/assets/documents/en/socar-financial-reports/2014.pdf>

**Joint ventures:**<sup>108</sup>

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)	Liabilities (mln manats)
AGRI ING Project Company	33%	Unchanged	-	-	-
AZFEN	60%	Unchanged	270.0	160.0	(90.0)
Azerbaijan Rigs	10%	Unchanged	-	353.0	
SOCAR Fugro	51%	Unchanged	1.0	1.0	(1.0)
Azeri M.İ. Drilling Fluids	51%	Unchanged	148.0	57.0	(36.0)
Azgerneft LLC	40%	Unchanged	39.0	91.0	(34.0)
Caspian Shipyard Company	20%	Unchanged	85.	38.0	(18.0)
Ekol Engineering Services	51%	Unchanged	12.0	16.0	(1.0)
Oil and Gas ProServis	30%	Unchanged	6.0	19.0	(10.0)
Sarmatia	27%	Unchanged	-	1.0	-
SOCAR AQS	51%	Unchanged	99.0	357.0	(135.0)
SOCAR Aurora Terminal	50%	Unchanged	15.0	86.0	(45.0)
SOCAR Baghlan LLC	51%	Unchanged	1.0	15.0	(19.0)
SOCAR CAPE	51%	Unchanged	57.0	26.0	(32.0)
SOCAR CNG	51%	Unchanged	-	2.0	(2.0)
SOCAR Construction	97%	Unchanged	1.0	13.0	(1.0)
SOCAR Foster Viler Engineering Services	65%	Unchanged	11.0	1.0	(1.0)
SOCAR KPS	50%	Unchanged	5.0	16.0	(16.0)
SOCAR Umid	80%	Unchanged	-	436.0	(20.0)

\* The liabilities are the total liabilities of each enterprises.

**Changes in the level of beneficial ownerships (joint ventures and associates)**

- In March 2014, the State Oil Company of the Azerbaijan Republic and its subsidiaries (the "Group"), together with Ministry of Economy of the Republic of Azerbaijan, established a new company, Southern Gas Corridor Company ("SGC"). The Group Invested AZN 38 million into charter capital of SGC to obtain 49% share in SGC;
- In May 2014, The Group acquired additional 18.5% of its associate, SOCAR Turkey Yatirim A.S ("STYAS"), for the amount of AZN 50 million and made additional contribution in share capital of the entity in the amount of AZN 24 million (2013: AZN 144 million). At the same time shareholders of STYAS signed a new shareholding agreement. According to new shareholding agreement the Group has joint control in STYAS. As result of this transaction the Group transferred the Associate to joint venture;

108 "State Oil Company of Azerbaijan Republic", "Financial Report, 2014", "Note 16, Investment in jointly controlled entities", page 49-51, <http://www.socar.az/socar/assets/documents/en/socar-financial-reports/2014.pdf>

- During 2014, The Group has made additional contributions in share capital of its associates, AzSCP and AzTAP in the amount of AZN 55 million (2013: nil) and AZN 11 million (2013: AZN 33 million), respectively, and insignificant contributions to other joint ventures;
- On 23 July 2014 the Group has sold its Subsidiary AzTAP to Southern Gas Corridor Company. At the date of sale the carrying value of TAP amounted to AZN 43 million. Before the sale the Group through its subsidiary AzTAP, owned 20% of TAP, which was accounted as an associate as of 31 December 2013;
- During 2014, the Group has made additional contributions in share capital to its joint ventures, SOCAR Umid LLC in the amount of AZN 40 million (2013: AZN 84 million), Azerbaijan Rigs LLC in the amount of AZN 14 million (2013: AZN 19 million) and STYAS in the amount of AZN 192 million, respectively, and insignificant contributions to other joint ventures;
- There were no changes in the level of the Government's ownership of SOCAR during the reporting period; and
- The Equity Method was used in the process of treating equity investment in associate companies.

### ***Loans and loan guarantees***

SOCAR issued Eurobonds for 15 years in the amount of 750 million US dollars. Given investors' interest, annual interest rate of securities is specified as 6,95%. Geographical breakdown of Eurobonds newly issued by SOCAR is as follows: Europe- 18%, United Kingdom- 39%, USA- 41% and other investors-2%. As the result of placement investors' distribution was as follows: 93%-stock exchange administrators, 5%- banks and 2%-pension funds.<sup>109</sup>

Detailed information on the debts of SOCAR for the year ended 31 December 2014 can be found in the note 19 of consolidated financial statements of SOCAR.<sup>110</sup>

### ***SOCAR's standards***

Procurement procedures of SOCAR, outlined in "a collection of documents on the procurement and management of the organisation", are carried out in accordance with the Regulations. The regulation came into force according to the Decree of the President of Azerbaijan Republic No.844, dated on 24 January 2003.<sup>111</sup> More detailed information can be obtained from the official website of SOCAR under the SOCAR Standards heading.

Other standards of SOCAR can be accessed on the same database.

### **c) Disclosure of quasi-fiscal expenditures**

Starting from 2007, the wholesale and retail domestic prices for oil and gas products are subject to the state regulation and this regulation is a responsibility of Tariff (Price) Council of Azerbaijan Republic. The new wholesale and retail price for oil products within the domestic market is regulated with the New Tariff (Price) Council Decision No.1, dated 10 February 2014. The new decision is a result of amendments applied to the Tariff (Price) Council Decision No.14, dated 2 December 2013.<sup>112</sup> The prices determined for oil, gas and oil products by the Council were lower than the market prices. This means that in 2014 compared with the world market prices SOCAR has offered lower prices to domestic consumers for oil, gas and oil products. Since 2007 in

<sup>109</sup> "SOCAR", "Sustainable development report", "About SOCAR", page 9, <http://www.socar.az/socar/assets/documents/az/socar-annual-reports/davamli-inkisaf2014.pdf>

<sup>110</sup> "SOCAR", "Financial statement 2014", "Note 19-Borrowings", page 56-59, <http://socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye.hesabat.2014.pdf>

<sup>111</sup> "SOCAR", "SOCAR standards", "Normative documents on procurement" <http://www.socar.az/socar/az/company/socar-standards/socar-standards>

<sup>112</sup> <http://www.tariffcouncil.gov.az/?/az/resolution/view/118/>

accordance with the law of the state budget during the export of products produced in the country with the state regulated price the difference between the contractual (sale) price (excluding export expenses) and the wholesale price across the country is subject to collections by the State (in the form of the export tax). As a result of price change in 2014 SOCAR transferred AZN 311.7 million to the state budget.

SOCAR is engaged in investment into different areas of provision of social services, creation of public infrastructure, quasi-fiscal expenditures etc. The main directions of charity and social assistance has included:

- Social assistance and protection;
- Support to education, culture and sports initiatives;
- Support to healthcare
- Support to other state social programs; and
- Other events envisaged in the internal documents of the Company.

SOCAR payments for charity, social and sponsorship purposes in 2014: <sup>113</sup>

Description	Amount (thsd. Manat)
Sport events	4,527
Financial association and trade unions	174
Education	244
Culture and arts	1,992
State-run enterprises and bodies	2,868
Healthcare	16
Material assistance to individual persons	1,114
Disabled veterans and others	67
<b>Total</b>	<b>11,002</b>

Expansion of activities in foreign markets: <sup>114</sup>

<sup>113</sup> "SOCAR", "Sustainable development report", "Social activity and support to regional development", page 67, <http://www.socar.az/socar/assets/documents/az/socar-annual-reports/davamli-inkisaf2014.pdf>

<sup>114</sup> "State Oil Company of Azerbaijan Republic", "Sustainable Development Report 2014", <http://socar.az/socar/assets/documents/en/socar-annual-reports/sus.dev.rep-2014.pdf>

Projects	Progress in 2014
<p><b>DESFA</b></p> <p>DESFA-(National Natural Gas System Operator S.A.) is a natural gas transmission system operator in Greece. On July 31, 2013 State Oil Company of Azerbaijan Republic was approved to obtain 35% of Hellenic Petroleum SA and 31% of State of Greece share portfolio in DESFA distribution company.</p>	<p>The Second phase of the studies related to the purchase of the shares of DESFA, the Greek gas transmission system operator, by SOCAR started at the end of 2014. And the final decision is planned to be stated during first half of 2015.</p>
<p><b>"South Caucasus" pipeline</b></p> <p>"Southern Gas Corridor" CJSC started to operate within the second phase of development of "Shah Deniz" gas condensate field in February 2014 as the expansion of the "South Caucasus" pipeline. It facilitated the exercising of participating share of Azerbaijan in "Trans-Anatolian" and "Trans-Adriatic" pipeline.</p>	<p>SOCAR Upstream Management International and SOCAR Midstream Operations companies were established within the framework of the "Southern Gas Corridor" project in July 2014 with charter capital of AZN 1000. These companies are located at head office of SOCAR.</p> <p>CJSC has two shareholders SOCAR with 49% share and Ministry of Economy with 51% share. Its charter capital amounts to USD 100 million.</p>
<p><b>TANAP project</b></p> <p>"Trans-Anatolian" natural gas pipeline ("TANAP") is intended for transportation of gas from "Shah Deniz" field via Georgia-Turkey-Greece-Albania and Italy route. It is considered as of the most successful projects implemented within Turkey and Azerbaijan cooperation, playing important role in global energy sector.</p>	<p>"Southern Gas Corridor" CJSC was established on March 31, 2014 in accordance with General Assembly decision issued on 5 March 2014.</p> <p>In July 2014, "Southern Gas Corridor" CJSC and SOCAR signed agreement on transferring 100% participating share owned by SOCAR in "TANAP Dogalgaz İletim A.S" (TANAP) Company to the CJSC.</p> <p>In September 2014, the Turkish Parliament ratified Agreement on the Amendments to the Host Government Agreement (AHGA) signed on May 26 the same year between Republic of Turkey and "TANAP Dogalgaz İletim A.S" in connection with TANAP project.</p>
<p><b>TAP project</b></p> <p>The TAP project is intended to set the pipeline of estimated length of 870 kilometres which will be connected to TANAP pipeline at Kipo, i.e. on the border between Greece and Turkey. This pipeline is to transport natural gas from "Shah Deniz-2" field of Azerbaijan to Europe.</p> <p>Participating parties in the project are BP (20%), SOCAR (20%), Statoil (20%), Fluxys (19%), Enagas (16%) and Axpo (5%).</p>	<p>In July 2014, "Southern Gas Corridor" CJSC signed agreement with "SOCAR Energy Holdings AG" (SESH) on TAP Purchase, and Debt Transfer Contract with "Az-TAP GmbH". In accordance with these documents SOCAR transferred its 100% participating share in "AzTAP GmbH" to SOCAR Energy, and AzTAP GmbH transferred 20% of its participating share in TAP project to CJSC.</p>
<p><b>Baku Shipyard Plant</b></p> <p>Baku Shipyard Plant was put into operation with the participation of the President of Azerbaijan Republic in September 2013. Its shareholders are SOCAR (65%), Azerbaijan Investment Company (25%) and Keppel O&amp;M (10%).</p>	<p>Baku Shipyard Plant received its first order in 2014 in the amount of USD 40 million from SOCAR and Caspian Drilling Company for the construction of pontoons. And the Plant received three orders in total during 2014.</p>

## 3.6. Allocation of revenues from production industry to state budget and SOFAZ

The detailed information about the transfers of extractive companies to the state budget is given in 1.4. "Results of the reconciliation process" of this report. In 2014 the PSA contractors and subcontractors transferred to the state budget the proceeds of the income tax in the amount of AZN 252.8 million.<sup>115</sup>

In 2014, Oil Fund received revenue in the amount of AZN 12.7<sup>116</sup> billion (USD 16.2 billion). During the same year revenue sources of SOFAZ included the proceeds from export sales of Azerbaijan Republic, taking into account relevant share of hydrocarbons, transit fees, bonus payments, acreage fees, revenues from management of the Fund assets and etc.

### Structure of SOFAZ revenues sources in 2014 (AZN million)<sup>117</sup>

Sources	Amount (mln manat)
Proceeds from profit oil and gas sales	12,319.8
Revenues management of the Fund assets	387.2
Transit fee revenues	8.9
Bonus payments	13.3
Acreage fees	1.7
Other revenues and receipts	0.1
<b>Total</b>	<b>12,731.0</b>

### Structure of expenditures of the Fund in 2014 (AZN million)<sup>118</sup>

Sources	Amount (mln manat)
Transfer to State Budget	9,337.0
Construction of "Star" Oil Refinery Project	223.5
Improvement of the social conditions of refugees and internally displaced people	300.0
Samur-Apsheron irrigation system	80.2
Administrative expenses of the oil fund	45.9
Education of Azerbaijani youth abroad	33.5
New Baku-Tbilisi-Kars railway construction project	57.1
The second phase of operation "Shahdeniz" gas-condensate field	40.0
<b>Total</b>	<b>10,117.2</b>

<sup>115</sup> Collection of documents on state budget law of Azerbaijan Republic for 2016, 5th edition.

<sup>116</sup> "State Oil Fund of Azerbaijan Republic", "Annual Report 2014", "Oil Fund Budget Execution 2014", page 75, [http://www.oilfund.az/uploads/annual\\_2014az.pdf](http://www.oilfund.az/uploads/annual_2014az.pdf)

<sup>117</sup> "State Oil Fund of Azerbaijan Republic", "Annual Report 2014", [http://www.oilfund.az/uploads/annual\\_2014az.pdf](http://www.oilfund.az/uploads/annual_2014az.pdf)

<sup>118</sup> "State Oil Fund of Azerbaijan Republic", "Annual Report 2014" "Oil Fund Budget Execution 2014" page. 77, [http://www.oilfund.az/uploads/annual\\_2014az.pdf](http://www.oilfund.az/uploads/annual_2014az.pdf)

## 3.7. Register of licenses

A single license registry function in Azerbaijan is carried out by the Ministry of Economy of the Republic of Azerbaijan. Pursuant to the Regulations on carrying out a single license registry in Azerbaijan Republic approved by Order No.68, dated 30 September 2002 of the Ministry of Economy of the Republic of Azerbaijan, registry of all licenses issued in Azerbaijan is publicly available. On the other hand, the Regulations have been adopted according to Decree No.782<sup>119</sup> dated 2 September 2002 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.

Azerbaijan government retains all rights to execute such activities and engage internationally recognised 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 this law is publicly available, there exists no other licensing instrument for this purpose.

In accordance with the clause of 3.9 EITI Standard, the register of active companies that joined PSAs in the Azerbaijan Republic is established and is a matter of public record.<sup>120</sup> According to the requirement of the standard, the relevant information was indicated within the established register:

- Contract holders;
- Coordinates of the contract areas;
- Date of application, date of award and duration of the contract; and
- The commodity being produced.

<sup>119</sup> <http://www.e-qanun.az/framework/29576>

<sup>120</sup> EITI Azerbaijan official website, "Documents", "Registration of licenses", <http://www.eiti.az/index.php/en/senedler-2/registration-of-licenses>



## 3.8. Allocation of licenses

There is no any relevant law regulating oil or production sharing agreements (PSA) in the Republic of Azerbaijan; therefore there are no any criteria in the law on selection of potential investors.

In accordance with the existing practice, the selection of potential investors for development of hydrocarbon reserves is conducted directly as the result of negotiations between such investors and the authorised state body. Nevertheless, there are different form of international best practice on bidding process and the common used are the tenders. The PSA contracts have been chosen for development of the hydrocarbon exploration projects with foreign partners in Azerbaijan. The best practice of PSA was set up by signing the Azeri-Chirag-Gunashli on 20 September 1994 and since that time more than 30 PSA have been signed. The current implementation of PSA consists of the following procedures:

- The negotiations on the preparation of contracts on development of the hydrocarbon reserves are held between SOCAR which represents Azerbaijan government and the other interested investors.
- The memorandum of understanding (“MOU”) is signed an initial agreement between SOCAR and foreign investors on the project of exploration and production of hydrocarbon reserves (“Project”). In accordance with MOU provisions, investors are given the rights to conduct negotiations on basic commercial principals and conditions (“ABCPC”) within specified time period.
- Once negotiations on ABCPC are completed, SOCAR applies to the President of the Republic of Azerbaijan for approval of the document and also for obtaining the authority on this particular PSA to exercise governmental functions on during the effective period of PSA.
- Following the decree of the President of the Republic of Azerbaijan the parties start negotiations and sign PSA.

The signed PSA’s are submitted to the President of the Republic of Azerbaijan and then sent to the National Assembly (“Milli Majlis”) for ratification in the form of legislative initiative. Upon completion of negotiations by the energy and natural resources protection committee and after necessary procedures prescribed for the draft laws, the PSA is ratified. Upon ratification, the President of the Azerbaijan Republic signs the relevant law of the Azerbaijan Republic and PSA is considered to come into effect.<sup>121</sup>

On 22 December 2014, BP and SOCAR signed a new PSA to jointly “explore and develop potential prospects in the shallow water area around the Apsheron Peninsula in the Azerbaijan sector of the Caspian Sea”, according to the Order of the President of Azerbaijan Republic numbered. 944, dated on 22 December 2014, SOCAR, BP Exploration (Azerbaijan) SOCAR Oil Company limited and Affiliates (“SCA”) signed an agreement. The bill on the President’s decree dated 14 April 2015 entered into force, and is not currently publicly available.<sup>122</sup>

<sup>121</sup> The official letter of SOCAR to SOFAZ, 16 February 2016, Baku, Azerbaijan.

<sup>122</sup> “The official website of the President of the Republic of Azerbaijan”, “Documents”, “Laws”, <http://president.az/articles/14904>

## 3.9. Beneficial ownership

The “Beneficiary owner” concept is not recognised 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.<sup>123</sup>

## 3.10. Contracts

Production Sharing Agreements concluded between the host governments (Azerbaijan) and a contractor regulate 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.

Together with the main pipeline agreements, PSA enacted after being approved by the National Assembly of Azerbaijan Republic. These agreements regulate the accounting and tax regimes of the operating companies, contractors and sub-contractors’ activities.

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 Azerbaijan Republic on Commercial Secret dated 4 December 2001).

The secretariat has conducted a survey in order to obtain permission to upload the PSAs into Azerbaijan EITI 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. In addition, there is an access to the register of active companies joined to the PSA in the official website of EITI in Azerbaijan.

123 “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.

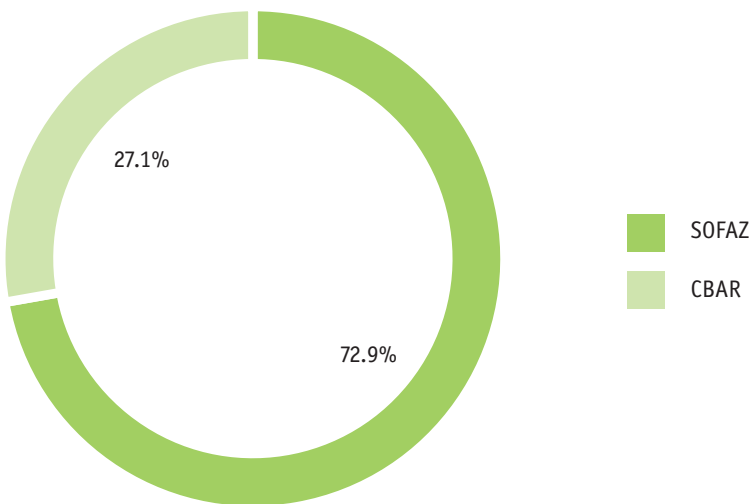
## 3.11. Other information

### Financial sector

According to the data provided by CBAR, average annual inflation rate was 1.4%. Average annual inflation rates of non-food products and services were 3.2% and 0.3% respectively. According to CBAR calculations, 0.4% of total average rate was caused by an increase in the cost of food, 0.8% associated with an increase in the cost of non-food items, 0.2% associated with an increase in the cost of services.<sup>124</sup>

### Strategic currency reserves

By the end of 2014, the country's currency reserves has increased by 1.7% in comparison to 2013 and reached USD 50.9 billion. The share of the State Oil Fund's assets in total currency reserves of the country was 72.9% while the share of the Central Bank of Azerbaijan Republic was 27.1%.<sup>125</sup>



124 "The Central Bank of the Republic of Azerbaijan" "Annual Report - 2014", "2.3. Inflation", page 12, [http://www.cbar.az/assets/3753/illik\\_hesabat\\_az2014-\\_web.pdf](http://www.cbar.az/assets/3753/illik_hesabat_az2014-_web.pdf)

125 "State Oil Fund of Azerbaijan Republic", "Annual Report - 2014", "Country economy and Oil Fund", page 26, [http://www.oilfund.az/uploads/annual\\_2014az.pdf](http://www.oilfund.az/uploads/annual_2014az.pdf)

# 4 RECONCILIATION

## 4.1 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 2014. 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 2014 reconciliation process are as follows:

N°	Government agencies/departments
1	State Oil Fund of Azerbaijan Republic
2	State Oil Company of the Azerbaijan Republic
3	Ministry of Taxes of Azerbaijan Republic
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 2014. This is due to the decision made by EITI Multi Stakeholder Group on 34th meeting dated 10 December 2014 to eliminate the information which is not relevant in Azerbaijan Republic.<sup>126</sup>

<sup>126</sup> "EITI official website", "documents", "extract from minutes", <http://www.eiti.az/index.php/en/senedler-2/extracts-from-minutes>

## 4.4. Social expenditures

Information regarding social expenditures was not included in EITI Report for the year ended 2014. This is due to the decision made by EITI Multi Stakeholder Group on 34th meeting dated 10 December 2014 to eliminate the information which is not relevant in the Republic of Azerbaijan.<sup>127</sup>

## 4.5. Sub-national payments and transfers

Information regarding sub-national payments and transfers was not included in EITI Report for the year ended 2014. This is due to the decision made by EITI Multi Stakeholder Group on 34th meeting dated 10 December 2014 to eliminate the information which is not relevant in the Republic of Azerbaijan.<sup>128</sup>

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

## 4.6. Sale of the state's share of production or other revenues collected in-kind

The table below demonstrates the customers of the crude oil of ACG and Shahdeniz shares that belong to the government in 2014.<sup>129</sup>

Name of the company	Quantity (net US bbls)	Amount (US dollars)
BP	9,595,494.680	\$952,473,348.82
BPCL	200,078.922	\$22,375,226.01
CEPSA	2,871,001.609	\$300,860,960.65
ENI	12,008,919.838	\$1,138,596,428.50
ETAP	3,858,866.052	\$354,393,848.18
EXXON	12,579,379.337	\$1,212,813,275.45
GAZPROM	629,769.354	\$67,663,678.93
GLENCORE	3,738,894.628	\$349,065,685.69
GUNVOR	1,973,540.959	\$200,138,246.60
INA	2,518,921.211	\$264,992,358.07
IOC	5,282,291.431	\$557,755,466.66
ITOCHU	629,837.598	\$69,840,801.73

<sup>127</sup> "EITI official website", "documents", "extract from minutes", <http://www.eiti.az/index.php/en/senedler-2/extracts-from-minutes>

<sup>128</sup> "EITI official website", "documents", "extract from minutes", <http://www.eiti.az/index.php/en/senedler-2/extracts-from-minutes>

<sup>129</sup> The official letter of SOCAR to SOFAZ, 16 February 2016, Baku, Azerbaijan.

Name of the company	Quantity (net US bbls)	Amount (US dollars)
JP MORGAN	6,088,970.944	\$614,338,065.24
KPI	5,668,499.665	\$544,664,643.02
LITASCO	599,322.710	\$60,988,277.62
MOL	629,726.091	\$71,109,299.92
MURCO	1,049,869.855	\$113,967,572.24
OMV	5,063,098.717	\$490,707,892.81
ORL	1,259,229.009	\$116,650,199.75
P66	2,416,845.908	\$256,549,318.66
PAZ	5,976,097.887	\$595,054,774.90
PETRACO	1,259,124.114	\$86,954,804.35
PETROGAL	4,578,438.264	\$434,587,913.46
PKN ORLEN	6,207,527.440	\$620,512,637.91
REPSOL	4,945,840.060	\$466,375,826.61
ROSNEFT	1,858,708.828	\$174,863,128.43
SARAS	10,769,549.093	\$1,107,160,018.78
SHELL	2,531,592.645	\$243,813,461.49
CPC	1,394,745.945	\$153,350,992.79
PERTAMINA	15,786,972.943	\$1,699,673,168.43
PTT	144,868.169	\$12,199,493.38
PV Oil	699,664.256	\$75,304,164.21
SUNCOR	1,978,772.991	\$217,027,095.99
TOTAL	17,106,280.253	\$1,617,792,317.01
TOTALERG	3,141,517.181	\$331,928,368.15
TRAFIGURA	629,734.733	\$69,554,830.99
VITOL	3,147,772.450	\$260,185,119.85
<b>Total</b>	<b>160,819,765.770</b>	<b>\$15,926,282,711.28</b>

# 5. RECONCILIATION RESULTS

We present below detailed results of our reconciliation process, 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	77.5	65.1	12.4	(12.4)	-	65.1	65.1	-
Monetary Inflow from gas	523.2	523.2	-	-	-	523.2	523.2	-
Bonuses	8.4	17.0	(8.6)	8.6	-	17.0	17.0	-
Transportation tariff to SOFAZ	3.9	11.4	(7.5)	7.5	-	11.4	11.4	-
Acreage fee	2.1	2.1	-	-	-	2.1	2.1	-
Profit tax	1,543.1	1,613.7	(70.6)	70.6	-	1,613.7	1,613.7	-
Other taxes	-	-	-	-	-	-	-	-

\*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))	160.9	160.8	0.1	(0.1)	-	160.8	160.8	-
Natural Gas (thsd. m <sup>3</sup> )	27,379.4	27,379.4	-	-	-	27,379.4	27,379.4	-
Associated Gas (thsd. m <sup>3</sup> )	2,720,827.9	2,892,987.8	(172,159.9)	172,159.9	-	2,892,987.8	2,892,987.8	-
Gold (thsd. ounces)	7.7	7.7	-	-	-	7.7	7.7	-
Silver (thsd. ounces)	1.0	1.0	-	-	-	1.0	1.0	-
Gold concentrate (thsd. ounces)	0.003	0.003	-	-	-	0.003	0.003	-
Silver concentrate (thsd. ounces)	3.2	3.2	-	-	-	3.2	3.2	-
Copper concentrate (thsd. tonnes)	0.07	0.07	-	-	-	0.07	0.07	-

## 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
Apscheron Investments limited	8.2	8.2	-	-	-	8.2	8.2	-
Azen Oil Company B.V.	4.7	4.7	-	-	-	4.7	4.7	-
Azerbaijan (ACG) limited	154.2	154.2	-	-	-	154.2	154.2	-
Azerbaijan (Shah Deniz) limited	60.2	85.9	(25.7)	25.7	-	85.9	85.9	-
Bahar Energy limited	8.9	8.9	-	-	-	8.9	8.9	-
Binagadi Oil Company	11.8	8.8	3.0	(3.0)	-	8.8	8.8	-
BP Exploration (Azerbaijan) limited	201.7	227.6	(25.9)	25.9	-	227.6	227.6	-
BP Exploration (Caspian Sea) limited	443.1	443.1	-	-	-	443.1	443.1	-
BP Shafag-Asiman limited	2.1	2.1	-	-	-	2.1	2.1	-
Chevron Khazar, ltd.	152.6	152.6	-	-	-	152.6	152.6	-
CNPC	3.8	3.8	-	-	-	3.8	3.8	-
Exxon Azerbaijan limited	104.6	104.6	-	-	-	104.6	104.6	-
Fortunamate Assets limited	3.8	3.8	-	-	-	3.8	3.8	-
Inpex Southwest Caspian Sea, ltd.	148.0	148.0	-	-	-	148.0	148.0	-
Itochu Oil Exploration (Azerbaijan) Inc.	56.1	56.1	-	-	-	56.1	56.1	-
Karasu Development Company	9.4	9.4	-	-	-	9.4	9.4	-
Lukoil Overseas Shah-Deniz	75.7	75.7	-	-	-	75.7	75.7	-
Naftiran Intertrade Co (NICO) limited	52.3	63.8	(11.5)	11.5	-	63.8	63.8	-
Neftchala Investments limited	0.8	0.8	-	-	-	0.8	0.8	-





The table below shows the list of foreign companies which made the transfers of crude oil to the Government. (mboe)

Foreign Extractive Companies	Template originally lodged			Adjustments		Final amount		
	Extractive Company	Government	Difference	Extractive Company	Government	Extractive Company	Government	Difference
Azerbaijan (ACG) limited	18.7	18.7	-	-	-	18.7	18.7	-
BP Exploration (Caspian Sea) limited	57.5	57.5	-	-	-	57.5	57.5	-
Chevron Khazar, ltd.	18.1	18.1	-	-	-	18.1	18.1	-
Exxon Azerbaijan limited	12.9	12.9	-	-	-	12.9	12.9	-
Inpex Southwest Caspian Sea, ltd.	17.6	17.6	-	-	-	17.6	17.6	-
Itochu Oil Exploration (Azerbaijan) Inc.	6.9	6.9	-	-	-	6.9	6.9	-
Neftchala Investments limited	0.1	-	0.1	(0.1)	-	-	-	-
ONGC Videsh limited	4.4	4.4	-	-	-	4.4	4.4	-
Statoil Apsheron A.S	13.8	13.8	-	-	-	13.8	13.8	-
Turkish Petroleum A.O	10.9	10.9	-	-	-	10.9	10.9	-

The table below shows the list of foreign companies which made the transfers of natural gas to the Government. (thsd. m<sup>3</sup>)

Foreign Extractive Companies	Template originally lodged			Adjustments		Final amount		
	Extractive Company	Government	Difference	Extractive Company	Government	Extractive Company	Government	Difference
Bahar Energy limited	27,379.4	27,379.4	-	-	-	27,379.4	27,379.4	-

The table below shows the list of foreign companies which made the transfers of associated gas to the Government. (thsd. m<sup>3</sup>)

Foreign Extractive Companies	Template originally lodged			Adjustments		Final amount		
	Extractive Company	Government	Difference	Extractive Company	Government	Extractive Company	Government	Difference
Apsheron Investments limited	61,379.2	60,672.0	707.2	(707.2)	-	60,672.0	60,672.0	-
Bahar Energy limited	7,896.9	7,896.9	-	-	-	7,896.9	7,896.9	-
Binagadi Oil Company	-	125.5	(125.5)	125.5	-	125.5	125.5	-
BP Exploration (Caspian Sea) limited	2,613,173.6	2,776,473.3	(163,299.7)	163,299.7	-	2,776,473.3	2,776,473.3	-
CNPC	8,152.1	8,152.1	-	-	-	8,152.1	8,152.1	-
Fortunamate Assets limited	8,152.1	8,152.1	-	-	-	8,152.1	8,152.1	-
Novatis Oil F.Z.E.	4,783.6	4,783.6	-	-	-	4,783.6	4,783.6	-
Salyan Neft LLC	16,304.2	16,304.2	-	-	-	16,304.2	16,304.2	-
Shirvan Investment limited	-	9,441.9	(9,441.9)	9,441.9	-	9,441.9	9,441.9	-
UGE-LANCER PTE.LTD	986.2	986.2	-	-	-	986.2	986.2	-

The table below shows the transfers of gold, silver and copper made by R.V. Investment Group Services Company to the Government.

In-kind payments	Template originally lodged			Adjustments		Final Amounts		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Gold (thsd. ounces)	7.7	7.7	-	-	-	7.7	7.7	-
Silver (thsd. ounces)	1.0	1.0	-	-	-	1.0	1.0	-
Gold concentrate (thsd. ounces)	0.003	0.003	-	-	-	0.003	0.003	-
Silver concentrate (thsd. ounces)	3.2	3.2	-	-	-	3.2	3.2	-
Copper concentrate (thsd. tonnes)	0.07	0.07	-	-	-	0.07	0.07	-

### 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
AzGerneft	3.3	3.3	-	-	-	3.3	3.3	-
SOCAR	1,405.0	633.9	771.1	(771.1)	-	633.9	633.9	-

## 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	22.9	22.9	-	-	-	22.9	22.9	-
Royalty	112.6	112.6	-	-	-	112.6	112.6	-
VAT	140.7	140.7	-	-	-	140.7	140.7	-
Property tax	38.1	38.1	-	-	-	38.1	38.1	-
Land tax	10.7	10.7	-	-	-	10.7	10.7	-
Price changes	-	311.7	(311.7)	311.7	-	311.7	311.7	-
Other taxes	1,083.3	0.5	1,082.8	(1,082.8)	-	0.5	0.5	-

We present in the table below a summary of the in kind transfers to the Government 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)	160.8	160.8	-	-	-	160.8	160.8	-
Natural Gas (thsd. m <sup>3</sup> )	27,379.4	27,379.4	-	-	-	27,379.4	27,379.4	-
Associated Gas (thsd. m <sup>3</sup> )	2,767,979.0	2,892,987.8	(125,008.8)	125,008.8	-	2,892,987.8	2,892,987.8	-

The table in 5.1. "Reconciliation by revenue stream (foreign companies)" and table above show the same figures. Both tables above illustrate the quantity of in kind transfers made by the foreign extractive companies to the State Oil Company of The Republic of Azerbaijan. In the reporting template of SOCAR submitted to the Independent Reconciler, the above mentioned quantities are also reflected as transfers made to the Government.

## 5.5. Payments made to Government according to PSA

Payment to Government by Foreign Extractive Companies on PSA in 2014:

Foreign Extractive Companies	Final Amounts (USD mln)	
	Extractive company	Government
<b>AZERI-CHIRAG-GUNASHLI</b>		
Azerbaijan (ACG) limited	154.2	154.2
BP Exploration (Caspian Sea) limited	443.1	443.1
Chevron Khazar, ltd.	152.6	152.6
Exxon Azerbaijan limited	104.6	104.6
Inpex Southwest Caspian Sea, ltd.	148.0	148.0
Itochu Oil Exploration (Azerbaijan) Inc.	56.1	56.1
ONGC Videsh limited	34.7	34.7
Statoil Apsheron A.S	96.1	96.1
Turkish Petroleum A.O	87.2	87.2
<b>SHAHDENIZ</b>		
Azerbaijan (Shah Deniz) limited	85.9	85.9
BP Exploration (Azerbaijan) limited	227.6	227.6
SGC Upstream LLC	12.4	12.4
Lukoil Overseas Shah Deniz	75.7	75.7
Naftiran Intertrade Co (NICO) limited	63.8	63.8
Statoil Shah Deniz AS	180.4	180.4
TOTAL E & P Azerbaijan B.V.	101.5	101.5
Turkish Petroleum Overseas Company ltd	87.1	87.1
<b>BINAGADI, GIRMAKI, CHAKHNAGLAR, SULUTEPE, MASAZIR, FATMAI, SHABANDAGH AND SIANSHOR</b>		
Azen Oil Company B.V.	4.7	4.7
Binagadi Oil Company	8.8	8.8
<b>BAHAR AND GUM DENİZ</b>		
Bahar Energy limited	8.9	8.9
<b>ZIGH HOVSAN</b>		
Apsheron Investment limited	8.2	8.2
<b>SHAFAG-ASIMAN</b>		
BP Shafag-Asiman limited	2.1	2.1
<b>KURSENGİ AND GARABAGHLY</b>		
CNPC	3.8	3.8

Foreign Extractive Companies	Final Amounts (USD mln)	
	Extractive company	Government
Fortunamate Assets limited	3.8	3.8
Salyan Neft LLC	0.7	0.7
<b>MISHOVDAGH AND KELAMADDIN</b>		
Ali-Bayramli Neft LLC	-	-
Karasu Development Company	9.4	9.4
<b>NEFTCHALA, KHILLI AND DUROVDAGH-BABAZANAN</b>		
Neftchala Investment limited	0.8	0.8
<b>SURAKHANY</b>		
Novatis Oil F.Z.E.	23.5	23.5
<b>BALAXANY</b>		
UGE-LANCER PTE.LTD	23.3	23.3
<b>KUROVDAGH</b>		
Shirvan Investment limited	16.0	16.0

Some companies that submitted reports have not been included in this table. The reason is that the companies have not made any payments to the Government. These companies are shown in the table under the foreign extractive industry companies heading on the 87th page of this report.

## 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	(12.4)

The total negative difference of profit oil was USD 12.4 million. The table below demonstrates the Companies which have 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	
Binagadi Oil Company	11.8	(3.0)	8.8	8.8	-	8.8	-
Karasu Development Company	9.4	(9.4)	-	-	-	-	-

- The negative amount of difference USD 3.0 million indicates payment made to SOCAR by the extractive Company which should not be included to the report. The amount included into the report is the transfer made to the State Oil Fund of The Republic of Azerbaijan and for this reason the initial amount of the fee mentioned in the Joint Venture of the Company have been amended.
- The profit tax amount has been mistakenly included in to the Monetary inflow from Oil category by the extractive Company. The amount included constitutes USD 9.4 million.

**Bonus payment to SOFAZ: (USD mln)**

Revenue streams	Extractive company
Bonus	8.6

The total positive difference related to bonuses was USD 8.6 million. 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	-	1.9	1.9	1.9	-	1.9	-
Statoil Shah Deniz A.S.		4.8	4.8	4.8	-	4.8	-
Total E&P Azerbaijan B.V.	-	1.9	1.9	1.9	-	1.9	-

- The Company had omitted to indicate the payment amounting to USD 1.9 million in the initial reporting template;
- The Company had omitted to indicate the payment amounting to USD 4.8 million in the initial reporting template; and
- The Company had omitted to indicate the payment amounting to USD 1.9 million in the initial reporting template.

**Transportation tariff: (USD mln)**

Revenue streams	Extractive company
Transportation tariff	7.5

The positive difference of USD 7.5 million 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	70.6

The total positive difference of profit taxes were USD 70.6 million. 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	
Azerbaijan (Shah Deniz) limited	-	25.7	25.7	25.7	-	25.7	-
BP Exploration (Azerbaijan) limited	49.9	25.9	75.8	75.8	-	75.8	-
Karasu Development Company	-	9.4	9.4	9.4	-	9.4	-
Naftiran Intertrade Co (NICO) limited	-	9.6	9.6	9.6	-	9.6	-

- The Company had omitted to include the amount of profit tax of USD 25.7 million in the Reporting Template;
- The Company has omitted to include the difference amount of USD 25.9 million in the Reporting Template. This is the difference identified during the audit for the period 31 December 2014 and is the penalty paid to Ministry of Taxes of the Republic of Azerbaijan;
- The profit tax in the amount of USD 9.4 million has been mistakenly included into the different line; and
- The extractive Company had omitted to include the amount of USD 9.6 million. of profit tax into the Initial report.

**Local Extractive Company adjustments**

**Price Changes: (AZN mln)**

Revenue streams	Extractive company
Price Changes	311.7

The total positive difference of price changes was AZN 311.7 million. 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	-	311.7	311.7	311.7	-	311.7	-



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)**

<b>Revenue streams</b>	<b>Extractive company</b>
Other taxes	(1,082.8)

The total negative difference of other taxes was AZN 1,082.8 million. The table below demonstrates the company which had incorrectly included the data into the reporting template: (AZN mln)

<b>Local Extractive company</b>	<b>Per Company</b>			<b>Per Government</b>			<b>Final Difference</b>
	<b>Original</b>	<b>AJE</b>	<b>Final</b>	<b>Original</b>	<b>AJE</b>	<b>Final</b>	
SOCAR	1,083.3	(1,082.8)	0.5	0.5	-	0.5	-

SOCAR has included into the report taxes with heading other taxes that are indicated in the table below. Though, the only tax that should be included into the reporting template was the road tax with the amount of AZN 0.5 million: (AZN mln)

<b>Other taxes</b>	<b>Amount</b>
Export tax	234.0
Excise tax	769.5
Road tax	0.5
Other taxes	1.6
Marketing export tax	17.0
Gas export tax	60.7

#### **Adjustments of in-kind volumes**

##### **Crude oil:**

<b>In kind transfers</b>	<b>Extractive company (mboe)</b>
Crude Oil	(0.1)

The total difference of crude oil was 0.1 million barrels. We set out in the table below a summary of the adjustments made:

<b>Foreign Extractive company</b>	<b>Per Company (mboe)</b>			<b>Per Government (mboe)</b>			<b>Final Difference</b>
	<b>Original</b>	<b>AJE</b>	<b>Final</b>	<b>Original</b>	<b>AJE</b>	<b>Final</b>	
Neftchala Investments limited	0.1	(0.1)	-	-	-	-	-

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

### Associated Gas:

In kind transfers	Extractive company (thsd. m <sup>3</sup> )
Associated Gas	172,159.9

The total difference of associated gas was 172,160 thousand m<sup>3</sup>. We set out in the table below a summary of the adjustments made:

Foreign Extractive company	Per Company (thsd. m <sup>3</sup> )			Per Government (thsd. m <sup>3</sup> )			Final Difference
	Original	AJE	Final	Original	AJE	Final	
Apsheron Investments limited	61,379.2	(707.2)	60,672.0	60,672.0	-	60,672.0	-
Binagadi Oil Company	-	125.5	125.5	125.5	-	125.5	-
BP Exploration (Caspian Sea) limited	2,613,173.6	163,299.7	2,776,473.3	2,776,473.3	-	2,776,473.3	-
Shirvan Investment limited	-	9,441.9	9,441.9	9,441.9	-	9,441.9	-

- The difference occurred as a result of incorrectly indicated volume of associated gas delivered to SOCAR by Apsheron Investment limited Company; and
- The volume of associated gas to SOCAR was not included into the report submitted by two companies (Binagadi Oil Company and Shirvan Investment limited).

The reason for the difference on the volume indicators of associated gas that is indicated in the reports submitted by SOCAR and BP Exploration (Caspian Sea) limited are shown as follows:

### Volume of gas delivered to the Sangachal Terminal

A foreign extractive company reported the volume measured in Normal Cubic Metres (Nm<sup>3</sup>) at 0°C whereas the Government reported the volume measured in Standard Cubic Metres (Sm<sup>3</sup>) at 20°C.

<b>Government</b>	2,125,932.1
<b>Company</b>	1,990,643.3
<b>Difference</b>	<b>135,288.8</b>

The Nm<sup>3</sup> can be converted to Sm<sup>3</sup> by using coefficient of Nm<sup>3</sup>= Sm<sup>3</sup>/1.07322.

### Volume of gas delivered to Oil Rocks

A foreign extractive company reported the volume measured in Normal Cubic Metres (Nm<sup>3</sup>) at 0°C whereas the Government reported the volume measured in Standard Cubic Metres (Sm<sup>3</sup>) at 15°C.

<b>Government</b>	650,541.2
<b>Company</b>	622,530.3
<b>Difference</b>	<b>28,010.9</b>

The Nm<sup>3</sup> can be converted to Sm<sup>3</sup> by using coefficient of Nm<sup>3</sup>= Sm<sup>3</sup>/1.05491.

# 6. SPECIAL AUDIT PROCEDURES

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 analyse 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 39 participating countries on the reconciliation process in 2014. We selected 6 (six) extractive companies and tested all items (100% testing) related to those Companies.

According to our internal procedures we have selected seven companies using the RAND formula (a random number generating formula) in "Microsoft Excel":

Nº	Name of the company	Date of the testing
1	Apsheron Investments limited	27.11.2015
2	CNPC	27.11.2015
3	Fortunamate Assets limited	27.11.2015
4	Karasu Development Company	27.11.2015
5	Turkish Petroleum A.O.	27.11.2015
6	Turkish Petroleum Overseas Company ltd	27.11.2015

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:

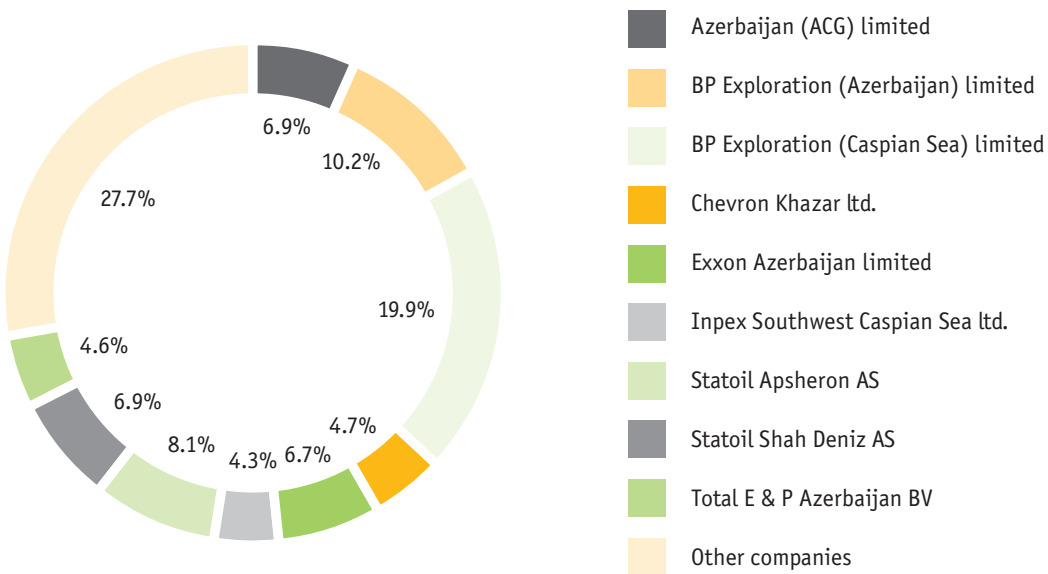
- Profit tax declarations;
- Profit Tax Return and Independent Auditor's Report;
- Payment orders;
- Letters on transfer to relevant government agencies;
- Reconciliation acts; and
- Act of acceptance of gas.

# 7 ANALYSIS OF GOVERNMENT REVENUES

## Analysis of payments by companies' contribution

The analysis of Government revenues by companies' contribution indicates that 9 foreign companies contributed approximately 72.3% of total Government revenues for the year ended 31 December 2014.

## Top 9 Companies in Extractive sector

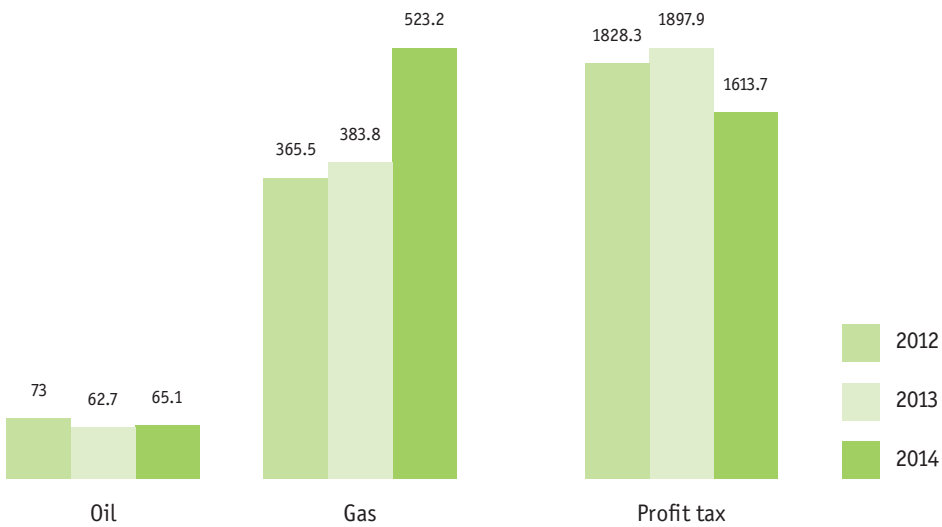


**Comparison of final information for the years 2012, 2013 and 2014**

Government’s interest in the foreign Companies’ extractive output:

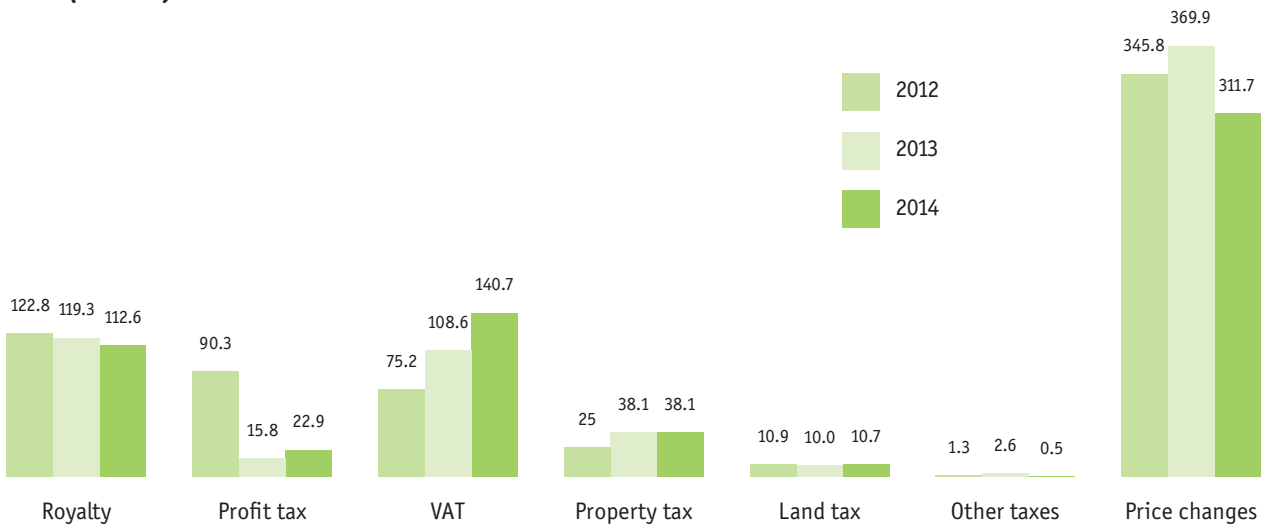
**Monetary Inflow from Oil and Gas (USD mln)**

**Profit tax (USD mln)**



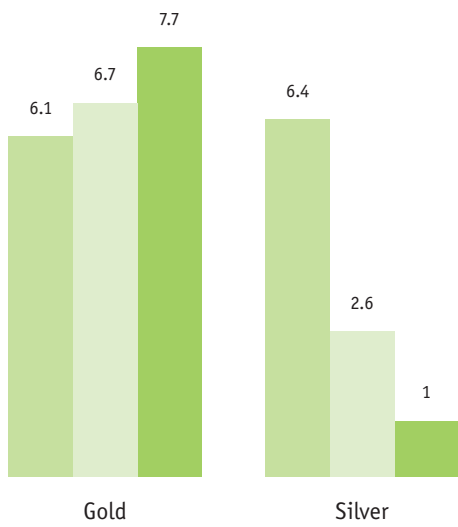
Government’s interest in the local Companies’ extractive output:

**Taxes (AZN mln)**

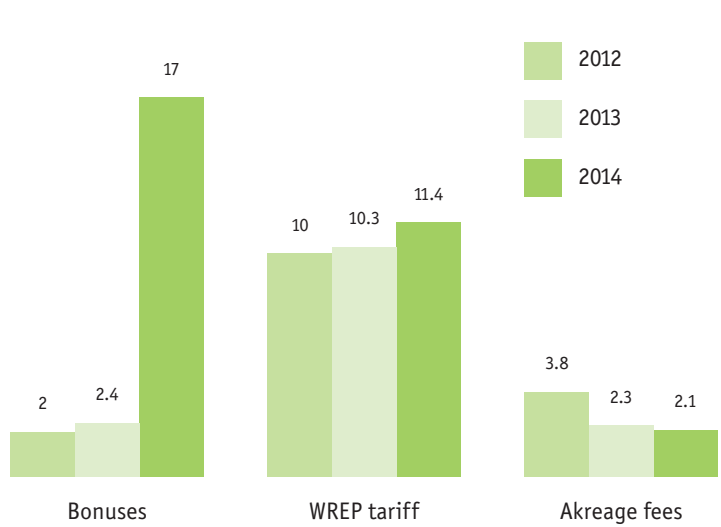


Government's interest in the foreign Companies' extractive output

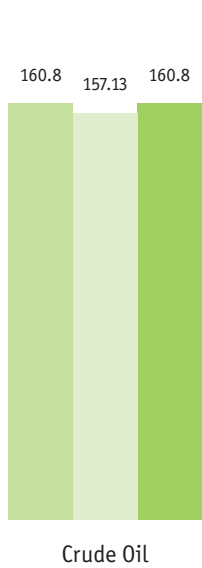
**Gold and Silver (thsd. ounces)**



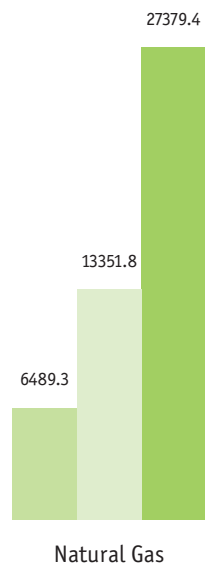
**Other Payments (mln US dollars)**



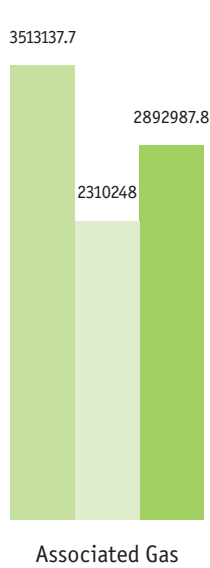
**Crude Oil (mboe)**



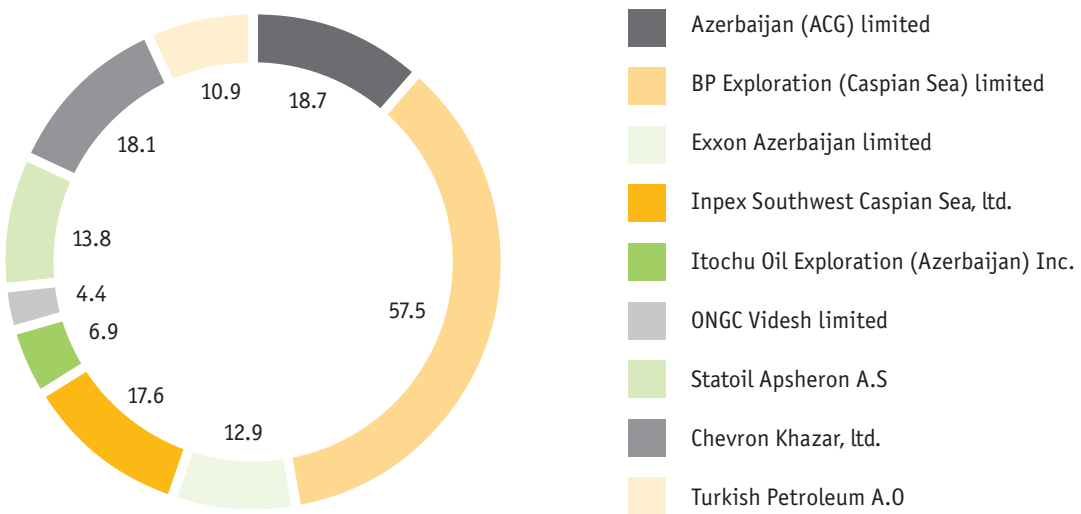
**Natural Gas (thsd. m³)**



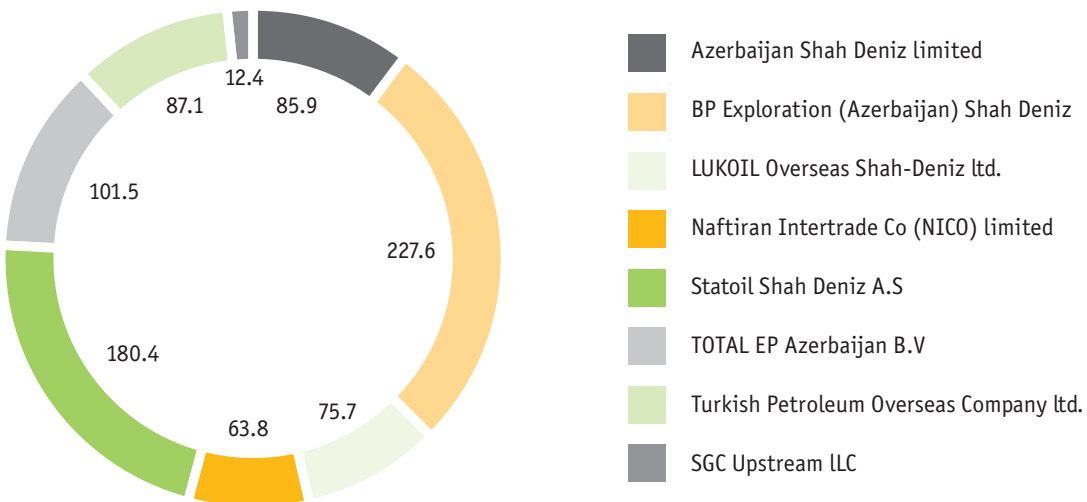
**Associated Gas (thsd. m³)**



Transferred crude oil from Foreign Extractive Companies to the Government in 2014.  
(million barrels)



Cash inflow from Gas transportation in 2014.  
(million USD)





## 8. RECOMMENDATIONS

### 8.1. Lessons learned from the 2014 reconciliation

We have prepared the report for the year ended 31 December 2014 according to our recommendations of the previous year experience and working groups' contributions. 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 natures of errors were rounding issues, omitting figures from the Reporting templates, including amounts and volumes 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 that seminars and training should be organised for the participants of the reconciliation process. It would increase the level of productivity and decrease the number of recurrent errors repeated each year.

In accordance with the TOR and EITI Requirements # 5 to ensure the credibility of submitted data, the companies and government agencies were required to have their reporting templates signed by a senior official.

Despite the fact that the companies and government agencies have the Reporting templates signed by the senior official, our recommendation for forthcoming years is for them to undertake necessary steps to ensure that reports submitted by extractive companies and government agencies are certified by an independent external auditor. It will decrease the number of errors made by the companies during the submission of reporting templates each year.

## 8.2. Follow up of the recommendations of the 2013 EITI Report

### NGO Coalition comments and recommendations on 2013 EITI report

Coalition Comments	Implemented (Yes/No/On-going)	Description of action undertaken
Ensure that modifications (reforms) of the legal norms, fiscal mode and role of state agencies within a reporting year is included separately into report.	Yes	The information has been included in the part of 3.1 "Background" of this Report, page 49, "Ongoing reforms in extractive industry during 2014".
According to the legislation of the Republic of Azerbaijan forming structure of local budget revenues	Yes	The information has been included in the part of 3.1 "Background", page 45, "The state budget structure of The Republic of Azerbaijan".
Include the information regarding the size of reserves of all field and product types (oil, gas, condensate, gold, silver etc.).	Yes	The information on volume of reserves has been indicated in the part of 3.2 "Overview of Mining Industry", page 50.
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.	Yes	The appropriate information has been included into the report which is on the part of 3.4 "Production volume", the page 65.
Include investment and employment indicators of individual extracting companies in the EITI Report along with contribution of the extracting industry to the economy throughout a reporting year as it would be a reasonable practice.	On-going	The information has been included in the part of 3.3 "Contribution of the extractive industry to the economy of Azerbaijan", "Total investment in main capital (2014)" "Characteristics of employment in the sectors of economy", page 62-63. According to the publicly available information we have obtained only information about BP has been included into the report. Information about the other companies will be indicated in reports for the next years in the case if it will be publicly available.
Include SOCAR's share of foreign subsidiaries, income, assets and debt obligations of the data into the report	Yes	The information has been included in the part of 3.5. "State participation in extractive industry" b) The level of beneficial ownership in mining, oil and gas companies operating within the country's extractive industry, page 72 and 73.
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 3.6 b of the Standard for the next year report	Yes	The information has been included in the part of 3.5 "State participation in extractive industry", page 74, "c) Disclosure of quasi-fiscal expenditures".

Coalition Comments	Implemented (Yes/No/On-going)	Description of action undertaken
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	Yes	The information has been included in the part of "3.5 State participation in extractive industry", page 72-73, "b) The level of beneficial ownership in mining, oil and gas companies operating within the country's extractive industry".
Include the participating interests of the state enterprises, share capital of joint ventures and associates, as well as the responsibility to pay the costs of the various stages of the project cycle, for example; fully paid capital, free capital and semi-active (nominal).	No	Due to the lack of information publicly available there were not any relevant information to be added into the report.
If revenues are not mentioned in the national budget, the distribution of the revenues should be explained	Yes	As the state budget revenues and expenditures approved by the The National Assembly ("Milli Majlis") of The Republic of Azerbaijan, there is no any revenue and expenditure that has not been indicated.
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.	Yes	The information has been included in the part of "3.5 State participation in extractive industry", page 67, "a) Background", "SOCAR's relationship with relevant Government agencies"
According to the 3.9 and 3.10 clause of EITI Standard (Registration and assignment of licenses) to include into the report relevant information about extractive industry companies.	Yes	The information has been included in the part of "3.7. Register of licenses", page 78.

### Independent Reconcilers' recommendations on 2013 EITI report

Recommendation	Implemented (Yes/No/On - going)	Description of action undertaken
<b>Certified reporting templates</b>		
<p>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.</p>	Yes	<p>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.</p>
<b>Training &amp; seminars</b>		
<p>It was recommended that seminars and training should be organised for the participants of the reconciliation process. This would increase the level of productivity and decrease the number of recurrent errors repeated each year.</p>	Yes	<p>The training has been organised in July 2015 prior to commencement of the reconciliation process, which covered the topics in relation to the new EITI requirements.</p>

# 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 2014 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 organisations detailed in Annex 5.

## Annex 2. Extractive companies profile

### Foreign Extractive Companies

#	Company Name	Responsible	TIN	Reporting Date	Stamped & Signed	PSA
1	Apsheron Investments limited	İqor Kindoda	1401089201	05/08/2015	•	Zigh Hovsan
2	Ali-Bayramli Neft LLC	Musayev Sayyad	9900076291	01/09/2015	•	Mishovdagh and Kalamaddin
3	Azen Oil Company B.V.	Sara Suleymanova	1700357251	07/09/2015	•	Binagadi, Girmaki & Chakhnaglar
4	Azerbaijan (ACG) limited	Latifov Yashar	9900025071	06/08/2015	•	Azeri-Chıraq-Guneshli
5	Azerbaijan (Shah Deniz) limited	Aliyarov Rauf	9900050981	04/08/2015	•	Shah Deniz
6	Bahar Energy limited	Mammadov Azer	1401921221	07/09/2015	•	Bahar and Gum Deniz
7	Binagadi Oil Company	Sara Suleymanova	1700368391	07/09/2015	•	Binagadi, Girmaki & Chakhnaglar
8	BP Exploration (Azerbaijan) limited	Gordon Birrell	9900070341	06/08/2015	•	Shah Deniz
9	BP Exploration (Caspian Sea) limited	Gordon Birrell	9900070211	06/08/2015	•	Azeri-Chıraq-Guneshli
10	BP Shafag-Asiman limited	Gordon Birrell	1701289681	06/08/2015	•	Shafag-Asiman
11	Chevron Khazar, ltd.	Eric Walker	9900046581	11/08/2015	•	Azeri-Chıraq-Guneshli
12	CNPC	Aliusmanov Yaqub	1700489661	19/08/2015	•	Kursangi and Garabaghli
13	Commonwealth	Alastair McBain	9900007571	14/08/2015	•	Gobustan
14	Exxon Azerbaijan limited	Austar Mac leod	9900061191	31/08/2015	•	Azeri-Chıraq-Guneshli
15	Fortunamate Assets limited	Aliusmanov Yagub	9900058401	19/08/2015	•	Kursangi and Garabaghli
16	GDF SUEZ E&P Apsheron BV	Heike Liebold	1701157271	24/08/2015	•	EDPSA Apsheron
17	Gobustan Neft LLC	Rasim Gurbanov	9900076161	19/08/2015	•	Gobustan
18	Inpex Southwest Caspian Sea, ltd.	Yasuhisa Kanehara	990003863	22/08/2015	•	Azeri-Chıraq-Guneshli
19	Itochu Oil Exploration (Azerbaijan) Inc.	Yoshihisa Okada	9900017401	11/08/2015	•	Azeri-Chıraq-Guneshli
20	Karasu Development Company	Anar Shushali	9900028001	26/08/2015	•	Mishovdagh and Kalamaddin

#	Company Name	Responsible	TIN	Reporting Date	Stamped & Signed	PSA
21	Kura Valley Development Company ltd.	İgor Kindoda	9900051361	26/08/2015	•	Padar
22	Lukoil Overseas Shah-Deniz	Y.M. Popliko	9900074991	26/08/2015	•	Shah Deniz
23	Naftiran Intertrade Co (NICO) limited	Mehdi Javadı	9900072741	02/09/2015	•	Shah Deniz
24	Neftchala Investments limited	Babayev Kamil	1401551781	27/08/2015	•	Neftchala, Khilli Durovdagh-Babazanan
25	Novatis Oil F.Z.E.	Mammadov Azer	1700478091	17/08/2015	•	Surakhani
26	ONGC Videsh limited	N/A	1701431501	27/08/2015	•	Azeri-Chirraq-Guneshli
27	R.V. Investment Group Services	Bahrüz Rustamov	9900047931	03/09/2015	•	Gold, silver and copper
28	Salyan Neft LLC	Hafiz Dunyamaliyev	9900076031	13/08/2015	•	Kursangi and Garabaghli
29	Shirvan Investment limited	Davlyatov V.O	1401553101	07/08/2015	•	Kurovdagh
30	SGC Upstream LLC	Ilyas Zeynalov	1701618791	12/11/2015	•	Shah Deniz
31	Statoil Apsheron A.S	Aynur Sultanlı	9900066351	25/08/2015	•	Azeri-Chirraq-Guneshli
32	Statoil Shah Deniz A.S	Aynur Sultanlı	1701175611	25/08/2015	•	Shah Deniz
33	Total E & P Apsheron B.V	Anna Merzlyakova	1401620891	27/08/2015	•	EDPSA Apsheron
34	Total E & P Azerbaijan B.V	Anna Merzlyakova	9900034931	27/08/2015	•	Shah Deniz
35	Turkish Petroleum A.O	Ayhan Durukan	9900006091	18/08/2015	•	Azeri-Chirraq-Guneshli
36	Turkish Petroleum Overseas Company ltd	Ayhan Durukan	9900005861	18/08/2015	•	Shah Deniz
37	UGE-LANCER PTE.LTD	Oktay Askerov	1501980421	30/07/2015	•	Balakhamı

#### Local Extractive Companies

#	Company Name	Responsible	TIN	Reporting Date	Stamped & Signed
1	AzGerneft	Chingiz Isayev	9900047091	11/08/2015	•
2	SOCAR	Vugar Sharifov	9900003871	28/08/2015	•

## 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 2014

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)		



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 \_\_\_\_\_













































### Shirvan Investment limited

(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	10.2	10.2	-	-	-	10.2	10.2	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transportation tariff to SOFAZ	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	5.8	5.8	-	-	-	5.8	5.8	-
Other taxes	-	-	-	-	-	-	-	-

In-kind payments	Template originally lodged			Adjustments		Adjustments		
	Extractive company	Government	Difference	Extractive company	Government	Extractive company	Government	Difference
Crude Oil (mboe)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	9,441.9	(9,441.9)	9,441.9	-	9,441.9	9,441.9	-

### 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	19.6	19.6	-	-	-	19.6	19.6	-
Royalty	112.6	112.6	-	-	-	112.6	112.6	-
VAT	140.7	140.7	-	-	-	140.7	140.7	-
Property tax	38.1	38.1	-	-	-	38.1	38.1	-
Land tax	10.7	10.7	-	-	-	10.7	10.7	-
Price changes	-	311.7	(311.7)	311.7	-	311.7	311.7	-
Other taxes	1,083.3	0.5	1,082.8	(1,082.8)	-	0.5	0.5	-











In-kind payments	Template originally lodged			Adjustments		Adjustments		
	Extractive company	Government	Difference	Extractive company	Government	Extractive company	Government	Difference
Crude Oil (mboe)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m³)	-	-	-	-	-	-	-	-
Associated Gas (thsd. m³)	-	-	-	-	-	-	-	-

**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	13.0	13.0	-	-	-	13.0	13.0	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transportation tariff to SOFAZ	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	10.3	10.3	-	-	-	10.3	10.3	-
Other taxes	-	-	-	-	-	-	-	-

In-kind payments	Template originally lodged			Adjustments		Adjustments		
	Extractive company	Government	Difference	Extractive company	Government	Extractive company	Government	Difference
Crude Oil (mboe)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m³)	-	-	-	-	-	-	-	-
Associated Gas (thsd. m³)	986.2	986.2	-	-	-	986.2	986.2	-

## 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
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

#	Non-government organisations
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
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

#	Non-government organisations
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 Organisation
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
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 of
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

#	Non-government organisations
101.	Support to Youth Scientific Development Public Union
102.	The Western Regional Representative of Azerbaijan National Committee Of Helsinki Citizen's Assembly
103.	Trust for Future" Care for the Vulnerable People Public Union
104.	Ulduz Electron Organisation
105.	World of law legal Propaganda Public Union
106.	Woman World Public Union
107.	Young Democratic Reformers Public Union
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	Suheyla Jafarov

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# **OPINION of Increasing Transparency in Extractive Industry (ITEI) NGO Coalition on Azerbaijan 2014 EITI Report**

(The current opinion was discussed and accepted at February 17, 2016 meeting of ITEI NGO Coalition)

Baku – 2016

## INTRODUCTION

Azerbaijan 2014 EITI Report is the second one developed in accordance with EITI Standards and the schedule determined by International EITI Board. The report has been developed by “Moore Stephens Azerbaijan” selected as Independent Administrator by the Multi-stakeholder Group (MSG).

The report states information on January 01 – December 31, 2014 fiscal year, including the situation on the extractive industry in Azerbaijan Republic and its regulation features, contribution of the extractive industry to the economy of the country and functioning of the national extractive company, individualized information on the payments by the extractive companies of the country to government and also reconciliation outcomes of information on payments to the government by these companies and benefits the government gets from the extractive companies.

In accordance with Paragraph 2.4.9 of the Memorandum on “The Application of Extractive Industry Transparency Initiative in Azerbaijan Republic”, the experts of ITEI NGO Coalition have studied Azerbaijan 2014 EITI Report in details, evaluated the content and structure of the report in accordance with the requirements of EITI Standards and developed this Opinion following the essential analysis and research.

The Opinion also states the characteristic features of 2014 EITI Report, shortcomings on information in “Conceptual Data” section, as well as the discrepancies in information on reconciliation process. The Coalition experts have conducted detailed analysis of the introduction format (i.e., Report design) of the information in 2014 Azerbaijan EITI report, compared this format with the method of introducing information in reports of other counties and determined the shortcomings. The experts have also evaluated the implementation status of recommendations by Coalition experts on 2013 EITI Report. The outcomes of the mentioned evaluation are also reflected in the current Opinion. The final section of the Opinion includes Coalition recommendations on the elimination of shortcomings and errors revealed as the result of the study of the report.

The Opinion was discussed and accepted at February \_\_\_\_ 2016 meeting of ITEI NGO Coalition Council and decided to be submitted to MSG.

## I. The features of 2014 EITI Report

1.1. As is known, during the 29th meeting of the International EITI Board dated April 14-15, 2015 in Brazzaville it was decided to bring down Azerbaijan's status based on the evaluation of EITI process in Azerbaijan in January-March 2015. According to the decision, Azerbaijan government and MSG had to take reformatory measures in order to ensure a more active participation of the Civil Society (CS) in EITI process, considerably improve CS activity environment and provide information (including approving facts) of activities carried out to International EITI Board. Based on the above, the decision on the status of Azerbaijan has to be reviewed. This would urge a more responsible approach both to the development of EITI reports and enrichment of the report contents.

1.2. Due to the fact that 2014 Azerbaijan EITI Report was the second one developed in accordance with the requirements of EITI Standards, both the MSG and local Secretariat participating in the development of the Report and the Independent Administrator directly implementing this activity already had some formed experience in the development of reports in accordance with EITI Standards (development of 2013 EITI report). Besides, the opinions of both International EITI Secretariat and ITEI NGO Coalition largely stated the discrepancies and shortcomings of 2013 EITI Report based on the requirements of EITI Standards. Both this formed experience and remarks and recommendations on 2013 report enabled a more perfect development of 2014 Report.

1.3. All the remarks and recommendations regarding 2013 Report were discussed at MSG meetings and the Independent Administrator was tasked to eliminate all the shortcomings of the previous report upon development of 2014 Report. The Working Group established by the decision of the MSG upon equal participation of the parties during 2014 EITI Report development process met with the Independent Administrator a number of times and discussed the ways of considering the remarks and recommendations on 2013 EITI Report in the report for 2014. Besides, having acquainted with the initial draft of 2014 Report, the International Secretariat mentioned certain issues irrelevant with the Standards to the local Secretariat and Working Group. The remarks by the International Secretariat and the difficulties the independent Administrator faced upon acquisition of necessary information on certain requirements of the Standards, as well as the resolutions of these problems were discussed during MSG meetings.

1.4. The above-mentioned factors enabled certain changes in the content of 2014 Report and composition of contextual data compared to the Report for 2013. For instance, the Summary section of 2014 Report includes schedules with information on payments to the government by companies joining EITI both in terms of value and in natural form, which provides the description of individualized information on companies. Changes in contextual information are mentioned below, in the next section of the opinion. The 2014 report also includes a summary schedule reflecting the implementation status of remarks and recommendations related to 2013 EITI Report.

## II Analysis of the “Contextual data” section of the Report

As is known, EITI Reports shall include contextual data on industries dealing with mineral extraction in accordance with requirement 3 of EITI Standards. It is stated as a requirement that the reports reflect (or owners of certain information shall state the references to the sources open for the societies) most of contextual information mentioned in the Standards.

2.1. According to Requirement 3.2 of the Standard EITI report shall describe the legal norms regulating the extractive industry and the fiscal regime. This shall include information on fiscal regime, as well as summary of fiscal obligations, summary of corresponding laws and rules and information on the roles and duties of corresponding state agencies. According to this requirement of the Standard, section 3.1 of 2014 EITI Report includes general information on the extractive industry of the country, legal norms on the functioning of the extractive industry, fiscal regime and role of state agencies. Apart from the repeated information from the report of the previous year, there are also certain additions: the links of the e-portals of the legal norms (laws and orders) accepted within the country, information on the government bodies that received the payments by the extractive industry to the government, general information on the structures of the state budget and consolidated budget, information on the taxes paid to local (municipality) budgets and reforms on extractive industry.

The “International agreements” subsection mentions 2 documents: one is the agreement signed in Moscow on pipelines and the second is the agreement signed in Kiev on the establishment of oil and gas transmission systems. Both are not very essential documents. And this is the end of the international agreements section of the report. The report creates some wrong impression that the international agreements of the country on extractive industry, including the transmission and transit of oil and gas are just about these two documents. Therefore, it would be better to either exclude the “international agreements” subsection or enrich this subsection with more detailed information.

Nevertheless, it is only the names of the legal norms that are mentioned, with no information provided on how and which relations of the extractive industry are regulated through these norms. Listing the existing legal norms is not enough to fully describe the legal regime. In order to comprehend the legal regime, it is necessary to provide a short summary on specific relations and mechanisms that each legal norm listed regulates in regard to the extractive industry, as well as the interaction of these norms and mechanisms. This would increase the importance of the information provided.

The description of the state budget and consolidated budget in the report is not quite clear. Neither is the mechanism on extractive revenues entering into the state and consolidated budgets (system input) and hierarchy distinct. Therefore, we think that information on legal and fiscal regimes shall be stated in the form of graphs (visual schemes) rather than listing.

Due to the fact that information on state budget revenues and expenses is related to requirement 3.7 of the Standard rather than 3.2, it would be more advisable to include this information into the corresponding section of the report.

In accordance with the Coalition recommendation, certain information on fiscal devolution has been included into the Report; though missed out of the Report, it is evident that the budgets of local governance bodies of the territories where extractive fields (deposits) are located receive no payments from the extractive revenues of oil, gas and other minerals.

According to the Standard, the Report shall reflect the reforms carried out by the government during the reporting year. The given Report lists the changes in the legal norms related to the extractive industry in 2014; however, nothing is mentioned about the main point of the changes in legal norms and their possible impacts on the regulation of the activities in the extractive industry. 2.2. According to section 3.3 of Requirement 3 of EITI Standards, the Reports shall include the summary of any important exploration works in the extractive industry, including the given fields. Section 3.2 on “the Summary of the Extractive Industry” of 2014 EITI Report includes information on the volume of oil and gas resources of the country, acting agreements on offshore and onshore oil and gas deposits, the parties of these agreements and their shares, oil and gas pipelines, silver and gold production, as

well as exploration works on certain deposits. This information is primarily repeated from 2013 EITI report. It is only the changes in Shahdeniz PSA participants and their shares that have been added and the information on exploration works have been updated.

The Coalition opinion on 2013 Report recommended to include the volume of resources on all deposits and products (oil, gas, condensate, silver, gold etc.) into the reports for the following years. During MSG discussions, it was decided to fulfil these recommendations and the necessary works were carried out by the Working Group. For some unknown reason the information has not been included into the Report.

We recommend to include more detailed information on pipelines – their transmission capacity and statistics on the products exported – into the reports for the following years.

2.3. According to requirement 3.4 of the Standard information on the contribution by the extractive industry to the economy of the country during the fiscal year that the report covers shall be included into the Report. Section 3.3 on “Contribution of the Extractive Industry to Azerbaijan Economy” of 2014 EITI Report includes information on annual GDP, field and production structure of GDP (including the share of the extractive industry), information on the absolute value of total state revenues in the extractive industry (including taxes, royalties, bonuses, fees and other payments) and their special weight in total state revenues, volumes of oil, natural gas, silver and gold productions in 2014 and territorial production volumes, absolute value of extractive industry exports, share of the extractive industry in investments on fixed assets, employment characteristics and structure on the fields of economy.

The following information not included into the report of the previous year was added to 2014 EITI Report: evaluation of the share of shade economy in GDP, total amount of payments by extractive company to State Social Protection Fund (SSPF) in 2014, number of local and expatriate staff at BP.

It is indeed important and essential to include 3-year information on production volumes of extractive products on territories (regions) of the country into the report; however, inclusion of that information into “Contribution of Extractive Industry to Country’s Economy” section is not understandable. We recommend to include annual production information on territories (regions) into Section 3.4 on “Production Volume” (in accordance with requirement 3.5 of the Standard) and 3-year dynamics of this information into Section 3.1 on “Summary of Extractive Industry”.

Despite the fact that information under “Share of Extractive Industry in Exports” subtitle states the volume and value of the extractive products exported, there is nothing that reflects their share in total exports of the country. Referring to International Monetary Fund (IMF) this section of the report also states that “the foreign trade relations of the country in 2014 increased by 3,3% in developed countries and 3,4% in developing” compared to the previous year. This kind of information seems to be irrelevant for this section and for the report in general. It would be more beneficial to include year-by-year information on changes of the share of extractive industry in total exports of the country. And it would be more advisable to refer to State Statistics Committee and State Customs Committee (the websites of these state agencies have this information) who are the owners of this type of information in the country.

In our Coalition opinion on 2013 Report we mentioned that “stating investment and employment information on companies in this section, as well as distribution of employments in extractive companies based on local and expatriate staff would increase the quality of the report”. 2014 Report includes the dynamics and structure of BP employees only. We think that MSG should be focused on this issue, take necessary measures for collecting this type of information from other extractive companies and ensure the inclusion of such information into the reports of the following years.

Though not required by the Standard, this section includes information on the amounts of SSPF payments by local and foreign extractive companies in 2014. Stating the share of these payments in the amount of total annual payments to SSPF, as well as year-by-year changes in this share would be more corresponding to the requirements of the section and would make this information more essential.



2.4. Requirement 3.5 of the Standard requires the inclusion of production and exportation indicators of the production year (this includes: total production volumes and value of products on types (where relevant, even the value of production on regions); total export volumes and export value of production on types (where relevant even the value of production on regions)) into the Report.

This requirement of the Standard was not fulfilled in last year's report. The methodological problems related to the implementation of this requirement (the price to be used for determining the value of the product) were discussed at the meetings of the Working Group and MSG and it was decided that the value of the extracted resource volumes shall be calculated on the basis of average annual export price of the given product during the reporting year.

Section 3.4 on "Production Volume" of the Report states a schedule with figures for the internal volumes of mineral resources extracted, as well as the indicators adjusted to international volume indicators, average annual export prices of these resources and values calculated on the basis of these prices.

However, this section of the report does not include any information on the volume and value of the extracted resources on regions, neither any information on the export volume and value of the raw materials extracted, whereas, as already mentioned above, section 3.3 of the report states information on the extraction volumes on the territories (regions) of the country. Shifting this information to the mentioned section and determining their value by applying similar methodology would be more corresponding to the requirement of the Standard. It would also be effective to put special comment or note on the placement of export information in Section 3.3 (indicating the page as well).

2.5. Article 3.6 of the third requirement of the Standard states it is important to include information on participation of the state in the extractive industry into EITI reports. Information in accordance with this requirement of the Standard is stated in Section 3.5 on "State Participation in the Extractive Industry" of the Report. The opinion of the Coalition related to the report of the previous year had most remarks on this section. The current report has the following information in accordance with requirement 3.6 of the Standard: general information on SOCAR, the national extraction company; very generic and short information on the relations between SOCAR and state agencies, 3-year dynamics of certain financial indicators, affiliate and subsidiary companies of SOCAR, its beneficiary ownership in joint ventures and changes in beneficiary ownership in 2014, loans and guarantees of the Company, its standards and short information on quasi-fiscal expenses, allocations to the state and enlargement of SOCAR activities in foreign markets. Though minor, still some changes (for instance, expansion of certain information, additions in the changes of beneficiary ownership activities in foreign markets and short information on quasi-fiscal activities) have been made to this section of the report.

Nevertheless, the following serious problems related to the implementation of requirement 3.6 of the Standard remain unresolved:

2.5.1. The evaluation carried out suggests that similar to the report of the previous year, this year's Report too lacks most of the information required in this subsection of the Standard: for instance, information on the relationship between SOCAR and Ministry of Finance, Oil Fund, Social Protection Fund, Central Bank and International Bank of Azerbaijan and its liabilities is very generic. Due to fact that the mechanisms of these relationships are not revealed, the information is not easy to comprehend.

2.5.2. As stated in Coalition Opinion on 2013 Report the coalition studies revealed that SOCAR activities probably include 3 quasi-fiscal operations out of 4 determined by IMF for the energy sector. Following the discussion of the study at MSG meeting, it was submitted to SOCAR and the company was requested to provide necessary information to be included into EITI Report. However, no additional information was received from the Company in this regard during the reporting period. Nevertheless, unlike the report for the previous year, the 2014 Report not only confirms the presence of quasi-fiscal operations by the Company, but even mentions that the wholesale and retail sale price of oil and oil products are regulated by the government (Tariff (Price) Council) and that the prices appointed were below 2014 international market prices, in other words oil and oil products were sold at below-market prices to local consumers. This section also includes generalized information on social expenses of SOCAR as well.

Despite all this, we consider that studies related to the quasi-fiscal operations of SOCAR shall be continued and EITI report of the following years shall include more detailed information on this. The sharp decrease of oil prices in international markets followed

by the severe cut of SOCAR revenues and the possible concerns due to its financial condition, as well as the necessity for more efficient utilization of company funds make this issue even more relevant.

2.5.3. Information on beneficiary ownership and any changes in this ownership has been copy pasted (even the financial reporting language was kept) into EITI report from SOCAR financial report which makes this information incoherent and difficult to use (for instance existence of the Group is mentioned, but nothing about its members). Therefore, it can be said that this information does not meet the requirements of the Standard. Future EITI Reports shall focus on the improvement and more comprehensive introduction of this information.

2.6. We consider it is important to include the obligations deriving from the agreement between Ministry of Ecology and Natural Resources of Azerbaijan Republic, the legal heir of Azergizil State Company, and R.V. Group Services LLC USA into "State Participation in Extractive Industry" section of the report.

2.7. Article 3.7 of requirement 3 of the Standard requires that EITI report includes information on the distribution and utilization of extractive revenues. According to this requirement, the EITI report shall state which revenues (value and natural expression) on extractive industry are stated in the national budget. When revenues are not stated in the national budget their distribution shall be explained.

Section 3.6 of 2014 EITI Report on "Income of the Oil Fund and state budget from the extractive industry" includes information on payments to the state budget by the extractive companies throughout 2014 (this information has been included into this year's Report by Coalition's initiative) and sources of formation of SOFAZ revenues and distribution of expenses. Introducing the dynamics of the past 3 years at least in the form of graphs in the Report would increase the importance and clearness of this information.

We consider it advisable to include certain information on the directions of utilization of SOFAZ transfers and payments by the extractive industry to the state budget and also the references to the state budget and legal norms on its implementation, as well as the state budget project and state certificates on the implementation of the state budget into this section of future EITI reports. All the information mentioned corresponds to the requirements of the Standard and is taken from the open sources (web sites of the Ministry of Finance and Chamber of Accounts).

2.8. Article 3.8 of the Standard encourages the inclusion of information on revenue management and expenses into the reports. As in 2013 EITI Report the one for 2014 too lack this information. NGO Coalition Council thinks it is important to include either this information (is available in open sources) or references to the open sources for this information into future reports in order to improve the transparency image of the country.

2.9. Requirement 3.9 and 3.10 of the Standard relate to the information on the registration and allocation of licenses. Both International EITI Secretariat and Coalition opinions include remarks on the fulfillment of these requirements of the Standard. Those remarks stated the importance of revealing information on procedures of allocating oil and gas and other extractive deposits of the country to extractive companies for exploration and exploitation and signing of PSA agreements.

Sections 3.7 on "Register of licenses" and 3.8 on "Allocation of licenses" of the Report present large amount of information on licensing activities in the extractive industry. Section 3.7 of the Report (Register of licenses) states that "in accordance with Article 3.9 of EITI Standard, the list of active companies who have joined PSA in Azerbaijan Republic has been compiled and published in an open source and introduced to the public".

Information on the procedures of PSA signing is placed in section 3.1 on “General Information”, rather than this section. However, the information is incomplete: there is nothing about the deposits the exploration and exploitation activities of which have been started, neither about the mechanisms of involving companies to the exploration and exploitation activities of the deposits (for instance, advertisements, tenders or bids, etc.). We consider that information on PSA procedures shall be improved based on the above comments and requirement 3.9 of the Standard and future EITI reports shall include this information in section on licenses. The worst scenario is that there is no information about the legitimacy of these procedures. In other words, it is not stated which regulation (standard, presidential decree, etc.) stands as basis for these procedures.

2.10. Information on beneficiary ownership issue reflected in Paragraph 3.11 of the Standard in 2014 Report is similar to the previous report. The position of the Coalition in this regard remains the same as the Coalition opinion to 2013 Report.

2.11. Paragraph 3.12 of Requirement 3 of the Standard encourages the reveal of information on agreements to public. It is mentioned that the state policy on the reveal of information on agreements and licenses that regulate the exploitation and exploration of oil, gas and minerals shall be documented. 2014 Report states information on the legal regime of the country in this regard.

It should be mentioned that 6 of the oil and gas agreements acting in Azerbaijan have been placed in EITI web site. The MSG, Secretariat and Coalition are continuing their attempts to have the remaining agreements revealed.

2.12. Thus, having evaluated the information in 2014 Report in accordance with requirement 3 of EITI we have come into a conclusion that most of the information required by the Standard has been included into the report; however there are issues related to the continuous, systematic and clear introduction of this information (as if the information required by the Standard has been taken from different sources and put together mechanically). MSG shall improve its efforts to eliminate both such problems and shortcomings related to the Contextual information in accordance with Requirement 3 of the Standard in future reports.

## III Reconciliation process and analysis of its outcomes

Requirement 4 of the Standard is about the comprehensive reflection of all extractive revenues of the government and all essential payments made by the extractive companies to the government in EITI Report. Section 4.1 of the Standard describes the requirements on the payment and revenue types to be covered in EITI Report.

3.1. Section 4 of the EITI Report on “Reconciliation Process” states that following the discussions at the 34th meeting of the SMG dated December 10, 2014 infrastructure clauses and information on barter, subnational payments and transfers, as well as social expenses had not been included into 2014 EITI Report since they were not applicable to Azerbaijan. We think that the list of revenue types to be reflected in the following report shall be reviewed and approved by MSG upon start of preparatory activities for the report. This list shall be later stated in the agreement to be signed with the Independent Administrator and in the Report.

3.2. The Coalition thinks that the MSG shall discuss the inclusion of information on social expenses into the future report and make decisions in accordance with subparagraph 4.1e of the Standard. Though information on the social expenses of the companies cannot be reconciled, it can be unilaterally revealed by the company, as mentioned in part ii of subparagraph 4.1e. For instance, though concisely, SOCAR has revealed general information on its 2014 social expenses in “State Participation in Extractive Industry” section of this Report. Despite the fact that information on social expenses of the companies can be found in the reports of BP, SOCAR and other companies (Corporate Social Responsibility reports) and it is possible to refer to open sources in this regard, stating that this type of information is not applicable for Azerbaijan and not including it into the Report, damages the transparency image of the country.

3.3. This section of the report seems to be incomplete: on one hand it includes some necessary information (as required by the Standard documented decisions of MSG on the inclusion of separate payments into the report) in accordance with Requirement 4 of the Standard; on the other hand it has no information on reconciliation methodology. Though all methodological information on the development of the report is placed in Section 2 on “Approach and Methodology”, it would be better to include the methodology into this section – before the reconciliation outcomes – for somebody getting acquainted with the outcomes of the reconciliation process. Therefore, we consider that it would be better to include methodology issues of the reconciliation process into “Reconciliation Process” section of the report rather than Section 2 and also to combine “Outcomes of Reconciliation Process” section with “Reconciliation Process” section and name this section “Reconciliation Process and its Outcomes” in order to improve the structure and design of the report.

3.4. Below are our comments regarding the outcomes of the reconciliation process:

3.4.1. The presence of deviations (differences) between the information of the companies and the government in reconciliation process causes concerns. Some 16 deviations (differences) have been noted in 2014 report. Comparisons show that most of these errors (deviations) are usually made by the same companies. The repetition of similar mistakes despite the trainings conducted by the Independent Auditor on report forms (samples) during the report development stage urges more serious measures in this direction;

3.4.2. Explanations on the deviations (amendments) revealed during the reconciliation process are not sufficient and clear. These explanations shall be more detailed and comprehensive; also there should be references to the outcomes of cross check on companies conducted through random selection method.

3.4.3. As in 2013 Report, the current report too has some messy information on transportation and transit costs. "Transportation" and "Transit" terms, as well as the issues on transportation of the produced oil of the country through pipelines or railway and the transportation of the oil produced by other countries shall be clarified. In accordance with subsection 4.1.f of the Standard information on transportation tariffs, tariff rates and other transportation indicators shall be revealed;

3.5. There is difference of USD 8.8 million between the amount of Shahdeniz PSA payments to the government stated in EITI report and 2014 State Oil Company (SOCAR) report. Hence, 2014 annual report of SOCAR (page 28) states that the amount of payments from Shahdeniz PSA gas sale to the Fund was USD 532.0 million during the given year<sup>130</sup>. Page 32 of 2014 EITI Report states the schedule of cash payments to the government by extractive companies. That very schedule states total of USD 523.2 million paid by Shahdeniz PSA companies to the government from the sale of gas. Information in the sample reports on extractive companies attached to this Report too confirms this amount. Therefore, we consider that the government should provide additional explanation regarding the difference of USD 8.8 million of cash payment to the government from the sale of gas on Shahdeniz PSA stated in 2014 SOCAR and EITI reports.

## IV Recommendations of the Coalition in review to 2013 EITI Report

Section 8 of the Report is named “Recommendations and Outcomes”. This section includes information on the lessons learned from 2014 reconciliation process and summary of recommendations on 2013 EITI report.

4.1. This section is indeed important from the view point of solutions for the problems the Independent Administrator faced or revealed during the report development, as well as the lessons learned from current and previous years and their benefits and recommendations to consider during the development of future reports. Despite the fact that some extractive companies are said to have repeated the same mistakes from the previous years when filling the report samples sent by the Independent Administrator for reconciliation process, the recommendations by the Independent Administrator for the resolution of these problems are not different from the previous years. It would be beneficial if the Independent Administrator could introduce more systematic measures for the resolution of the problems.

4.2. This section of the Report includes information about the implementation status of the recommendations on 2013 EITI Reports by the NGO Coalition and the Independent Administrator. This is an important step to demonstrate that the remarks and recommendations related to the report have been clearly reviewed which has led to the improvement of the reports. The consideration of the remarks and recommendation to the opinions in the report also indicates to the fact that the EITI process throughout the country is developed and that the process is carried out purely in accordance with the essence of the Initiative.

During the Working Group discussions on the development of the report, the Independent Administrator was advised to prepare detailed information on how much each remark and recommendation from the opinions of the Coalition and the International Secretariat is considered in the report. Special focus should be put on steps taken in regard to partially considered and completely irrelevant recommendations and reasons for their non-implementation.

4.3. The information in the report on the implementation of Coalition recommendations makes it clear that only one recommendation has not been fulfilled, one is ongoing and the remaining recommendations have all been implemented. Whereas our comparative reconciliation revealed that the report includes comments on the implementation of 12 recommendations out of 23 the Coalition addressed to the MSG and Independent Administrator and that had to be considered in the report. Our study showed that 9 out of 23 Coalition recommendations can be said to have been implemented and 8 partially implemented. 8 recommendations have either been completely non-implemented or implemented with no serious improvement. Partial or non-implementation of those recommendations is due to the fact that the information stated in them are not available in open sources.

4.4. The Report completely lacks information on the implementation status of International EITI Secretariat recommendations, though the remarks and recommendations on the International Secretariat regarding 2013 report have been discussed at MSG and Working Group meetings and certain measures have been taken for their implementation. It is important to include information on the implementation of those remarks and recommendations into the report.

## V Issues related to the introduction (report design) of the report data

The EITI Report serves to the purpose of raising awareness of the society regarding the extractive industry, government revenues from extractive industry and the contribution of the extractive industry to the economy of the country, expanding the accountability and transparency in this field and thus improving the environment of trust within the society. Therefore, the introduction of the information in EITI report in a simple, clear, systematic, continuous and complimentary format, and also the inclusion of visual graphs and explanatory schemes and provision of detailed comments are indeed important. In short, the content and design of the EITI Report should be in a user friendly format.

However, the Coalition experts consider that 2014 EITI has serious shortcomings in this regard:

5.1. The existing structure of the report is unnecessarily complicated, the sections are introduced in unsystematic and confused way. We think that it would be beneficial to introduce the sections of the report in the following sequence in order to simplify the report design and systemize the information: 1. Review (Summary); 2. Methodology and Approach; 3. Contextual information; 4. Reconciliation process and its outcomes; 5. Recommendations; 6. Information on Parties; 7. Attachments.

5.2. Some sections of the Report are confusing and unsystematic sometimes with inappropriate extra information. For instance, it would be better to exclude information on content and confidentiality, as well as the completeness and accuracy from Section 1 (Review) and include them to Section 2. Including information on Azerbaijan profile in EITI accountability, on main forms of revenue generation, individualized schedules on companies and payment types, EITI related achievements of the country and the current situation into "Review" Section (Summary) would be more beneficial.

5.3. Section 2 ("Approach and methodology") of the Report only reflects the scope of the work done with nothing about the procedures and methods on the collection and reconciliation of information. The latter is simply described. The section includes no information about the works carried out during the reconciliation stage, neither about the methods and modes of checking the document, comparison and analysis of reports and reconciliation of information. The Paragraph on Assurance Stage states nothing about the method applied for the selection. The criteria for the selection of companies is not stated. Questions on how cooperation with these companies is built and also on the types of documents reviewed, the way and purpose of these reviews and the way of including the outcomes of the work implemented into the report are still open. This section should also include the reasons why procedures on assurance of information of state companies are not carried out. In other words we consider this section should be improved.

5.4. Part on general information of "Contextual Information" Section includes theoretical, technical and historical data left from the previous report. Such unessential and repeated information should be excluded (stating that the given information can be found in previous report with a reference) from the report. It would be beneficial to include the dynamics of the generalized information (of 3 years at least) into this section in order to create some comparative impression on the extractive industry and its revenues in the reader. The section shall also have clear explanation with schemes and graphs on the types of revenues/incomes Azerbaijan state agencies acquire.

In general the problems observed in the consistency and introduction of information in various sections of the report are mentioned in details above (in section of the opinion) alongside with the recommendations to eliminate them.

5.5. It is not quite clear why Section 7 on the Report on "Analysis of Government Revenues" is introduced separately. It would be advisable to add this information in the corresponding sections of the report in accordance with requirement 3.7 of the Standard as part of the contextual information.

## VI. Recommendations

ITEI NGO Coalition puts forth the following suggestions and recommendations in order to eliminate the irrelevancies with EITI Standard and shortcomings in 2014 EITI Report, as well as the misunderstandings observed during reconciliation process and in order to improve EITI Reports for the future years:

### I. For improving “Contextual Information” section of the Report:

- 1.1. Repetitions in the General Information section of the report shall be avoided, the dynamics of generalized information shall be provided (at least 3 years) and also the types of revenues/incomes that state agencies acquire shall be presented in a more clear way with schemes and graphs;
- 1.2. In order to understand the legal regime, short summary of specific relations and mechanisms that each legal norm mentioned in the Report regulates in regard to the extractive industry shall be provided, the interaction of these norms and mechanisms shall be stated and also information on fiscal and legal regimes shall be presented in the forms of graphs (visual schemes);
- 1.3. Information on the volume of all oil and gas and mineral resource deposits and produc types (oil, gas, condensate, silver, gold, etc.) shall be included into the report;
- 1.4. Information on pipelines shall be more detailed (inclusion of statistics on transmission capability and products exported);
- 1.5. Investment and employment information introduced in “Contribution of the Extractive Industry to the Economy” section shall be presented on extractive companies and also efforts shall be continued to present the distribution of employments in extractive companies according to local and foreign staffs;
- 1.6. The share of SSDF payments by local and foreign extractive companies in the general amount of similar annual payments, as well as the fluctuation of this share according to years and the comparison of this information with employment structure shall be presented;
- 1.7. Information on the mutual relations of SOCAR and Ministry of Finance, Oil Fund, Social Defense Fund, Central Bank, International Bank of Azerbaijan and the obligations of the former shall be presented in a more detailed form and the mechanisms of these relations shall be included into the report;
- 1.8. Studies on quasi-fiscal operations of SOCAR shall be continued and future EITI Reports shall include more comprehensive information in this regard;
- 1.9. Information on the beneficiary ownership level of SOCAR and changes in this ownership shall be adjusted to the requirements of the Standard and also this information shall be improved and presented in a clear format;
- 1.10. Section on the “State Participation in Extractive Industry” of the Report shall include information on the obligations deriving from the agreement between Ministry of Ecology and Natural Resources of Azerbaijan Republic, the legal heir of Azergizil State Company, and R.V. Group Services LLC USA;
- 1.11. MSG shall discuss the corresponding measures in order to include the information enouraged by the Standard into future EITI Reports due to the fact that they are important for improving the transparency imagine of our country;
- 1.12. Information of PSA signing procedures shall be improved in accordance with Requirement 3.9 of the Standard and it should be included into the section on lisenecs in future EITI Reports alongside with the legislation proving the legitimacy of these procedures.



## **II. For conducting reconciliation process and introducing its outcomes in the report:**

- 2.1. MSG Group shall review and approve the revenue types to be included into the following report upon start of the preparatory activities for each following report. The list should also be reflected in the agreement signed with the Independent Administrator and the Report;
- 2.2. It is necessary that the MSG discusses the issue of including information on social expenses into the following report and makes a decision in accordance with subparagraph 4.1.e of the Standard;
- 2.3. MSG and the Independent Administrator shall take more serious measures for eliminating numerous deviations (differences) in information provided in the reports of the companies and the government during the reconciliation process;
- 2.4. Explanations related to the differences (amendments) arising during the reconciliation process shall be more comprehensive and detailed and references to the outcomes of cross checks conducted on companies on random selection basis shall be provided;
- 2.5. "Transportation" and "Transit" terms, as well as the issues on transportation of the produced oil of the country through pipelines or railway and the transportation of the oil produced by other countries shall be clarified and information on transportation tariffs, tariff rates and other transportation indicators shall be revealed in accordance with subparagraph 4.1.f of the Standard;
- 2.6. We consider that the government should provide additional explanation regarding the difference of USD 8.8 million of cash payment to the government from the sale of gas on Shahdeniz PSA stated in 2014 annual report of SOCAR and EITI report.

## **III. For improving the introduction of report data (report design):**

- 3.1. We think that it would be beneficial to introduce the sections of the report in the following sequence in order to simplify the report design and systemize the information: 1. Review (Summary); 2. Methodology and Approach; 3. Contextual information; 4. Reconciliation process and its outcomes; 5. Recommendations; 6. Information on Parties; 7. Attachments;
- 3.2. It would be more beneficial to include information on Azerbaijan profile in EITI accountability, on main forms of revenue generation, individualized schedules on companies and payment types, EITI related achievements of the country and the current situation into "Review" Section (Summary);
- 3.3. The structure and content of "Approach and Methodology" section of the Report shall be improved;
- 3.4. It would better to include methodology issues of the reconciliation process into "Reconciliation Process" section of the report rather than Section 2 and also to combine "Outcomes of Reconciliation Process" section with "Reconciliation Process" section and name this section "Reconciliation Process and its Outcomes" in order to improve the structure and design of the report;
- 3.5. It would be advisable to add information of Section 7 of the Report on the "Analysis of Government Revenues" into the corresponding sections of the report as part of the contextual information in accordance with requirement 3.7 of the Standard;
- 3.6. The preparation of "Contextual data" section of the Report shall be carried out by the special Working Group including experts and professionals by request of MSG rather than by Independent Administrator.

ITEI NGO Coalition summons the MSG to be active and take wide range of measures for informing general public on 2014 EITI Report of Azerbaijan Republic in accordance with 2016 Activity Plan.

The Coalition Council hopes that the Government Commission and companies will carefully treat the suggestions directed to the improvement of the EITI experience of Azerbaijan and take practical steps for their realization. This might be essential for increasing the trust and confidence of the civil society in EITI process and accountability system.

## Review of the Coalition Council on the amendments to 2014 EITI Report following the submission of ITEI NGO Coalition Opinion

**(Approved at the 154th meeting of ITEI NGO Coalition dated April 27, 2016)**

Following the reveal of 2014 EITI Report at the meeting of the Multi-Stakeholder Group (MSG) on February 15, 2016, the ITEI NGO Coalition prepared a comprehensive opinion to the Report within 1 month and submitted it to the MSG, in accordance with Article 2.4.9 of the Memorandum of “Mutual Understanding on the Application of Extractive Industry Transparency Initiative in Azerbaijan Republic”. The Coalition opinion reflects the improvements observed in 2014 Report compared to 2013 Report, as well as the remarks on the discrepancies between the content of the information in the Report and the requirements of EITI Standard, and the report structure and forms of the information submission and 24 recommendations for the improvement of the report content.

Following the submission of the Coalition opinion, the Independent Administrator (together with local EITI Secretariat) took into consideration certain remarks and recommendations by the Coalition and International Secretariat and made a couple of additions and amendments to 2014 EITI Report. The following are among them:

Information on the share of the extractive industry in exports has been included into the Report (page 61) – the remark of the Coalition opinion in article 2.3 has been taken into account;

Information on the volume and value of the commodities produced on the regions and territories of the country has been included into the Report (page 65) – Remark in Article 2.4 and recommendation 1.3 of the Coalition opinion has been taken into consideration;

Information in the Report on the relationship between SOCAR and state agencies has been expanded (page 67-68) – remark in article 2.5.1 and recommendation 1.7 of the Coalition Opinion have been partially considered. However, it should be noted that SOCAR-related information of the Report does not fully meet the requirements of EITI Standard;

Additional information on the involvement of foreign and local production companies to the production industry of the country and PSA development mechanism has been included into the Report (page 79) – recommendation 1.12 of the Coalition Opinion has been partially considered;

Information on the purchasers of the profit oil of the government from ACG during the report, as well as the volume and value of the oil sold has been included into the Report (page 83) – Coalition Opinion on 2013 EITI has a recommendation in this regard;

Summary schedules reflecting the volume of the in-kind raw oil and gas submitted to the government within the framework of the agreements have been included into the Report (page 91).

It should be mentioned that it is the first time that Azerbaijan has made amendments to EITI Report based on Coalition Opinion since the country joined EITI Process. The Coalition considers this an improvement in the development of EITI process in the country. Nevertheless, the Coalition Council hopes that upon development of 2015 EITI Report other remarks and recommendations of the Coalition Opinion will be taken into consideration as well.

**EITI** Extractive  
Industries  
Transparency  
Initiative

**MHŞT** Mədən  
Hasilatı üzrə  
Şəffaflıq  
Təşəbbüsü

