

CONSOLIDATED EXTRACTIVE INDUSTRIES TRANSPARENCY REPORT -2018



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Abbreviations

A.S	Aksjeselskap - Norwegian term for a stock-based company
ACG	Azeri–Chirag–Gunashli
AGSC	Azerbaijan Gas Supply Company
AIOC	Azerbaijan International Operating Company
AZN	Azerbaijani Manat
Bln	Billion
BOTAS	Boru Hatlari ile Petrol Tasima Anonim Sirketli
BTC	Baku–Tbilisi–Ceyhan
CBAR	Central Bank of the Republic of Azerbaijan
Commission	Extractive Industries Transparency Commission (EIT Commission)
Companies	Extractive companies
EIT	Extractive Industries Transparency
ERDPSA	Agreement on the Exploration, Rehabilitation, Development and Production Sharing of Block
GDP	Gross Domestic Product
HGA	Host Government Agreement
IMF	International Monetary Fund
JLA	Joint Lifting Agreement
JSC	Joint Stock Company
JV	Joint Venture
Kg	Kilogram
LLC	Limited Liability Company

m	Metre
m ³	Cubic metres
MEP	Main Export Pipeline
MERA	Ministry of Economy of the Republic of Azerbaijan
Mln	Million
MLSSP	State Social Protection Fund under the Ministry of Labour and Social Protection of Population of the Republic of Azerbaijan
MMBTU	1 million of British Thermal Unit
NGO	Non-governmental organization
Nm ³	Normal cubic metres
PSA	Production Share Agreements
SC	State Company
SCP	South Caucasus Pipeline
Secretary	Secretariat of EIT Commission
SGC	Southern Gas Corridor
Sm ³	Standard cubic metres
SOA	SOCAR Oil Affiliate
SOCAR	State Oil Company of Azerbaijan Republic
SOFAZ	State Oil Fund of the Republic of Azerbaijan
STYAS	SOCAR Turkey Yatırım A.S
TANAP	Trans Anatolian Natural Gas Pipeline
TAP	Trans Adriatic Pipeline
TIN	Taxpayer Identification Numbers
TPAO	Turkish Petroleum Anonim Ortaklığı
USD	United States Dollars
VAT	Value added taxes
WREP	Western Route Export Pipeline

Definitions

Oil and gas	Hydrocarbon reserves - oil, gas, oil condensate, gas condensate
Non-ferrous metal	Gold, silver, gold in copper concentrate, silver in copper concentrate, and other non-ferrous metals
Independent Auditor	An independent auditing company that distributes individual EIT reports from extractive industry companies and the state and prepares a consolidated EIT report.
State budget	It is the form of accumulation and spending of money required by the law to ensure the fulfillment of state-owned functions through the relevant authorities. ¹
Contractor companies	This kind of activity, established under the laws of the Republic of Azerbaijan, related to the relevant territorial, infrastructure, technical means, workforce, necessary technical, technological, administrative and management knowledge and experience, financial resources, legal entities, direct contracts with foreign customers, including legal entities created with the participation of foreign investors. ²

¹ Ministry of Justice Unified electronic internet database <http://www.e-qanun.az/framework/4756>
² Law of the Republic of Azerbaijan on the application of special economic regime for export-purpose oil and gas activities [e-qanun.gov.az/framework/16810](http://www.e-qanun.gov.az/framework/16810)

To the Extractive Industry Transparency (EIT) Commission of the Republic of Azerbaijan

Independent Auditor's Report Report on Factual Findings

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We have performed procedures, agreed as per Contract # DNF/HSS-522, signed on the 31st of May 2019, and enumerated below with respect to reconciliation between the state receipts related to the utilization of natural resources in the Republic of Azerbaijan and payments (allocations) of local and foreign companies (Companies) operating in extractive industry.

Our engagement was undertaken in accordance with the International Standards on Related Services 4400, applicable on agreed-upon procedures engagements.

Agreed-upon procedures

As summarized below, the procedures were performed solely to assist you in reconciling the transfer of cash or in kind from the extractive companies to the Government entities in the form of taxes, non-taxes, other payments and minerals:

- We obtained information from Extractive Companies regarding the transfer of Oil, Natural and Associated Gas, Non-ferrous Metals, Bonuses, Taxes and other fees to the Government Entities in the form of cash or in kind during the calendar year 2018;
- We obtained information from the Government Entities regarding transfer of Oil, Natural and Associated Gas, Non-ferrous Metals, Bonuses, Taxes and other fees from the Extractive Companies in the form of cash or in kind during the calendar year 2018;
- We reconciled the data received from the Extractive Companies and Government Entities for each type of payment or transfer confirmed to us;
- We approached the Extractive Companies and Government Entities directly or through the EIT Commission's Secretariat for the differences identified during the reconciliation process;
- We obtained reasons for the identified differences, if any, and obtained further data in a reconcilable format;
- We made necessary adjustments for matching the figures of cash or in kind transfers;
- We reviewed the final amounts after the adjustments made in Chapter 7 of this report and ensured that there were no unresolved differences after the adjustments made;
- We provided our recommendations in Chapter 9 of this report, to make the processes of cash or in kind transfers and reconciliations more effective and efficient.



Because the above agreed upon procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the quantities or amounts of oil, natural and associated gas, non-ferrous metals bonuses, taxes and other fees paid either in cash or in kind by the extractive companies. Had we performed additional procedures, or had we performed an audit or review of the financial statements in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

The purpose of the EIT Report is to increase the transparency in the extractive industry of Republic of Azerbaijan. Our procedures do not provide for the detection of fraud or mistakes made by extractive companies or state authorities of the Republic of Azerbaijan. EIT Report relates only to amounts of taxes and other payments or transfers made by extractive industry companies indicated in Chapter 7 and does not apply to the financial statements of extractive companies in the Republic of Azerbaijan as a whole.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information.

Grant Thornton
Azerbaijan



Executive Summary



1. Executive Summary

Grant Thornton Azerbaijan was declared winner of “Quotation Request for Independent Auditor Service” conducted by the EIT Commission for the year ended December 31, 2018. The Independent Auditor’s scope of work covers reconciliation and examination of reports based on International Standard on Related Services (ISRS) 4400, “Engagements to perform agreed upon procedures regarding Financial Information” for 2018 of payments by domestic and foreign companies operating in the extractive industries to the government, and government receipts from domestic and foreign companies, as well as collection and structuring general information on extractive industry of Azerbaijan.

The process of preparation of the EIT Report consists of the following stages:

Data Collection - At this stage, the companies operating in the extractive industry of Azerbaijan and relevant government agencies submit reports in accordance with the forms approved by the Commission to independent auditor. As stated in the summary section of the case, the submitted reports are obtained, collected and reviewed by the Independent Auditor.

Initial reconciliation, investigation of differences and compilation of general data - At this stage, the purpose of the Independent Auditor is to compare the balances confirmed by the Extractive Companies and the Government Entities. If the differences are identified in submitted reports then apply necessary adjustments by examining the occurred differences.

Preparation of the draft EIT report - At this stage all the following data is being reflected in the report:

- The Independent Auditor’s report;
- Description of the reconciliation method;
- Procedures for reconciliation and specific inspection;
- Initial results of the reconciliation process and explanation of the differences;
- Disclosure of the general information; and
- The description on initial structure of EIT report

Submission of the final EIT report - This stage involves submission of EIT report to all interested parties

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 ended December 31, 2018.

The reports submitted to independent auditor are signed by the Company’s officials as the independent auditors’ opinion does not apply to the figures presented in the reports. Under the request by EIT Commission, the followings were required to ensure the reliability of the information:

- Reports must be signed by the management of the company;
- Reports of government agencies should be signed by the head of the relevant government body; and
- Reporting companies should rely on relevant payment documents when approving payments (receipts).

The state report is prepared on the basis of the official information submitted by the Ministry of Taxes of the Republic of Azerbaijan, the Ministry of Ecology and Natural Resources of the Republic of Azerbaijan, the State Oil Company of the Azerbaijan Republic and the State Oil Fund of the Republic of Azerbaijan and signed by the Chairman of the EIT Commission and submitted to the Independent auditor.

1. Executive Summary

In accordance with the Decree No. 1315 of the President of the Republic of Azerbaijan, dated April 5, 2017 on “Additional Measures to Increase Transparency and Accountability in the Extractive Industries”, the implementation of transparency and accountability standards in the extractive industry of the country is sustained on the basis of the following international principles:

1. Management of revenues generated from natural resources for increased welfare of country citizens and national interests shall be the sovereign power of state;
2. Introduction of lean practices for use of revenues generated from natural resources is a key enabler for poverty reduction and sustainable economic development;
3. Transparency and accountability standards should be promoted in the performance of government bodies, private sector and social relations;
4. The state should be accountable to citizens for management of revenues generated from extractive industries;
5. Increase of transparency should be achieved with strict compliance with contracts and laws;
6. All efforts should be taken to strengthen transparency, as well as public finance management and accountability in public and private institutions involved in extractive industry;
7. Financial transparency standards of the country should be applicable to all companies operating in extractive industry; and
8. All stakeholders including public bodies, companies operating in extractive industry, international organizations, financial institutions, investors and non-governmental organizations should participate in introduction of transparency.³

³ Full text of the Decree of the President of the Republic of Azerbaijan “Additional Measures to Increase Transparency and Accountability in the Extractive Industries” can be found at <http://www.president.az/articles/23288>

1. Executive Summary

Provision of transparency of extractive industry revenues is performed through reconciling relevant disclosed payments of the Companies to the government and the corresponding income of the state. This method consists of 3 main elements:

1. Transparency

Companies operating in the oil, gas and mining industries must disclose their payments to the government, while the government is to disclose receipts from the mentioned companies and other relevant information. The figures disclosed are reconciled by the audit firm and published in annual EIT reports along with other information related to the extractive industry.

2. Accountability

The Commission is responsible for increasing accountability in the country's extractive industry and promotes the distribution of EIT report data, public awareness and publicity, and encourages EIT's integration into greater transparency efforts in the country.

3. Reliability

Reliability is based on both the quality of the report compilation and the involvement of civil society representatives in the EIT process. In order to ensure such involvement, the EIT Commission cooperates with representatives of non-governmental organizations, private sector representatives and independent experts at each stage of administering of the report as it is prescribed by the above mentioned Decree.

The Commission invited civil society representatives through the relevant announcement to participate in the proceedings and 45 civil society representatives expressed their interest and were registered and participated in the preparation of annual EIT Report.

More detailed information about performed work and reports can be found at <http://hssk.gov.az/> and www.oilfund.az.

Compilation of EIT report and civil society participation

Preparation and disclosure of the Annual Report is mostly comprised of the following stages: ⁴

- Defining the scope of EIT Reporting;
- Selection of the Independent Auditor to prepare EIT report;
- Reconciliation of the individual reports, determination and explanation of discrepancies. Collecting general information on country's extractive industries;
- Presentation of the draft EIT report;
- Collection of comments from all parties including the Commission and improvement of the draft EIT report considering collected comments;
- Presentation of the final EIT report; and
- Preparation of official opinions by the civil society and other parties on the final EIT report.

The involvement of civil society representatives at all stages of report is ensured by the above mentioned Decree.

⁴ <http://hssk.gov.az/en/accountability>

1. Executive Summary

New Developments during the reporting period

On May 30, 2018, SOCAR and Equinor signed two agreements. The first agreement is a risk-service agreement related to the appraisal and development of the Karabakh oilfield in the Azerbaijani sector of the Caspian Sea, while the second agreement – a production sharing agreement (PSA) on the Dan Ulduzu, Ashrafi and Aypara promising structure. The agreements envisage a 50/50 share distribution.^{5a}

On April 26, 2018, SOCAR and BP signed a new production sharing agreement (PSA) for the joint exploration and development of Block D230 in the North Absheron basin in the Azerbaijan sector of the Caspian Sea. Under the PSA, which is for 25 years, BP will be the operator during the exploration phase holding a 50 per cent interest while SOCAR will hold the remaining 50 per cent interest.^{5b}

Value Addition in the Current year's EIT Report

This year's EIT Report includes :

- a) Social contributions made by all extractive companies as per their confirmations, please refer Chapter 6.
- b) Disaggregation of employees by gender in the extractive industry, please refer Chapter 6.
- c) Updates on transit revenues, please refer to Chapter 4 (page 93).

^{5a} <https://www.equinor.com/en/news/30may2018-agreements-azerbaijan.html>

^{5b} https://www.bp.com/en_az/caspian/press/pressreleases/new_psa_for_azerbaijan_exploration.html

2. Legal and Fiscal Regime



2. Legal and Fiscal Regime

2.1. Legal and Fiscal Regime

2.1.1 Legal Regime

Legal basis of activity in the mining industry of Azerbaijan is formed by 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 legislative system consisting of normative acts of central executive power bodies, as well as international treaties, which the Republic of Azerbaijan is a signatory to, which are considered as an integral part of the system based on the Constitution.

According to the legislation of the Republic of Azerbaijan, all subterranean mining is state-owned. The economic and social foundations of the state policy in the field of mineral resources and the main directions of its implementation mechanisms are determined by the legislation. The legislation also governs the relations between the state and the legal entities and individuals on efficient use, exploration and protection of the territory of Azerbaijan, including the Caspian Sea, moreover on safety of the work performed, development, production, manufacture, processing, storage, transportation, distribution and usage of energy, materials and products (energy resources), precious metals and precious stones.

The laws, decrees, international agreements, orders, regulations, etc. related to extractive industry can be found on the referred websites.⁶

“E-qanun” portal⁷

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.

⁶ <http://hssk.gov.az/en/article/100109>

⁷ Ministry of Justice of the Republic of Azerbaijan, “Unified electronic internet base of normative legal acts” <http://www.e-qanun.az>

2. Legal and Fiscal Regime

2.1.2 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, PSAs 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.

If production sharing or main pipeline agreements approved by the legislation before this Code is entered into force or after its enforcement, as well as other laws and agreements of a similar nature, including the legislation on oil and gas, contain provisions that differ from those stipulated by this Code and other legislative acts on taxes then provisions of such agreements and laws shall be applied.

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–Erzurum). The accounting and tax regime of companies operating on behalf of these agreements, also MEP participants and their contractors’ activities are regulated by the tax code.

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

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

The tax rates, their calculation, payment terms and other information on these types of taxes can be found in the Tax Code of the Republic of Azerbaijan. ⁸

⁸ Ministry of Taxes of the Republic of Azerbaijan, “Tax Code” <http://www.taxes.gov.az/az/page/ar-vergi-mecellesi>

2. Legal and Fiscal Regime

A special tax regime is applied for companies functioning in the Republic of Azerbaijan according to legally approved PSAs. The protocols which are made on the basis of PSAs signed between State Oil Company of Azerbaijan Republic and a number of multinational companies and clarifying certain aspects of taxation are given below:

- Protocol on profit tax;
- Protocol on VAT;
- Protocol on taxation of foreign subcontractors;
- Protocol on taxation of employees and individuals; and
- Protocol on import and export taxes.

There are special tax regimes imposed on the entities working under the main Export Pipeline (Baku-Tbilisi-Ceyhan), Western Route Export Pipeline (Baku-Supsa), and South Caucasus Pipeline (Shah Deniz Gas).

2.1.3 The Structure of the State Budget System

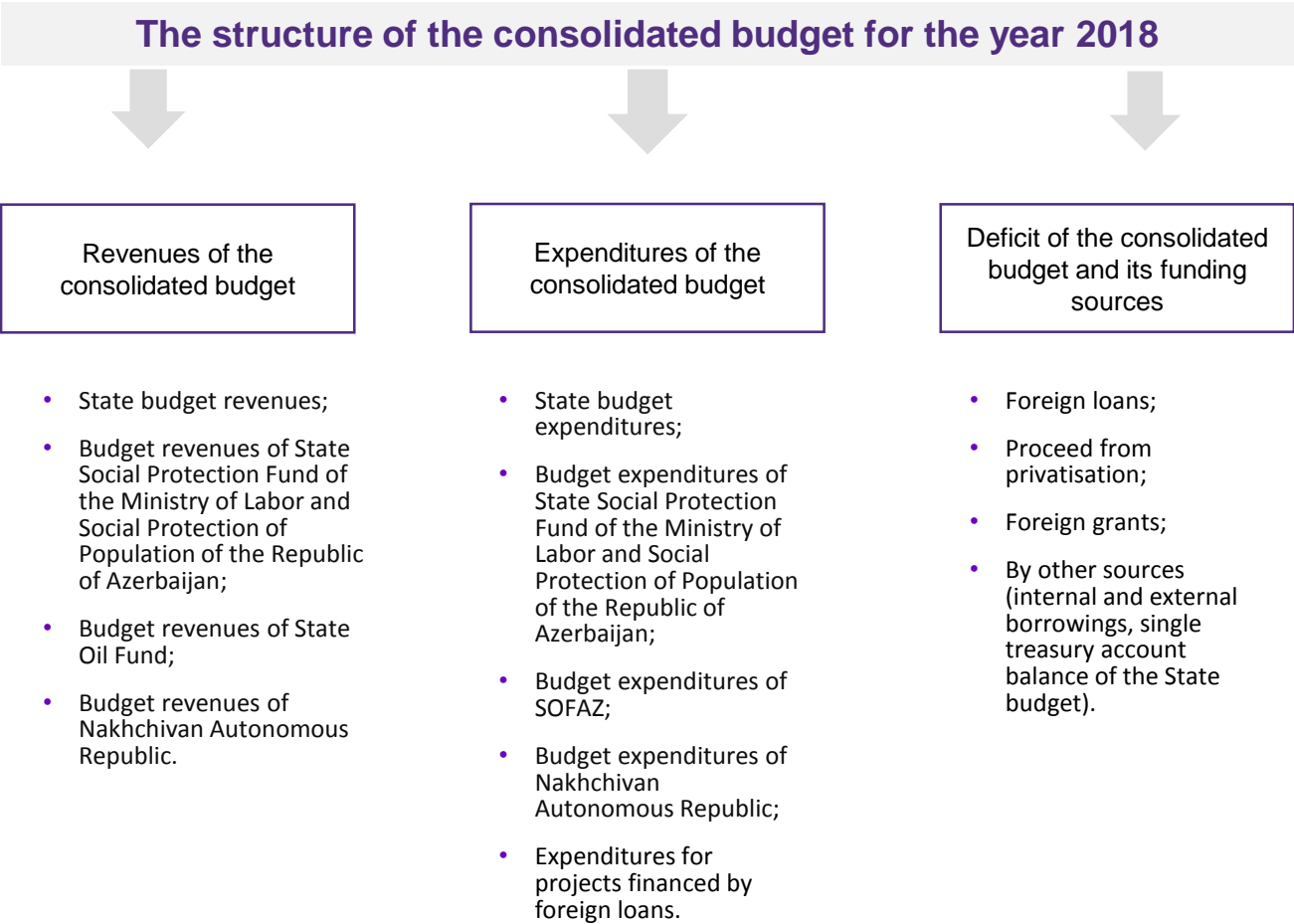
State budget - a form of collecting and spending means necessary to ensure the implementation of functions belonging to the state through relevant executive bodies in an order established by law. The objective of the state budget of the Republic of Azerbaijan is to solve the economic, social, and other 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.⁹

The process of preparation of the draft state budget commences 11 months ahead of the next fiscal year and covers a period until the day of presentation of the draft state budget to the National Assembly of the Republic of Azerbaijan.

⁹ Ministry of Justice – official web-site, <http://www.e-qanun.az/framework/4756>

2. Legal and Fiscal Regime

Figure 2a: The Consolidated budget structure in the Republic of Azerbaijan is as follows: ¹⁰

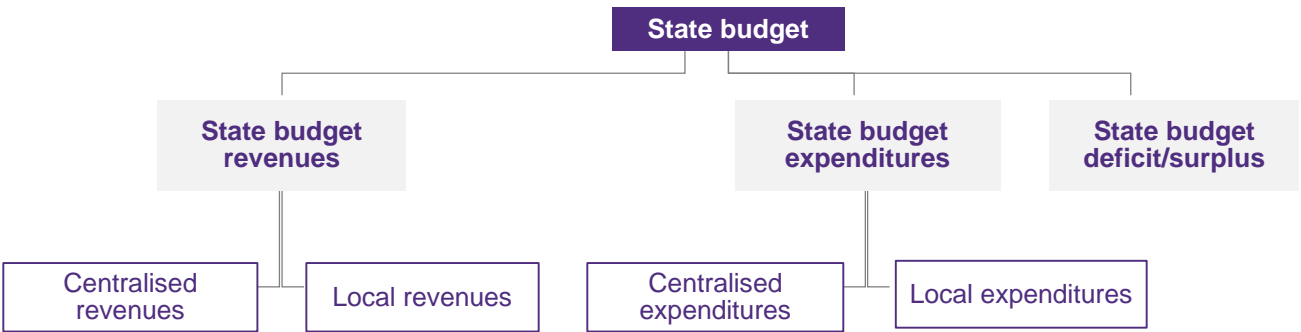


Consolidated budget - financial document reflecting revenues and expenditures of the State Budget, the budget of the Nakhchivan Autonomous Republic (including off-budget operations), and extra-budgetary state funds on the paragraph level according to the functional and economic classification. ¹²

¹⁰ Ministry of Finance of the Republic of Azerbaijan – “Citizen’s Budget Guide” <http://maliyye.gov.az/sites/default/files/binder2018.compressed.pdf>

2. Legal and Fiscal Regime

Figure 2b: The budget structure of the Republic of Azerbaijan. ¹¹



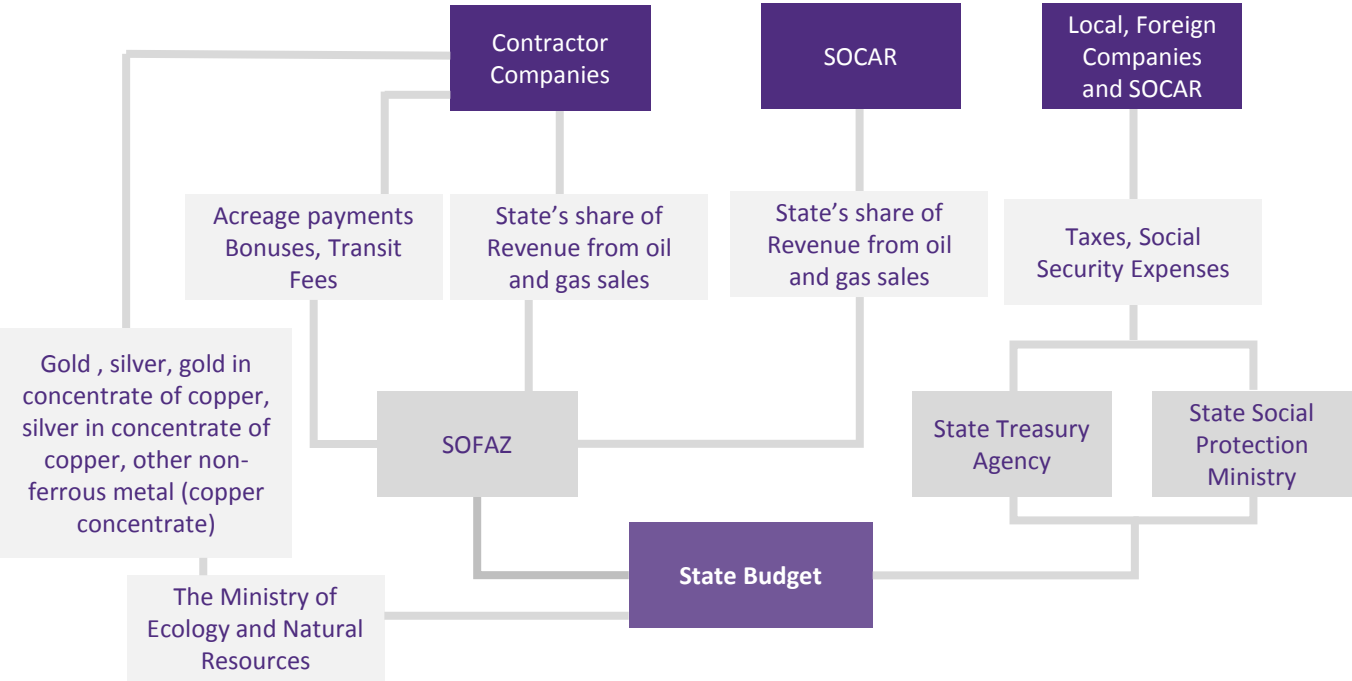
¹¹ Ministry of Finance of the Republic of Azerbaijan, book “Citizen’s Budget Guide” <http://maliyye.gov.az/sites/default/files/binder2018.compressed.pdf>

¹² http://www.e-qanun.az/alpidata/framework/data/1/f_1126.htm

2. Legal and Fiscal Regime

Figure 3: Extractive industry and state budget relations ¹³

* Local and foreign companies refer to PSA contractor and all other companies.



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

- land tax from individuals;
- property tax from individuals;
- the royalty (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 basis of municipal finance”. ¹⁴

The revenues generated from extraction of oil, gas and other mineral resources are not directly included in the budgets of local municipalities located on the territory of these deposits.

Ministry of Ecology and Natural Resources has a special tax payment liability status.

¹³ Introduced by Extractive Industries Transparency Commission

¹⁴ The Law on the basis of municipal finance of the Republic of Azerbaijan <http://e-qanun.az/framework/5231>

2.1.4 Roles and responsibilities of the relevant Government agencies

President of Republic of Azerbaijan

In the Republic of Azerbaijan the executive authority belongs to the President. His 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.¹⁵

The Cabinet of Ministers

Established for the implementation of President's responsibilities, 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.¹⁶

Ministry of Energy

Central executive authority implementing state policy and its governing in fuel-energy sector. It develops drafts of agreements on use of hydrocarbon reserves based on production sharing, carries out negotiations on these agreements, signs them in the defined manner.¹⁷

National Assembly

The National Assembly is an authority carrying out the legislative power. The National Assembly is regulated by the articles on Legislative power outlined in section V of the Third part of the Constitution.¹⁸

The Ministry of Ecology and Natural Resources

Central executive authority implementing state policy, 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.¹⁹

Ministry of Finance

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 February 9, 2009.²⁰

Ministry of taxes

Implementation of state tax policy, timely and full collection of taxes and fulfilling state control in this regard within the framework of integrated financial and budget policy carried out in Azerbaijan. It functions in accordance with the Regulation approved by the President Decree No. 454 on March 29, 2001.²¹

Ministry of Economy

Responsible for the development of economic policy, economic and social forecasts, development of various fields of economy, attraction and promotion of entrepreneurship, protection of consumer rights, regulation in the field of internal trade.²²

State Social Protection Fund

Provides mandatory state social insurance, social pensions and allowances, compensations and social benefits, social rehabilitation of the elderly, disabled people and children with disabilities, persons having difficult life conditions.²³

State Statistical Committee

Central executive authority implementing state policy in the field of statistics and forming official statistics on the social, economic, demographic and ecological situation of country based on unified methodology. It acts in accordance with the Statute approved by the Decree No. 115 of the President of the Republic of Azerbaijan dated June 24, 2009.²⁴

SOCAR

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 information can be found in the section 2.7 "State Participation in Extractive Industry" of this Report.²⁵

State Oil Fund

Fund ensures management of foreign currency and other assets generated from the implementation of oil and gas exploration. SOFAZ is an extra-budgetary fund and acts as a legal entity, independent from the Government or Central Bank.²⁶

¹⁵ Constitution of the Republic of Azerbaijan, 109, <http://www.e-qanun.az/framework/897>

¹⁶ Constitution of the Republic of Azerbaijan, Article 119, <http://www.e-qanun.az/framework/897>

¹⁷ "Regulations on the Ministry of Energy of the Republic of Azerbaijan", <http://www.minenergy.gov.az/index.php/az/nazirlik?id=1>

¹⁸ Constitution of the Republic of Azerbaijan, Article 81-98, <http://www.e-qanun.az/framework/897>

¹⁹ "Regulations on Ecology and Natural Resources of the Republic of Azerbaijan", <http://eco.gov.az/az/nazirlik/nazirlik-haqqinda>

²⁰ "Regulations on the Ministry of Finance of the Republic of Azerbaijan", <http://www.maliyye.gov.az/static/4/nazirlik-haqqinda>

²¹ "Regulations on the Ministry of Taxes of the Republic of Azerbaijan", <http://www.taxes.gov.az/az/page/azerbaycan-respublikasinin-vergiler-nazirliyi-haqqinda-esasname>

²² "Regulations on the Ministry of Economy of the Republic of Azerbaijan", <https://www.economy.gov.az/en/article/statute-of-the-ministry/21260>

²³ Statute on the State Social Protection Fund under the Ministry of Labor and Social Protection of Population of the Republic of Azerbaijan, <http://president.az/articles/20454>

²⁴ Regulations on the State Statistical Committee the Republic of Azerbaijan", https://www.stat.gov.az/menu/3/Legislation/statute_az.pdf

²⁵ "SOCAR charter", <http://socar.az/socar/en/company/regulations/socar-charter>

²⁶ "Statute on the SOFAZ of Azerbaijan Republic", <https://www.oilfund.az/en/fund/about/history>

2. Legal and Fiscal Regime

2.2 Allocation of licenses

There is no any relevant law on hydrocarbon reserves of the Republic of Azerbaijan regulating the issues covered by the production sharing agreements (“PSA”) in the Republic of Azerbaijan; therefore there are no any criteria in the law on selection of potential investor.

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 forms of international best practice on bidding process and the commonly 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 September 20, 1994 and 22 out of 33 agreements on oil and gas were active until December 31, 2018.

The current implementation of PSA consists of the following procedure

- The negotiations on the preparation of contracts on development of the hydrocarbon reserves are held between SOCAR which represents the Government of the Republic of Azerbaijan and has the legal power to issue Decrees related to hydrocarbon reserves on one side and various interested investors on the other;
- 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 of the Republic of Azerbaijan and such authorities are put in effect by appropriate statute of President;
- Principles and conditions of further partnership agreed on the basis of Memorandum of 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 the Republic of Azerbaijan for ratification.

2. Legal and Fiscal Regime

Entry into force:

- After ratification, the President of the Republic of Azerbaijan signs a decree that puts PSA into effect ; and
- The date of PSA validity is determined by the official letter sent to the contracting companies that represent the Government and that can issue orders on hydrocarbon reserves on behalf of the Government. This letter is prepared according to the president's decree.

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.

The very same process also exists for onshore PSAs. Joint Commission consisting of representatives of SOCAR and Contractor Parties is created. Under the leadership of the Commission, the transfer of all mining assets to the Operating company created from the balance of SOCAR will last from 1 month to 1 year. The established Commission determines the date of validity of PSA.

2.3 Register of licenses in extractive industry

Register of active companies who joined to PSAs in the Republic of Azerbaijan has been compiled and published to the public in an open source. ²⁷

²⁷ <http://hssk.gov.az/en/hpbs>

2. Legal and Fiscal Regime

2.4 Disclosure of Contracts

Production Sharing Agreements concluded between the host government (Azerbaijan) and a Contractors regulate the exploitation of oil, gas and minerals in Azerbaijan and these PSAs are effective only after the ratification by the Parliament of the Republic of Azerbaijan. However, the Azerbaijan government and the Contractors act as commercial counterparties in the scope of such PSAs. The Government of Azerbaijan accepts itself and the contractors to be regarded as equal commercial parties.

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 law of the Republic of Azerbaijan, the party disclosing a commercial secret to third parties in violation of the confidentiality clause shall be responsible before its counterparty (Article 7 of the Law No. 224-IIQ of the Republic of Azerbaijan on Commercial Secret dated December 4, 2001).

The PSAs that were disclosed within the scope of transparency measures in the extractive industry in Azerbaijan can be found on the referred website.²⁸

The Protocols on the Agreement on the Production Sharing of Oil Fields in the Azerbaijan sector are available on the official website of the Ministry of Taxes of the Republic of Azerbaijan.²⁹

²⁸ <http://hssk.gov.az/az/agreements>

²⁹ <https://www.taxes.gov.az/az/page/hasilatin-pay-bolgusu-haqqinda-sazise-dair-protokollar-psa>

2. Legal and Fiscal Regime

2.5 Beneficial Ownership

In 2017, the EIT Commission initiated negotiations with the Asian Development Bank (ADB) to provide technical assistance to implement the Roadmap for Beneficial Ownership Disclosure (RBOD) in the areas of identifying international good practices and drafting necessary amendments to Azerbaijan's existing legislation to enable RBOD implementation.³⁰

As a result of the negotiations, the head of the EIT Commission and the Head of Mission of the Asian Development Bank signed and approved a document titled "Technical specification on Supporting the implementation of the Roadmap for beneficial ownership disclosure for the the mining industry of Azerbaijan" on September 14, 2017. Currently, ADB is funding the project.

ADB selected the consultants led by BDO Azerbaijan (BDO Azerbaijan LLC, Engaged Consulting Ltd, Michael Barron Consulting Ltd) to undertake RBOD implementation project. The Consultants prepared three reports and a consultation document during 2018.

The reports that were prepared by the Consultants and all other information regarding the project and Beneficial Ownership disclosure in Azerbaijan can be found on the EIT commission's web site.^{30a}

³⁰ Roadmap for Beneficial Ownership Disclosure <http://hssk.gov.az/en/ownership>

^{30a} SOFAZ official web-page <https://www.oilfund.az/fund/relations/ownership>

2. Legal and Fiscal Regime

2.6 State participation in extractive industry

2.6.1 General Information

The State Oil Company of Azerbaijan Republic (“SOCAR”) is an entity acting on behalf of the government to carry out its activities in the oil and gas industry.

○ SOCAR

SOCAR was established on the base of “Azerneft” State Concern and “Azerneftkimya” Production Association under Decree No.200 dated September 13, 1992 of the President of the Republic of Azerbaijan for the purpose of using oil reserves of the Republic of Azerbaijan in accordance with single public policy, improving structure of management in oil industry and ensuring development of oil and energy complex. Under the decree No.430, dated December 22, 2014 of President of the Republic of Azerbaijan amendments were made to the decree dated January 24, 2003 and full official name of the Company was specified as State Oil Company of the Republic of Azerbaijan and short name as SOCAR.

SOCAR is a vertical integrated company along the chain of production and sales, mainly engaged in search, exploration and development, processing, transportation and retail operations onshore and in the coastline of the Caspian Sea shared by Azerbaijan. It also conducts retail activities in Georgia, Romania, Switzerland and Ukraine. The State holds 100% of the shares of SOCAR.

SOCAR publishes three reports annually to the public in an open source (SOCAR’s official website):

- Annual report (2014-2018);
- Financial report (2009-2018);
- Sustainable development report (2011-2018).

The annual report includes information on the company’s activities throughout the year (production, information on processing and sales, exploration and development of new fields, projects involved, etc.).

The Sustainability Report contains information on all aspects of the Company’s sustainable development as well as information about the Company’s objectives and plans for the future.

Financial statements have been posted on the company’s website since 2009. They cover the years 2009-2018. During this period, the company was audited by only one company, Ernst and Young Holding. ³¹

SOCAR functions in various sectors of oil, gas and petrochemical industry on the territory of the Republic of Azerbaijan and actively participates in the international market as well. 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. In 2018, SOCAR had 51,139 employees (compared to 50,424 in 2017). SOCAR being the largest company in the country occupies an important place in the economy of the Republic of Azerbaijan.

31 <http://socar.az/socar/assets/documents/en/socar-financial-reports/Financial%20report%202018.pdf>

2. Legal and Fiscal Regime

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 the Republic of Azerbaijan No.844, dated on January 24, 2003. SOCAR is an oil company engaged in exploration and development of oil and gas fields, oil and gas production, refining, oil and gas and petrochemical products in domestic and foreign markets.

SOCAR also owns ACG and Shah Deniz HPP, including the BTC Pipeline, the main export route for the Shah Deniz gas field, which is the main export route for oil/condensate produced from the Azeri-Chirag-Guneshli (ACG) and Shah Deniz fields. It has a significant share in a number of international pipelines. In addition, SOCAR has a controlling stake (51%) in Petkim, Turkey's only petrochemical producer. Further details regarding the subsidiaries and joint ventures are mentioned in the annual reports of SOCAR which are available on its official website.

○ “AzerGold” CJSC

“AzerGold” CJSC is a closed joint-stock company engaged in the extraction, processing and sale of precious and non-ferrous metals owned by the state. It was established in accordance with the Decree No. 1047 of the President of the Republic of Azerbaijan dated February 11, 2015. The main purpose of the company is to study, explore, manage, produce, process and sell precious and non-ferrous metal ore fields, apply new technologies in this area, modernize and efficiently utilize the material and technical basis, and perform other activities.

“AzerGold” CJSC had 307 employees in 2018, (2017: 288 employees). During the 2018, “AzerGold” Closed Joint Stock Company (CJSC) has exported 44.9 thousands ounces of gold and 75.6 thousands ounces of silver on export operations. Exports of precious metals brought more than 99.2 million manat to the economy of the country.³² In general, the Company has taken a leading position in the export of industrial products in the non-oil sector in 2018. Public procurement procedures are carried out in accordance with the Law of the Republic of Azerbaijan “On public procurements”.

³² Information received from AzerGold CJSC

2. Legal and Fiscal Regime

2.6.2. Relationship between state-owned enterprises and Government agencies

The relationships between SOCAR and government agencies are outlined below:

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 Regulation.³³

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 Labor and Social Protection of Population and the State Statistics Committee of the Republic of Azerbaijan.

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.

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 January 24, 2003, SOCAR prepares its annual financial statements and submits it to the Ministry of Taxes of the Republic of Azerbaijan in accordance with the Tax Code of the Republic of Azerbaijan and conducts accounting procedures in accordance with the law of the Republic of Azerbaijan on “Accounting”.

SOCAR prepares “Official statistics” in accordance with the relevant legislation and submits it to the State Statistical Committee of the Republic of Azerbaijan.

SOCAR’s consolidated financial statements together with the auditor’s report is published in the official website no later than June 30 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.³⁴

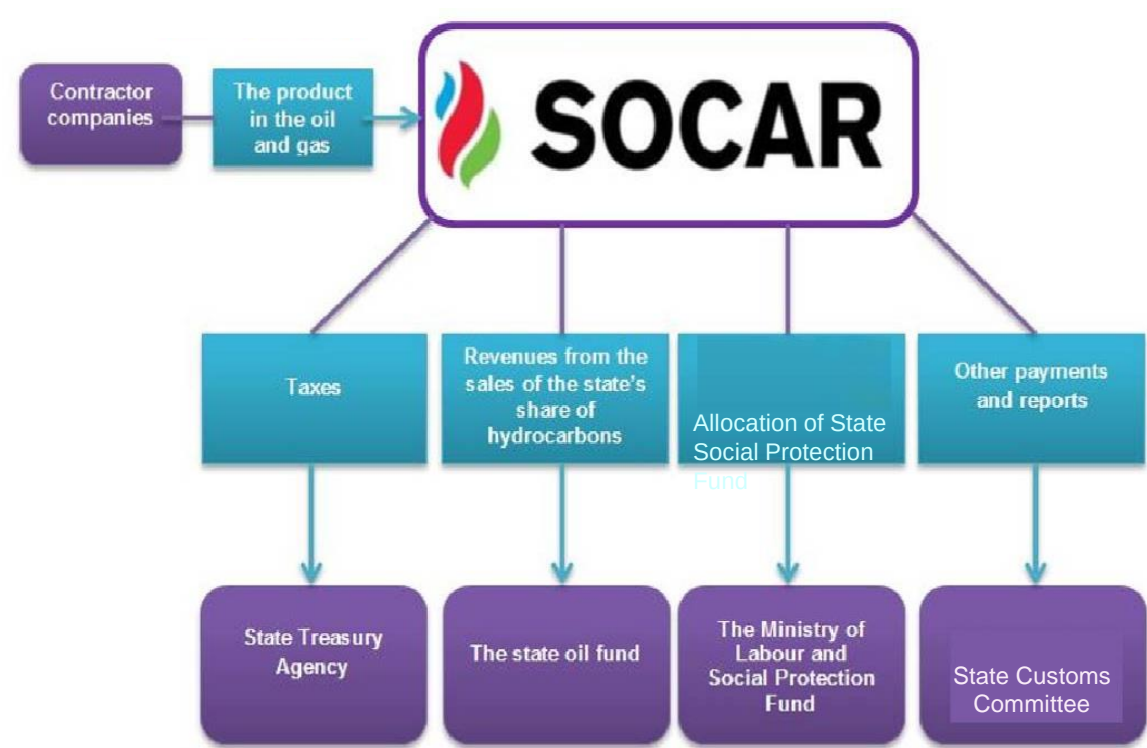
The process of fund allocation to SOCAR by the government is carried out by the means of share capital and loans allocation. Under the state guarantee the Central Bank acts as a lender, the Azerbaijani banks act as a borrower and SOCAR acts as re-borrower of the loan. The Central Bank of the Republic 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.

³³ <http://socar.az/socar/en/company/regulations/socar-charter>

³⁴ <http://www.e-qanun.az/framework/28955>

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 January 24, 2003 any request from the government agencies on relevant reports and information must be prepared and submitted by SOCAR to them.³⁵

Figure 4: Relationships between SOCAR and State agencies³⁶



The relationships between “AzerGold” CJSC and government agencies are outlined below:

The approval of the charter and structure, determination of the amount of the share capital of the “AzerGold” CJSC is carried out by the Cabinet of the Ministers of the Republic of Azerbaijan. Ministry of Economy of the Republic of Azerbaijan is responsible for the appointment and dismissal of the Board of Directors, Supervisory Board, Audit Committee and other members of “AzerGold” CJSC.

The Supervisory Board conducts the management and monitoring procedures of its activities and does not have powers of the executive body. The Supervisory Board consists of representatives from the Ministry of Economy of the Republic of Azerbaijan (2 people), the Ministry of Ecology and Natural Resources of the Republic of Azerbaijan (1 person), the Ministry of Finance of the Republic of Azerbaijan (1 person) and the State Committee on Property Issues of the Republic of Azerbaijan (1 person).

³⁵ <http://www.e-qanun.az/framework/%201899>

³⁶ Figure 5 provided by Extractive Industry Transparency Commission

2. Legal and Fiscal Regime

At the same time, the authority for the preparation of the annual reports, accounting balances, the approval and allocation of profit and loss, the number of employees, determination of payroll and approval of the state budget expenditures is given to the Ministry of Economy of the Republic of Azerbaijan.

The Board of Directors of the “AzerGold” CJSC is its collegial executive body and carries out all the issues related with the Company, except for the powers granted to the General Commission, the Supervision Board and the Audit Committee in accordance with the Code, Order and Charter.

The Chairman and vice-chairman of the Board of Directors of the company are appointed and dismissed by the President of the Republic of Azerbaijan.

The activity of “AzerGold” CJSC is governed in accordance with the Constitution of the Republic of Azerbaijan, the legislation of the Republic of Azerbaijan, decrees and orders of the President of the Republic of Azerbaijan, the resolutions and orders of the Cabinet of Ministers of the Republic of Azerbaijan, other normative-legal acts and the Charter of the Company.³⁷

2.6.3 Payments to the State Budget by state-owned enterprises

Financial data of SOCAR and the payments made to the state budget are shown below:

Share Capital³⁸

Increase in the amount of AZN 1,111 million in charter capital was registered during 2018 and accordingly the amount was reclassified from additional paid-in capital to charter capital. As at year ended December 31, 2018 the amount of charter capital was AZN 4,147 million.

Additional Paid-in Capital (APIC)

During 2018, the Government contributed to the charter capital of SOCAR in the amount of AZN 1,190 million (2017: AZN 243 million). The amount of cumulative additional paid-in capital was equal to AZN 5,299 million as of December 31, 2018.

Distributions to the Government

Based on decisions of the Government, SOCAR is periodically mandated to make direct cash contributions or finance construction and repair works for the Government (including transfer of assets), various government agencies and projects administered by the Government. During 2018 such direct cash transfers to the Government, financing (made in the form of payments to sub-contractors of governmental entities) and distribution of property, plant and equipment amounted to AZN 675 mln, AZN 5 mln and AZN 5 mln respectively (31 December 2017: AZN 567 mln, AZN 89 mln and nil, respectively), mainly for repair and reconstruction of existing, as well as construction of new recreational, transport, educational and medical infrastructure of the Azerbaijan Republic.³⁹

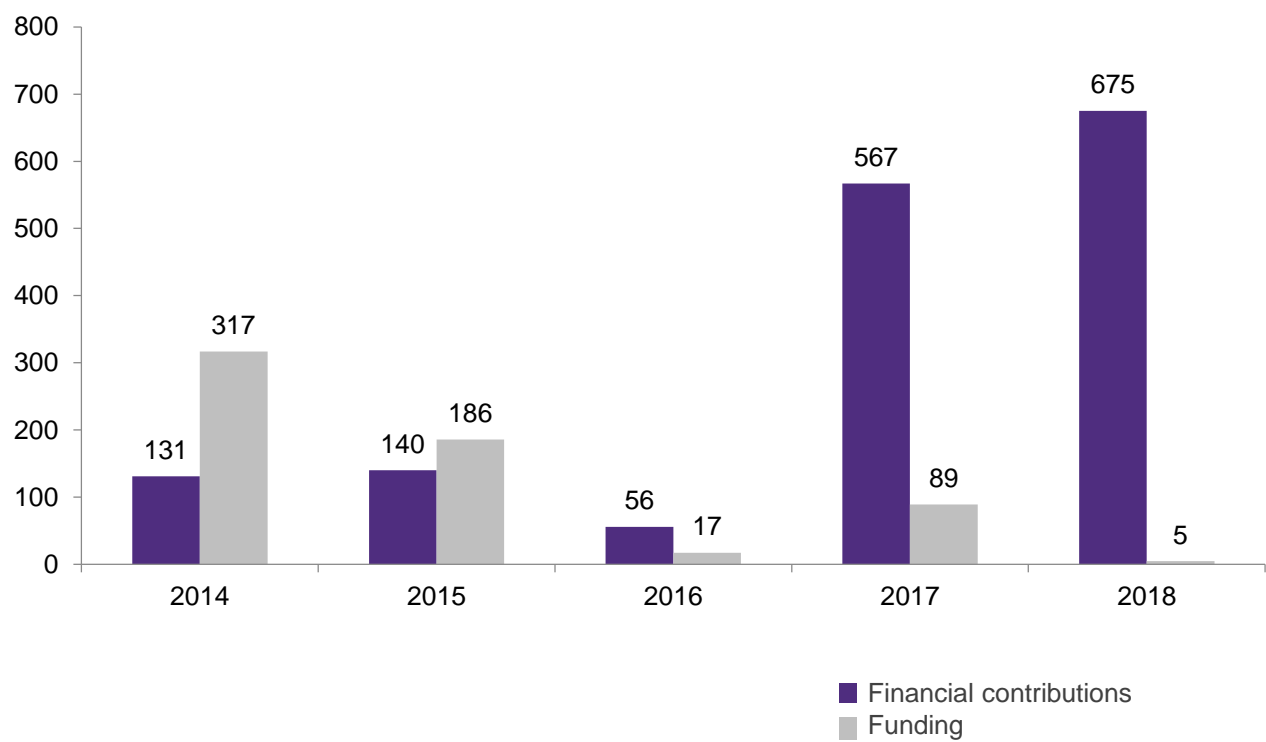
³⁷ Decision of the Cabinet of Ministers of the Republic of Azerbaijan on approval of the charter and structure of AzerGold CJSC, <http://www.e-qanun.az/framework/32799>

³⁸ SOCAR, Financial Statement 2018, "Note 27, Charter capital, additional paid-in equity and retained earnings", page 80, <http://socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye.hesabat.2018.pdf>

³⁹ SOCAR, Financial Statement 2018, "Note 27, Charter capital, additional paid-in equity and retained earnings", page 81, <http://socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye.hesabat.2018.pdf>

2. Legal and Fiscal Regime

Graph: Financial contributions and funding by SOCAR
(million AZN)



2. Legal and Fiscal Regime

Retained earnings

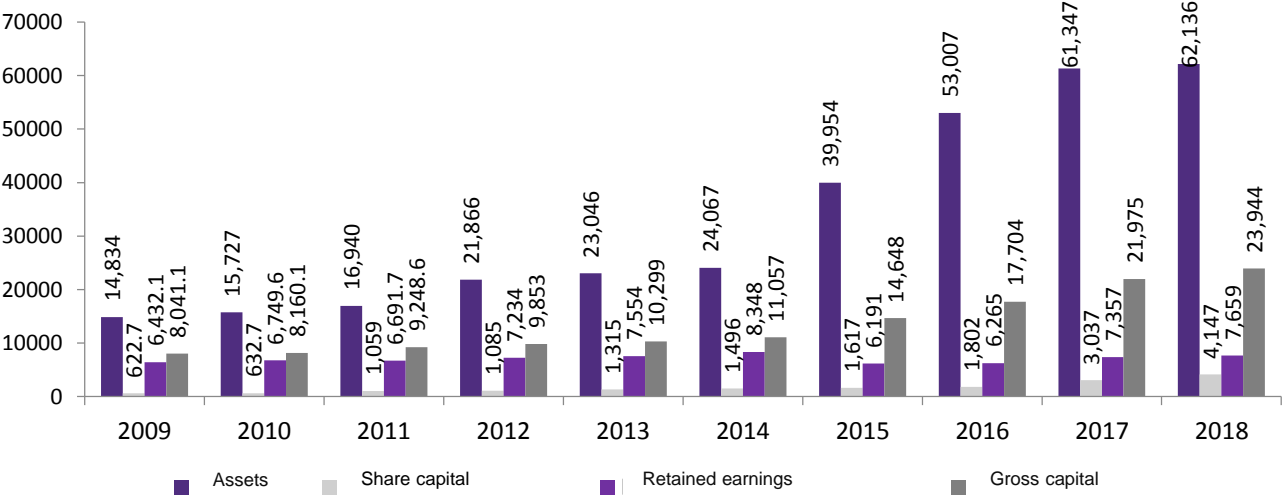
The total amount of the retained earnings of SOCAR was AZN 7,659 million as at the year ended December 31, 2018. Detailed information can be obtained from the “Consolidated statement of changes in equity” financial report of SOCAR.

Detailed information on financial flows between SOCAR and a number of government agencies (Ministry of Taxes, Ministry of Finance, International Bank of Azerbaijan, SOFAZ, Azerbaijan Investment Fund and etc.) is available in Note 7 of the financial report for the year ended December 31, 2018.⁴⁰

⁴⁰ SOCAR, Financial Statement 2018, p 55., <http://socar.az/socar/assets/documents/en/socar-financial-reports/Financial%20report%202018.pdf>

2. Legal and Fiscal Regime

Graph : The financial indicators of SOCAR for the years 2009-2018 (million AZN) ⁴¹



⁴¹ SOCAR, Financial Statement 2018 Consolidated statement of financial position, p 1, <http://socar.az/socar/assets/documents/en/socar-financial-reports/Financial%20report%202018.pdf>

2. Legal and Fiscal Regime

Balances and transactions of SOCAR with related parties ⁴²

At December 31, 2018, the outstanding balances with related parties were as follows (expressed in millions of Azerbaijani Manats):

	State and state-controlled entities	Associates, joint ventures
Gross amount of trade receivables	113	86
Impairment provisions for trade and other receivables	(41)	(7)
Other receivables	44	62
Other non-current financial assets	-	467
Cash and cash equivalents	1,227	-
Restricted cash	182	-
Deposits	36	-
Advances received	(11)	-
Advances received for the sale of interest in PSA	-	(4,313)
Borrowings from IBA (at fixed rates varying from 3 to 4 per cent)	(451)	-
Borrowings from the Ministry of Finance of Azerbaijan Republic	(315)	-
Deferred consideration payable for Methanol Plant	(62)	-
Bond payable to Azerbaijan Investment Company ("AIC")	(163)	-
Trade and other payables	(280)	(851)
Deferred consideration payable to SGC	-	(529)
Taxes payable to State Oil Fund of Azerbaijan Republic ("SOFAZ")	(255)	-
Bond payable to SOFAZ	(1,128)	-
Other payables to SOFAZ	(2,870)	-

⁴² SOCAR, "Financial statements 2018", Note 7, "Balances and transactions with related parties", p. 55-56, <http://socar.az/socar/assets/documents/en/socar-financial-reports/Financial%20report%202018.pdf>

2. Legal and Fiscal Regime

The transactions with related parties for the year ended December 31, 2018 were as follows: (amounts are expressed in millions of Azerbaijani Manats): ⁴³

	State and state-controlled entities	Associates, joint ventures
Sales of natural gas	640	261
Sales of oil products	396	6
Service rendered	3	55
Interest on loans from related parties	(59)	-
Utilities costs	(67)	(5)
Other operating expenses	(40)	(10)
Other operating income	206	-
Social expenses	(19)	-
Transportation expenses	(111)	(336)
Security expenses	(10)	-
Purchases of PPE and inventory	(17,275)	(874)
Dividends received from joint ventures	-	106
Dividends received from associates	-	84

The financial data of “AzerGold” CJSC and payments to the state budget are as follows:

Share capital

“AzerGold” CJSC registered as a taxpayer under the Ministry of Taxes of the Republic of Azerbaijan with the registration number 1403467421 on July 5, 2016. The Company’s share capital consists of USD 1,296,600 which was unchanged from the prior year. The Company is 100% owned by The Republic of Azerbaijan. ⁴³

Retained earnings

The retained earnings of “AzerGold” CJSC as at December 31, 2018 was equal to USD 7,946,871. ⁴³

⁴³ Information received from AzerGold CJSC

2. Legal and Fiscal Regime

2.6.4 Financial performance and production data of state-owned enterprises

Graph : Revenue of SOCAR for the years 2016-2018 (million AZN) ⁴⁴

Financial and production data of SOCAR are shown below



SOCAR’s total revenues increased to 111.198 billion AZN by the end of 2018, while it was a total of AZN 4.7 billion in 2008. The major part of revenues is derived from crude oil sales. The rise in crude oil prices in the world markets has led to a significant increase in annual revenues. For this reason, despite the decline in crude oil production, its share in total revenues increased from 23.8% in 2008 to 52.5% in 2018. Over the last 10 years, annual revenue from crude oil sales has increased from AZN 1.1 billion to 58.4 billion. During this period, its annual revenue from the sale of natural gas increased to AZN 3.1 billion compared to 2008 (AZN 515 million).

Capital and Operating expenses of SOCAR

Increased range of goods produced, transported and sold by the company increased costs, along with revenues. Operating expenses increased from AZN 3.3 billion in 2008 to AZN 108.4 billion in 2018. (Figure 2-7) Main reason beyond SOCAR’s increased income was expansion of its sales and distribution operations. ⁴⁵

⁴⁴ SOCAR, “Financial statements 2018”, Note 28, “Analysis of revenue by categories”, p. 79, <http://socar.az/socar/assets/documents/en/socar-financial-reports/Financial%20report%202018.pdf>

⁴⁵ SOCAR, Financial Statement 2018, Consolidated statement of profit or loss or other comprehensive income, p 3., <http://socar.az/socar/assets/documents/en/socar-financial-reports/Financial%20report%202018.pdf>

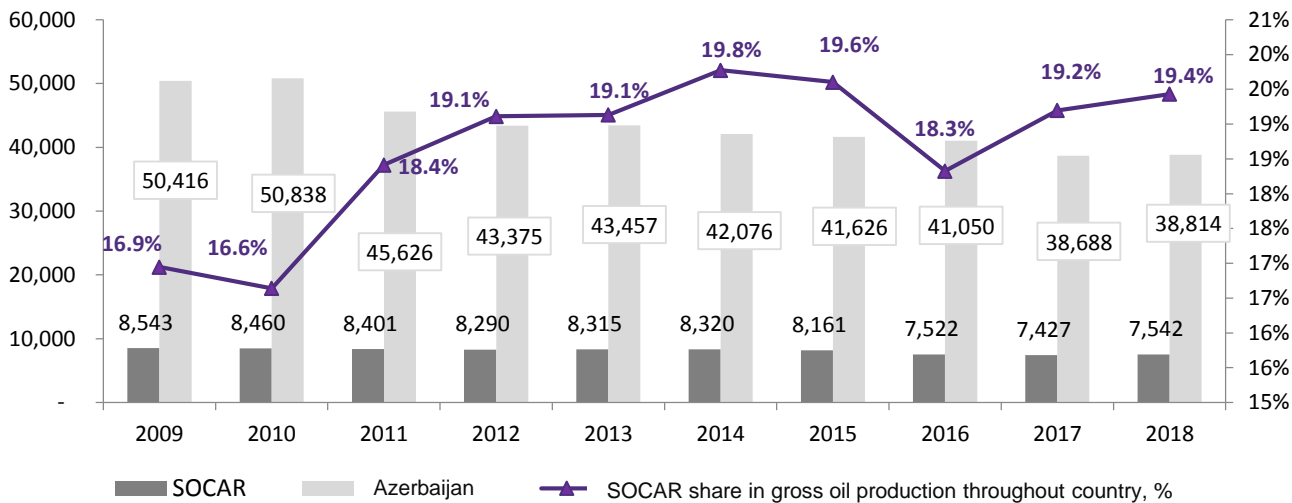
2. Legal and Fiscal Regime

Production indicators

SOCAR is responsible for all produced hydrocarbons and oil, petrochemical and gas products derived from their processing. An average of 43.5 million tons of oil and 29 million cubic meters of gas are produced annually in Azerbaijan. In 2009-2018 there was a decline in oil production, despite the improvement in technological capacity of SOCAR and exploration of new fields. The reason of decline is the decreasing oil capacity of the oil-well. In this period, the peak amount of oil produced by SOCAR was in 2009 (8.5 million tons). The record oil production (50.8 million tons) throughout the country was recorded in 2010.

Over the past 10 years, the company’s oil production was decreased by 11.7%. The share of SOCAR in the total oil production in the country ranged between 16.7% and 19.8%. While the share of SOCAR in total oil production was decreased (16.7%) amidst increased overall production, in 2018 it was increased to 19.4%.

Graph 2a : Oil production for the years 2009-2018 (thousand tons) ⁴⁶



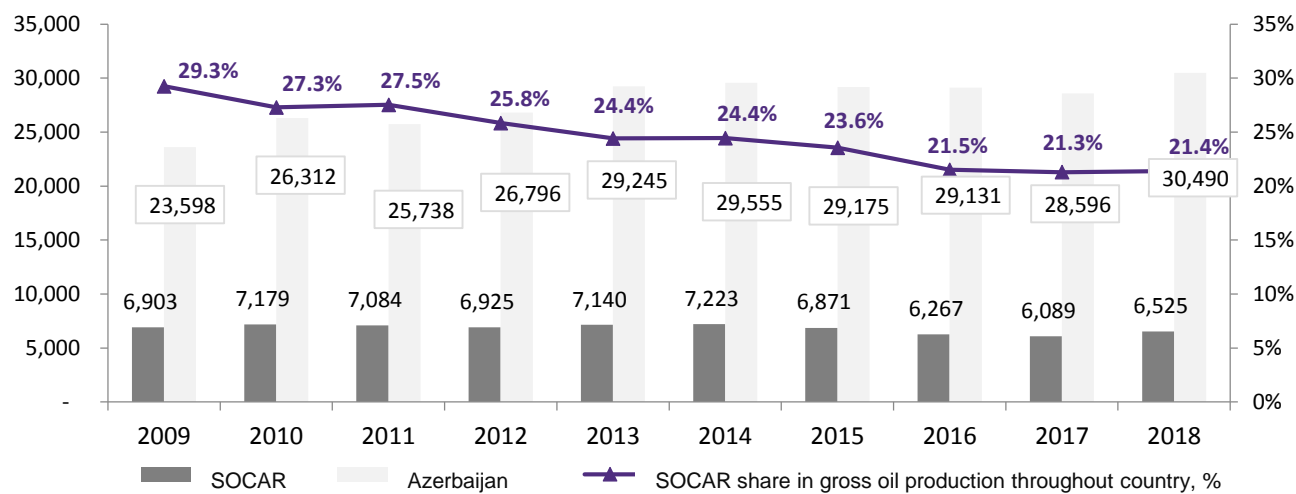
Along with the oil, gas production has also declined. The company’s gas production in 2009 was 7.75 billion cubic meters, dropping to 6.5 billion cubic meters in 2018. The decline in gas production in the past 10 years was 5.5%.

The gas production of SOCAR in the country production declined from 29.1% in 2009 to 21.4% in 2018. The reason for this was increase in production throughout country and decrease in production throughout the company.

⁴⁶ https://www.stat.gov.az/source/balance_fuel/

2. Legal and Fiscal Regime

Graph 2b : Gas production for the years 2009-2018 (million cubic meters)



Before the establishment of SOCAR Trading, SOCAR initially exported its crude oil through Georgia and Russia, until the much larger BTC pipeline was completed. 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 oil to a wider range of customers, in the Mediterranean area, as well as further out to Asia and America.

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-Gunashli field and other surrounding fields in Azerbaijan. Azeri crude oil is delivered through mainly three pipelines: the Western Route Export Pipeline in Georgia, the Baku-Novorassysk pipeline in Russia and the Baku-Tbilisi-Ceyhan pipeline in Turkey.⁴⁷

⁴⁷ https://www.stat.gov.az/source/balance_fuel/

2. Legal and Fiscal Regime

SOCAR Trading has successfully loaded near 1 billion barrels of Azeri Light crude oil 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 oil through increased pricing flexibility and the ability to adapt to volatile global needs.⁴⁸

SOCAR Trading facilitates the sale of crude oil volumes produced by SOCAR through Ceyhan port and transacts a wide range of third party crude oil. 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 oil as well as its status as a state owned company to gain access to several opportunities worldwide.

The indicators of liquidity, solvency and profitability ratios of SOCAR for the year ended December 31, 2018 are as follows:⁴⁹

Liquidity Ratios

Ratios	2016	2017	2018
Current ratio	1,118	1,123	1,111
Quick ratio	0,848	0,882	0,939
Interest coverage ratio	2,113	3,827	2,972

Profitability Ratios:

Ratios	2016	2017	2018
Gross margin ratio	0,087	0,056	0,052
Profit margin	0,041	0,016	0,020
Return on capital employed	0,003	0,006	0,075
Return on asset	0,004	0,002	0,020

Solvency Ratios:

Ratios	2016	2017	2018
Debt to equity ratio (Total liability/Total equity)	1,994	1,792	1,595
Debt ratio (Total Liability/Total asset)	0,666	0,642	0,615

⁴⁸ <https://www.socartrading.com/marketing/marketing-export>

⁴⁹ <http://socar.az/socar/assets/documents/en/socar-financial-reports/Financial%20report%202018.pdf>

2. Legal and Fiscal Regime

2.6.5 Joint Ventures, associates and subsidiaries of state-owned enterprises

Table 1: Joint ventures ⁵⁰

Information on joint ventures' and subsidiaries' principal activities, country of incorporation and equity interest during 2018 are given in the tables below:

JV and Name of the Joint Ventures	Principal activities	SC participating interest (%)	Changes of participating interest during the reporting period(%)	Revenue (mln AZN)	Assets (mln AZN)	Liabilities (mln AZN)
Oil and Gas Preserve LLC	Procurement services	30%	Unchanged	2	18	(9)
Caspian Shipyard Company	Ships maintenance services	20%	Unchanged	-	2	-
Sarmatia LLC	Project services	27%	Unchanged	-	1	(1)
SOCAR Baglan LLC	Procurement services	51%	Unchanged	-	15	(19)
SOCAR Foster Wheeler Engineering	Engineering services	65%	Unchanged	12	4	(4)
SOCAR KBR	Engineering, procurements services and construction	51%	Unchanged	121	56	(50)
SOCAR Dalgic LLC	Project services	51%	New	9	18	(18)
AAS-Ekol	Environmental protection service	48%	Unchanged	9	4	(1)
SOCAR Uniper	Construction	51%	New	40	29	(8)
SOCAR Fugro	Engineering services	51%	Unchanged	33	14	(8)
SOCAR Construction LLC	Construction	97%	Unchanged	-	10	(1)
Caspian Innovation Center	Information technology services	90%	New	13	12	(10)
SOCAR Turkey LNG	Consultancy services	45%	New	26	30	(16)

During 2018, the Group has made additional contributions in share capital of its joint ventures, SOCAR Turkey Yatırım A.Ş. ("STYAS") and SOCAR Uniper in the amount of AZN 152 (2017: AZN 542) and AZN 8 (2017: nil), respectively.

In 2015, the Group signed letters of credit agreements in relation to the construction of Star Refinery complex (subsidiary of STYAS). Commission and interest expenses paid by the Group in total amount of AZN 26 (2017: AZN 28) were recognized as additional investment in STYAS.

⁵⁰ SOCAR, "Financial statements 2018", Note 17, "Investment in joint ventures", p. 65, <http://socar.az/socar/assets/documents/en/socar-financial-reports/Financial%20report%202018.pdf>

Table 2: Subsidiaries ⁵¹

Name	Activity	Country	Share in capital, %, %
SOCAR Turkey Energy A.S.	Processing	Turkey	100%
Azerbaijan (ACG) Ltd.	Oil production	The Cayman Islands	100%
Azerbaijan (Shah Daniz) Limited	Gas production	The Cayman Islands	100%
Caspian Drilling Company (CDC)	Drilling operations	Azerbaijan	92%
"SOCAR Energy Georgia" LLC	Sales and distribution	Georgia	76%
"SOCAR Overseas" LLC	Sales and distribution	UAE	100%
SOCAR Trading Holding	Sales and distribution	Malta	100%
Azerbaijan (BTC) Ltd.	Sales and distribution	The Cayman Islands	100%
Cooperative Menkent U.A.	Sales and distribution	Kingdom of the Netherlands	100%
SOCAR Enerji Holdings AG	Sales and distribution	Switzerland	100%
SOCAR Energy Ukraine	Sales and distribution	Ukraine	100%
Azerbaijan (SCP) Ltd.	Sales and distribution	The Cayman Islands	100%
"SOCAR Petroleum" CJSC	Sales and distribution	Azerbaijan	100%
Baku Shipyard	Construction	Azerbaijan	70%
"SOCAR Polimer" LLC	Chemical products	Azerbaijan	52%
"BOS Shelf" LLC	Construction	Azerbaijan	90%

On 28 February 2018 the Group acquired 100 per cent control over four business units, A1, Futura, Pronto and W&G (Austrian business).

During 2018 information on the participation rate of SOCAR in joint and subsidiaris, changes in equity share, revenue, assets and liabilities during the reporting period are shown in the following tables:

Table 3a: Associates (Main associates of SOCAR) ⁵²

Name of associate and subsidiary	Activity	SC participating interest (%)	Change in participation rate during reporting period (%)	Revenue (mln AZN)	Total Assets (mln AZN)	Total Liabilities (mln AZN)
The South Caucasus Pipeline ("SCP")	Pipeline construction	10%	Unchanged	750.0	9,288.0	(624.0)
BTC Co	Pipeline construction	25%	Unchanged	1,513.0	8,968.0	(1,693.0)
"Southern Gas Corridor" CJSC ("SGC" CJSC)	Gas supply	49%	Unchanged	435.0	21.903.0	(16,097.0)

⁵¹ SOCAR, "Financial statements 2018", Note 1, "Group and its operations", p. 6, <http://socar.az/socar/assets/documents/en/socar-financial-reports/Financial%20report%202018.pdf>

⁵² SOCAR, "Financial statements 2018", Note 18, "Investment to associate enterprises", p. 68 & 69, <http://socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye.hesabat.2018.pdf>

2. Legal and Fiscal Regime

Table 3b: Associates (Other individually or collectively associated entities of SOCAR)

Name of associates and subsidiaries	Activity	SC participat- ing interest (%)	Change in participation rate during reporting period (%)	Revenue (mln AZN)	Total Assets (mln AZN)	Total Liabilities (mln AZN)
Caspian Geophysical Company	Analysis and other geological studies	45%	Unchanged	-	9	(1)
Azlab	Analysis Services	50%	Unchanged	4	5	(4)
Cross Caspian Oil and Gas Logistics LLC	Supply and Logistics Services	34%	Unchanged	4	3	(2)
Ateshgah Insurance Company	Insurance services	10%	Unchanged	41	42	(30)
Caspian Pipe Coatings LLC	Cleaning of pipes, coating and other. services	50%	Unchanged	7	17	(2)
Tankanlagen Mellingen AG ("TAMAG")	Sales and storage	33%	Unchanged	7	17	(2)
TanklagerTaegerschen AG ("TLT")	Sales and storage	21%	Unchanged	-	13	(3)
SOGEP AG	Sales and storage	34%	Unchanged	-	6	(5)
UBAG AG	Sales and storage	24%	Unchanged	-	7	(5)
SAPPRO SA	Sales and storage	13%	Unchanged	-	20	(20)
SARACO SA	Sales and storage	20%	Unchanged	-	38	(32)
Azerbaijan Gas Supply Company	Sales and storage	28%	Unchanged	3,899	572	(572)
Electrogas Malta	Sales and storage	33%	Unchanged	380	1,128	(1,245)
Octogone	Sales and storage	20%	Unchanged	5	50	(53)
CI GNL	Sales and storage	26%	Unchanged	-	2	(31)

2. Legal and Fiscal Regime

2.6.6 Transactions related to State owned enterprises

The State Oil Company of Azerbaijan Republic ("SOCAR") is an entity acting on behalf of the government to carry out its activities in the oil and gas industry. SOCAR carries out the exploration and development of oil and gas fields, production, processing and transportation of oil, gas and gas condensates, selling of oil, gas and oil-chemical products on domestic and foreign markets.

SOCAR acting on behalf of the Republic of Azerbaijan within the PSA framework obtains state's share of oil and gas in kind from the participant of PSAs. The volume of oil and gas obtained by SOCAR from the contracting companies in 2018 is indicated in the Table 13 (page 75).

The state's share of the revenues from the sale of profit oil and gas is accumulated in the State Oil Fund of the Republic of Azerbaijan and the relevant information is given in the Table 12 (page 73). The information on transfer which is carried out by the SOFAZ to the state budget for 2018 is indicated in the Table 20 (page 98).

Allocation of tax liabilities (profit tax, VAT, property tax, excise tax, income tax, price change and other taxes) occurring during SOCAR's activity is calculated in accordance with appropriate legislation and is transferred to the State Treasury Agency.

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 which acts on behalf of the Government.

Distribution to the Government represent cash distributions or financing which the SOCAR may be required to make to the state budget, various government agencies and projects administered by the Government based on the particular decisions of the Government. Such distributions are recorded as a reduction of equity. Distributions in the form of transfers of non monetary assets are recognized at the carrying value of transferred assets.⁵³

⁵³ SOCAR, "Financial statements 2018", Note 2, "Note 2, Basis of the preparation of financial statements and accounting standards", p. 21", <http://socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye.hesabat.2018.pdf>

2. Legal and Fiscal Regime

2.6.7 State-Owned Enterprise activities in foreign markets

Southern Gas Corridor Project

The Southern Gas Corridor project aims to increase Europe’s energy supply by directing the Caspian Sea’s gas supplies to European markets. The Southern Gas Corridor consists of four projects: ⁵⁴

1. Operation of Shah Deniz gas condensate field (SD1 project) and full-scale development (SD2 project);
2. Exploitation of the existing South Caucasus Pipeline (SCP) and the extension of the Azerbaijan-Georgia pipeline through the new parallel pipeline (“SCPX”);
3. Trans-Anatolian Pipeline (TANAP project) and Shah Deniz gas transportation via Turkey;
4. The construction of the Trans Adriatic Pipeline (TAP) and future Shah Deniz gas transportation through Greece, Albania, and the Adriatic Sea to Italy.

⁵⁴ <https://www.sgc.az/en/page/1>

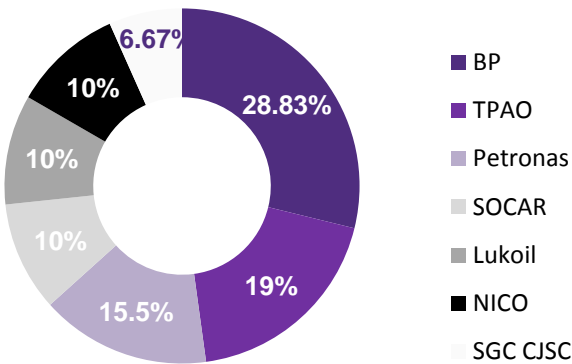
⁵⁵ Information received from SGC CJSC

Shore Project (SD1 and SD2)

Initial gas sales on SD1 began in 2006 and operations under the project are ongoing.

The full-scale Shah Deniz gas condensate field or Shah Deniz 2 (SD2) is one of the largest and most sophisticated gas projects in the world and the first underwater infrastructure in the Caspian Sea. The SD2 project will add up to 105,000 barrels of condensate per year to 16 billion m³ of gas and up to 50,000 barrels of condensate per year to 10.9 billion cubic meters of gas per year. ⁵⁵ 6 billion cubic meters of gas will be supplied to Turkey and 10 billion cubic meters will be supplied to European consumers.

The total capital expenses of the SD2 project is expected to be USD 21.9 billion. The Contracting Parties to the Shah Deniz Project are:



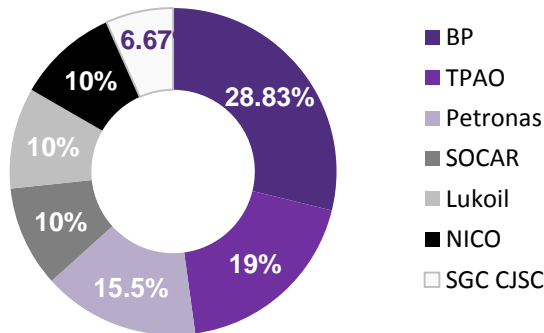
2. Legal and Fiscal Regime

South Caucasus Pipeline (SCP)

The SCP is 692 km long (443 km in the territory of Azerbaijan, 249 km in Georgia) and a 42-inch pipeline. The pipeline was built to transport gas from the Shah Deniz field to the Georgian-Turkish border. The annual transport capacity is 7.41 billion m³.

SCPX project implies the construction of a new 48 inch pipeline looping SCP at Azerbaijani and Georgian territories as well as the construction of two new compressor stations in Georgia. New pipeline is approximately 489 km long (424 km in Azerbaijan, 63 km in Georgia and 2 km in TANAP interconnection). The new pipeline started operating on 30 June 2018. As a result of the expansion, SCP's throughput capacity is expected to increase by 16 billion m³ and reach approximately 23.4 bcma, which would triple the current overall transportation capacity of the system. SCP's capacity may be further expanded to 31 bcma, if needed. The pipeline has been linked to TANAP at the Georgian-Turkey border, thus enabling the transportation of natural gas further to Turkey and Europe. The SCPX project is expected to total \$ 4.5 billion.

Pipeline owners are: ⁵⁶

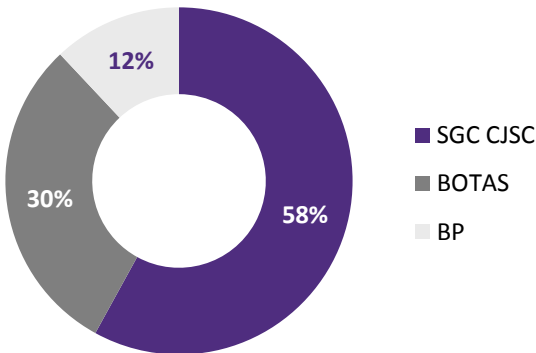


TANAP

TANAP is a part of the Southern Gas Corridor that will transport gas from the Shah Deniz 2 field in the Caspian Sea to Turkey and onwards to Europe. TANAP groundbreaking ceremony was held on 17 March 2015. TANAP carries on significant economic value due to its potential to transport not only the natural gas from Shah Deniz field to European end markets, but also from other fields of Azerbaijan. Initially it is planned to export 16 million m³ of gas annually and this figure can be gradually increased to 24 billion m³ and later to 31 billion m³.

The pipeline is 1,804 km long (with additional 17.5 km long 2 subsea pipelines at Dardanelles) and its section till Eskisehir started operating on 2018. The total capital expenditure of the TANAP project (for 16 bcma transportation capacity) is expected to be USD 6.5 billion. The pipeline is 1,804 km long (additional 17.5 km long 2 subsea pipelines at Dardanelles) and the part till Eskisehir started operating on 2018. The total capital expenditure of the TANAP project (with the transportation capacity of 16.2 bcma) is expected to be US \$ 6.5 billion.

Shareholders of TANAP are given below: ⁵⁷



⁵⁶ <https://www.sgc.az/en/project/scp>

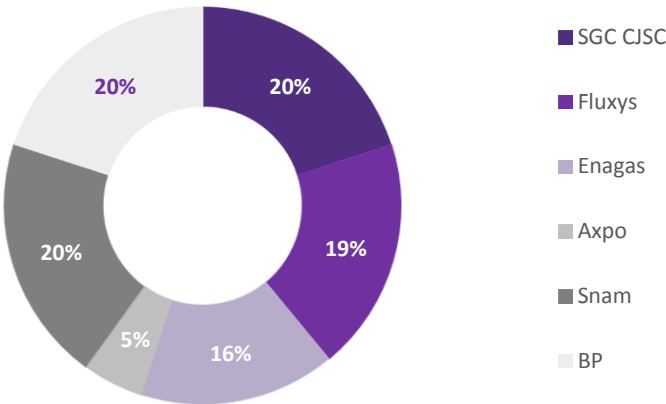
⁵⁷ <https://www.tanap.com/media/press-releases/major-shareholder-in-the-project-of-the-century/>

2. Legal and Fiscal Regime

TAP

The Trans Adriatic Pipeline project (“TAP”) is a greenfield development consisting of the design, construction, and operation of natural gas pipeline starting in Greece at the Greek-Turkish border where it connects with Trans Anatolian Pipeline (“TANAP”) and then crosses Greece, Albania and the Adriatic Sea and ends in Italy connecting to natural gas network grid of Snam Rete Gas (“SRG”). TAP is expected to play a key role in the EU’s strategic goal of energy security and diversification of energy sources as it will be the shortest and most direct method of exporting gas from Azerbaijan to European markets. The “Intergovernmental Agreement” on TAP project was signed among Albania, Italy and Greece in February 2013. With the total length of the 878 km the pipeline passes 550 km through Greece, 215 km through Albania, 105 km through the Adriatic Sea and 8 km through Italy. The total capital expenditure of the TAP project is expected to be € 4.6 billion.

Shareholders of TAP are given below; ⁵⁸



⁵⁸ <https://www.tap-ag.com/about-us>

2. Legal and Fiscal Regime

2.6.8 Loans and guarantees received by state-owned enterprises

The loans received and bonds issued by SOCAR for the year ended December 31, 2018 are provided below:

New loans

In 2018, SOCAR has received loans from local and international financial institutions in the amount of AZN 5,601 million.

Total debt obligations of SOCAR as of December 31, 2018 are estimated at AZN 13,672 million. AZN 4,013 million of these are short-term debt liabilities, and AZN 9,659 million - long-term debt. In 2008, the total debt of the company amounted to AZN 2,110.9 million. Short-term debt liabilities amounted to AZN 386.4 million and long-term borrowings AZN 1,724.5 million. ⁵⁹

As at December 31, 2018, borrowings of SOCAR were as follows: (amounts expressed in millions of AZN) ⁶⁰

Funds	Interest rate	Maturity date	Total loan liability at initial currency	Balance for the year ended December 31, 2018
Short-term facilities in USD	2.48-8%	January 2019 – December 2019	2,174	2,502
Short-term facilities in TRY	16.5-28.5%	January 2019 – December 2019	126	42
Short-term facilities in GEL	12-14%	January 2019 – December 2019	136	76
Short-term facilities in other currencies	4.9%-18%	January 2019 – December 2019	531	149
Current portion of long-term borrowings	-	-	-	1,244
Total short-term borrowings and current portion of long term borrowings			-	4,013

⁵⁹ SOCAR, "Financial statements 2018", Consolidated statement of financial position", p. 1, <http://socar.az/socar/assets/documents/en/socar-financial-reports/Financial%20report%202018.pdf>

⁶⁰ SOCAR, "Financial statements 2018", Note 20, "Borrowings", p. 70, <http://socar.az/socar/assets/documents/en/socar-financial-reports/Financial%20report%202018.pdf>

2. Legal and Fiscal Regime

Long term borrowings

Funds	Interest rate*	Maturity date	Long-term portion	Current portion
USD 1,000 million	4.75%	March 2023	1,660	22
USD 750 million	6.95%	March 2030	809	27
USD 500 million	5.88%	January 2023	845	21
USD 489 million	LIBOR + 6.95%	July 2025	682	133
USD 238 million	6M LIBOR +4%	December 2029	412	
EUR 251 million	EURIBOR + 3.03%	June 2028	434	55
USD 260 million	LIBOR + 4.3% + 1.25%	December 2022	399	34
EUR 249 million	EURIBOR + 0.95%	June 2028	392	54
AZN 600 million	4%	July 2022	380	71
USD 300 million	LIBOR + 3.25%	March 2022	361	153
USD 212 million	LIBOR + 4.675%	March 2028	321	4
USD 250 million	LIBOR + 2.2%-	November 2023	317	2
USD 485 million	LIBOR + 1%	December 2024	294	135
USD 200 million	LIBOR + 1_335%	December 2027	272	14
USD 100 million	5%	October 2021	170	2
USD 78 million	4%	December 2027	163	-
JPY 15,398 million	1.5%	April 2039	157	8
USD 100 million	LIBOR + 3.25%	April 2022	141	30
USD 77 million	4.8%	December 2023	131	-
USD 100 million	LIBOR + 3.25%	February 2022	122	53
USD 68 million	LIBOR +3%	January 2026	106	9
USD 101 million	LIBOR + 2.8%	April 2022	104	34
AZN 350 million	3%	June 2023	100	50
USD 50 million	4.81%	September 2020	85	-
USD 65 million	LIBOR + 4.95%	December 2024	66	18
USD 29 million	4%	December 2027	61	-
EUR 35 million	LIBOR + 0.063%	December 2026	59	8
USD 100 million	LIBOR + 2.33%	June 2020	57	57
AZN 144 million	0.16% {0.15% + 0.01%}	January 2045	56	6
USD 55 million	LIBOR + 5.25%	September 2024	55	16
EUR 35 million	LIBOR + 0.072%	November 2025	51	8
USD 38 million	4.01%	December 2023	44	10

Table continues next page

* LIBOR and EURIBOR change from 3 to 12 months.

2. Legal and Fiscal Regime

Funds	Interest rate	Maturity date	Long-term portion	Current portion
CHF 22 million	LIBOR + 0.0714% or 0%	July 2020	34	
EUR 40 million	EURIBOR + 2.25%	December _2020	26	26
USD 110 million	LIBOR +2.4%	May 2020	25	49
USD 50 million	LIBOR +2.2%	July 2020	24	25
USD 24 million	4.26%	December 2022	24	8
EUR 20 million	1.64%	October 2023	24	6
EUR 20 million	LIBOR + 0.872%	September 2023	24	6
USD 52 million	6%	January 2020	21	-
CHF 10 million	3%	October 2027	17	-
USD 10 million	5%	October 2020	-	-
USD 20 million	LIBOR + 2%	April 2023	10	-
GEL 46 million	14%	July 2020	9	16
USD 5 million	5%	June 2020	9	-
EUR 12 million	LIBOR + 3%	March 2022	8	3
GEL 51 million	11%	July 2020	8	12
GEL 11 million	11.5%	February 2020	7	-
EUR 7 million	EURIBOR + 1,75%	November 2028	6	1
USD 5 million	4.26%	December 2022	6	2
USD 6 million	4.26%	December 2022	5	2
EUR 7 million	LIBOR + 3%	March 2022	4	2
USD 35 million	LIBOR + 2,35%	April 2020	4	9
USD 4 million	4.26%	December 2022	4	1
GEL 35 million	11.25%	April 2020	4	11
USD 4 million	4.26%	December 2022	4	1
EUR 5 million	LIBOR + 3%	March 2022	3	1
GEL 10 million	5% + ref. rate	November 2020	3	3
GEL 15 million	11.25%	July 2020	3	5
GEL 10 million	14%	October 2020	3	3
Other long-term borrowings			17	18
Total long-term borrowings			9,659	1,244

* LIBOR and EURIBOR change from 3 to 12 months.

2. Legal and Fiscal Regime

As at December 31, 2018, borrowings of “AzerGold” CJSC were as follows: ⁶¹

Bank loans	Amount	
	In USD	In AZN
Long term borrowing	72,488,229	123,229,989
Short term borrowing	21,165,684	35,981,663
Total borrowing	93,653,913	159,211,652

⁶¹ Information received from AzerGold CJSC

3. Overview of the Extractive Industry



3. Overview of the Extractive Industry

3.1. Exploration and Extraction

3.1.1 Overview of Extractive Industry

The extractive industry is comprised of the discovery, extraction and processing of major mineral deposits. Azerbaijan is rich in mineral resources, especially oil and gas resources. The information of mining industry, offshore and onshore fields, exploration activities, volume of production, share of extractive industry in export and etc. was explained in more details in Section 3 of this report.

○ Oil and Gas

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

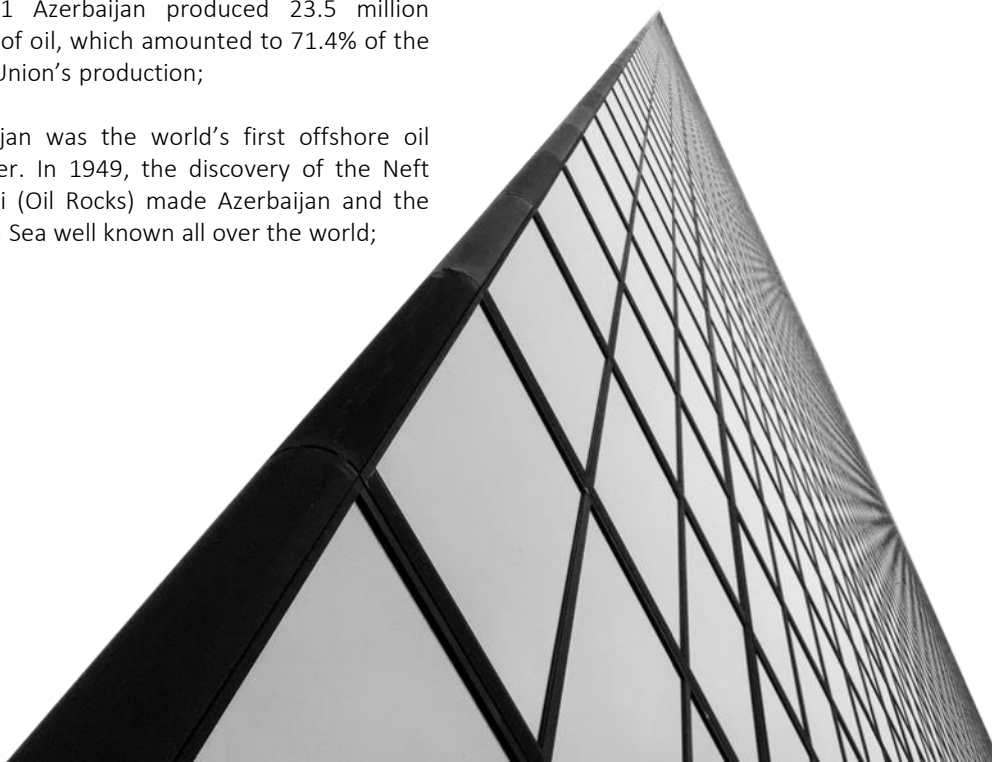
- **Exploration** - implies geological exploration, adjusting the drilling mechanism, evaluation of the field and industrial method of preparation;
- **Drilling** - caving the earth crust by use of the well drilling equipment for purpose of oil and gas extraction;
- **Development and exploration of oil 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 Absheron Peninsula and the Caspian Sea. The history of oil and gas production in Azerbaijan is mentioned below:⁶²

⁶² State Oil Company of the Azerbaijan Republic, <http://www.socar.az/socar/en/company/about-socar/oil-history-in-azerbaijan>

3. Overview of the Extractive Industry

- Azerbaijan's oil was repeatedly described in the works of medieval scholars and travelers as a big source of revenue. But at that time oil was only used as a household and for medicinal and military purposes;
- As a traveler, 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 with mechanical method in Bibiheybat and later in Balakhany;
- In 1901 Azerbaijan produced 11.0 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 Dashlari (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 meters deep. Gunashli is currently producing more than 60% of SOCAR's oil; The "Contact of the Century" was signed on September 20, 1994; and
- 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 section 3.1. Overview of the Mining Industry of the EIT report.



3. Overview of the Extractive Industry

Oil and gas industry

In the Republic of Azerbaijan, 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.

In 2018, 22 out of 33 PSAs signed on oil and gas reserves were operating .

Figure 6: The map of oil and gas fields

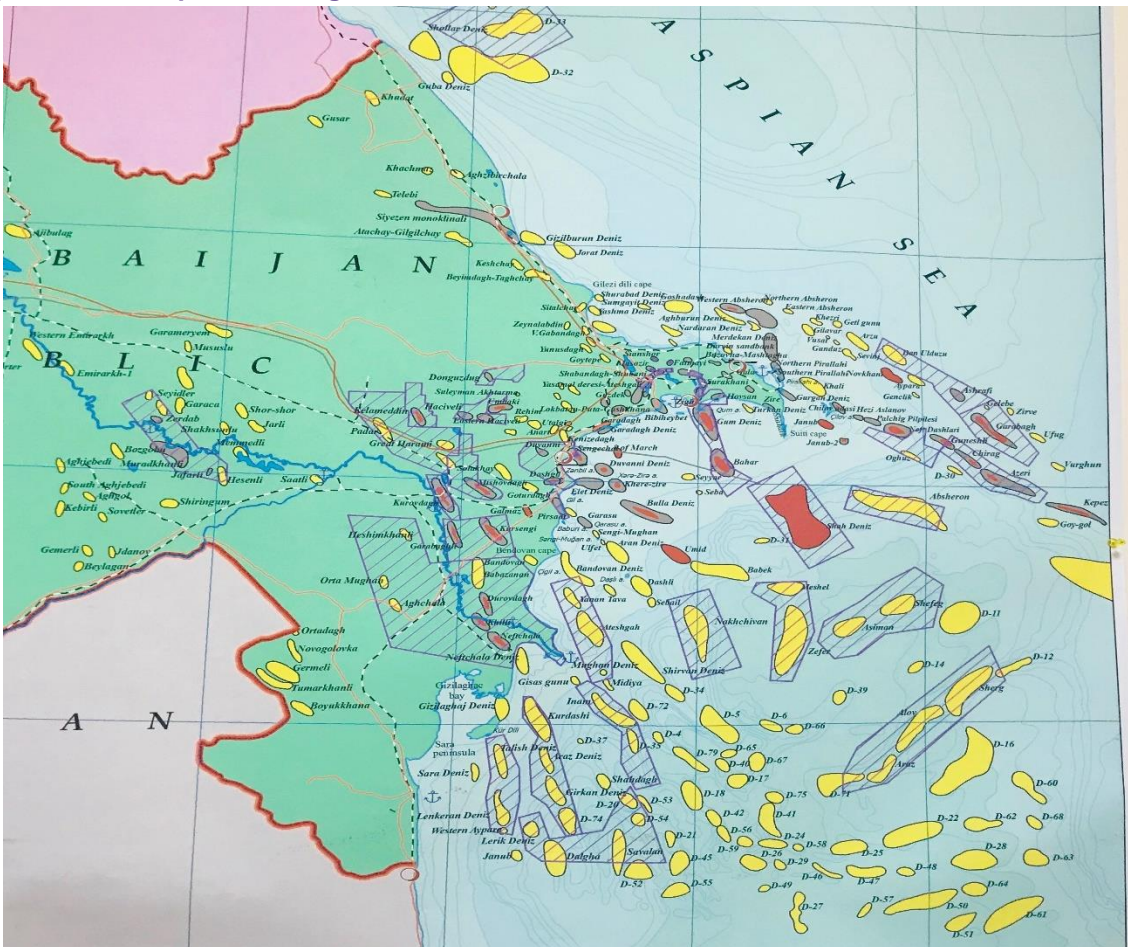


Table 4: Offshore fields

Date of signature	Contractors and their participating interests			Reserves	
	Name of the company	Year end	Year end	Oil	Gas
		2017%	2018%		
The Agreement on joint development and production sharing for the Azeri and Chirag fields and the Deep Water Portion of the Gunashli (production stage) ⁶³					
20.09.1994	BP Exploration (Caspian Sea) Limited	30.37	30.37	✓	
	Azerbaijan (ACG) Limited (SOCAR)	25	25		
	Chevron Khazar Ltd	9.57	9.57		
	Inpex Southwest Caspian Sea, Ltd.	9.31	9.31		
	Equinor Absheron A.S*	7.27	7.27		
	Exxon Azerbaijan Limited	6.79	6.79		
	Turkish petroleum Anonim Ortakligi	5.73	5.73		
	Itochu Oil Exploration (Azerbaijan) Inc.	3.65	3.65		
	ONGC Videsh Limited	2.31	2.31		
Shah deniz (production stage) ⁶⁴					
04.06.1996	BP Exploration (Caspian Sea) Limited	28.8	28.8	✓	
	Azerbaijan (Shah Deniz) Limited	10	10		
	Lukoil Overseas Shah Deniz Ltd.	10	10		
	Naftiran Intertrade Co (NICO) Limited	10	10		
	Petronas Azerbaijan Shah Deniz S.A.R.L	15.5	15.5		
	Turkish Petroleum Overseas Company Ltd	19	19		
	SGC Upstream LLC	6.7	6.7		
Absheron field (exploration stage) ⁶⁵					
27.02.2009	SOCAR Oil Affiliate	50	50	✓	
	Total E & P Absheron B.V	50	50		
Shafag-Asiman field (exploration stage) ⁶⁶					
07.10.2010	BP Exploration (Caspian Sea) Limited	50	50	✓	
	SOCAR Oil Affiliate	50	50		
Shallow Water area around the Absheron Peninsula (exploration stage) ⁶⁷					
14.04.2015	BP Exploration (Caspian Sea) Limited	50	50	✓	
	SOCAR Oil Affiliate	50	50		
Bahar and Gum Deniz block of offshore fields (production stage)					
22.12.2009	Bahar Energy Limited	80	80	✓	✓
	SOCAR Oil Affiliate	20	20		

Equinor Absheron A.S, the new name of Norwegian oil and gas supermajor Statoil ASA, was approved at the annual general meeting and became effective on May 16, 2018.

⁶³ BP, "Operations and Projects", "Azeri-Chirag-Deepwater Gunashli", https://www.bp.com/en_az/caspian/operationsprojects/ACG.html.

⁶⁴ BP, "Operations and Projects", "Shah Deniz", http://www.bp.com/az_az/caspian/operationsprojects/Shahdeniz.html

⁶⁵ BP, "Operations and Projects", "Absheron field" https://www.bp.com/en_az/caspian/operationsprojects.html

⁶⁶ BP, "Operations and Projects", "Shafag-Asiman" https://www.bp.com/en_az/caspian/operationsprojects/Shafagasiman.html

⁶⁷ BP, "Operations and Projects", "Shallow Waters of Absheron Peninsula", https://www.bp.com/en_az/caspian/operationsprojects/SWAP.html

Table 4: Offshore fields

New Developments During the year

On May 30, 2018, SOCAR and Equinor signed two agreements. The first agreement is a risk-service agreement related to the appraisal and development of the Karabakh oilfield in the Azerbaijani sector of the Caspian Sea, while the second agreement – a production sharing agreement (PSA) on the Dan Ulduzu, Ashrafi and Aypara promising structure. The agreements envisage a 50/50 share distribution (refer to page 12).

On April 26, 2018, SOCAR and BP signed a new production sharing agreement (PSA) for the joint exploration and development of Block D230 in the North Absheron basin in the Azerbaijan sector of the Caspian Sea. Under the PSA, which is for 25 years, BP will be the operator during the exploration phase holding a 50 per cent interest while SOCAR will hold the remaining 50 per cent interest. (refer to page 12)

Date of signature	Contractors and their participating interests			Reserves	
	Name of the company	Year end 2017%	Year end 2018%	Oil	Gas
Agreement on Exploration, Development and Production Sharing of Ashrafi-Dan Star-Aypara in the Azerbaijani Sector of the Caspian Sea between the State Oil Company of the Republic of Azerbaijan and the Statoil Ashraf-Dan Star-Aypara BV and SOCAR. ⁶⁸					
29.06.2018	SOCAR	-	50	✓	
	Equinor Azerbaijan Dan Ulduzu Aypara	-	50		
Production sharing agreement for the joint exploration abd development of Block D230 between State Oil Company of Azerbaijan republic abd BP Exploration (Azerbaijan) Limited ⁶⁹					
12.10.2018	BP Exploration (Azerbaijan) Limited	-	50	✓	
	SOCAR	-	50		

Risk Service Agreements signed during the reporting period:

Date of signature	Contractors and their participating interests			Reserves	
	Name of the company	Year end 2017%	Year end 2018%	Oil	Gas
"Risk Service agreement related to the appraisal and development of the Karabagh Oil Field⁷⁰					
30.05.2018	SOCAR		50	✓	
	Equinor Azerbaijan Karabagh B.V		50		

⁶⁸ <http://e-qanun.az/framework/38191> <http://e-qanun.az/framework/39399>

⁶⁹ <http://e-qanun.az/framework/35380> <http://e-qanun.az/framework/40619>

⁷⁰ <http://e-qanun.az/framework/38192> <http://e-qanun.az/framework/39398>

3. Overview of the Extractive Industry

Azeri–Chirag–Gunashli (ACG)

The Production Sharing Agreement (PSA) signed in September 20, 1994 in Baku by the Government of Azerbaijan and a consortium of 11 foreign oil companies from six nations initiated a rapid period of development which has transformed the country into a major global energy supplier and changed the energy map of Europe. According to the modified and revised agreement, Production Sharing Agreement covering the ACG fields was extended to 2049 and BP remained the Project's operator.

More than USD 505 million in operating expenditure and about USD 1.150 billion in capital expenditure on ACG activities were spent during 2018. At the end of the year, 117 oil wells were producing, while 51 wells were used for gas and water injection. For more information please refer hyperlink.⁷¹

Shah Deniz

Shah Deniz has been and still is BP's largest discovery since Prudhoe Bay. The Shah Deniz (SD) field was discovered in 1999.

During 2018, the Shah Deniz Alpha platform drilled and completed the SDA11 well. Also, integrity jobs were conducted on SDA04 and SDA05 wells.

The Istiglal drilling rig delivered five subsea completions – two on the West Flank and three on the East South Flank. The Maersk Explorer rig drilled the SDH02A well to the final depth.

During 2018, more than USD 578 million in operating expenditure and about USD 1.44 billion in capital expenditure were spent on Shah Deniz 2 (SD2) activities. Around USD 21.9 billion in capital investment is expected to be required for SD2 to produce the gas and transport it to the Georgia-Turkey border. For more information please refer hyperlink.⁷²

Shallow Water Absheron Peninsula

BP signed a production sharing agreement (PSA) with SOCAR in December 2014 to jointly explore for and develop potential prospects in the shallow water area around the Absheron Peninsula in the Azerbaijan sector of the Caspian Sea.

According to the agreement, BP Exploration (Caspian Sea) Ltd. as an operator with 50% interest and SOCAR hold 50% share in this PSA.

Following completion of the processing and interpretation of the 3D data acquired from the Shallow Water Absheron Peninsula (SWAP) contract area, a "Notice of Prospectivity" was signed with SOCAR in 2018, signifying BP's commitment to drill exploration wells in three prospective areas in shallow water Absheron. Planning for the exploration wells drilling in the selected prospective areas is now ongoing. For more information please refer hyperlink.⁷³

⁷¹ https://www.bp.com/en_az/caspian/press/businessupdates/2018_full_year_results11.html

⁷² BP, News, "Operations and Projects", "Shah Deniz", "Shah Deniz Stage 1" - https://www.bp.com/en_az/caspian/operationsprojects/Shahdeniz.html

⁷³ BP, News, "Operations and Projects", "Shallow Waters of Absheron Peninsula" - https://www.bp.com/en_az/caspian/operationsprojects/SWAP.html

3. Overview of the Extractive Industry

Shafag-Asiman

BP and State Oil Company of the Republic of Azerbaijan (SOCAR) signed a production sharing agreement (PSA) on joint exploration and development of the Shafag-Asiman structure in the Azerbaijan sector of the Caspian Sea on October 7, 2010.

The signing of the PSA followed the earlier concluded Heads of Agreement (HOA) which defined the basic commercial principles of the contract. Under the PSA BP will be the operator with 50% interest while SOCAR will hold the remaining 50% equity

Planning for the first exploration well on the Shafag-Asiman block is ongoing. For more information please refer hyperlink.⁷⁴

⁷⁴ BP, News, "Operations and Projects", "Shafag-Asiman" https://www.bp.com/en_az/caspian/operationsprojects/Shafagasiman.html

Table 5: Onshore fields ⁷⁵

Date of signature	Contractors and their participating interests			Reserves	
	Name of the company	Year end 2017 %	Year end 2018 %	Oil	Gas
Padar Area and the Adjacent Prospective Structures (exploration stage)*					
27.04.1999	Kura Valley DevelopmentLLC	80.0	-	✓	
	SOCAR Oil Affiliate	20.0	100		
Balakhany, Sabunchu, Ramana and Kurdakhany (production stage)					
06.05.2011	UGE-LANCER PTE Ltd.	75.0	75.0	✓	
	SOCAR Oil Affiliate	25.0	25.0		
The Block that includes Kurovdagh Oil Field (production stage)					
03.02.2009	Shirvan Investment Limited	80.0	80.0	✓	
	SOCAR Oil Affiliate	20.0	20.0		
The Block that includes Kursangi and Garabaghly (production stage)					
15.12.1998	“Salyan Oil” LLC	50.0	50.0	✓	
	CNPC International (Kura) Limited	25.0	25.0		
	Fortunamate Assets Limited	25.0	25.0		
The Block including Mishovdagh and Kelameddin (production stage)					
12.09.2000	Karasu Development Company	85.0	85.0	✓	
	“Ali Bayramli Neft” LLC	15.0	15.0		
The Block Including the Neftchala, Hilli, Durovdag-Babazanan Oil Fields and South-West. Flange of the Mugan Monocline (producing stage)					
03.02.2009	Neftechala Investments Limited	80.0	80.0	✓	
	SOCAR Oil Affiliate	20.0	20.0		
The Block includes Pirsaat oil field and the adjacent territories (exploration stage)					
04.06.2003	Petro-Hong-Kong Pirsaat Oil	80.0	80.0	✓	
	SOCAR Oil Affiliate	20.0	20.0		

*According to the Resolution on Termination of Agreement RPSA/CMC/01-16 dated May 31, 2016, despite numerous technical measures taken by the contractor the production of hydrocarbons in the conventional industry is no longer possible, the Padar Area and Perspective Structures refuse the entire contract area in accordance with the Article 30.3 (b) of the block exploration, development and production sharing agreement.

⁷⁵ <http://socar.az/socar/en/company/production-sharing-agreements-onshore/kurovdagh>

Table 5: Onshore fields

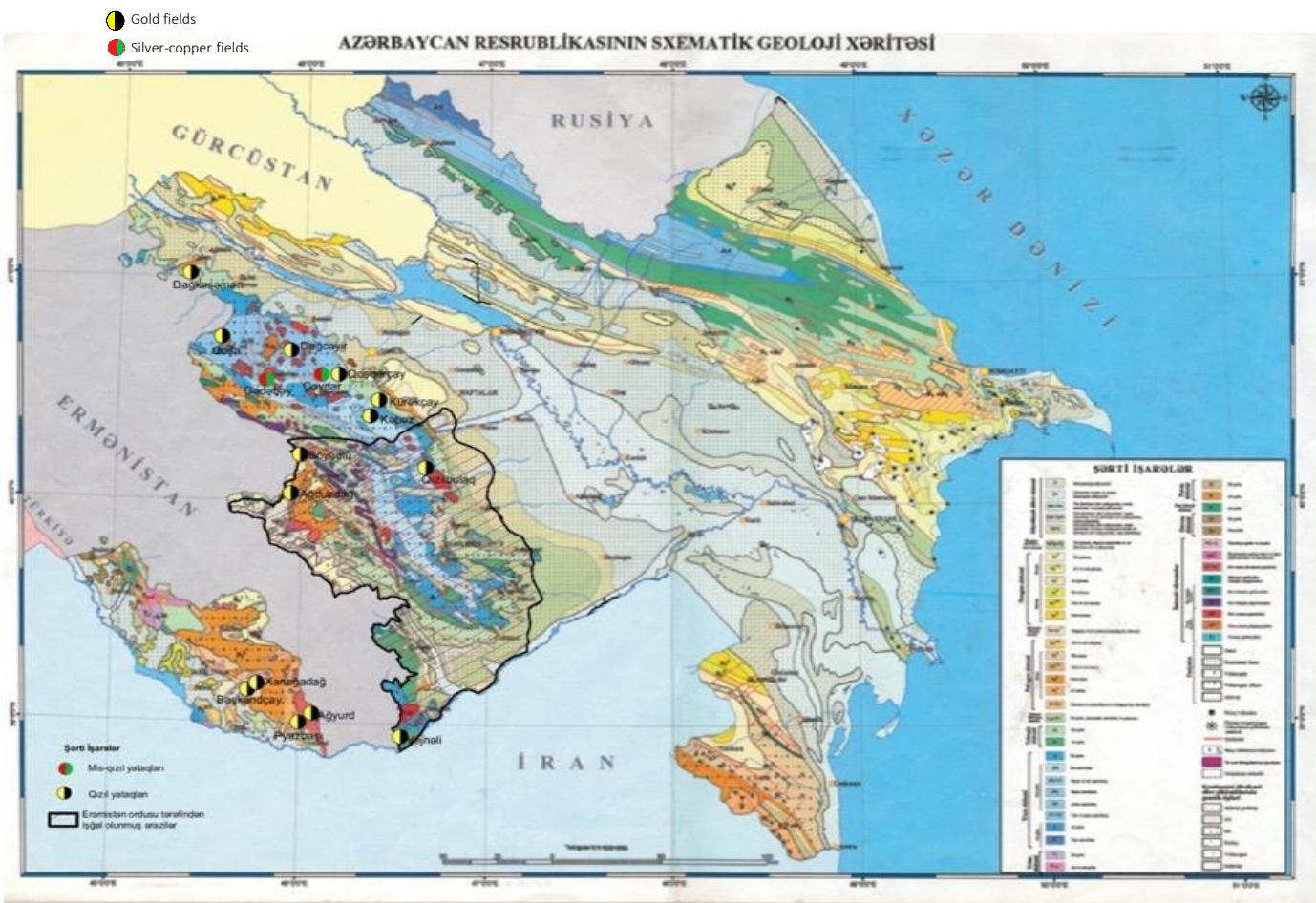
Date of signature	Contractors and their participating interests			Reserves	
	Name of the company	Year end 2017 %	Year end 2018 %	Oil	Gas
Surakhany field (production stage)					
16.08.2005	Novatis Oil FZE	75.0	75.0	✓	
	SOCAR Oil Affiliate	25.0	25.0		
Zig and Hovsan Oil Fields (production stage)					
03.11.2006	Apsheron Investment Limited	75.0	75.0	✓	
	SOCAR Oil Affiliate	25.0	25.0		
Binagadi, Girmaki, Chakhnaglar, Sulutepe, Masazir, Fatmai, Shabandagh and Sianshor Fields (production stage)					
29.09.2004	Azen Oil Company B.V.	75.0	75.0	✓	
	SOCAR Oil Affiliate	25.0	25.0		
The Block includes Shikhzagirli, Sheytanud, Burgut, Donguzdug, Nardaran, Ilkhichi, Western Hajyvalli, Sundi, Easters Hajyvalli, Turagay, Kanizadag, Western Duvanny, Solakhay and Dashgyl fields of Southern-West Gobustan (production stage)					
02.06.1998	Commonwealth Gobustan Limited	80.0	80.0	✓	
	“Gobustan Neft” LLC	20.0	20.0		
Muradkhanli, Jafarli and Zardab oil fields (production stage)					
16.03.2016	Zenith Aran Oil Company Limited	-	80.0	✓	
	SOCAR Oil Affiliate	-	20.0		

3. Overview of the Extractive Industry

Gold and silver extraction ⁷⁶

In recent years, the discovery of gold deposits has become an important geological discovery. Gizilbulag gold-copper-pyrite deposits of pyrites located in Karabakh (The quartz gold deposits were found by geological expeditions in Vejneli in Zangilan, Aghyurd, Piyasbashi, Shekerdere, Ordubad and Aghduzdag - Dalidagh.

Figure 7: Placement scheme of gold and silver deposits in the territory of the Republic of Azerbaijan



3. Overview of the Extractive Industry

On August 20, 1997, contract on exploration, use, and share production of Gadabay, Gosha, Ordubad group (Piyazbashi, Aghyurd, Shekerdere, Kalaki), Soyudlu, Gizilbulag, and Vejnali perspective gold deposits was signed between the “Azergizil” State Company and “R.V. Investment Group Services” in accordance with the decree of the President of the Republic of Azerbaijan “on exploration and use of several gold deposits of the Republic of Azerbaijan” dated February 5, 1996. In 2000, according to the decree of the President of the Republic of Azerbaijan “Azergizil” was abolished and the company was transferred to the Ministry of Ecology and Natural Resources of the Republic of Azerbaijan. The share of the Government of the Republic of Azerbaijan of total profit on Gadabay gold-copper deposits in accordance with relevant PSA is 51%, the remaining 49% belongs to R.V. Investment Group Services Company, but is managed by Azerbaijan International Mineral Resources Operating Company.⁷⁷

“AzerGold” is a closed joint-stock company owned by the state, which deals with the production, processing and sale of precious and non-ferrous metals. “AzerGold” Closed Joint-Stock Company was established in accordance with Presidential Decree No. 1047 dated February 11, 2015. “Azergold” CJSC is responsible for the study, research, exploration, development and management of Chovdar, Kohnamadan (Filizchay), Mazimchay, Kurekchay, Goydagh, Daghesemen and Garadagh.

In 2016 and 2017, “AzerGold” CJSC successfully upgraded and optimized the mining and metallurgical nodes for the processing of oxide ores in Chovdar, and the gold processing process was restored during 2017 and then in 2018, 45.5 thousand ounces of gold, 77.3 thousand ounces of silver received from the oxide exploitation, also 44.9 thousand ounces of gold, 75.6 thousand ounces of silver as a result of purchase and sale, in total 90.4 thousand ounces of gold, 152.9 thousand ounces silver were exported in Chovdar Ore Processing Area for refining.⁷⁸

During 2018 “AzerGold” CJSC has exported 44.9 thousand ounces of gold and 75.6 thousand ounces silver in total export operations. Exports of precious metals brought more than AZN 99.2 million to the country’s economy. In order to organize the sale of precious metals in the world market, “AzerGold” CJSC successfully passed the KYC (Know your Customer) procedure and demanded by international refinery companies, in April 2017, signed a contract with the famous Swiss Argor-Heraeus Company on purification of precious metals. In 2018, 999.9 pounds of pure gold bank gold bullion (23,040,697 ounces) was sold to the SOFAZ which was made at the Argor-Heraeus Refinery in Switzerland, which meets the LBMA standards. Azersuvenir LLC of the Presidential Affairs Department of the Republic of Azerbaijan has received a request from the Company for the production of medals and orders and signed a 999.9 pounds pure silver sale contract. Following the contract, the Company's valuables exported in 2018 were refined at a Swiss refinery, and 17,682.5 ounces were returned to pure silver country and sold to Azersuvenir. In the reporting year, the Scientific and Cultural Centre of the State Historical-Architectural Reserve “Icheri Sheher” also signed a purchase agreement for the purchase of high quality pure silver for the production of silver and 321.5 ounces 999.9 ounces of pure silver.⁷⁹

⁷⁷ Official web-page of the President of the Republic of Azerbaijan, <https://en.president.az/articles/9268>

⁷⁸ Information received from “AzerGold” CJSC

⁷⁹ <https://azergold.az/en/azergold-cjsc-discusses-the-outcomes-of-2018/> and information received from “AzerGold” CJSC

3. Overview of the Extractive Industry

Table 6: PSA on extraction of metal ores

Date of signature	Contractors and their shares		Reserves
	Company	%	Gold and silver
Gadabay gold and copper project (production stage)			
22.12.2009	Ministry of Ecology and Natural Resources of the Republic of Azerbaijan	51.0	✓
	R.V. Investment Group Services	49.0	

Significant Exploration Activities:

“AzerGold” CJSC organized the study of precious metal reserves and side area (near and far fences) on the subsoil of the Chovdar field (on the sulfide phase). Under the contract dated September 29, 2017, with Micon International Inc. metallurgical studies were conducted in 2018 for the preparation of the Feasibility Study (FS), which resulted in the updated resource model being offered by the consulting firm. Research on existing technological solutions in the world towards the efficient removal of identified resources, and a short list of benefits more than existing alternatives.

“AzerGold” CJSC initiated preliminary exploration of Filizcay and Mazımchay fields in the territory of the contract area in 2017. In 2018 works on the preparation of the Initial Investigations (IT) document in accordance with internationally accepted standards in the Filizchay field have been completed. According to preliminary estimates, the country's economy is expected to receive about 10 billion manat and about 2000 new jobs will be created as a result of 27 years of exploitation, production of metals such as copper, silver, zinc and lead. ⁸⁰

“AzerGold” CJSC, which started its operations in July 2016, has achieved a number of important works in the short run. Thus, by various repair and construction works in the area of Chovdar Ore processing in Dashkasan region, it’s activity was restored, optimized, the production was put into operation in 24-hour mode and production started. More than 6,000 trees and shrubs were planted and other works were done to protect the ecological balance in the area. Necessary work has been done and the necessary infrastructure has been created to ensure the rational and efficient work at Rye Mine and to improve working conditions. It is collaborating with an international consultant on the development of a feasibility study on the production of underground (sulfidic) phase, which will be put into operation in 2021 after the completion of the surface (oxidic) phase of the field. The strategic goal of “AzerGold” CJSC is to ensure stable and sustainable development of non-ferrous metal industry in Azerbaijan.

For this purpose, the initial economic valuation statement on the Filizcay polymetallic deposit, located in Balakan district, which is of great strategic importance not only for Azerbaijan, but even for Europe with its volume of copper, zinc, silver, gold and lead reserves, is being prepared by an influential international consultant company.

⁸⁰ Information received from “AzerGold” CJSC

3. Overview of the Extractive Industry

It is planned to conduct metallurgical, laboratory, geotechnical, hydrological and ecological research in coming years. In current year, in order to increase the reserves of underground (sulphide) ores, "AzerGold" CJSC carried out in total approximately 17,000 meters of drilling works, conducted metallurgical, laboratory, geotechnical and hydrological studies in Chovdar deposit located in Dashkasan district, in Aghyokush gold occurrence area located in near flank of Chovdar deposit, which was discovered previously by geologists of "AzerGold" CJSC, in Tulallar field located in Goygol administrative district, in promising copper-gold field Ortakand-Khanagha located in the territory of Nakhchivan Autonomous Republic, and prepared scoping study on Filizchay polymetallic deposit.⁸¹

Further, during the reporting period, work on the study of historical geological and geophysical materials on non-ferrous metal deposits in the Garadagh, Dagkesemen and Kurakchay areas, on the development of geological and economic models and the development of perspective plans is planned for 2019.

In the retail market of the country, sales of bullion and coins valuables have begun in 2018. Research and market research in this area will produce 999.9 pounds of bullion and coins and promote the AzerGold brand in the local market, while boosting the product range in the local market. It will lead to promotion of the "Made in Azerbaijan" brand.⁸²

⁸¹ <https://azergold.az/en/azergold-cjsc-discusses-the-outcomes-of-2018/>

⁸²Information received from "AzerGold" CJSC

3. Overview of the Extractive Industry

3.2. Production volume

The production volume and amount of extraction by the foreign and local extractive companies in 2018 are shown in the table below:

Table 7: Production volume ⁸³

Baku				
Commodity	Volume (thsd. tonnes)	Volume (thsd. barrels)	Price (US dollars) ⁸⁴	Amount (thsd. US dollars)
Oil (including condensate) production	38,311	273,072	71	19,338,112
Commodity	Volume, (mln,m³)	Volume, (MMBTU)	Price,(US dollars) ⁸⁴	Amount (US dollars)
Natural gas production	19,159	676,600,085	7.68	5,196,288,653
Siyazan				
Commodity	Volume (mln. m³)	Volume (thsd. barrels)	Price,(US dollars) ⁸⁴	Amount (thsd. US dollars)
Oil (including condensate) production	51.0	364	71	25,844
Commodity	Volume (mln. m³)	Volume, (MMBTU)	Price,(US dollars) ⁸⁴	Amount,(US dollars)
Natural gas production	8.1	286,052	7.68	2,196,879

⁸³ Dövlət Statistika Komitəsi, “Statistik nəşrlər”, “Nəşrlərin elektron versiyası”, “Azərbaycan Sənayesi” https://www.stat.gov.az/menu/6/statistical_yearbooks/?lang=en və Statistika Komitəsindən əldə edilən məlumatlar

⁸⁴ <https://www.worldbank.org/en/research/commodity-markets#2>

3. Overview of the Extractive Industry

Table 7: Production volume ⁸³

Neftchala				
Commodity	Volume (thsd. tonnes)	Volume (thsd. barrels)	Price,(US dollars) ⁸⁴	Amount (thsd. US dollars)
Oil (including condensate) production	34.0	243	71	17,253
Salyan				
Commodity	Volume (thsd. tonnes)	Volume (thsd. barrels)	Price,(US dollars) ⁸⁴	Amount (thsd. US dollars)
Oil (including condensate) production	155.9	1,114	71	79,094
Commodity	Volume (mln. m³)	Volume, (MMBTU)	Price,(US dollars) ⁸⁴	Amount (US dollars)
Natural gas production	41,4	1,115.954	7.68	8,570.527
Imishli				
Commodity	Volume (thsd. tonnes)	Volume (thsd. barrels)	Price,(US dollars) ⁸⁴	Amount (thsd. US dollars)
Oil (including condensate) production	12.8	91	71	6,461
Shirvan				
Commodity	Volume (thsd. tonnes)	Volume (thsd. barrels)	Price,(US dollars) ⁸⁴	Amount (thsd. US dollars)
Oil (including condensate) production	249.4	1,718	71	121,978
Commodity	Volume (mln. m³)	Volume, (MMBTU)	Price,(US dollars) ⁸⁴	Amount (US dollars)
Natural gas production	8.6	303,709	7.68	2,332,485

⁸³ Dövlət Statistika Komitəsi, “Statistik nəşrlər”, “Nəşrlərin elektron versiyası”, “Azərbaycan Sənayesi” https://www.stat.gov.az/menu/6/statistical_yearbooks/?lang=en və Statistika Komitəsinəndən əldə edilən məlumatlar

⁸⁴ <https://www.worldbank.org/en/research/commodity-markets#2>

3. Overview of the Extractive Industry

The cost of the mineral resources extracted in Azerbaijan are calculated by foreign market prices.

1. **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). The volume of production at the Azeri-Chirag-Guneshli field constituted 213.51 million barrels, which was 4.5% above the forecasted amount (204.4 million barrels). Since oil prices throughout the reference year were higher than projected, the respective revenue item was executed at the level of 25.1% higher than it had been projected in the budget (AZN 13,307.41 million). That is, the average sale price per barrel of oil constituted USD 71 in 2018 as against USD 55 that was forecasted in the approved budget. ⁸⁵
2. **Natural gas production:** As the volume indicator of natural gas in Azerbaijan is million m³, this volume was calculated by using the special formula and converted to MMBTU (35,315 British Terminal Unit). In 2018, the average price per natural gas in the world market was USD 7.68. ⁸⁶
3. **Gold and silver production:** As the volume indicator of gold and silver produced in the Republic of Azerbaijan is kg, this volume was calculated by using the special formula and replaced with the ounces expression (1 kg=31.103 troy ounces). In 2018, the average prices of domestically produced gold, silver and copper and concentrates in the world market were USD 1,269, USD 15.71 and USD 6,530 respectively. ⁸⁷

⁸⁵ https://www.oilfund.az/report-and-statistics/get-download-file/7_2018_tam_en.pdf

⁸⁶ World bank quarterly report", "Commodity Markets Outlook", "Appendix – Table A.1", page 35, <http://pubdocs.worldbank.org/en/271041524326092667/CMO-April-2018-Full-Report.pdf>

⁸⁷ World bank quarterly report", "Commodity Markets Outlook", "Appendix – Table A.2", page 37, <http://pubdocs.worldbank.org/en/271041524326092667/CMO-April-2018-Full-Report.pdf>

3. Overview of the Extractive Industry

Table 8: Production volume ⁸⁸

Gadabay				
Commodity	Volume (kq)	Volume (ounces)	Price (US dollars)	Amount (US dollars)
Gold production	2,060.80	66,254.72	1,269.00	84,077,239.68
Commodity	Volume (kq)	Volume (ounces)	Price (US dollars)	Amount (US dollars)
Silver production	823.9	26,488.39	15.71	416,132.61
Commodity	Volume (tonnes)	Volume (tonnes)	Price (US dollars)	Amount (US dollars)
Copper and concentrates	1,649.80	1,649.80	6,530.00	10,773,194.00

3.3. The share of the export in the extractive industry

According to the statistical data of the State Customs Committee of the Republic of Azerbaijan, the volume of foreign trade transactions in 2018 amounted to USD 30.9 billion, of which approximately 63% or USD 19.4 billion were pertained to exports, 37% or USD 11.5 billion were pertained to imports. In the reporting year, the volume of foreign trade operations increased by 37% as compared to 2017, the volume of export operations increased by 40.6%, and the volume of import transactions increased by 30.7%. ⁸⁹

Table 9a: Volume of exported goods during 2016-2018* ⁹⁰

Name of the product	Volume		
	2016	2017	2018
Crude oil (thsd tonnes)	34,096.4	27,227.9	29,498.3
Natural gas (mln. m³)	8,396.0	7,543.5	7,900
Finished and semi-finished silver (kg)	-	-	-

Name of the product	Amount (mln. USD)		
	2016	2017	2018
Crude oil	10,692.8	10,706.8	15,719.5
Natural gas	1,096.7	1,193.7	1,499.4
Finished and semi-finished silver	-	-	-
Other products	-	-	-

* Note: Taking into account the volume and value of exported crude oil and natural gas, which has been completed in the customs bodies during the reporting period.

⁸⁸ https://www.stat.gov.az/menu/6/statistical_yearbooks/

⁸⁹ The State Customs Committee of the Republic of Azerbaijan, “The most exported goods”, <http://customs.gov.az/az/faydali/gomruk-statistikasi/statistics-bulletin/> and <https://www.oilfund.az/en/report-and-statistics/report-archive>

⁹⁰State Statistical Committee of the Republic of Azerbaijan, “Statistical Publications”, “E-version of Publications”, “Foreign Trade of Azerbaijan”, p. 71 http://www.stat.gov.az/menu/6/statistical_yearbooks/

3. Overview of the Extractive Industry

Table 9b: Volume of exported goods during 2016-2018* ⁹¹

Name of the product	Volume		
	2016	2017	2018
Crude oil (thsd tonnes)	34,972.3	32,845.0	32,651.1
Natural gas (thsd m³)	8,049.1	8,859.7	9,914.9
Finished and semi-finished silver (kg)	-	-	-

Name of the product	Amount (mln, USD)		
	2016	2017	2018
Crude oil	10,292.21	12,300.8	16,345.5
Natural gas	1,147.16	1,263.7	1,705.7
Finished and semi-finished silver	-	-	-
Other products	-	-	-

* Note: Considering the volume and statistical valuation of crude oil and natural gas exported in the customs authorities during the reporting period, but not fully completed by customs clearance.

3.4. Energy balance of Azerbaijan in 2018

In 2018, in the country, 87.5 percent of energy products with total production volume of 66.4 million tonne of oil equivalent made primary energy products, 8.8 percent - oil processing products, 3.7 percent - heat and electricity, 68.7 percent of all primary energy products made crude oil (including gas condensate), 30.8 percent - natural gas, 0.5 percent - energy products produced on renewable energy sources. Azerbaijan is a country exporting crude oil, natural gas and oil products. In 2018 volume of export in the country made 44.3 million tonne of oil equivalent of which 75.9 percent - crude oil, 20.9 percent - natural gas, 2.9 percent - oil products, 0.3 percent - electricity.⁹²

Please refer Annexure 3 Energy Balance of Azerbaijan in 2018

⁹¹ State Statistical Committee of the Republic of Azerbaijan, "Statistical Publications", "E-version of Publications", "Foreign Trade of Azerbaijan", p. 71 http://www.stat.gov.az/menu/6/statistical_yearbooks/

⁹² https://www.stat.gov.az/source/balance_fuel/?lang=en

4. Taxes and Revenues covered in the EIT Report



4. Taxes and Revenues covered in the EIT Report

4.1. Significant payments

The marginal value of income (in kind and cash) transferred to all the foreign and local companies involved in mining in Azerbaijan is determined in two stages:

- Identification of significant revenue sources included in the report;
- The amount (volume) that is considered to be significant on the source of the determined revenue.

These sources of revenue cover more than 99 percent of the revenues from the extractive industry of the state.

The sum/volume limit that is significant for each identified revenue sources has been determined as follows:

Transfers to the state from the mentioned revenue sources are considered material if their sum/volume exceeds zero.

Significant sources of revenue are as follows:

- Oil production revenues in kind and in cash;
- Natural and associated gas production revenues in kind and in cash;
- Main and fine metals production revenues in kind and in cash;
- Profit tax;
- Signing and other bonuses;
- Acreage and transit fees;
- Royalty (Mining tax), Value Added Tax, land tax, property tax, price changes and other taxes.



4.2. The allocation and payments made to government and their description

Table 10: Disbursements and payments made to the state on production

Allocations and payments to Government	Description of payments
Revenue from oil production	Extractive companies transfer the State's share to SOCAR representing the State in accordance with the PSA. Revenues from the sale of crude oil are transferred to SOFAZ.
Revenue from gas production	Extractive companies transfer the State's share to the SOCAR/Azerbaijan Gas Supply Company in the form of products in accordance with PSA. Revenues from the sale of gas are transferred to SOFAZ.
Revenues from non-ferrous metals extraction	In the Republic of Azerbaijan, precious metals and precious stones from the earth's surface, other products and revenues derived from their production share are transferred by the extractive companies to the Ministry of Ecology and Natural Resources of Azerbaijan Republic.
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. The profit tax is paid to the state budget.
Bonus	The fees payable by foreign oil companies to State Oil Company of Azerbaijan Republic or other relevant authorities of the Republic of Azerbaijan due to signing of oil contract and its implementation. Bonuses are transferred to SOFAZ.
Transit fees	Charges for using Baku-Supsa export oil pipeline to transport oil across the territory of the Republic of Azerbaijan. Transfer fees are transferred to SOFAZ.
Acreage fees	Payable to the State Oil Company of the Republic of Azerbaijan by the foreign investors for use of the contract areas in connection with the development of hydrocarbon resources. Acreage fees are transferred to SOFAZ.
Royalty (Mining tax)	An amount of money paid to the owner of a resource-bearing property by a mining company in exchange for the right to extract and sell the resource. This compensation is usually proportional to the quality and quantity of the extracted resource. Royalty 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 handing over to the government in the form of in-kind products (gold and silver). Other taxes are also paid to the state budget.

⁹³ State Oil Fund of the Republic of Azerbaijan, "Terms", <https://www.oilfund.az/en/fund/about/terminology>

4.3. Reconciliation results

After the reconciliation process the final difference between the payments declared by extractive companies and the government in initial reports and the remaining difference were as follows:

Table 11: Results of the reconciliation process

Types of income/product	Extractive companies	Government	Difference		Final difference
			Companies	Government	
Oil-gas resources					
Oil (USD mln)	70.237	70.238	0.001	-	-
Gas (USD mln)	0.851	0.851	-	-	-
Oil (mln barrels)	150.499	149.809	(0.689)	0.001	-
Natural gas (thsd m³)	3,042.000	-	(3,042.000)	-	-
Associated gas (thsd m³)	2,304,352.474	2,439,868.416	134,515.942	(1,000.000)	-
Gold-silver resources					
Gold (thsd ounces)	8.671	8.671	-	-	-
Silver (thsd ounces)	3.564	3.564	-	-	-
Gold in copper concentrate (thsd ounces)	0.677	0.677	-	-	-
Silver in copper concentrate (thsd ounces)	17.168	17.168	-	-	-
Non-ferrous metals-copper concentrate (thsd. ton)	0.161	0.161	-	-	-
Taxes and other payments					
Profit tax (USD mln)	684.227	677.821*	(5.008)	1.398	-
Profit tax (mln AZN)	93.014	86.414	-	6.600	-
Royalty (mln AZN)	134.281	134.281	-	-	-
VAT (mln AZN)	83.136	75.869	(6.537)	0.730	-
Property tax (mln AZN)	76.308	76.308	-	-	-
Land tax (mln AZN)	36.510	36.510	-	-	-
Price change (mln AZN)	147.839	147.839	-	-	-
Other taxes (mln AZN)	73.174	73.174	-	-	-
Acreage fees (USD mln)	2.439	2.439	-	-	-
Transit fee (USD mln)	3.705	10.649	6.946	0.002	-
Bonuses (USD mln)	450.108	450.108	-	-	-

The amount presented by the government is expressed in AZN terms (AZN 1,152.295 million). For the purpose of reconciliation these amounts have been translated into US Dollars at the official exchange rate date

Table 12: The initial data on revenue streams made in cash from the extractive companies involved in the process of EIT to the government

Extractive companies	Revenue stream (in cash) (USD mln.)				
	Monetary inflow from oil	Monetary inflow from gas	Bonus	Transit fee	Acreage fee
Ali Bayramli Neft LLC	-	-	-	-	-
Apsheron Investment Limited	4.965	-	-	-	-
Azen Oil Company B.V.	14.63	-	-	-	-
Azerbaijan (ACG) Limited	-	-	-	0.87	-
Azerbaijan (Shah Deniz) Limited	-	-	-	-	-
Bahar Energy Limited	0.397	0.851	-	-	-
BP Exploration (Azerbaijan) Limited	-	-	0.037	-	-
BP Exploration (Caspian Sea) Limited	-	-	182.24	1.148	-
BP Shafag-Asiman Limited	-	-	-	-	2.118
BP Apsheron Limited	-	-	-	-	0.321
CNPC International (Kura) Limited	3.347	-	-	-	-
Commonwealth Gobustan Limited	-	-	-	-	-
Exxon Azerbaijan Limited	-	-	40.78	0.257	-
Equinor Absheron A. S	-	-	43.61	0.275	-
Equinor Azerbaijan Dan Ulduzu Aypara	-	-	-	-	-
Fortunamate Assets Limited	3.347	-	-	-	-
Inpex Southwest Caspian Sea, Ltd.	-	-	55.84	0.352	-
Itochu Oil Exploration (Azerbaijan) Inc.	-	-	21.89	0.138	-
Karasu Development Company	-	-	-	-	-
Lukoil Overseas Shah Deniz	-	-	0.013	-	-
Naftiran Intertrade Co (NICO) Limited	-	-	0.013	-	-
Neftechala Investments Limited	2.214	-	-	-	-
Novatis Oil F.Z.E.	13.696	-	-	-	-
ONGC Videsh Limited	-	-	13.86	0.087	-
Petronas Azerbaijan Shah Deniz S.A.R.L	-	-	0.02	-	-
Petro-Hong-Kong Pirsaat Oil	-	-	-	-	-
Qobustan Neft LLC	-	-	-	-	-
R.V. Investment Group Services	-	-	-	-	-
Salyan Neft LLC	-	-	-	-	-
SGC Upstream LLC	-	-	-	-	-
Chevron Khazar, Ltd.	-	-	57.41	0.362	-
Shirvan Investment Limited	7.377	-	-	-	-
Total E & P Apsheron B.V	-	-	-	-	-
Turkish Petroleum Anonim Ortaklığı	-	-	34.37	0.216	-
Turkish Petroleum Overseas Company Ltd	-	-	0.025	-	-
UGE-LANCER PTE.LTD	20	-	-	-	-
Zenith Aran Oil Company Limited	0.264	-	-	-	-
SOCAR	-	-	-	-	-
"AzerGold" QSC	-	-	-	-	-
AzGerneft LLC	-	-	-	-	-
Total	70.237	0.851	450.108	3.705	2.439

Table 12: The initial data on revenue streams made in cash from the extractive companies involved in the process of EIT to the government

Extractive companies	(USD mln.)	(mln. AZN)	Revenue stream (in cash) (mln AZN)					
			Profit tax	Royalty (Mining tax)	VAT	Property tax	Land tax	Price changes Other taxes
Ali Bayramli Neft LLC	0.413	-	-	-	-	-	-	-
Apsheron Investment Limited	-	-	-	-	-	-	-	-
Azen Oil Company B.V.	3.190	-	-	-	-	-	-	-
Azerbaijan (ACG) Limited	187.520	-	-	-	-	-	-	-
Azerbaijan (Shah Deniz) Limited	-	-	-	-	-	-	-	-
Bahar Energy Limited	-	-	-	6.537	-	-	-	-
BP Exploration (Azerbaijan) Limited	-	-	-	-	-	-	-	-
BP Exploration (Caspian Sea) Limited	206.157	-	-	-	-	-	-	-
BP Shafag-Asiman Limited	-	-	-	-	-	-	-	-
BP Apsheron Limited	-	-	-	-	-	-	-	-
CNPC International (Kura) Limited	1.565	-	-	-	-	-	-	-
Commonwealth Gobustan Limited	-	-	-	-	-	-	-	-
Exxon Azerbaijan Limited	32.991	-	-	-	-	-	-	-
Equinor Absheron A. S	37.253	-	-	-	-	-	-	-
Equinor Azerbaijan Dan Ulduzu Aypara	-	-	-	-	-	-	-	-
Fortunamate Assets Limited	1.528	-	-	-	-	-	-	-
Inpex Southwest Caspian Sea, Ltd.	58.217	-	-	-	-	-	-	-
Itochu Oil Exploration (Azerbaijan) Inc.	28.988	-	-	-	-	-	-	-
Karasu Development Company	-	-	-	-	-	-	-	-
Lukoil Overseas Shah Deniz	-	-	-	-	-	-	-	-
Naftiran Intertrade Co (NICO) Limited	-	-	-	-	-	-	-	-
Neftechala Investments Limited	-	-	-	-	-	-	-	-
Novatis Oil F.Z.E.	-	-	-	-	-	-	-	-
ONGC Videsh Limited	16.172	-	-	-	-	-	-	-
Petronas Azerbaijan Shah Deniz S.A.R.L	-	-	-	-	-	-	-	-
Petro-Hong-Kong Pirsaat Oil	-	-	-	-	-	-	-	-
Qobustan Neft LLC	-	-	-	-	-	-	-	-
R.V. Investment Group Services	-	6.100	-	-	-	-	-	-
Salyan Neft LLC	0.753	-	-	-	-	-	-	-
SGC Upstream LLC	-	-	-	-	-	-	-	-
Chevron Khazar, Ltd.	57.903	-	-	-	-	-	-	-
Shirvan Investment Limited	3.053	-	-	-	-	-	-	-
Total E & P Apsheron B.V	-	-	-	-	-	-	-	-
Turkish Petroleum Anonim Ortaklığı	39.558	-	-	-	-	-	-	-
Turkish Petroleum Overseas Company Ltd	-	-	-	-	-	-	-	-
UGE-LANCER PTE.LTD	8.966	-	-	-	-	-	-	-
Zenith Aran Oil Company Limited	-	-	-	-	-	-	-	-
SOCAR	-	86.414	134.281	75.869	76.308	36.510	147.839	73.174
“Azergold” CJSC	-	0.50	-	0.730	-	-	-	-
AzGerneft LLC	-	-	-	-	-	-	-	-
Total	684.227	93.014	134.281	83.136	76.308	36.510	147.839	73.174

Table 13: The initial information on revenue streams made in kind from the extractive companies involved in the process of EIT to the government

Extractive industry companies	(mln. barrels) Crude oil	Revenue streams (in kind)	
		(thsd. m³) Natural gas	(thsd. m³) Associated gas
Ali Bayramli Neft LLC	-	-	-
Apsheron Investment Limited	-	-	26,972.030
Azen Oil Company B.V.	-	3,042.000	-
Bahar Energy Limited	-	-	1,543.000
BP Exploration (Azerbaijan) Limited	1.101	-	-
BP Exploration (Caspian Sea) Limited	44.551	-	2,225,397.698
BP Shafag-Asiman Limited	-	-	-
BP Apsheron Limited	-	-	-
CNPC International (Kura) Azerbaijan Limited	-	-	13,718.77
Commonwealth Gobustan Limited	-	-	-
Exxon Azerbaijan Limited	9.961	-	-
Equinor Absheron A. S	10.662	-	-
Equinor Azerbaijan Dan Ulduzu Aypara	-	-	-
Fortunamate Assets Limited	-	-	13,718.77
Itochu Oil Exploration (Azerbaijan) Inc.	5.352	-	-
Karasu Development Company	-	-	1,065.000
Kura Valley Development company	-	-	-
Lukoil Overseas Shah Deniz	0.382	-	-
Naftiran Intertrade Co (NICO) Limited	0.382	-	-
Neftechala Investments Limited	-	-	-
Novatis Oil F.Z.E.	-	-	3,836.993
ONGC Videsh Limited	3.388	-	-
Petronas Azerbaijan Shah Deniz S.A.R.L	0.592	-	-
Petro-Hong-Kong Pirsaat Oil	-	-	-
SGC Upstream LLC	0.255	-	-
Chevron Khazar, Ltd.	14.035	-	-
Shirvan Investment Limited	-	-	7,519.543
Total E & P Apsheron B.V	-	-	-
Turkish Petroleum Anonim Ortaklığı	8.404	-	-
Turkish Petroleum Overseas Company Ltd	0.726	-	-
UGE-LANCER PTE.LTD	-	-	10,580.670
Zenith Aran Oil Company Limited	0.005	-	-
"Azergold" QSC	-	-	-
AzGerneft LLC	-	-	-
Inpex Southwest Caspian Sea Limited	13.651	-	-
Azerbaijan (ACG) Limited	36.670	-	-
Qobustan Oil LLC	-	-	-
Azerbaijan Shah Denis Limited	0.382	-	-
Salyan Neft LLC	-	-	-
SOCAR	-	-	-
Total	150.499	3,042.000	2,304,352.474

Table 13: The initial information on revenue streams made in kind from the extractive companies involved in the process of EIT to the government

Extractive industry companies	Revenue streams (in kind)				
	(thsd. ounces)				(thsd. ton)
	Gold	Silver	Gold in concentrate of copper	Silver in concentrate of copper	Non-ferrous metals (copper concentrate)
R.V. Investment Group Services	8.671	3.564	0.677	17.168	0.161
Total	8.671	3.564	0.677	17.168	0.161

4.4 Payments made to Government according to PSA

Table 14: Revenue streams made in cash from the extractive companies involved in the process of EIT to the government in 2018.

The table was prepared on the basis of the adjusted final figures.

Foreign extractive industry companies	Final amount (mln. USD)	
	EIT companies	Government
"Agreement on the Joint Development and Production Sharing (PSA) for the Azeri, Chirag fields and the Deep Water Portion of the Gunashli Field (ACG)"		
Azerbaijan (ACG) Limited	188.394	188.394
BP Exploration (Caspian Sea) Limited	389.545	389.545
Chevron Khazar, Ltd.	115.675	115.675
Exxon Azerbaijan Limited	74.028	74.028
Equinor Absheron A.S	81.138	81.138
Inpex Southwest Caspian Sea, Ltd.	114.409	114.409
Itochu Oil Exploration (Azerbaijan) Inc.	51.016	51.016
ONGC Videsh Limited	25.111	25.111
Turkish Petroleum Anonim Ortaklığı	74.144	74.144
Shahdaniz		
Azerbaijan (Shah Daniz) Limited	-	-
BP Exploration (Azerbaijan) Limited	0.037	0.037
Lukoil Overseas Shah Deniz	0.013	0.013
Naftiran Intertrade Co (NICO) Limited	0.013	0.013
Turkish Petroleum Overseas Company Ltd	0.025	0.025
Petronas Azerbaijan Shah Deniz S.A.R.L	0.020	0.020
Binaqadi, Qırmaki, Chaxnaqlar, Sulutepe, Masazir, Fatmayi, Shabandag and Sianshor oil fields		
Azen Oil Company B.V.	17.820	17.820
The Block including Bahar and Gum-Deniz fields		
Bahar Energy Limited	1.248	1.248
Zigh and Hovsan oil fields		
Apsheron Investment Limited	4.965	4.965
Shafag-Asiman field		
BP Shafag-Asiman Limited	2.118	2.118
The Block including Kursengi and Qarabaghli oil fields		
CNPC International (Kura) Limited	4.912	4.912
Fortunamate Assets Limited	4.875	4.875

Table 14: Revenue streams made in cash from the extractive companies involved in the process of EIT to the government in 2018 (The table was prepared on the basis of the adjusted final figures).

<i>Foreign extractive industry companies</i>	Final amount (mln. AZN)	
	EIT companies	Government
The Block including Mishovdagh and Kelameddin oil fields		
Karasu Development Company	-	-
The Block including Neftchala, Xilli, Durovdagh-Babazanan oil fields and the South–West Flange of Mughan Monoklinalin		
Neftechala Investment Limited	2.215	2.215
Surakhani field		
Novatis Oil F.Z.E.	13.696	13.696
The Block including Balakhani-Sabunchu-Ramana and Kurdekhani fields		
UGE-LANCER PTE.LTD	28.966	28.966
The Block including Kurovdagh oil field		
Shirvan Investment Limited	10.430	10.430
The Block including Pirsaat oil field and the adjacent areas		
Petro-Hong-Kong Pirsaat Oil	-	-
Three Blocks including the Shikhzegirli, Sheytanud, Burgud, Donguzlug, Nardaran, Ilkhichi, West Gadjiveli, Sundi, East Gadjiveli, Turagay, Kenizedag, West Duvanny, Duvanny, Solakhay, and Dashgil Fields of South-West Gobustan		
Commonwealth Gobustan Limited	-	-
Absheron oil field		
Total E & P Apsheron B.V	-	-
Agreement on Exploration and Production Sharing of Gadabay, Gosha, Ordubad Group (Pizabashi, Aghyurd, Shekerdere, Keleki), Soyudlu, Gizilbulagh and Vejneli prospective gold ore deposits		
R.V. Investment Group Services	3.588	3.588
Muradkhanli, Cafarli and Zardab oil fields		
Zenith Aran Oil Company Limited	0.264	0.264
Shallow water area around the Absheron Peninsula		
BP Absheron Limited	0.321	0.321
Block D230		
BP Exploration (Azerbaijan) Limited	-	-
Ashrafi - Dan Ulduzu and Aypara areas		
Equinor Azerbaijan Dan Ulduzu Aypara	-	-

4.5 Extractive Industry Companies

The following companies have participated in EIT reporting for 2018 and submitted their reporting forms to the Independent Auditor

Table 15 a: Companies that joined EIT

Foreign Extractive Industry companies

#	Name of the company	Responsible person	Extractive industry	TINs of registered branches or representative offices in Azerbaijan	Reporting date	Stamped and signed	PSA
1	Azerbaijan (ACG) Limited	Bakirov Shaiq	Oil-gas	9900025071	15.08.2019	✓	"Agreement on the Joint Development and Production Sharing (PSA) for the Azeri, Chirag fields and the Deep Water Portion of the Gunashli Field (ACG)"
2	Apsheron Investment Limited	Igor Kirdoda	Oil-gas	1401089201	Not mentioned	✓	Zigh and Hovsan oil fields
3	Azen Oil Company B.V	Sara Suleymanova	Oil-gas	1700357251	15.08.2019	✓	Binagadi, Girmaki, Chakhnaglar, Sulutepe, Masazir, Fatmayi, Shabandagh and Sianshor oil fields
4	Bahar Energy Limited	John Harains	Oil-gas	1401921221	15.08.2019	✓	Block including Bahar and Gum-Deniz
5	BP Exploration (Azerbaijan) Limited	Gary Jones	Oil-gas	9900068341	16.08.2019	✓	Shahdeniz
6	BP Exploration (Caspian Sea) Limited	Gary Jones	Oil-gas	9900070211	16.08.2019	✓	"Agreement on the Joint Development and Production Sharing (PSA) for the Azeri, Chirag fields and the Deep Water Portion of the Gunashli Field (ACG)"
7	BP Shafag-Asiman Limited	Gary Jones	Oil-gas	1701289681	16.08.2019	✓	Shafag-Asiman
8	BP Absheron Limited	Gary Jones	Oil-gas	1403619281	16.08.2019	✓	Shallow water area around the Absheron Peninsula
9	CNPC International (Kura) Azerbaijan Limited	Shan Lianzheng	Oil-gas	1700489661	15.08.2019	✓	Block including Kursengi and Garabaghly

4.5 Extractive Industry Companies

The following companies have participated in EIT reporting for 2018 and submitted their reporting forms to the Independent Auditor

Table 15 a: Companies that joined EIT

Foreign Extractive Industry companies

#	Name of the company	Responsible person	Extractive industry	TINs of registered branches or representative offices in Azerbaijan	Reporting date	Stamped and signed	PSA
10	Commonwealth Gobustan Limited	Richard Pegge	Oil-gas	Not mentioned	05.08.2019	✓	Three Blocks including the Shikhzegirli, Sheytanud, Burgud, Donguzlug, Nardaran, Ilkhichi, West Gadjiveli, Sundi, East Gadjiveli, Turagay, Kenizedag, West Duvanny, Duvanny, Solakhay, and Dashgil Fields of South-West Gobustan
11	Exxon Azerbaijan Limited	Robert O. Syvertsen	Oil-gas	9900061991	16.08.2019	✓	"Agreement on the Joint Development and Production Sharing (PSA) for the Azeri, Chirag fields and the Deep Water Portion of the Gunashli Field (ACG)"

4.5 Extractive Industry Companies

The following companies have participated in EIT reporting for 2018 and submitted their reporting forms to the Independent Auditor

Table 15 a: Companies that joined EIT

Foreign Extractive Industry companies

#	Name of the company	Responsible person	Extractive industry	TINs of registered branches or representative offices in Azerbaijan	Reporting date	Stamped and signed	PSA
12	Equinor Apsheron AS*	Aynur Sultanli	Oil-gas	9900066351	16.08.2019	✓	"Agreement on the Joint Development and Production Sharing (PSA) for the Azeri, Chirag fields and the Deep Water Portion of the Gunashli Field (ACG)"
13	Equinor Azerbaijan Ashrafi Dan Ulduzu Aypara BV	Aynur Sultanli	Oil-gas	140416881	06.11.2019	✓	Production sharing and exploration agreement on the Dan Ulduzu, Ashrafi and Aypara areas between State Oil Company of Azerbaijan republic and Statoil /Equinor
14	Fortnamate Assets Limited	Shan Lianzheng	Oil-gas	9900058401	15.08.2019	✓	Block including Kursengi and Garabaghly
15	Itochu Oil Exploration (Azerbaijan) Inc.	Kengo Kimura	Oil-gas	9900017401	16.08.2019	✓	"Agreement on the Joint Development and Production Sharing (PSA) for the Azeri, Chirag fields and the Deep Water Portion of the Gunashli Field (ACG)"
16	Karasu Development Company	Arzu Ismayilova	Oil-gas	9900027901	16.08.2019	✓	Block including Mishovdagh and Kelameddin
17	Lukoil Overseas Shah Deniz	Vutaliy Kuznetsov	Oil-gas	9900074991	19.08.2019	✓	Shahdeniz
18	Naftiran Intertrade Co (NICO) Limited	Abraham Bahari	Oil-gas	9900072741	16.08.2019	✓	Shahdeniz
19	Neftechala Investments Limited	Vaqif Abdullayev	Oil-gas	1401551781	16.08.2019	✓	The Block including Neftchala, Xilli, Durovdagh-Babazanan oil fields and the South–West Flange of Mughan Monoklinalin
20	Novatis Oil F.Z.E.	Mammadov Azer	Oil-gas	1700478091	14.08.2019	✓	Surakhani

4.5 Extractive Industry Companies

The following companies have participated in EIT reporting for 2018 and submitted their reporting forms to the Independent Auditor

Table 15 a: Companies that joined EIT

Foreign Extractive Industry companies

#	Name of the company	Responsible person	Extractive industry	TINs of registered branches or representative offices in Azerbaijan	Reporting date	Stamped and signed	PSA
21	ONGC Videsh Limited	Gaurav Dubey	Oil-gas	1701431501	16.08.2019	✓	"Agreement on the Joint Development and Production Sharing (PSA) for the Azeri, Chirag fields and the Deep Water Portion of the Gunashli Field (ACG)"
22	Petro-Hong-Kong Pirsaat Oil	Tan Xingyi	Oil-gas	9900045941	15.08.2019	✓	The Block including Pirsaat oil field and the adjacent areas
23	R.V. Investment Group Services LLC	Bahruz Rustamov	Mining	9900047931	15.08.2019	✓	Agreement on Exploration and Production Sharing of Gadabay, Gosha, Ordubad Group (Pizabashi, Aghyurd, Shekerdere, Keleki), Soyudlu, Gizilbulagh and Vejneli prospective gold ore deposits
24	Chevron Khazar, Ltd.	Bakhtiyar Akhundov	Oil-gas	9900046581	15.08.2019	✓	"Agreement on the Joint Development and Production Sharing (PSA) for the Azeri, Chirag fields and the Deep Water Portion of the Gunashli Field (ACG)"
25	Shirvan Investment Limited	Igor Ivanovic Kirdoda	Oil-gas	Not mentioned	5.08.2019	✓	Block including Kurovdagh oil field
26	Total E & P Apsheron B.V	Patrick Corvest	Oil-gas	1401620891	19.09.2019	✓	Absheron
27	Turkish Petroleum Anonim Ortaklığı	Namiq Ismayilov	Oil-gas	9900006091	16.08.2019	✓	"Agreement on the Joint Development and Production Sharing (PSA) for the Azeri, Chirag fields and the Deep Water Portion of the Gunashli Field (ACG)"

4.5 Extractive Industry Companies

The following companies have participated in EIT reporting for 2018 and submitted their reporting forms to the Independent Auditor

Table 15 a: Companies that joined EIT

Foreign Extractive Industry companies

#	Name of the company	Responsible person	Extractive industry	TINs of registered branches or representative offices in Azerbaijan	Reporting date	Stamped and signed	PSA
28	Turkish Petroleum Overseas Company Ltd	Namiq Ismayilov	Oil-gas	9900005861	16.08.2019	✓	Shahdeniz
29	UGE-LANCER PTE.LTD	Oktay Askerov	Oil-gas	1501980421	08.08.2019	✓	Block including Balakhani-Sabunchu-Ramana and Kurdekxani
30	Zenith Aran Oil Company Limited	Tural Muradov	Oil-gas	2003712971	22.08.2019	✓	Muradkhanli, Jafarli and Zardab
31	Azerbaijan Shah Deniz Limited	Khalid Khalilov	Oil-gas	9900050981	14.08.2019	✓	Shahdeniz
32	INPEX SOUTHWEST CASPIAN SEA LTD	Yuzo Sengoku	Oil-gas	990003863	22.08.2019	✓	• "Agreement on the Joint Development and Production Sharing (PSA) for the Azeri, Chirag fields and the Deep Water Portion of the Gunashli Field (ACG)"
33	Petronas Azerbaijan Shah Deniz S.A.R.L	Nurunnajwa BT aras	Oil-gas	2003417531	16.08.2019	✓	Shahdeniz

* In 2018, the board of directors of Statoil proposed to change the name of the company to Equinor. The name change supports the company's strategy and development as a broad energy company. The new name was proposed to shareholders in a resolution to the Annual General Meeting on May 15.⁹⁴

Equinor ASA, the new name of Norwegian oil and gas supermajor Statoil ASA, was approved at the annual general meeting and became effective on May 16, 2018.⁹⁵

⁹⁴ Equinor – official web-page, <https://www.equinor.com/en/news/15mar2018-statoil.html>

⁹⁵ <http://www.naturalgasintel.com/articles/114401-brief----statoil-now-equinor>

4. Taxes and Revenues covered in the EIT Report

Table 15 b: Companies that joined EIT

Local Extractive Industry companies

Local companies with PSA contractor

#	Name of the company	Responsible person	Extractive industry	TIN	Reporting date	Stamped and signed	PSA #
1	Ali- Bayramli Neft LLC	Seyyad Musayev	Oil-Gas	9900076921	15.08.2019	✓	The Block including Mishovdagh and Kelameddin oil fields
2	“Gobustan Neft” LLC	Karimov Yasar	Oil-gas	9900076161	15.08.2019	✓	Three Blocks including the Shikhzegirli, Sheytanud, Burgud, Donguzlug, Nardaran, Ilkhichi, West Gadjiveli, Sundi, East Gadjiveli, Turagay, Kenizedag, West Duvanny, Duvanny, Solakhay, and Dashgil Fields
3	“Salyan Neft” LLC	Aliyev Ziyafat	Oil-gas	9900076031	Not mentioned	✓	Block including Kursengi and Garabaghly
4	“SGC Upstream” LLC	Murad Suleymanov	Oil-gas	1701618791	15.08.2019	✓	Shahdeniz

4. Taxes and Revenues covered in the EIT Report

Table 15 b: Companies that joined EIT

Local Extractive Industry companies

Other local extractive industry companies

#	Name of the company	Responsible person	Extractive industry	TIN	Reporting date	Stamped and signed
1	AzGerneft LLC	Isayev Chingiz	Oil-gas	9900047091	01.08.2019	✓
2	SOCAR	Vuqar Sharifov	Oil-gas	9900003871	30.08.2019	✓
3	“Azergold” CJSC	Anar Mansurov	Mining	1403467421	09.08.2019	✓

In 2018, the government agencies involved in the reconciliation process are listed below:

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

4.6. Sale of the state's share of production - revenues in kind

Table 16: The last buyers of crude oil, which is owned by SOCAR and the state in 2018: ⁹⁶

Company name	Quantity (net US bbl)	USD (million)
BP	1,868,226.57	131.736
ANCAP	1,049,752.15	81.078
CPC Corporation, Taiwan	6,299,349.56	429.034
ENI	10,016,531.33	703.386
EXXON	15,780,055.90	1,136.352
Galp Energia Espania (PETROGAL)	5,075,880.93	344.618
GLENCORE	6,227,617.82	423.640
Indian Oil Corporation Ltd. (IOCL)	9,399,205.63	677.635
IRVING	5,166,687.97	362.424
KMG (KazMunaiGas)	2,635,052.77	188.048
Kuwait Petroleum International (KPI)	7,828,423.61	556.363
OMV	2,833,973.57	208.324
ORL	3,134,161.79	208.341
PAZ Oil	3,068,934.27	210.480
Pertamina	7,640,619.30	531.126
PKN ORLEN	10,095,461.72	703.579
ROSNEFT	3,378,214.48	245.378
SARAS	11,686,233.77	835.471
The Tunisian Society of Refining Industries (STIR)	943,972.47	70.517
Bharat Petroleum Corporation Ltd. (BPCL)	1,000,204.59	65.838
TOTSA	6,743,221.47	460.802
FORMOSA	2,099,483.20	158.093
CEPSA	2,731,842.60	183.343
CHEVRON	3,090,617.20	220.503
HONTOP Energy	1,035,483.31	75.533
HPCL (Hindustan Petroleum Corporation Limited)	1,049,773.20	75.776
INPEX	1,138,343.25	75.181
INA	1,331,651.83	94.987
ITALIANA PETROLI SPA	682,302.71	45.729
MERCURIA	1,732,073.06	125.577
LITASCO	5,963,509.63	415.553
Phillips 66	2,980,857.83	199.493
PV OIL	2,077,300.66	130.774
SONATRACH	682,246.87	37.169
STAR	659,821.13	49.068
VITOL	682,268.20	50.057
Total	149,809,356.35	10,511.007

⁹⁶ Information submitted by the EIT Commission to the State Oil Company of the Azerbaijan Republic on submission of information on production, sale, price, market (buyer) and volume sales of the state.

4. Taxes and Revenues covered in the EIT Report

Export of crude oil through BTC pipeline

During the year, BTC exported about 255 million barrels (around 34 million tonnes) of crude oil loaded on 327 tankers at Ceyhan. ⁹⁷

Additionally, the amount and value of natural gas exported by SOCAR for the year ended December 31, 2018 is shown in the following table:

Country for the export of natural gas	Volume (m³)	USD (million)
Georgia	1,400,830.194	225,537,438.66
Total	1,400,830.194	225,537,438.66

4.7. Infrastructure provisions and barter arrangements

Since no infrastructure provisions and barter agreements exist in the Republic of Azerbaijan, no relevant information has been included in the EIT report for 2018.

⁹⁷ Information submitted by the EIT Commission to the State Oil Company of the Azerbaijan Republic on submission of information on production, sale, price, market (buyer) and volume sales of the state.

4. Taxes and Revenues covered in the EIT Report

4.8. Transit revenues

There are 4 pipelines in the Republic of Azerbaijan for exporting oil and gas:

- Baku-Tbilisi-Ceyhan;
- South Caucasus Pipeline (Baku-Tbilisi-Erzurum);
- Baku-Supsa;
- Baku-Novorossiysk.

Figure 8: Pipelines



4. Taxes and Revenues covered in the EIT Report

Baku-Tbilisi-Ceyhan ⁹⁸

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.

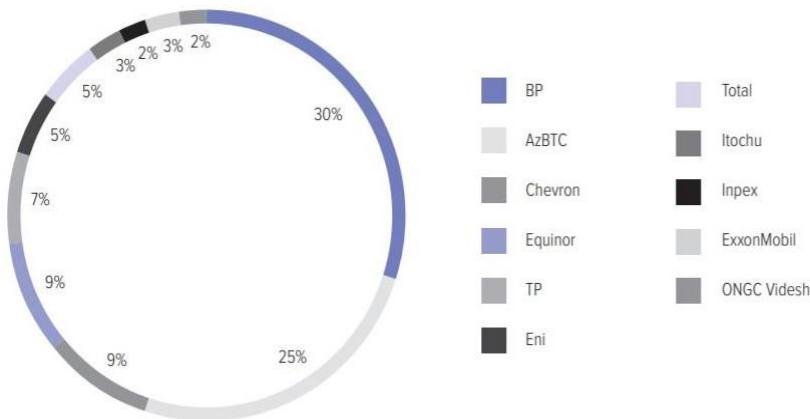
Along the length of 443 km of all the 1,768 km-long pipeline buried in the ground crosses through Azerbaijan, 248 km through Georgia and 1,076 km through Turkey.

Figure 9: Baku-Tbilisi-Ceyhan pipeline



The operator of Azerbaijani and Georgian part is BP on the behalf of shareholders of BTC Co, however operator in Turkish part is BOTAS International Limited (BIL). The carrying capacity of BTC is currently 1.2 million barrels per day.

Figure : Shareholders of BTC Co



Since the 1,768km BTC pipeline became operational in June 2006 till the end of 2018, it carried a total of about 3.12 billion barrels (around 417 million tonnes) of crude oil loaded on 4,085 tankers and sent to world markets.

During the year, BTC exported about 255 million barrels (around 34 million tonnes) of crude oil loaded on 327 tankers at Ceyhan.

⁹⁸ BP, “Operations and Projects”, “Pipelines”, “Baku-Tbilisi-Ceyhan”, https://www.bp.com/en_az/caspian/operationsprojects/pipelines/BTC.html

4. Taxes and Revenues covered in the EIT Report

South Caucasus Pipeline ⁹⁹

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.

Figure 10: South Caucasus Pipeline



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 length of the pipeline is 691 km, of which 443 km are in Azerbaijan and 248 km in Georgia. The diameter is 42 inches. This pipeline was put into operation in late 2007 and then delivered to Azerbaijan and Georgia, and from July 2007 to Turkey, the Shah Deniz Stage 1 gas.

During the year the SCP daily average throughput was more than 23 million m³. Currently gas is transported to Turkey via an expanded pipeline, and SCP facilities and pipelines in Azerbaijan and Georgia transports export gas.

⁹⁹ BP, “Operations and Projects”, “Pipelines”, “South Caucasus Pipeline”, https://www.bp.com/en_az/azerbaijan/home/who-we-are/operationsprojects/pipelines/scp.html

4. Taxes and Revenues covered in the EIT Report

Western Route Export Pipeline

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. WREP extends from the Sangachal terminal near Baku by crossing through Azerbaijan and Georgia to Supsa terminal on the Black Sea coast of Georgia. The length of the pipeline is 829 km.

Azerbaijan International Operating Company (AIOC), is the owner of the pipeline and the Azeri-Chirag-Deepwater Gunashli (ACG) Production Sharing Agreement are exploiting it on behalf of its partners.

Figure 11: Western Route Export Pipeline



¹⁰⁰ BP, “Operations and Projects”, “Pipelines”, “Western Route Export Pipeline”
https://www.bp.com/en_az/azerbaijan/home/who-we-are/operationsprojects/pipelines/wrep.html

4. Taxes and Revenues covered in the EIT Report

Baku-Novorossiysk pipeline

¹⁰¹ Baku-Novorossiysk oil pipeline in northern direction is 1,330 km long. The diameter of the pipeline is 530 mm. Furthermore, 231 km of the length goes through Azerbaijan, however 1,099 km of the length goes through Russia.

Filling the pipeline with oil started in October 1996. Maximum throughput capacity of the pipeline is 105 thousand barrels a day. Baku-Novorossiysk oil pipeline has 3 pump stations (Sangachal, Sumgayit and Siyazan).

Figure 12: Baku-Novorossiysk pipeline



Transit revenues to be achieved from 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 Baku-Supsa pipeline.

In 2018, revenue inflow was generated from the transportation of oil and gas through the territory of Azerbaijan (transit fees). The amount of transit fee transferred to the SOFAZ's budget constituted USD 10.6 million or AZN 18.1 million ¹⁰²

¹⁰¹ SOCAR, Transmission, Baku Novorossiysk Oil Pipeline" <http://www.socar.az/socar/az/activities/transportation/baku-novorossiysk-oil-pipeline>

¹⁰²SOFAZ, Annual Report https://oilfund.az/report-and-statistics/get-download-file/7_2018_tam_en.pdf

4. Taxes and Revenues covered in the EIT Report

Table 17: Transit fees

In order to eliminate the discrepancy between the transit fees generated by the extractive companies and the government's initial reporting data, starting from the 2018 EIT reporting, the payment breakdown, including the State Oil Fund, are submitted to the Independent Auditor by the Azerbaijan International Operating Company (AIOC).

Transfer authority	Date	Amount (million)	
		USD	AZN
AIOC	12.01.2018	1.031	1.75
AIOC	14.02.2018	1.035	1.76
AIOC	13.03.2018	0.934	1.59
AIOC	12.04.2018	1.045	1.77
AIOC	14.05.2018	1.045	1.78
AIOC	13.06.2018	1.086	1.84
AIOC	12.07.2018	1.030	1.75
AIOC	13.08.2018	0.369	0.63
AIOC	12.09.2018	0.754	1.28
AIOC	12.10.2018	0.651	1.11
AIOC	14.11.2018	0.623	1.06
AIOC	12.12.2018	1.045	1.78
Total		10.648	18.10

4.9. Sub-national payments

Since sub-national transfers are not implemented in the Republic of Azerbaijan, no relevant information has been included in the EIT report for 2018.

Since the Republic of Azerbaijan is a unitary state, there are no sub-national transfers here. Here are local budgets, which are managed by the central budget. All collected taxes and fees are consolidated into a single budget system. The Nakhchivan Autonomous Republic collects taxes on its local budget and is also supported by the central budget.

4.10. Individual reporting

Reports submitted by Companies in 2018 are disclosed individually in the EIT report for each company.

All individuals reports can be found on the EIT Commission’s website.¹⁰³

¹⁰³ http://hssk.gov.az/en/hssh_reports

5. Distribution of Extractive Industry Revenues and Expenses



5. Distribution of Extractive Industry Revenues and Expenses

5.1. Distribution of revenues and expenses of State budget and SOFAZ

In 2018 revenues of the state budget approved in the amount of AZN 22,508.9 million, expenditures – AZN 22,731.6 million, deficit - AZN 222.7 million. The share of oil revenues of the SOFAZ to the state budget has been AZN 10,959 million, which is 79.66% more than in the previous year. ¹⁰⁴

Table 18 a: Distribution of revenues and expenses

Revenue (AZN mln)	2016	2017	2018
Income tax of physical entities	1,145.7	1,040.3	995.9
Profit tax of legal entities	1,983.2	2,285.9	2,499.7
Land tax	50.3	50.4	50.6
Property tax	174.7	178.6	182.2
Value Added Tax	3,623.5	3,668.6	4,287.6
Excise Tax	625.1	612.6	728.6
Royalty Tax	110.3	111.1	137.4
Other revenues from the State Oil fund of the Republic of Azerbaijan (transfer)	7,615.0	6,100.0	10,959.0
Other proceedings	2,177.9	2,469.3	2,667.9
Total	17,505.7	16,516.8	22,508.9

¹⁰⁴ https://oilfund.az/report-and-statistics/get-download-file/7_2018_tam_en.pdf

Table 18 b: Distribution of revenues and expenses

Expenses (mIn AZN)	2016	2017	2018
Total public services	2,904.4	2,679.4	3,526.0
Defence	2,192.7	2,621.3	2,842.7
Court authority, law enforcement agencies	1,117.1	1,177.6	1,316.4
Education	1,754.4	1,742.7	1,966.6
Healthcare	702.5	704.7	709.9
Social protection and social security	2,645.2	2,350.2	2,150.7
Culture, art, information and activities not included in other categories	687.4	253.3	299.5
Agriculture, forestry, fishing, hunting and environmental protection	585.4	506.2	742.2
Industry, construction and minerals	2,707.1	2,707.4	5,087.2
Other expenses	2,455.0	2,851.8	4,090.4
Total	17,751.2	17,594.6	22,731.6

The amount of transfer from SOFAZ to the state budget in 2018 amounted to AZN 17.6 billion. Revenues from the sale of hydrocarbons, transit fees, bonus payments, acreage payments, revenues from management of the Fund's resources, have formed sources of SOFAZ revenues.

Table 19: The income sources of SOFAZ in 2016-2018 ¹⁰⁵

Sources (mIn AZN)	2016	2017	2018	
Proceeds from the sale of profit oil and gas	8,320.0	11,030.0	16,645.60	Note 1
Revenue from managing the funds	1,068.8	1,083.6	181.10	Note 2
Payments on transit fees	18.0	17.9	18.10	Note 3
Bonus payments	0.1	2.4	765.20	Note 4
Acreage fees	3.3	3.6	4.10	Note 5
Other revenue and receipts	-	-	0.02	Note 6
Total	9,410.2	12,137.5	17,614.12	

Note 1 to Note 6 are on next slide for explaining the sources of revenue

In 2018, the revenues accrued to SOFAZ were formed from the sales of the Republic of Azerbaijan's share of hydrocarbons, fees paid to Azerbaijan for the oil and gas transit through its territory, bonus payments, acreage fees and revenues from the management of SOFAZ's assets. In 2018, SOFAZ's budget revenues constituted AZN 17,614.1 million, or USD 10,361.0 million, meaning that the sum envisaged in the budget plan (AZN 15,310.8 million) was executed at the level of 115.0%. One of the reason of this increase is that the average sale price per barrel of oil constituted USD 71 in 2018 as against USD 55 that was forecasted in the approved budget. The overall revenues as expressed in US dollars were 46.6 % above the respective figure in 2017 (USD 7,065.5 million).

¹⁰⁵ https://oilfund.az/report-and-statistics/get-download-file/7_2018_tam_en.pdf

5. Distribution of Extractive Industry Revenues and Expenses

Note 1

In 2018, SOFAZ's revenues from the sale of profit oil and gas constituted AZN 16,645.6 million, or USD 9,791.4 million. The volume of production at the Azeri-Chirag-Guneshli field constituted 213.51 million barrels, which was 4.5% above the forecasted amount (204.4 million barrels). Since oil prices throughout the reference year were higher than projected, the respective revenue item was executed at the level of 25.1% higher than it had been projected in the budget (AZN 13,307.41 million). That is, the average sale price per barrel of oil constituted USD 71 in 2018 as against USD 55 that was forecasted in the approved budget.

Note 2

In accordance with SOFAZ's investment policy for 2018, assets were invested in fixed income (debt and money market instruments), equities, real estate, and gold. SOFAZ's revenues from asset management totaled USD 106.5 million, or AZN 181.1 million. The annual rate of return from the SOFAZ's investment portfolio amounted to 0.35%.

Note 3

In 2018, another revenue inflow was generated from the transportation of oil and gas through the territory of Azerbaijan (transit fees). The amount of transit fees transferred to the SOFAZ's budget constituted USD 10.6 million, or AZN 18.1 million.

Note 4

In 2018, SOFAZ's revenues from bonuses paid by investors for signing and fulfilling oil and gas contracts amounted to AZN 765.2 million, or USD 450.1 million.

Note 5

In 2018, a sum of USD 2.4 million (AZN 4.1 million) of acreage fees was transferred to SOFAZ in accordance with the offshore exploration and production sharing agreement between SOCAR and the oil company co-owned by SOCAR and BP Exploration (Caspian Sea) over the Shafag-Asiman field in the Azerbaijani sector of the Caspian.

Note 6

Other revenues from the sales of assets by investors in accordance with oil and gas agreements amounted to AZN 20 thousand.

5. Distribution of Extractive Industry Revenues and Expenses

Table 20: The breakdown of payments of SOFAZ (mIn AZN) ¹⁰⁵

Sources	2016	2017	2018	
Transfers to state budget	7,615.0	6,100.0	10,959.0	Note 1
Improvement of social conditions of refugees and internally displaced persons	90.0	105.0	200.0	Note 2
Samur-Apsheeron irrigation system	70.0	70.0	90.0	Note 3
Administrative expenses of Oil Fund	20.1	18.1	23.3	Note 4
Education of Azerbaijani youth abroad	31.6	17.0	7.2	Note 5
New “Baku-Tbilisi-Kars” railway construction project	66.2	20.5	176.1	Note 6
Financing of the participating interest of the Republic of Azerbaijan on construction of “Star” Oil Refinery ProjNect in Turkey Republic	331.8	735.4	-	
Financing of the participating interest of the Republic of Azerbaijan in “South Gas Corridor” projects	797.4	-	-	
Upper limit of the transfer to the Central Bank of the Republic of Azerbaijan for sustaining macroeconomic stability	-	3,949.5	-	
Total	9,022.1	11,015.5	11,455.6	

Note 1 to Note 6 are given below and on the next slide for explaining the sources of payments

Note 1

In 2018, SOFAZ’s expenditures constituted AZN 11,455.6 million and were executed at the level of 99.8% from the budget amount of AZN 11,480.23 million.

In 2018, a transfer of AZN 10,959 million from SOFAZ to the state budget was executed, 99.8% of the sum approved in the budget project (AZN 10,966 million).

5. Distribution of Extractive Industry Revenues and Expenses

Note 2

In 2018, a total sum of AZN 200 million was spent on funding the aforementioned measures, this budget item having been executed at the 100% to the projected level (AZN 200 million).

Note 3

In 2018, AZN 90 million was spent from SOFAZ's budget for the purpose of financing the project. The project was executed at the 100% level (AZN 90.0 million).

Note 4

In 2018, SOFAZ's administrative expenditures amounted to AZN 23.26 million or 73% of the respective item as approved in the budget plan (AZN 31.88 million)

Note 5

The "State Program on the education abroad of the Azerbaijani youth in the years of 2007-2015". The State program was financed by SOFAZ at AZN 7.23 million, 44.57% of the sum initially allocated for the respective budget item (AZN 16.22 million). This sum envisages the average amount of AZN 36,000.0 per student which was calculated taking into account the probability of devaluation in the upcoming year. The projected expenditure was also intended to cover expenditures of a group of students who were admitted in the previous academic year but whose financing was temporarily frozen. However, since problems in the education of those students have not been resolved, no financing has been made for them. These were also some students whose tuition fees were paid with the use of amounts refunded to the relevant account of the Ministry in 2018, as well as those whose payments were not ordered in the last 10 days of December 2018. For the reasons mentioned above, the expenditure item for 2018 was less than what was envisaged in the budget.

Note 6

The New Baku-Tbilisi-Gars Railway project. AZN 176.1 million, or USD 103.6 million was put by SOFAZ into the financing of the project in 2018, amounting to 100% of the initially projected sum of AZN 176.1 million.

5.2. Revenue management and expenditures

In the budget system of the Republic of Azerbaijan a uniform budget classification, which provides comparability of budget information at all levels is applied. Classification of budget revenues and expenditures is a grouping of revenues and expenditures included in the budget system.

The structure and content of the budget classification are determined by the decision of the Cabinet of Ministers of the Republic of Azerbaijan dated October 6, 2004 "On approval of the uniform budget classification".

In accordance with that decision, the draft budget for each year's draft state budget provides a detailed classification of state budget revenues by sources. In this classification, the amount of transfer from the extractive industry to the state budget and all types of direct receipts (Profit tax of contracting companies operating under PSA, income tax for subcontractors operating under PSAs, tax on wage earners in contractor companies operating under PSA, tax on wage earners in contractor companies operating under PSA), as well as transfer from SOFAZ to the state budget is noted. ¹⁰⁶

Types of revenues and expenditures related to state institutions form the state budget and are approved by the President of the Republic of Azerbaijan in the form of the law.

¹⁰⁶ "Decision of the Cabinet of Ministers of the Republic of Azerbaijan", <http://www.e-qanun.az/framework/5840>

5. Distribution of Extractive Industry Revenues and Expenses

The legal basis of the Chamber of Accounts is the Constitution of the Republic of Azerbaijan, international treaties to which the Republic of Azerbaijan is a party, this law and other regulatory legal acts of the Republic of Azerbaijan. The Chamber of Accounts carries out the activities of external state financial control in accordance with this law and the methodological documents prepared by the Chamber of Accounts in accordance with the standards of the International Organization of Supreme Audit Institutions (INTOSAI). ¹⁰⁷

The Chamber of Accounts conducts audits of state and consolidated budget revenues and expenditures, including extra-budgetary state funds in accordance with legislation.

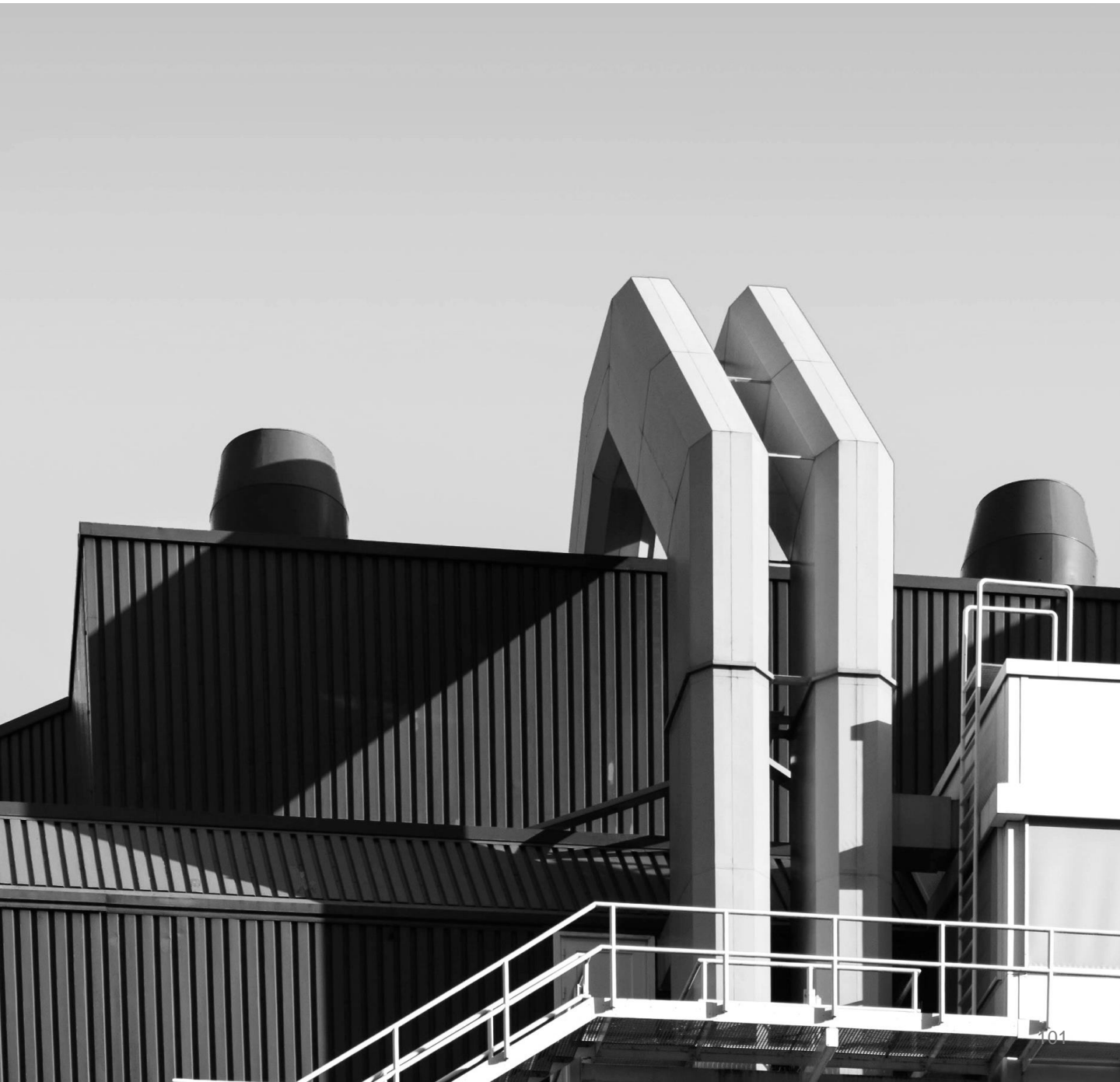
The drafting of the draft state budget starts 11 months before the next budget year and covers the period from the date of submission of the draft budget to the National Assembly (Milli Majlis) of the Republic of Azerbaijan.

The draft state budget for the next budget year is based on the forecasts of the country's economic and social development, targeted programs, economic areas, administrative regions, and the results of financial and economic activities of all enterprises regardless of their form of ownership. The draft law on the state budget for the next fiscal year together with other documents attached to it shall be submitted for discussion and approval to the Milli Majlis of the Republic of Azerbaijan no later than October 15 of the current year. ¹⁰⁸

¹⁰⁷ "Law of the Republic of Azerbaijan on Chamber of Accounts, July 2, # 700-IQ", <http://e-qanun.az/framework/39922>)

¹⁰⁸ "Law of the Republic of Azerbaijan on Budget System, ", <http://www.e-qanun.az/framework/1126>

6. Contribution of the Extractive Industry to the Economy of Azerbaijan



6. Contribution of the Extractive Industry to the Economy of Azerbaijan

6.1. Social expenditures SOCAR

Understanding the social responsibility, SOCAR takes an active part in the country’s social life and provides a number of important socio-economic projects implemented in our Republic. SOCAR implements social services, builds public infrastructure and etc. and invests in various fields. During the reporting period, SOCAR’s social expenditures totaled AZN 105 million in Azerbaijan, as per the audited financial statements of SOCAR.

Social activity of SOCAR is mainly related to the following areas:

- Charity and sponsor support;
- Supporting social welfare of employees;
- Establishing contacts with the public;
- Use of land plots and forced transfers; and
- Sports, education and culture support.

Charity and sponsor support:

Table 21: SOCAR’s payments for 2018 for charity, social and sponsorship coverage ¹⁰⁹

Payment Description	(AZN)
Sports	527,728
Financial associations and trade unions	890,902
Education	196,700
Culture and arts	2,826,510
Healthcare	-
Material assistance to individuals	172,875
Total	4,614,715

BP continues to implement important social investment projects in order to benefit the population of region’s countries. These projects include educational programs, skills and abilities in local communities, improvement of communities’ social infrastructure, access to financial resources, support for local businesses, cultural heritage and sport, as well as technical assistance to government agencies.



¹⁰⁹ SOCAR, “Sustainable Development Report”, “Social Activity and Support for Regional Development,” p. 34, <http://socar.az/socar/assets/documents/az/socar-annual-reports/Davaml%C4%B1%20inki%C5%9Faf%20%C3%BCzr%C9%99%20hesabat%20-%202018-ci%20il.pdf>

In 2018, BP and its joint partners in joint ventures spent only 4.1 million dollar on social investment projects in Azerbaijan. ¹¹⁰ Social projects and related costs of BP in 2018 as per PSAs scope are shown in the following tables: ¹¹¹

BP Exploration (Azerbaijan) Limited

Report on company's social expenditures				
S. no	Payment Description and Project's name	Organizers (if available)	Duration (start and end date)	Total expenses (USD)*
	Shah Deniz social investment - participating interests: BP 28.8%, AzSD 10.0%, Petronas 15.5%, NICO 10.0%, Lukoil 10.0%, TPAO 19.0%, SGC Upstream LLC 6.7%			581,508
1	"Enterprise Development Programme"	EKVITA LLC	10/2012 – 11/2020	141,976
2	"School of Project Management (SPM) in Azerbaijan" project	Twentyeighty Strategy Execution (UK) Ltd.	11/2010 – 06/2018	41,860
3	"Supporting the Establishment of Effective Migration Management in Azerbaijan" project	The International Organization for Migration (IOM)	04/2015 – 12/2018	99,155
4	Vocational trainings on "Detection, prevention and treatment of tuberculosis" for primary healthcare physicians and nurses	German Industrial and Medical Consulting	12/2017 – 10/2018	463
5	"Capacity Building for English Language Teachers and English Language Training for Community Members" Project	The Branch of the British Council in the Republic of Azerbaijan	04/2016 – 04/2019	18,305
6	"Agricultural Vocational Education: Development of New Occupations" project development of new agricultural occupations and trades	The Branch of the British Council in the Republic of Azerbaijan	08/2016 – 08/2018	25,331
7	"Build Your Future" Youth Support Project	"Build Your Future" LLC	09/2016 – 09/2019	43,848
8	"Caspian Environmental Information Centre (CEIC)" online environmental database	Stiftelsen Grid Arendal	05/2017 – 09/2018	26,250
9	"Supporting Improvement of computer science education in high schools of Azerbaijan" project	International Training and Project Centre	12/2017 – 12/2020	38,458
10	"Enhancing employability skills for people with disabilities" project	The Branch of the British Council in the Republic of Azerbaijan	12/2017 – 12/2018	40,114
11	"FIRAVAN" project contribute to the socio-economic development of regions	SERVET-FYZ LLC	03/2017 – 09/2018	3,645
12	"Sweet Gold" project to increase the income of families in selected communities	PULS-R Limited Responsible Society	03/2017 – 12/2020	90,274
13	Green Sangachal" project to establish a green area in Baku's Garadagh district	"Eko Park Environmental Research Centre" Public Union	08/2018 – 04/2019	4,515
14	Social infrastructure development" project	Perlit LLC	07/2018 – 12/2018	7,314

* Continues on the next page

¹¹⁰<https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/sustainability/country-reports/bp-sustainability-report-2018-azerbaijan-english.pdf>

¹¹¹ State Payments Report of BP, BP Azerbaijan's Social Performance and Related Costs

BP Exploration (Caspian Sea) Limited

Report on company's social expenditures				
s. no	Payment Description and Project's name	Organizers (if available)	Duration (start and end date)	Total expenses (USD)*
	ACG social investment – participating interests: BP 30.37%, AzACG 25%, Chevron 9.57%, INPEX 9.31%, Equinor 7.27%, ExxonMobil 6.79%, TPAO 5.73%, ITOCHU 3.65%, ONGC 2.31%			678,568
1	"Enterprise Development Programme"	EKVITA LLC	10/2012 – 11/2020	141,976
2	"School of Project Management (SPM) in Azerbaijan" project	Twentyeighty Strategy Execution (UK) Ltd.	11/2010 – 06/2018	41,860
3	"Supporting the Establishment of Effective Migration Management in Azerbaijan" project	The International Organization for Migration (IOM)	04/2015 – 12/2018	99,155
4	Vocational trainings on "Detection, prevention and treatment of tuberculosis" for primary healthcare physicians and nurses	German Industrial and Medical Consulting	12/2017 – 10/2018	463
5	"Capacity Building for English Language Teachers and English Language Training for Community Members" Project	The Branch of the British Council in the Republic of Azerbaijan	04/2016 – 04/2019	18,305
6	"Agricultural Vocational Education: Development of New Occupations" project development of new agricultural occupations and trades	The Branch of the British Council in the Republic of Azerbaijan	08/2016 – 08/2018	25,331
7	"Build Your Future" Youth Support project	"Build Your Future" LLC	09/2016-09/2019	43,848
8	"Caspian Environmental establish a green area in Baku's Garadagh district	Stiftelsen Grid Arendal	05/2017-09/2018	26,250
9	"Supporting Improvement of computer science education in high schools of Azerbaijan" project	International Training and Project Centre	12/2017-12/2020	38,458
10	"Enhancing employability skills for people with disabilities" project	The Branch of the British Council in the Republic of Azerbaijan	12/2017-12/2018	40,114
11	"FIRAVAN" project contribute to the socio-economic development of regions	SERVET-FYZ LLC	03/2017-09/2018	35,925
12	"Sweet Gold" project to increase the income of families in selected communities	PULS-R Limited Responsible Society	03/2017-12/2020	90,274
13	"Green Sangachal" project to establish a green area in Baku's Garadagh district	"Eko Park: Environmental Research Centre" Public Union	08/ 2018-04/ 2019	4,515
14	"Social infrastructure development" project	Perlit LLC	07/2018-12/2018	72,094

Continues on the next page

Report on company's social expenditures

S. no	Payment Description and Project's name	Organizers (if available)	Duration (start and end date)	Total expenses (USD)*
	2.SCP social investment - shareholders: BP 28.8%, AzSCP 10.0 %, Petronas 15.5 %, NICO 10.0%, Lukoil 10.0%, TPAO 19.0%, SGC 6.7%			1,027,281
1	"Enterprise Development Programme"	EKVITA LLC	10/2012-11/2020	141,976
2	"School of Project management (SPM) in Azerbaijan" project	Twentyeighty Strategy Execution (UK) Ltd.	11/2010-06/2018	41,860
3	"Supporting the Establishment of Effective Migration Management in Azerbaijan" project	The International Organization for Migration (IOM)	04/2015 12/2018	99,155
4	Vocational trainings on "Detection, prevention and treatment of tuberculosis" for primary healthcare physicians and nurses	German Industrial and Medical Consulting	12/2017 - 10/2018	29,862
5	"Capacity Building for English Language Teachers and English Language Training for Community Members" Project	The Branch of the British Council in the Republic of Azerbaijan	04/2016 - 04/2019	73,426
6	"Agricultural Vocational Education: Development of New Occupations" project development of new agricultural occupations and trades	The Branch of the British Council in the Republic of Azerbaijan	08/ 2016 - 08/2018	25,331
7	"Build Your Future" Youth Support project	"Build Your Future" LLC	09/2016 - 09/2019	43,848
8	"Caspian Environmental Information Centre (CEIC)" online environmental database	Stiftelsen Grid Arendal	05/2017 - 09/2018	26,250
9	"Supporting Improvement of computer science education in high schools of Azerbaijan" project	International Training and Project Center	12/2017 - 12/2020	51,658
10	"Enhancing employability skills for people with disabilities" project	The Branch of the British Council in the Republic of Azerbaijan	12/2017 - 12/2018	40,114
11	"FIRAVAN" project contribute to the socio-economic development of regions	SERVET – FYZ LLC	03/2017 - 09/2018	32,281
12	"Sweet Gold" project to increase the income of families in selected communities	PULS-R Limited Responsible Society	03/2017 - 12/2020	90,274
13	Green Sangachal" project to establish a green area in Baku's Garadagh district	"Eko Park: Environmental Research Center" Public Union	08/2018 - 04/2019	4,515
14	"Social infrastructure development" project	Perlit LLC	07/2018 - 12/2018	64,780
15	"Building Early Intervention Services" project	United Aid for Azerbaijan	06/2016 – 09/2019	261,950

* Continues on the next page

BP Exploration (Caspian Sea) Limited

Report on company's social expenditures				
s. no	Payment Description and Project's name	Organizers (if available)	Duration (start and end date)	Total expenses (USD)*
	BP's individual sponsorship spend as a company			954,859
1	"The Founders of the Republic" research book	Nurlar Neshriyyat Poliqrafiya	08/2017-11/2018	10,000
2	"The Last Session" documentary film	Baku Media Centre	02/2018-12/2018	320,842
3	"Kelaghayi" art book	Expo Org LLC	02/2018-12/2018	65,733
4	BP's support to seven Azerbaijani athletes	Individual Olympic and Paralympic Athletes	01/2018-12/2018	101,770
5	Children's Paralympic Festival in Goygol	Azerbaijan National Paralympic Committee	Jun-18	32,344
6	Translation of Microeconomics by Case, Fair and Oster into the Azerbaijani language	Qlobal TFD	09/2017-09/2020	6,697
7	Translation of Macroeconomics by Olivier Blanchard into the Azerbaijani language	Khazar University	09/2017-09/2020	30,356
8	Translation of International Economics: Theory and Policy (11th edition) textbook by Krugman, Obsfeld and Melitz	MODULUS LLC	09/2017-09/2018	30,102
9	Printing of three economics books: Microeconomics by Case, Fair and Oster into the Azerbaijani language- Macroeconomics by Olivier Blanchard into the Azerbaijani language - International Economics: Theory and Policy (11th edition) textbook by Krugman, Obsfeld and Melitz.	MAX PRINT LLC	08/2018-11/2018	54,059
10	"Business education for engineers" project	SOCAR's Baku Higher Oil School	02/2018-12/2018	179,994
11	12th Annual Baku Summer Energy School	ADA University Foundation	Jul-18	20,000
12	Azerbaijan Business Case Competition	US Educated Azerbaijani Alumni Association (AAA)	08/2018-12/2018	4,118
13	Roundtable discussion on "Building Trust in Paying Taxes"	American Chamber of Commerce	Jun-18	5,882
14	The 3rd Eurasian Conference of the International Association for Energy Economics	CECE YONETIM ORGANIZASYON	Oct-18	8,000
15	The First General Meeting- Workshop of the International Working Group on Sustainable Development of the Caspian Sea Region	Marine Plaza LLC	Oct-18	5,177
16	Conference on "Problems of Inland Waters Basin: Thematic Study of the Caspian Basin"	Marine Plaza LLC	May-2018	10,961
17	The 7th International Scientific Conference of young scientists and students	Geology Institute	Mar-18	8,824
18	Modernizing monitoring and evaluation e-infrastructure of the Center for Analysis of Economic Reforms and Communication	Center for Analysis of Economics	10/2018-24/2020	60,000

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Exxon Azerbaijan Limited

Report on company's social expenditures				
S. no	Payment Description and Project's name	Organizers (if available)	Duration (start and end date)	Total expenses (USD)*
1	"Baku -OPEN 2018"-International Chess Tournament for children	Respublika Shahmat Merkezi	16.11.2018-21.12.2018	588
2	EAZL's portion on social expenditures is included into EIT report of BP operator			

Equinor Absheron A.S.

Report on company's social expenditures				
No	Payment Description and Project's name	Organizers (if available)	Duration (start and end date)	Total expenses (USD)*
	For the social investment payments made under ACG PSA, please refer to the 2018 BP Exploration Caspian Sea EITC Report dated from 16 th of August 2019			
1	Caspian Oil and Gas Conference	ITECA Caspian	01.05.2018–30.06.2018	28,256.00
2	"I am Jazzman!" project	Baku Jazz festival	01.10.2019–31.10.2019	11,574
3	ADA Summer camp	ADA University Foundation	01.06.2019–01.08.2019	8,133
4	SPE Workshop on geomechanics	Society of Petroleum Engineers	01.09.2019–31.11.2019	2,500

R.V. Investment Group Service

Report on company's social expenditures				
S. no	Payment Description and Project's name	Organizers (if available)	Duration (start and end date)	Total expenses (AZN)*
	All social payments has been made from the operator company of the PSA – Azerbaijan International Mining Company Limited Representative Office in Azerbaijan ("AIMC")			
1	Purchase of sports equipment	Gedabek Youth Sport Club	Jul. 18	30,139 AZN
2	Rent of Taekvando sport centre	Gedabek Youth Sport Club	Aug 2018 – Dec 2018	500 AZN (monthly)
3	Rent of sport centre	AIMC, for the development of football amongst local youth	Aug 2018 – Dec 2018	350 AZN (monthly)
4	Football coach	AIMC, for the development of football amongst local youth	Aug 2018 – Dec 2018	1,000 AZN (monthly)
5	Financing of visit of Ingusetian Veterans to Baku	Baku "Müharibə Əlilləri" Organization	06 Feb. 18	3,000 AZN
6	Financing of visit of "Osmanli Dirilis Halk Harekati" representatives to Baku	Baku "Müharibə Əlilləri" Organization	04 Apr. 18	800 AZN
7	Donation for the Solidarity of World Azerbaijanis and New Year	Baku "Müharibə Əlilləri" Organization	27 Dec.18	2,500 AZN

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CHEVRON KHAZAR LTD

Report on company's social expenditures				
S. no	Payment Description and Project's name	Organizers (if available)	Duration (start and end date)	Total expenses (AZN)*
ACG social investment – Please see Operator’s Report which includes Chevron figures as well				
1. Chevron Khazar social investment – 100%				
1	Build the Future: Career Planning and Development Program	JUNIOR ACHIEVEMENT AZERBAIJAN	1 Dec 2018 -31 Jul 2019	42,000.00
2	Publishing catalogues for certain exhibitions	YARAT CONTEMPORARY ART SPACE PUBLIC UNION	1 Nov 2018 - 1 Nov 2019	59,547.60

6. Contribution of the Extractive Industry to the Economy of Azerbaijan

6.2. Quasi-fiscal expenditures

Quasi-fiscal expenditures are fiscal activities that are carried out by state agencies on behalf of the Government and are not compensated for. Such expenditures are generally not required by the Law and are not accounted for in the state budget.

While determining the types of quasi-fiscal activities in the extractive industry and in accordance with the “Guide on Resource Revenue Transparency” of IMF, MSG has decided, after carrying out the analysis of presence of Quasi-fiscal expenditures in Azerbaijan to include in the EIT report the information on the following types of quasi-fiscal expenditures which are stipulated in the Guide:

- **Energy Quasi-fiscal activities:** requirements for NRCs to provide products (particularly energy) at less than cost recovery or market price for domestic consumption;
- **Public expenditure Quasi-fiscal activities:** requirements for NRCs or international companies to provide social services or other public goods normally provided by general government. ¹¹²

SOCAR paid AZN 147.839 million to the state budget for 2018 on revenues from the price difference.

Based on decisions of the Government, the Group is periodically mandated to make direct cash contributions or finance construction and repair works for the Government (including transfer of assets), various government agencies and projects administered by the Government. During 2018 such direct cash transfers to the Government, financing (made in the form of payments to sub-contractors of governmental entities) and distribution of property, plant and equipment amounted to AZN 675 mln, AZN 5 mln and AZN 5 mln respectively (December 31, 2017: AZN 567 mln, AZN 89 mln and nil, respectively), mainly for repair and reconstruction of existing, as well as construction of new recreational, transport, educational and medical infrastructure of the Azerbaijan Republic. ¹¹³

6.3. Industry and Field structure of GDP

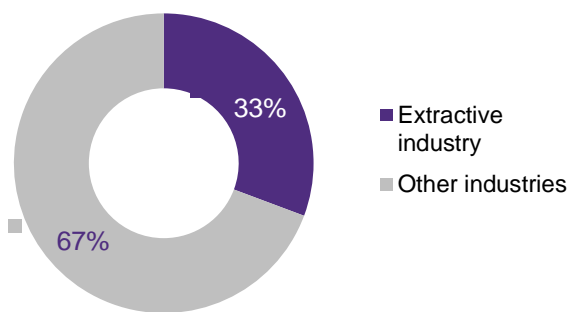
As compared to last year Gross Domestic Product (GDP) has increased in 2018 by 1.4% in real terms. Gross Domestic Product is AZN 79.8 billion and GDP per capita consists of 8.1 thousand manats. The main source of GDP growth was increase in the non-oil sector. Thus, the non-oil sector in the reporting year increased by 1.8% in real terms. Noting that non-oil GDP was increased by 2.7% in 2017. The share of the non-oil sector in GDP in 2018 was 58.5%. The value added in the production of mining extraction industry products occupies a leading position in the GDP structure and its share in GDP is 32.8%.

¹¹² International Monetary Fund, “Guidance for the Transparency of Natural Resources Revenues (2007)” , <http://www.imf.org/external/np/pp/2007/eng/051507g.pdf>

¹¹³ SOCAR, “Financial Statement 2018”, “Note 27, Charter capital, additional paid-in capital and retained earnings”, p. 79 <http://socar.az/socar/assets/documents/en/socar-financial-reports/Financial%20report%202018.pdf>

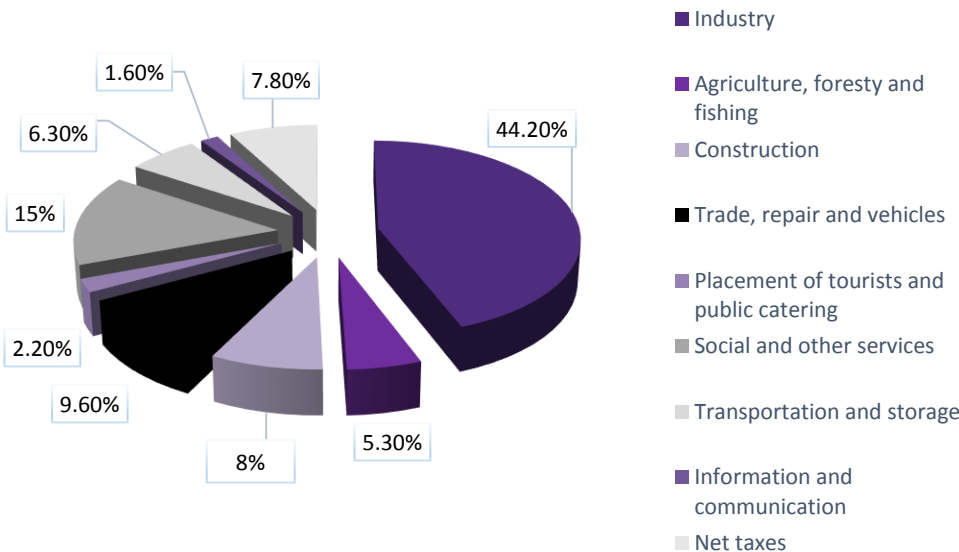
6. Contribution of the Extractive Industry to the Economy of Azerbaijan

Graph : Area structure of GDP in 2018 (percentage) ¹¹⁴



Industrial sector is the leading sector in the structure of GDP, which is in the amount of AZN 79.8 billion. The share of the industry in the structure of GDP increased from 40.1% in 2017 to 44.2% in 2018. The share of social and other services in the GDP was 15%, the share of the construction sector is 8%, the share of trade, repair of vehicles is 9.6%, the share of net taxes on product and imports is 7.8%, the share of transport and warehouse is 6.3%, the share of agriculture, forestry and fishing is 5.3%, tourists placement and public catering is 2.2% and information and communication is 1.6%.

Graph : Field structure of GDP for 2018 (in percentage) ¹¹⁵



¹¹⁴ “State Statistical Committee of the Republic of Azerbaijan”, “Statistical Publications”, “E-version of Publications”, “Azerbaijan in Figures” https://www.stat.gov.az/menu/6/statistical_yearbooks/?lang=en

¹¹⁵ State Statistical Committee of the Republic of Azerbaijan, “Statistical Publications”, “E-version of Publications”, “Foreign Trade in Azerbaijan” http://www.stat.gov.az/menu/6/statistical_yearbooks

6. Contribution of the Extractive Industry to the Economy of Azerbaijan

6.4. The state revenue from the extraction industry

In 2018, SOFAZ's revenues were generated by revenues from the sale of hydrocarbons, transit fees, bonus payments, acreage fees, revenues from management of funds and other sources in the Republic of Azerbaijan. A total of AZN 17,614.1 million (USD 10,361.0 million) were included in the Fund's revenue. It should be noted that SOFAZ's revenue from sales of hydrocarbons has increased as compared to 2017.

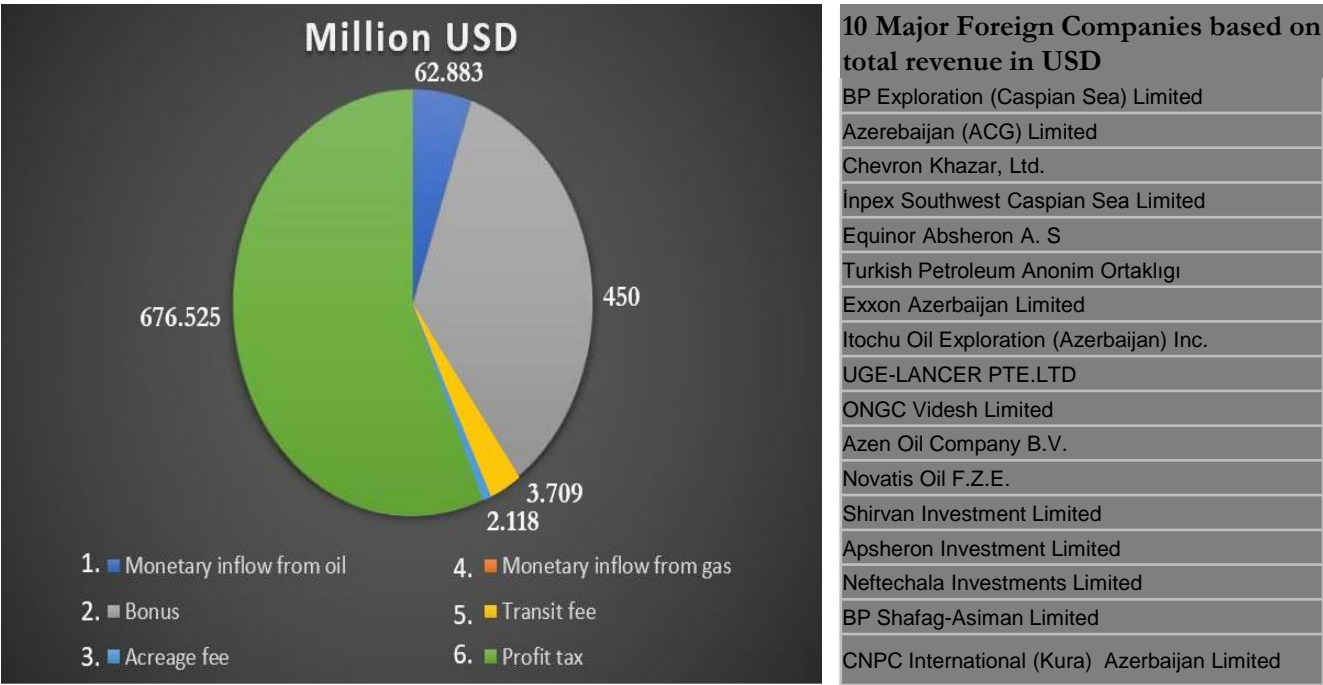
This increase was mainly due to the increase in crude oil prices. Thus, the average sale price per barrel of oil constituted USD 71 in 2018 as against USD 55 that was forecasted in the approved budget. The overall revenues as expressed in US dollars were 46.6 % above the respective figure in 2017.

6. Contribution of the Extractive Industry to the Economy of Azerbaijan

Share of the government in 10 major foreign companies' production:

Payment	2018
	(mln. USD)
Cash	
Monetary inflow from oil	62.883
Monetary inflow from gas	0
Bonus	450
Transit fee	3.709
Acreage fee	2.118
Profit tax	676.525

Graph: Indicator of revenue from 10 foreign companies



6. Contribution of the Extractive Industry to the Economy of Azerbaijan

6.5. Employment in the extractive industry

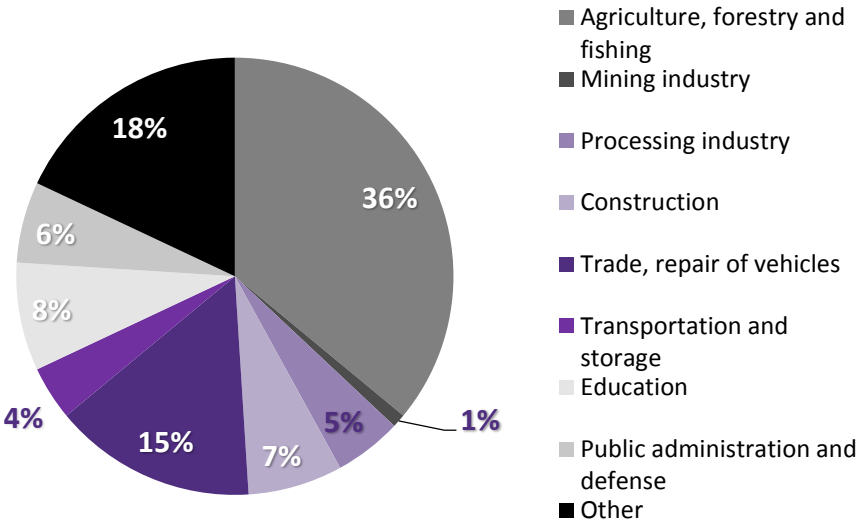
Characteristics of employment in the sectors of economy: ¹¹⁶

In 2018 the economically active population was 5,133.1 thousand people and among them 4,879.3 thousand people were employed in the economy. The mining extraction industry employed 40.3 thousand people.

Table 22a: Employment in the extractive industry

Employment	2018 (thsd people)
Number of economically active population	5,133.1
Number of people employed in the economy	4,879.3
Number of people in Mining industry	40.3

Graphics 8: Structure of general employment (2018) ¹¹⁷



For the year ended December 31, 2018, 2,534 Azerbaijani citizens were employed by BP including employees employed on a contractual basis. About 90% of the Company’s qualified employees are local specialists, many of whom are senior managers, including few vice presidents of the company’s regional management staff. ¹¹⁸

¹¹⁶ State Statistical Committee of the Republic of Azerbaijan, “Statistical Publications”, “E-version of Publications”, “Azerbaijan in figures”, http://www.stat.gov.az/menu/6/statistical_yearbooks/

¹¹⁷ State Statistical Committee of the Republic of Azerbaijan, “Statistical Publications”, “E-version of Publications”, “Azerbaijan in figures”, http://www.stat.gov.az/menu/6/statistical_yearbooks/

¹¹⁸BP official web-page, News, Business information, Results of 2018 – https://www.bp.com/en_az/caspian/press/businessupdates/2018_full_year_results11.html

6. Contribution of the Extractive Industry to the Economy of Azerbaijan

Table 22b: SSPF payments of extractive industry companies. ¹¹⁹

SSPF payments (mln AZN)	2016	2017	2018
Local and foreign extractive companies	62	119*	75.154
Total	62	119	75.154

¹¹⁹ Information provided by the EIT commission secretariat

6. Contribution of the Extractive Industry to the Economy of Azerbaijan

6.5.1 Employment in the extractive industry by gender

*including the employees of the operating company.

No.	Company name	Disaggregation of employees by gender		Disaggregation of employees by gender on the Executive board (board of directors, supervisory board, commission and etc.)	
		Total no. of Female employees:	Total no. of Male employees:	Total no. of Female employees:	Total no. of Male employees:
1	Apsheron Investment Limited	23	160	2	5
2	Azen Oil Company BV	92	815	42	225
3	"Azergold" CJSC	43	264	8	43
4	AzGerneft LLC	42	371	1	21
5	Azerbaijan (ACG) Limited	0	0	0	0
6	Azerbaijan Shah Deniz Limited	0	0	0	0
7	Ali Bayramli Neft LLC	0	0	0	0
8	Bahar Energy Limited	0	5	0	0
9	Bp Exploration (Azerbaijan) Ltd	0	0	0	0
10	Bp Exploration (Caspian Sea) Ltd	496	2339	80	488
11	Bp Shafag-Asiman Limited	0	0	0	0
12	Bp Absheron Limited	0	0	0	0
13	CNPC International (Kura) Limited	0	0	0	0
14	Chevron Khazar, Ltd.	7	2	2	1
15	Commonwealth Gobustan Limited	0	2	0	2
16	Enquinor Absheron A.S	8	13	0	0
17	Equinor Azerbaijan Ashrafi Dan Ulduzu Aypara BV	0	0	0	0
18	EXXON Azerbaijan Limited	3	0	0	0
19	Fortunemate Assets Limited	0	0	0	0
20	Inpex Southwest Caspian Sea Limited	0	0	0	4
21	Itochu Oil Exploration (Azerbaijan) Inc.	4	2	0	1
22	Karasu Development Company	0	1	0	1
23	Lukoil Overseas Shah Deniz Ltd	3	3	0	1
24	Naftiran Intertrade Co (NICO) Limited	1	2	0	0
25	Neftechala Investments Limited	0	2	0	1
26	Novatis Oil F.Z.E.	3	4	0	1
27	ONGC Videsh Limited	2	1	0	1
28	Petronas Azerbaijan Shah Deniz S.A.R.L	8	7	3	3
29	Petro-Hong-Kong Pirsaat Oil	1	19	1	2
30	Qobustanneft LLC	0	0	0	0
31	R.V. Investment Group Services	43 *	683*	-	-
32	SGC Upstream LLC	0	1	0	1
33	Salyanneft LLC	0	0	0	0
34	Shirvan Investment Limited	0	1	0	1
35	SOCAR	8451	42688	529	5573
36	Total E & P Apsheron B.V	13	22	4	4
37	Turkish Petroleum Anonim Ortakligi	5	4	0	2
38	Turkish Petroleum Overseas Company Ltd	1	2	0	2
39	UGE-LANCER PTE.LTD	0	2	0	1
40	Zenith Aran Oil Company Limited	11	191	2	17

6. Contribution of the Extractive Industry to the Economy of Azerbaijan

6.6. Key regions (areas) where production is concentrated

Most of the oil reserves (i.e.80%) are located in Apsheron Peninsula, Baku and Apsheron archipelago at the depth of 3000-4000 meters in the shelf of the Caspian Sea. The formation of oil deposits in rocks belongs to Cenozoic period. Oil production is connected with the excavation works in Balakhany-Sabunchu-Ramana with inclusion of Bibiheybat. 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 Republic of Azerbaijan from which 38 are suitable for exploitation.

Table 23: Oil (including condensates) production (commodity), thsd tonnes ¹²⁰

Regions	2016	2017	2018
Baku	40,495	38,140	38,230
Siyazan	52	52	51
Neftchala	34	33	34
Salyan	167	160	155.9
Imishli	14	12	12.8
Shirvan	237	241	249.4
Total	40,999	38,638	38,733

An important oil production area near Baku is Sabunchu, Surakhani and Bibiheybat. Oil production in Baku in 2018 reached 38,230,000 tonnes and it is 98.7 percent of total oil production. Oil production in kind in 2018, including condensate, was 1,505,000 tonnes on the land and 37,217 tonnes in the sea.

Table 24: Gas production (commodity), mln. cubic meters

Regions	2016	2017	2018
Baku	18,664	18,126	19,159
Siyazan	8	8	8.1
Salyan	39	41	31.6
Shirvan	8	11	8.6
Total	18,719	18,186	19,207

¹²⁰ State Statistical Committee of the Republic of Azerbaijan, "Statistical Publications", "E-version of Publications", "Azerbaijan Industry", https://www.stat.gov.az/menu/6/statistical_yearbooks/

6. Contribution of the Extractive Industry to the Economy of Azerbaijan

Table 25: Gold production, kg (production of main products) ¹²¹

Region	2016	2017	2018
Gadabay	1,895	6,391	2,061
Total	1,895	6,391	2,061

Table 26: Silver production, kg (production of main products).

Region	2016	2017	2018
Gadabay	320	705	824
Total	320	705	824

Table 27: Copper ores and concentrates, tonnes (the main production)

Region	2016	2017	2018
Gadabay	1,947	2,063	1,650
Total	1,947	2,063	1,650

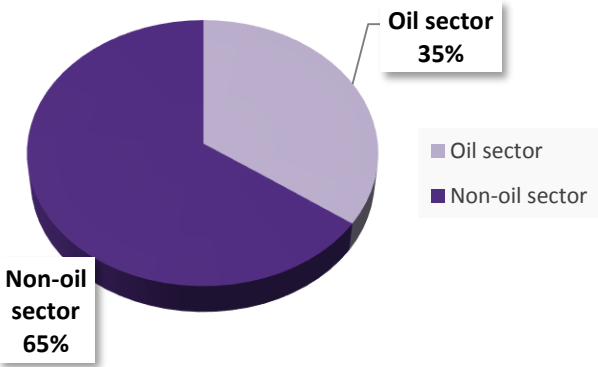
¹²¹ State Statistical Committee of the Republic of Azerbaijan, "Statistical Publications", "E-version of Publications", "Azerbaijan Industry", and "Construction in Azerbaijan" https://www.stat.gov.az/menu/6/statistical_yearbooks/ . For 2018 confirmed by Statistical Committee through an email.

6. Contribution of the Extractive Industry to the Economy of Azerbaijan

6.7. Other information

17,244.8 million manat was allocated to the main capital from all financial sources for the development of economic and social spheres of the country in 2018 and was 1.06% less than the prior year. In 2018, 34.8% and AZN 5,995.0 million of the funds invested in capital were allocated to the oil sector. AZN 11,249.8 million spent on non-oil sector development was used in non-oil sector, which is 65.2% of total funds. ¹²¹

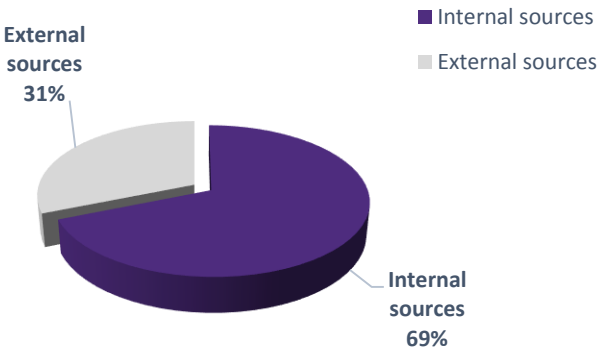
Graph: Total investment in main capital ¹²²



In addition, AZN 11,874.9 million or 68.9% of the funds directed to fixed assets were internal funds.

Graph: Total investment in main capital, million AZN ¹²³

Total Investment in Main Capital



¹²² State Statistical Committee of the Republic of Azerbaijan, "Statistical Publications", "E-version of Publications", "Construction in Azerbaijan" https://www.stat.gov.az/menu/6/statistical_yearbooks/

¹²³ State Statistical Committee of the Republic of Azerbaijan, "Statistical Publications", "E-version of Publications", "Construction in Azerbaijan" https://www.stat.gov.az/menu/6/statistical_yearbooks/ 118

7. Reconciliation Results



7. Reconciliation Results

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

7.1. Reconciliation by revenue stream (foreign companies)

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

(million USD)

Revenue streams	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Monetary inflow from oil	70.237	70.238	0.001	0.001	-	70.238	70.238	-
Monetary Inflow from gas	0.851	0.851	-	-	-	0.851	0.851	-
Bonuses	450.108	450.108	-	-	-	450.108	450.108	-
Transit fee	3.705	10.649	6.944	6.946	0.002	10.651	10.651	-
Acreage fee	2.439	2.439	-	-	-	2.439	2.439	-
Profit tax (USD)	683.061	677.821*	5.240	(5.008)	0.232	678.053	678.053	-

(million AZN)

Revenue streams	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Profit tax	6.100	-	6.100	-	6.100	6.100	-	-
Value added taxes	6.537	-	6.537	(6.537)	-	-	-	-

*The amount presented by the government is expressed in AZN terms (AZN 1,152.295 million). For the purpose of reconciliation these amounts have been translated into US Dollars at the official exchange rate date

The table below shows a summary of the in-kind transfers to the Government (aggregated figures) reported by the foreign extractive companies and government:

In-kind	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government t	Extractive companies	Government	Difference
Natural Gas (thsd. m³)	3,042	-	3,042	(3,042)	-	-	-	-
Associated Gas (thsd. m³)	2,304,352.474	2,439,868.416	(135,515.94)	134,515.942	(1,000.000)	2,438,868.416	2,438,868.416	-
Gold (thsd. ounces)	8.671	8.671	-	-	-	8.671	8.671	-
Silver (thsd. ounces)	3.564	3.564	-	-	-	3.564	3.564	-
Gold in copper concentrate (thsd. ounces)	0.677	0.677	-	-	-	0.677	0.677	-
Silver in copper concentrate (thsd. ounces)	17.168	17.168	-	-	-	17.168	17.168	-
Non-ferrous metal - Copper concentrate (thsd. tonnes)	0.161	0.161	-	-	-	0.161	0.161	-

The table below shows a summary of the crude oil transfers to the Government (aggregated figures) PSA Wise which includes both foreign and local companies:

In-kind	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government t	Extractive companies	Government	Difference
ACG	146.674	145.989	0.685	(0.684)	0.001	145.990	145.990	-
ShahDeniz	3.820	3.820	-	-	-	3.820	3.820	-
Muradkhanli, Jafarli and Zardab oil fields	0.005	-	0.005	(0.005)	-	-	-	-
Total	150.499	149.809	0.690	(0.689)	0.001	149.810	149.810	

7. Reconciliation Results

7.2. Reconciliation by revenue stream (local companies)

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

(million USD)

Revenue streams	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Profit tax	1.166	-	1.166	-	1.166	1.166	1.166	-

(million AZN)

Revenue streams	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
VAT	76.599	75.869	0.730	-	0.730	76.599	76.599	-
Profit tax	86.914	86.414	0.50	-	0.50	86.914	86.914	-
Royalty	134.281	134.281	-	-	-	134.281	134.281	-
Property tax	76.308	76.308	-	-	-	76.308	76.308	-
Land tax	36.510	36.510	-	-	-	36.510	36.510	-
Price changes	147.839	147.839	-	-	-	147.839	147.839	-
Other taxes	73.174	73.174	-	-	-	73.174	73.174	-

7. Reconciliation Results

7.3. Adjustments

7.3.1 Adjustments to cash transfers

Adjustments made on information presented by foreign companies.

(million USD)

Monetary flow from oil production

Foreign extractive companies	Per Companies			Per Government			Final difference
	Original	AJE	Final	Original	AJE	Final	
Apsheron Investment Limited	4.965	-	4.965	4.965	-	4.965	-
Azen Oil Company B.V.	14.63	-	14.63	14.63	-	14.63	-
Bahar Energy Limited	0.397	-	0.397	0.397	-	0.397	-
Neftechala Investments Limited	2.214	0.001*	2.215	2.215	-	2.215	-
Novatis Oil F.Z.E.	13.696	-	13.696	13.696	-	13.696	-
Shirvan Investment Limited	7.377	-	7.377	7.377	-	7.377	-
UGE-LANCER PTE.LTD	20	-	20	20	-	20	-
Zenith Aran Oil Company Limited	0.264	-	0.264	0.264	-	0.264	-
CNPC International (Kura) Azerbaijan Limited	3.347	-	3.347	3.347	-	3.347	-
Fortunamate Assets Limited	3.347	-	3.347	3.347	-	3.347	-
Total	70.237	0.001	70.238	70.238	-	70.238	-

*As numbers were not rounded properly in the report submitted by Neftchala Investments Limited, difference in the amount of USD 0.001 million originated. A revised confirmation was provided by the company.

7. Reconciliation Results

Transit fee

(million USD)

Foreign extractive companies	Per Companies			Per Government			Final difference
	Original	AJE	Final	Original	AJE	Final	
BP Exploration (Caspian Sea) Limited	1.148	-	1.148	1.148	-	1.148	-
Exxon Azerbaijan Limited	0.257	-	0.257	0.257	-	0.257	-
Equinor Absheron A. S	0.275	-	0.275	0.275	-	0.275	-
Itochu Oil Exploration (Azerbaijan) Inc.	0.138	-	0.138	0.138	-	0.138	-
ONGC Videsh Limited	0.087	-	0.087	0.087	-	0.087	-
Chevron Khazar, Ltd.	0.362	-	0.362	0.362	-	0.362	-
Turkish Petroleum Anonim Ortakligi	0.216	-	0.216	0.216	-	0.216	-
Inpex Southwest Caspian Sea Limited	0.352	-	0.352	0.352	-	0.352	-
Azerbaijan (ACG) Limited	0.87	0.004*	0.874	0.874	-	0.874	-
SOFAZ	-	6.940**	6.940	6.940	-	6.940	-
Rounding off difference	-	0.002***	0.002	-	0.002***	0.002	-
Total	3.705	6.946	10.651	10.649	0.002	10.651	-

*As numbers were not rounded properly in the report submitted by Azerbaijan (ACG) Limited, difference in the amount of USD 0.004 million originated. A revised confirmation was provided by the company.

**The difference of USD 6.940 million included in the Government’s schedule above 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.

***The difference is due to rounding off to three digits after decimal.

Value added tax

(million AZN)

Foreign extractive companies	Per Companies			Per Government			Final difference
	Original	AJE	Final	Original	AJE	Final	
Bahar Energy Limited	6.537	(6.537)*	-	-	-	-	-
Total	6.537	(6.537)	-	-	-	-	-

*The amount of 6.537 million AZN VAT was incorrectly included by Bahar Energy Limited in the confirmation.

7. Reconciliation Results

Profit tax

(million USD)

Foreign extractive companies	Per Companies			Per Government			Final difference
	Original	AJE	Final	Original	AJE	Final	
Azen Oil Company B.V.	3.19	-	3.19	-	3.19**	3.19	-
Azerbaijan (ACG)Limited	187.520		187.520	187.520	-	187.520	
BP Exploration (Caspian Sea) Limited	206.157	-	206.157	206.157	-	206.157	-
CNPC International (Kura) Azerbaijan Limited	1.565	-	1.565	1.565	-	1.565	-
Exxon Azerbaijan Limited	32.991	-	32.991	32.991	-	32.991	-
Equinor Absheron A. S	37.253	-	37.253	37.253	-	37.253	-
Fortunamate Assets Limited	1.528	-	1.528	1.528	-	1.528	-
Itochu Oil Exploration (Azerbaijan) Inc.	28.988	-	28.988	28.988	-	28.988	-
ONGC Videsh Limited	16.172	(5.008)*	11.164	11.164	-	11.164	-
Chevron Khazar, Ltd.	57.903	-	57.903	57.903	-	57.903	-
Shirvan Investment Limited	3.053	-	3.053	-	3.053***	3.053	-
Turkish Petroleum Anonim Ortaklığı	39.558	-	39.558	39.558	-	39.558	-
UGE-LANCER PTE.LTD	8.966	-	8.966	8.966	-	8.966	-
İnpex Southwest Caspian Sea Limited	58.217	-	58.217	58.217	-	58.217	-
Sauf Kokazus Pipeline	-	-	-	4.839	(4.839)****	-	-
Ali Bayramli Neft LLC	-	-	-	0.413	(0.413)*****	-	-
Salyan Neft LLC	-	-	-	0.753	(0.753)*****	-	-
Rounding off differences	-	-	-	0.006	(0.006)*****	-	-
Total	683.061	(5.008)	678.053	677.821	0.232	678.053	-

*The amount of USD 5.008 million of tax was incorrectly included to the report by ONGC Videsh Limited. A revised confirmation was provided by the company.

**Azen Oil Company B.V profit tax figures of USD 3.19 million was missed by the Ministry of Taxes in the initial reporting through the Commission.

***Shirvan Investment Limited profit tax figures of USD 3.053 million was missed by the Ministry of Taxes in the initial reporting through the Commission.

****Sauf Kokazus Pipeline profit tax figures of USD 4.839 million was incorrectly included by the Ministry of Taxes in the initial reporting through the Commission.

*****Ali Bayramli Neft LLC was mistakenly considered as foreign company by ministry of tax in initial reporting through the Commission.

*****Salyan Neft LLC was mistakenly considered as foreign company by ministry of tax in initial reporting through the Commission.

*****The difference is due to the fact that amount was initially represented by the government in AZN and the amount was converted at closing official rate.

7. Reconciliation Results

Adjustments made on information presented by Foreign companies.

Profit tax (million AZN)

Foreign extractive companies	Per Companies			Per Government			Final difference
	Original	AJE	Final	Original	AJE	Final	
R.V. Investment Group Services.	6.100	-	6.100	-	6.100	6.100*	-
Total	6.100	-	6.100	-	6.100	6.100	-

*R.V. Investment Group Services profit tax figures was missed by the Ministry of Taxes in the initial reporting through the Commission. Subsequently, the Ministry of Taxes confirmed the receipt of profit tax from R.V. Investment Group Services.

Adjustments made on information presented by Local companies.

Profit tax (million USD)

Local extractive companies	Per Companies			Per Government			Final difference
	Original	AJE	Final	Original	AJE	Final	
Ali Bayramli Neft LLC	0.413	-	0.413	-	0.413	0.413*	-
Salyan Neft LLC	0.753	-	0.753	-	0.753	0.753**	-
Total	1.166	-	1.166	-	1.166	1.166	-

*Ali Bayramli Neft LLC was mistakenly considered as foreign company by ministry of tax in initial reporting through secretariat

**Salyan Neft LLC was mistakenly considered as foreign company by ministry of tax in initial reporting through secretariat

Value added tax (million AZN)

Local extractive companies	Per Companies			Per Government			Final difference
	Original	AJE	Final	Original	AJE	Final	
Socar	75.869	-	75.869	75.869	-	75.869	-
Azergold CJSC	0.730	-	0.730		0.730*	0.730	-
Total	76.599	-	76.599	75.869	0.730	76.599	-

*AzerGold Value Added Tax figure was missed by the Ministry of Taxes in the initial reporting through the Commission.

7. Reconciliation Results

7.3.2 Adjustments to the transactions in kind:

Adjustment of Curde Oil PSA Wise

Crude Oil

PSAs	As Per Companies (mln barrels)			As Per Government (mln barrels)			Final difference
	Original	AJE	Final	Original	AJE	Final	
ACG	146.674	(0.684)*	145.990	145.989	0.001**	145.990	-
Shah Deniz	3.820	-	3.820	3.820	-	3.820	-
Muradkhanli, Jafarli and Zardab oilfield	0.005	(0.005)***	-	-	-	-	-
Total	150.499	(0.689)	149.810	149.809	0.001	149.810	-

*According to the consignee document, one particular cargo was lifted as assigned to SOFAZ account. However, later SOCAR approached BP requesting to re-assign the lifting to “Azerbaijan (ACG) Limited” as the document was populated incorrectly. The system was updated accordingly, however the consignment document remained unchanged as per the procedure. Since BP provided the lifting number to EIT report according to consignment documents, this particular cargo still appeared on the list erroneously which lead to the difference in total calculation of profit oil lifting and the figure of all companies in PSA got changed.

** The difference is due to rounding off figures to three digits after decimal.

***The figure of 0.005 million barrel was erroneously included by Zenith Aran Oil Company in the confirmation. A revised confirmation was provided by the company.

Natural Gas

Local extractive companies	Per Companies (thousand m³)			Per Government (thousand m³)			Final difference
	Original	AJE	Final	Original	AJE	Final	
Azen Oil Company B.V	3,042	(3,042)*	-	-	-	-	-
Total	3,042	(3,042)	-	-	-	-	-

*The figure of 3,042 (thousand m³) was actually related to Associated Gas which was incorrectly reported as Natural Gas by Azen Oil Company B.V. A revised confirmation was provided by the company.

7. Reconciliation Results

7.3.2 Adjustments to the transactions in kind

Associated gas

The main difference in associated gas was 131,473.479 thousand m³. The figures of total associated gas represented by the relevant companies are shown in the table below

Foreign extractive companies	Per Companies (thousand m ³)			Per Government (thousand m ³)			Final difference
	Original	AJE	Final	Original	AJE	Final	
Apsheron Investment Limited	26,972.030	-	26,972.030	26,972.030	-	26,972.030	-
Bahar Energy Limited	1,543.000	0.107*	1,543.107	1,543.107	-	1,543.107	-
BP Exploration (Caspian Sea) Limited	2,225,397.698	131,473.479**	2,356,871.177	2,356,871.177	-	2,356,871.177	-
Karasu Development Company	1,065.000	0.144***	1,065.144	1,065.144	-	1,065.144	-
Novatis Oil F.Z.E.	3,836.993	-	3,836.993	3,836.993	-	3,836.993	-
Shirvan Investment Limited	7,519.543	-	7,519.543	7,519.543	-	7,519.543	-
UGE-LANCER PTE.LTD	10,580.670	-	10,580.670	10,580.670	-	10,580.670	-
CNPC International (Kura) Azerbaijan Limited	13,718.770		13,718.770	13,718.770		13,718.770	
Fortunamate Assets Limited	13,718.770		13,718.770	13,718.770		13,718.770	
Azen Oil Company B.V		3,042.212****	3,042.212	3,042.212	-	3,042.212	-
Error				1,000.000*****	(1,000.000)		
Total	2,304,352.474	134,515.942	2,438,868.416	2,439,868.416 Note	- (1,000.000)	2,438,868.416	-

*As numbers were not rounded properly in the initial report submitted by Bahar Energy Limited, difference in the amount of 0.107 (thousand m³) originated. A revised confirmation was provided by the company.

**According to BP's report and calculations provided by SOCAR, the volume of gas delivered to SOCAR by BP in 2018 through the ACG (i.e through the Sangachal terminal's delivery point) and Chirag1 (i.e through Oil Rocks delivery point) platforms is as follows:

T=0 degrees 2,225,397,698 m³,

T = 15 degrees 2,347,594,286 m³,

T = 20 degrees 2,388,341,317 m³ (ACG = 1,916,673,631 m³, Chirag-1 = 471,667,686 m³).

The Government received 2,366,454,544 m³ (ACG = 1,916,673,631 m³, Chirag-1 = 449,780,913 m³) in 2018 at T = 20 degrees. But, in fact, taking into account 0.5% (9,583,367 m³) errors rate of HMP branded installed on the Sangachal General Facilities, the actual gas received by the government was 2,356,871,177 m³ (ACG = 1,907,090,264 m³, Chirag-1 = 449,780,913 m³).

The difference between the Government and BP at 20 degrees (2,366,454,544 – 2,388,341,317) = 21,886,773 m³.

As there is no difference in the volume of gas delivered to SOCAR at ACG platform, the difference in the amount of 21,886,773 m³ was at the Chirag 1 platform.

7. Reconciliation Results

7.3.2 Adjustments to the transactions in kind

Associated gas

“The difference between the data provided by SOCAR and BP on the associated gas delivered from Chirag to Oil Rocks was due to two reasons. The first reason was different temperatures at which the quantities should be measured and the standard error calculation. The second reason was particularly due to the fact that the parties used different data sources, i.e. BP measured the associated gas by a meter installed on the Chirag platform (which is a Class II meter with manufacturer accuracy of +/- 5%) while SOCAR measured it on the other end at the Oil Rocks installation.”

*** As numbers were not rounded properly in the initial report submitted by Karasu Development Company, difference in the amount of 0.144 (thousand m³) originated. A revised confirmation was provided by the company.

**** As it was initially confirmed as Natural Gas by mistake in the report submitted by Azen Oil Company B.V, difference was originated. A revised confirmation was provided by the company.

***** The amount initially confirmed by the Government was 2,439,868.416 by mistake and subsequently the amount confirmed was 2,438,868.416. So the revised amount has been considered for the reconciliation.

8. Special Audit Procedures



8. 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);
- Random selection;
- Systematic selection; and
- Haphazard selection.

100% testing:

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.

Random selection:

Random selection is applied through random number generators, for example, random number tables.

Systematic selection:

Systematic selection, in which the number of sampling units in the population is divided by the sample size to give a sampling interval, for example 50, and having determined a starting point within the first 50, each 50th sampling unit thereafter is selected.

Haphazard selection:

Haphazard selection, in which the auditor selects the sample without following a structured technique. Although no structured technique is used, the auditor would nonetheless avoid any conscious bias or predictability.

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.

8. Special Audit Procedures

There were 40 participating companies on the reconciliation process in 2018. The Independent Auditor selected 15 (fifteen) companies using the haphazard selection method by certain class of transactions for the figures shown in the report to obtain audit evidence that is important for reconciliation process:. Although some of these companies did not have any transactions in 2018, they were included in the selection process and were followed by discussions

No	Company name	Examination date
1	R.V. Investment Group Services	26.09.2019
2	BP Exploration Caspian Sea Limited	25.09.2019
3	Apsheron Investment Limited	20.09.2019
4	Turkish Petroleum Anonim Ortaklığı	26.09.2019
5	BP Exploration Azerbaijan Limited	25.09.2019
6	CNPC International Kura (Azerbaijan) Limited	23.09.2019
7	Turkish Petroleum Overseas Company Ltd	26.09.2019
8	Fortunamate Assets Limited	23.09.2019
9	Neftchala Investment Limited	1.10.2019
10	ONGC Videsh Limited	19.09.2019
11	Novatis Oil F.Z.E.	23.09.2019
12	“Azergold” CJSC	27.09.2019
13	BP Apsheron Limited	25.09.2019
14	BP Shafaq Asiman Limited	25.09.2019
15	Commonwealth Gobustan Limited	23.09.2019

The Independent Auditor has checked the transactions relevant to this report in these companies and reviewed the following documents during the testing:

- Profit tax declarations;
- Payment orders;
- Letters/emails for transfer to relevant government agencies; and
- Correspondence related to the reconciliation.

The amount of payments/transfers made to the Government by the extractive companies during the verification of the documents was confirmed.

9.

Recommendations and Results



9. Recommendations and Results

9.1 Independent Auditor's Recommendations on the preparation and compilation of EIT Report for the year ended December 31, 2018.

- **Confirmation reporting process**

We noted various common errors in the confirmations received from the extractive companies in a standard format.

Common errors include, not rounding off the amount to three digits after the decimal as per the instructions, omitting figures erroneously, including amounts and volumes which should not have been included in the confirmations, ignoring the fact that cash basis accounting should be followed, including figures in wrong area in the reporting template and including figures without considering the unit of measure etc.

We recommend that the instructions memo attached with the standard reporting template should be more elaborative along with some examples stating clearly how the reporting template should be completed. While sending the reporting confirmations requests, the extractive companies should be asked to carefully review the instructions memo before completing the standard reporting template. Also a training session for all the extractive companies before the process of annual reconciliations may help to pass on the instructions on how to correctly report the figures and balances.

- **Differences reported by the extractive companies and government**

We noted various differences reported by the extractive companies and government entities as disclosed in Chapter 7. It was observed that the figures reported by the extractive companies were not fully reconciled with government entities before reporting to us. A significant amount of time was spent to reconcile these differences and some reasons of differences were very technical like measuring the Gas with and without the conversion factors at different temperatures.

We recommend that the Commission may make it mandatory that the figures reported under this annual reconciliation process by the extractive companies and government entities are separately verified by an auditor before reporting, to avoid differences in the reporting.

- **Reconciliation Process-Ministry of Taxes (MoT)**

Profit tax

The profit tax initially confirmed by the Ministry of Taxes through the Commission, missed the profit tax figures of the following entities:

1. Azen Oil Company B.V;
2. Shirvan Investment Limited;
3. R.V. Investment Group Services; and
4. AzerGold CJSC

Also the profit tax initially confirmed by the MoT through the Commission, incorrectly included the profit tax figure of Sauf Kokazus Pipeline Limited, which is not within the scope of our reporting.

Value added taxes

The value added tax figure of AzerGold CJSC was missed by the MoT in its initial reporting through the Commission. Also a figure of VAT confirmed by Bahar Energy Limited could not be traced in the MoT confirmation.

We recommend that the MoT should be provided with a complete list of companies involved in the reconciliation process and a detailed review should be performed in the MoT before confirming the amounts of taxes paid by the extractive companies to avoid errors in the reporting.

9. Recommendations and Results

9.1 Independent Auditor's Recommendations on the preparation and compilation of EIT Report for the year ended December 31, 2018.

- **Lack of companies wise break-up of the taxes paid in the initial confirmation**

We were provided with consolidated amounts of each type of tax paid by the extractive companies, however we were not able to reconcile the amounts of taxes paid by these companies due to the absence of company wise details from the MoT. We had to prepare a template of company wise taxes paid during 2018 and had to arrange a meeting with the MoT to discuss each amount of taxes paid by each company. A revised confirmation from the MoT after resolving the errors in the initial confirmation along with the company wise breakup took extensive time.

We recommend that the company wise breakup of profit tax, royalty, VAT, property tax, land tax, price changes and other taxes should be made part of the initial consolidated confirmation by Government to make the process of reconciliation smooth.

- **Reconciliation Process-State Oil Company of Azerbaijan Republic**

We were not initially provided either company wise or PSA wise breakup of Crude Oil, Natural Gas and Associated Gas received from SOCAR, rather we were provided consolidated figures of all companies through the Commission. We had to ask for these breakups which took much longer time than expected and resulted in delays in the reconciliation process.

Further during the reconciliation process we noted differences between certain figures reported by extractive companies and SOCAR. To reconcile the differences, we had to approach the extractive companies and SOCAR and this process also took a significant amount of time.

We recommend that company wise or at-least the PSA wise break up of Crude Oil, Natural Gas and Associated Gas should be provided at the time of initial consolidated confirmation by SOCAR to avoid delays in the reconciliation process.

Further, we recommend that either monthly, quarterly, semi-annual or annual reconciliation of the figures of extractive companies with SOCAR should be made in order to timely identify the nature of differences and to resolve on time. Even at the time of our reconciliation process, certain companies were not aware as to why there was such a difference between their and SOCAR's figures. Therefore it is important to have a regular reconciliation process to avoid differences and delays. We recommend that the extractive companies should establish this process of reconciliation which should be separately audited.

9. Recommendations and Results

9.1 Independent Auditor's Recommendations on the preparation and compilation of EIT Report for the year ended December 31, 2018.

- **Reconciliation Process- Ministry of Ecology**

We received a confirmation from RV Investment Group Services of the quantities of gold, silver, gold in concentrate of copper, silver in concentrate of copper and copper transferred to government during the year 2018. We understand that all these quantities either in their own form or in the form of gold were either delivered to Government in Azerbaijan or were accumulated in a Government's designated account with a gold refinery in Switzerland. We were informed that these quantities were separately audited and a report has been submitted to the Ministry of Ecology, however we could not have a sight of this report. Also we could not see the documents confirming that the designated account in Switzerland has been restricted under the control of Government of Azerbaijan.

We recommend that the audit report of the metal quantities transferred to Government during the year should be shared with the auditor appointed for the EIT report so to match the reported quantities. Also it would be useful to see the documentary evidence that only the Government of Azerbaijan is entitled to the designated account with the gold refinery in Switzerland.

- **Lack of co-ordination between operator companies and other partner companies**

We noted lack of coordination between the operator and other partner companies of PSAs while confirming their figures to us. We received certain confirmations where an amount of bonus was confirmed by **both**, the operator company and other partner company. The reason of this duplication was that the bonus amount was paid by the operator company on behalf of other partner companies.

We recommend that there should be a coordination process between the operator company and other partner companies before confirming the figures to the auditor, to avoid these duplications which ultimately result in delayed reconciliation process.

- **Appointment of auditor**

We note that the auditor for the EIT report is appointed for one or two years and then an open tender is being called for the reappointment. A new auditor always requires time to understand the reconciliation process and to collect data in the first year of appointment and if that audit firm is changed in the next year, the whole process of understanding starts again which takes much longer time than the time that would have been taken by the auditor who had previous experience of issuing this EIT report.

As many extractive companies are involved in this reconciliation process and the task of collecting other data for this report is gigantic, therefore we recommend that in line with general auditor rotation practices across the globe, an auditor should be appointed for at-least a period of three years to add-value to this EIT report with past experience.

9. Recommendations and Results

9.1 Independent Auditor's Recommendations on the preparation and compilation of EIT Report for the year ended December 31, 2018.

- Specific terms to be communicated to the extractive companies

We noted that some extractive companies used terms like WREP tariff and Transportation tariff in other payments area instead of considering these as the transit fee.

We recommend that all the companies should be communicated well in advance through the instructions memo that the standard terms should be used while confirming their figures to avoid delays in reconciling the reported amounts.

9. Recommendations and Results

9.1 Independent Auditor's Recommendations on the preparation and compilation of EIT Report for the year ended December 31, 2018.

- **Confirmations related to companies not part of the PSAs**

We noted certain instances where certain figures of affiliated companies have been reported to us which were not part of the PSAs, therefore were out of our scope of reconciliation. This has created issues in the reconciliation process and caused delays.

We recommend that the instructions memo for completing the standard confirmation template state clearly, which figures should be reported and who should report to avoid receiving information that was out of the scope of this report.

- **New EITI reporting standards**

The 2019 EITI standards have been launched and we understand that the Commission plans to adopt these new standards for the reporting year 2019 either in its entirety or partially.

We recommend that an awareness session for the extractive industry and related government entities should be held to communicate the changes in the standards and the expectations of certain additional reporting from these entities for the year 2019. This will help in obtaining the correct information on time.

- **Research team for EIT reporting**

As the Commission plans to prepare next year's report as per EITI standards launched in 2019, we recommend to establish a special research team for collecting and structuring general information on the extractive industry of Azerbaijan and also for preparing and structuring information as per the new EITI standards. This will also make the role of the auditor more independent and robust.

- **Compilation of information**

We faced various difficulties in collecting certain information and compiling the report as the information was either too scattered, was not available on time, was not publicly available or the publicly available information was outdated. Certain information was received from the Working Group members through the Commission towards the end of the compilation process.

We recommend to establish an independent platform or a website, where all the required information for this report is made available or the links of other website should be given on the Commission's website where all the updated information is available.

9. Recommendations and Results

9.2. Recommendation of Civil Society Representatives for the year ended December 2017 and its updated status

Issue	Status (positive/negative/continuing)	Comments
It is appropriate to include information on the availability of specific normative documents regulating relations, especially financial relations between SOCAR and state and state bodies (e.g. legal-normative acts specifying the conditions and form of SOCAR's share capital increase by the state);	Negative	There are no such documents publicly available.
It is appropriate to extend the illustration given under the title SOCAR's Relations with the state organizations at page 34 of the Report and to specify the relations of the company with more and the most important state organizations therein;	Negative	Same as prior year. No such information is publicly available.
To make the Report more reader-friendly and comprehensive, it would be better if the content of the information on joint ventures, associates and subsidiaries of SOCAR provided in subsection 2.7.5 of the Report is unified and given in the single form. We propose to include the following information on each three types of enterprises in the following reports: name, activity, country of incorporation of an enterprise, share of the company, changes in the share (with notes explaining the changes under the table), income, assets and liabilities;	Negative	Same as prior year as the information is obtained from SOCAR's financial statements.
The disclosure of other shareholding companies (beneficial) in the joint ventures, associates and subsidiaries together with SOCAR's shares could significantly contribute to the increased transparency;	Negative	This information is not available in SOCAR's financial statements.
As the information given in subsection 2.7.6. of the Report about SOCAR is the repetition of the information in the other sections and subsections of the Report, it would be appropriate if that subsection is removed or complemented with other necessary information;	Positive	This information is kept, however repetition has been avoided.

9. Recommendations and Results

9.2. Recommendation of Civil Society Representatives for the year ended December 2017 and its updated status

Issue	Status (positive/negative/continuing)	Details of the work performed
It is deemed more appropriate, for the purposes of the Report, to provide information, in subsection 2.7.8 of the Report ,on received loans and granted guarantees during the year, paid and closed loans and debts during the year (in the form of table), instead of loan portfolio of SOCAR to the end of the year. Also we consider necessary to include information herein about normative basis of SOCAR's borrowing policy and borrowing under state guarantee;	Negative	This information is not available in SOCAR's financial statements.
It would be appropriate to present the summary information on SOCAR's social projects in the table format;	Positive	Summary of social expenses has been provided in chapter 6.
In order to obtain clarification and necessary explanation to the information on social and quasi-fiscal expenditures by SOCAR, we propose that the EIT Commission sends request to the Company's management;	Negative	Same as prior year. There is no available bifurcation in social and quasi-fiscal expenditure.
The fact that AzerGold CJSC has not prepared and presented to public annual action and financial reports causes special concern being inconsistent with the requirements of transparency and accountability in extractive industries, therefore, we propose to address special request to the Company on behalf of the EIT Commission;	Negative	Same as prior year. There is no such annual report publicly available. Position of the Secretariat: The EIT Commission shall submit to AzerGold CJSC a report form for disclosure of the information set forth in the scope of the HSA reporting and shall be provided by the Company. Requiring disclosure of AzerGold's annual reports was not considered appropriate.
We consider that the issue that the significant share of funds paid by the foreign contracting companies to the state in the framework of Shahdeniz Phase-1 project has been substituted against the debt of SOCAR to AGSC needs additional explanation. The issue of such explanation could increase the confidence in reconciliation process;	Positive	The Clause was included to the EIT Report by the Commission's guidelines on the provision was added to offset the state's debt and the issue has been resolved.

9. Recommendations and Results

9.2. Recommendation of Civil Society Representatives for the year ended December 2017 and its updated status

Issue	Status (positive/negative/co ntinuing)	Details of the work performed
We propose to add SOFAZ to the list of the companies and organizations which are provided with the sample reports on funds paid to the state in order to eliminate the every year appearing difference in reports for transit fees;	Positive	SOFAZ name has not been included this year in the list of the companies. Position of the Secretariat: Discussions at meetings of the Commission and the Working Group were generally not considered feasible. Thus, the fact that SOFAZ is accountable both as a payer and as an accepting body has not been considered expedient in terms of transparency. However, in order to eliminate the permanent difference, for the first time in 2018, AIOC made a statement regarding the payment of transit feesç including SOFAZ's payments and was included in the report.
It would be appropriate to bring up to the agenda the preparation of annual reports on operator companies' extractive activities in the country, which operate in Azerbaijan's oil and gas extractive industry.	Negative	No operator companies have been included this year as well.
The action towards the disclosure of existing and newly signed PSAs and Risk Service Agreements to the public should be continued and more effective measures should be taken to disclose the agreements.	Positive	The Commission and the Secretariat have taken appropriate steps to clarify the texts of the PSAs and other similar agreements. The texts of the agreements are being disclosed. These agreements are available on the Commission's website.
The scope of the section "others" in the information regarding sale of crude oil to last buyers should be decreased to the minimum;	Positive	Full list of companies is appearing in chapter 4.
The government should take real steps in the field of mainstreaming in order to achieve more efficient use of data, and be initiator in introducing transparency and accountability criteria, formed in extractive industries, to general public administration;	In process	The Commission is continuing the discussions in this regard.

9. Recommendations and Results

9.2. Recommendation of Civil Society Representatives for the year ended December 2017 and its updated status

Issue	Status (positive/negative/co ntinuing)	Details of the work performed
Recommendations of the CS and auditing companies should be on the focus in the next report and, to this end, the Commission should take practical actions to achieve their accomplishment.	Positive	Certain recommendations have been considered.
The main goal of transparency and accountability in extractive industries is to serve to confidence- forming between the government and community in the field of development of mineral resources and accumulation of income from their sales. In this regard the activity of the Government should not be confined to the publication of the report, prepared by the Commission, once a year, and it should devote more attention to the provocation and promotion activities in this field throughout a year to increase confidence of the society to the administration in this critical sphere. Exactly this approach could open chances both for the increase of corporate responsibility and enlightenment of the society, including for tight relations between responsible persons in oil and gas sector, which plays an important role in income of the national economy, with the public.	Negative	Execution is not intended.

9. Recommendations and Results

9.3 Implementation of Auditors’ recommendations on the EIT report for 2017

Issue	Status (positive/negative/ continuing)	Comments
<p>1) Application of criteria of significance</p> <p>In order to increase efficiency during the reconciliation process to analyse the figures higher than the criteria of significance rate from the results of the application of the criteria of significance on elements with lower significance and cost rate, special selection and reconciliation.</p>	Negative	<p>No change.</p> <p>Position of the Secretariat: The Commission, in its position, considers all payments being essential. This can be found in Section 4.1 of the detailed report in the section "Significant payments". For the reason, implementation of this recommendation has not been considered expedient.</p>
<p>2) Delays in the presentation of the reports by companies</p> <p>Delays in reporting by the companies during the reconciliation may have an impact on the ineffectiveness and delay in accountability of the direct reconciliation process. For this purpose, it is recommended that companies be pre-filled, informed and more stringent reporting measures be taken. At the same time, taking into account the factor of the summer season, it is recommended that reporting should not start in June but in early September, which should be submitted by companies to improve the efficiency and accountability of public authorities.</p>	Negative	<p>Significant delays have again been noted for 2018 reporting period.</p> <p>Position of the Secretariat: The Commission thinks that, it is too late to start the accountability process in September and therefore it is impossible to implement this recommendation.</p>
<p>3) Availability of a single centralized system in the process of reconciliation</p> <p>In order to improve the relationship between extraction companies and the state, to establish single centralized system to strengthen accountability and reconciliation and regular and systematic data integration into the system. We believe that sending data electronically by companies or providing a single centralized system will speed up the overall reporting process.</p>	In process	<p>The Commission is continuing the discussions in this regard.</p>

9. Recommendations and Results

9.3 Implementation of Auditors’ recommendations on the EIT report for 2017

Issue	Status (positive/negative/co ntinuing)	Details of the work performed
<p>4) Changes in the reporting forms applied</p> <p>The reports applied during the process of reconciliation in order to disclose the social expenses by extraction companies in a different way. Because of the Company has right to select in disclosure of social expenses in reporting it is treated not seriously.</p>	Positive	The reporting form has been updated.
<p>5) Social expenses of SOCAR (financial statements)</p> <p>To provide disclosure of the social expenses reported by SOCAR.</p>	Negative	Same like last year.
<p>6) The existence of a single registry or platform for the Production Sharing Agreement</p> <p>To form single register of ceased, terminated or amended under PSA, also timely access to information about companies that have changed in the share and beneficiary ownership, aviability of the electron version of PSA data and most importantly, the introduction of changes and additions to PSA agreements. Simplify data acquisition.</p>	In process	The Commission's website has an HPBS registry but needs improvement.
<p>7) To obtain more detailed information</p> <p>To provide an application to the relevant state authority taking into account the fact that operations and employees are mainly concluded with the operating company LSPP and similar information not only for the Investment company, but also for the operating companies.</p>	Negative	Only partner companies are included in the process.

9. Recommendations and Results

9.3 Implementation of Auditors' recommendations on the EIT report for 2017

Issue	Status (positive/negative/continuing)	Details of the work performed
8) Annexes to the applied reporting forms Considering that some payments (profit hydrocarbons) are paid by the Operation Companies to the SOCAR and the Contractor parties, but the reporting forms for that information are only sent to Investment Companies, ensure that reporting forms are submitted not only to Investment Companies, but also to Operating Companies. We consider it more purposeful to apply separately to Operations and Investment Companies when taking into consideration payments made to the Ministry of Taxes by the Investment Companies.	Negative	Confirmations were sent to partner companies and not to the operator companies
9) Informing and training company representatives and responsible persons before reporting To define the state and company representatives, executives, distribution of relevant contact information. At the same time, the proper presentation of the responsables for the state and companies for analysing the date before reporting period. Ensure that the Secretariat of EIT Commission informs the relevant extractive companies before reporting, and emphasizes the relevance of the information required (supplementary expenditure disclosure). At the same time, additional improvements are made to those companies that are delaying and not reflecting the information.	Positive	Guidelines on how to fill and submit the required confirmation template have been prepared by the Commission and was sent along with the confirmation template.
10) Annexes to the applied report forms To demand some additional information at the end of the reports by the companies. An example of this is the production and export oil indicators for the current year.	Negative	No such form Annexure has been added to confirmation template this year as well. Position of the Secretariat: At a meeting of the Working Group, which was set up to improve the report, it was decided that the implementation of this recommendation was impractical. Thus, it is not possible for companies to provide individual production and export data under the terms of the PSAs.

9. Recommendations and Results

9.3 Implementation of Auditors’ recommendations on the EIT report for 2017

Issue	Status (positive/negative/c ontinuing)	Details of the work performed
<p>11) Annexes to the applied report forms</p> <p>Requesting and providing beneficiary ownership information in reports submitted by Extractive companies. Disclosure of this information can be seen as an important step towards transparency and will further provide impetus for re-entry of Azerbaijan to the EITI and strengthen its position in the International Index.</p>	In process	The Commission is continuing to disclose beneficiary ownership information. More detailed information can be found in section 2.5 of the report.
<p>12) Presentation of audit reports by extractive industry companies</p> <p>For all extractive industry companies involved in the EIT Report, the “Special Purpose Report on Oil and Gas Operations” and “Statement on Income Tax” audited by external audit firms as well as it can be requested to submit financial statements prepared in accordance with International Financial Reporting Standards. The main purpose here is to analyze audit reports and additional auditor subparagraphs, and to provide the relevant auditor’s feedback in the report and, use the same figures as the source when necessary.</p> <p>In addition, indicate some of the information obtained from the financial statements. Examples include parameters such as revenues and net cash flows, cash flows from operating activities, general investments, transfers to the government, and costs.</p>	Negative	No such audit was conducted during the year, Although, the Secretariat is requested to submit audited reports in the letters accompanying the report forms sent to the companies.

9. Recommendations and Results

9.3 Implementation of Auditors’ recommendations on the EIT report for 2017

Issue	Status (positive/negative/co ntinuing)	Details of the work performed
<p>13) Necessity of the research team for EIT report</p> <p>Special research team for EIT Reporting will have a great impact on the overall performance in the achievement of all investigations and the development of general information of the report. The process of reconciliation of the same audit company, as well as the structuring and compilation of the report may cause conflicts of interest for transparency. It can be more appropriate to allocate these two functions for a more effective design of EIT.</p> <p>At the same time, as far as we know, many comments and questions arise from Civil Society representatives, included in the general information section of the report, and specifically targeted information, financial indicators and additional explanatory graphics referenced to relevant sources. It is purposeful that the research team or the relevant ministries or company analysts should attend for more detailed investigation and response to those comments and questions.</p>	Negative	This issue was discussed by the Commission and it was not advisable to prepare the report by two different companies.
<p>14) Presentation of valuation reports of oil and gas and mining industry resources by extractive industry companies</p> <p>Presentation of oil and gas resources valuation reports by international or local valuation companies for extractive companies. The presentation of such valuable information in the EIT Report supports the position of Azerbaijan in the International Index.</p>	Negative	No such valuation reports were made available.

9. Recommendations and Results

9.3 Implementation of Auditors’ recommendations on the EIT report for 2017

Issue	Status (positive/negative/continuing)	Details of the work performed
<p>15) The change in the applied report form</p> <p>Despite the fact that the figures (gold, silver, copper concentrate) reported and approved by R.V.Investment Group Services Company’s representative in the Republic of Azerbaijan, which has been operating under the Production Sharing Agreement during the special-purpose audit is not fully reconciled with the figures that presented by the state, it was clear that the mechanism for paying the commercial product to the state is different from the oil and gas production sharing agreements. during discussions with the company’s management, it became clear that, in fact, the services of RV Investment Group Services in Azerbaijan, based on instructions received from the government, produced and sold silver and copper concentrate, except gold, in the equivalent of gold, equivalent to world commodity exchange prices, turning it into the balance of the government at the treatment plant.</p>	Positive	<p>The Commission addressed an appeal to the Ministry of Ecology and Natural Resources and received an appropriate response.</p>
<p>16) Difference between transit fees during the reconciliation</p> <p>The difference in the amount of USD 6,218 million in transit fees during the reconciliation, reflects the state-funded transportation fees by state for oil transit. The full explanation of the difference is expressed in the relevant section of the report. However, it would be more purposefull to consider this difference as a permanent, to reconcile with the amount from relevant department of SOFAZ.</p>	Negative	<p>Again, there was a difference in transit fee mainly due to the amount of transit fee paid by SOFAZ to AIOC.</p> <p>Position of the Secretariat: Discussions at meetings of the Commission and the Working Group were generally not considered feasible. Thus, the fact that SOFAZ is accountable both as a payer and as a payment receiver has not been considered expedient in terms of transparency. However, in order to eliminate the permanent difference, for the first time in 2018, AIOC made a statement regarding the payment of transit fees and was included in the report.</p>

9. Recommendations and Results

9.3 Implementation of Auditors’ recommendations on the EIT report for 2017

Issue	Status (positive/negative/c ontinuing)	Details of the work performed
<p>17) Repeated technical errors made by the companies during the reconciliation</p> <p>During the reconciliation process, we have observed that the same technical errors were used when filling out company reports. According to errors, rounding problems, failure in including data in the report, using the calculation method instead of the cash method. technical mistakes etc.</p> <p>We consider it necessary to take additional awareness and improvement measures for these companies. It would increase productivity level in the reporting process, and prevent repeated techical errors from causing every year.</p>	Negative	There were so many errors during this year also in the confirmations submitted to the independent auditor by the companies.
<p>18) Signing of report templates by leading staff</p> <p>We consider it more purposeful to sign relevant reporting templates by the management, resposible persons of the company in order to ensure the reliability of the submitted information.</p>	Positive	Reporting template were singed by the leading staff

Annexes



Annex 1. Confirmation

Annex 1. Statement of the EIT Commission of the Republic of Azerbaijan

The schedule of payments (allocations) received from local and foreign companies operating in the extractive industry of the Republic of Azerbaijan for the year ended December 31, 2018 was prepared in accordance with the “Agreement on Cooperation between the Extractive Industries Transparency Commission and Local and Foreign Companies Operating in the Extractive Industries of Azerbaijan” signed in 2017 between the EIT Commission and the local and foreign extractive industry Companies.

Chairman of EIT Commission

Report on payments made by company to the

General Information about Company	
Company name:	_____
TIN:	_____
Affiliation:	Foreign <input type="checkbox"/> Local <input type="checkbox"/>
Activity type:	_____
Participation type by activity:	_____
Reporting period:	01.01.2018 - 31.12.2018

Type of payment		Volume and amount of payments	
1.Company transfers to the government (in kind)		volume	unit of a measure
1.1.	Oil and condensate		million barrels
1.2.	Natural gas		thousand cubic meters
1.3.	Associated gas		thousand cubic meters
1.4.	Gold		ounce
1.5.	Silver		ounce
1.6.	Precious metals:		tonnes
	a)		
	b)		
1.7.	Other natural resources:		
	a)		
	b)		
2.Company payments to the government (in cash) *		Amount million US dollars	Amount million Azerbaijani manats
2.1.	Oil and condensate		
2.2.	Natural gas		
2.3.	Associated gas		
2.4.	Gold		
2.5.	Silver		
2.6.	Precious metals:		
	a)		
	b)		
2.7.	Bonuses		
2.8.	Acreage fee		
2.9.	Transit fee		
2.10.	Other payments:		
	a)		
	b)		
2.Total			

* Continues on the next page

Report on payments made by company to the government

Type of payment		Volume and amount of payments	
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.			

* Considering that company payments to state budget may be performed both in manat and dollar, depending on performed currency the applicable cell (dollar and/or manat) in value column on relevant reporting line shall be filled in. There shall be three digits after the point.

* Use the space below to indicate parameters for measuring gas

Report on company's social expenditures				
No	Payment Description and Project's name	Organizers (if available)	Duration (start and end date)	Total expenses (USD or AZN)*

* Only for reporting year

Report on payments made by company to the government

Disaggregation of the employees by gender	
Total no. of Female employees:	
Total no. of Male employees:	
Including, Executive board (board of directors, supervisory board, commission and etc.)	
No. of Female employees:	
No. of Male employees:	

Authorized Representative Sign Off	
I acknowledge with my signature on behalf of the company named above that the information provided in the reporting form is a complete and accurate.	
Name/Surname:	Signature:
_____	_____
Position:	Date:
_____	_____

Stamp

Contact Information	
Please provide contact information of someone within your company who we can contact with follow-up questions about the information provided.	
Name/Surname:	Phone number:
_____	_____
Position:	E-mail:
_____	_____

Other notes:
Use the space if you have any suggestions or amendments to improve this reporting form, also any other comments.

* This reporting form is approved by the Extractive Industries Transparency Commission on its meeting, Date July 12, 2019

Annex 3. Energy balance for the year 2018
(thousand NET)

	All products, total	Crude oil	Oil products, total	including:									Natural gas	Renewable energy sources and waste	Thermal energy	Electrical energy	Other types of fuel
				Gas of oil plants	Liquefied petroleum gas	Automobile gasoline	White oil type reactive engine fuel	Other types of white oil	Diesel fuel	Fuel oil	Oil bitumen	Other oil products					
Production of primary energy products	58,133.4	39,939.90	-	-	-	-	-	-	-	-	-	-	17,920.2	273.3	-	-	-
Import	2,019.7	-	327.4	-	-	135.6	98.8	23.1	37.7	-	0.1	32.1	1,677.7	-	-	11.3	3.3
Export	-44,270.1	-33,598.2	-1,299.9	-	-92.9	-	-314.1	-	-673.8	-18.9	-	-200.2	-9,247.7	-	-	-124.3	-
Filled in fuel tanks for internat ional flights	-155.8	-	-155.8	-	-	-	-112.0	-	-43.8	-	-	-	-	-	-	-	-
For the fuel tanks of ships	-43.8	-	-43.8	-	-	-	-	-	-43.8	-	-	-	-	-	-	-	-
For the fuel tanks of aircraft	-112.0	-	-112.0	-	-	-	-112.0	-	-	-	-	-	-	-	-	-	-
Changes in reserves (balances)	-171.1	15.8	-170.6	-	-1.4	-20	-30.9	-	-41.5	-46.3	-11.9	-18.6	-16.2	-0.1	-	-	-
Total energy provision	15,556.1	6,357.5	-1,298.9	-	-94.3	115.6	-358.2	23.1	-721.4	-65.2	-11.8	-186.7	10,334.0	273.2	-	-113.0	3.3
Statistical difference	59.2	-	26.5	-	-	13.4	-	-	11.9	-	0.9	0.3	30.8	-	-	1.9	-
Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transformati on sector processes	-3,943.0	-6,267.1	5,845.6	216.8	244.1	1,223.5	730.2	-	2,016.1	96.5	283.2	1,035.2	-5,753.1	-233.2	295.2	2,169.7	-
Electricity generating power plants	-2,007.3	-	-12.9	-	-	-	-	-	-12.9	-	-	-	-3,237.6	-233.2	-	1,476.4	-
Heat and electric power generating thermal power plants	-1,477.7	-	-0.2	-	-	-	-	-	-0.2	-	-	-	-2,314.3	-	143.5	693.3	-
Heat exchanger s (Boiler rooms)	-56.4	-	-11.8	-	-	-	-	-	-0.1	-11.7	-	-	-196.3	-	151.7	-	-
Gas processin g plants	27.9	-	32.8	-	13.0	-	-	-	-	-	-	19.8	-4.9	-	-	-	-
Domna ovens	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Oil refineries	-429.4	-6,267.1	5,837.7	216.8	231.1	1,223.5	730.2	-	2,029.3	108.2	283.2	1,015.4	-	-	-	-	-
Petrochemic al plants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Transformati on Processes	-0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Domestic consumpti on of energy sector	1,085.6	11.4	296.1	162.4	-	-	-	-	-	-	-	133.7	445.7	-	0.3	332.1	-
Losses	831.6	79.0	-	-	-	-	-	-	-	-	-	-	541.9	-	19.8	190.9	-

Continues on the next page

Annex 3. Energy balance for the year 2018
(thousand NET)

	All products, total	Crude oil	Oil products, total	including:									Natural gas	Renewable energy sources and waste	Thermal energy	Electrical energy	Other types of fuel
				Gas of oil plants	Liquefied petroleum gas	Automobile gasoline	White oil type reactive engine fuel	Other types of white oil	Diesel fuel	Fuel oil	Oil bitumen	Other oil products					
Final consumption	9,636.7	-	4,224.1	54.4	149.8	1,325.7	372.0	23.1	1,282.8	31.3	270.5	714.5	3,562.5	39.9	275.1	1,531.8	3.3
Final consumption for energy purposes	8,431.0	-	3,054.1	-	27.3	1,325.7	372.0	23.1	1,280.40	23.1	-	2.5	3,529.3	39.9	275.1	1,531.8	0.8
Industry and construction	1,035.5	-	88.7	-	0.5	-	-	-	65.2	20.5	-	2.5	494.1	2.8	129.6	320.3	-
Ferrous metallurgy	61.4	-	-	-	-	-	-	-	-	-	-	-	33.5	-	-	27.9	-
Chemistry and petrochemistry	193.6	-	2.2	-	-	-	-	-	-	-	-	2.2	37.8	0.4	129.6	23.6	-
Non-ferrous metallurgy	76	-	1.0	-	-	-	-	-	-	1.0	-	-	2.1	-	-	72.9	-
Manufacture of non-metallic mineral substances	274.9	-	0.3	-	-	-	-	-	-	-	-	0.3	237.6	-	-	37.0	-
Transportation equipment	1	-	0.6	-	-	-	-	-	0.6	-	-	-	0.1	-	-	0.3	-
Manufacture of machinery and equipment	27.4	-	2.2	-	0.1	-	-	-	0.6	1.5	-	-	10.1	-	-	15.1	-
Mining	29.1	-	11.4	-	0.1	-	-	-	11.2	0.1	-	-	9.6	-	-	8.1	-
Manufacture of food and tobacco	172.6	-	10.2	-	0.1	-	-	-	8.1	2.0	-	-	106.8	0.9	-	54.7	-
Manufacture of paper, pulp and printing products	5.9	-	-	-	-	-	-	-	-	-	-	-	2.1	-	-	3.8	-
Woodworking and wood products production	2.9	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-	2.8	-
Weaving, leather and clothing industry	23.9	-	0.1	-	0.1	-	-	-	-	-	-	-	9.7	-	-	14.1	-
Construction	148.5	-	59.6	-	0.1	-	-	-	43.6	15.9	-	-	38.2	0.6	-	50.1	-
Other industries	18.3	-	1.1	-	-	-	-	-	1.1	-	-	-	6.4	0.9	-	9.9	-
Transportation	2,664.2	-	2,629.4	-	19.8	1,320.0	372.0	22.6	894.7	0.3	-	-	1.0	0.1	-	33.0	0.7
Automobile	2,182.9	-	2,182.9	-	19.8	1,320.0	-	-	843.1	-	-	-	-	-	-	-	-
Railway	34.0	-	6.4	-	-	-	-	-	6.1	0.3	-	-	-	0.1	-	26.8	0.7
Indoor air	396.3	-	396.3	-	-	-	372.0	22.6	1.7	-	-	-	-	-	-	-	-
Inland water	43.8	-	43.8	-	-	-	-	-	43.8	-	-	-	-	-	-	-	-
Pipeline	7.2	-	-	-	-	-	-	-	-	-	-	-	1.0	-	-	6.2	-
Other types of tra	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other sectors of the economy	4,731.3	-	336.0	-	7.0	5.7	-	0.5	320.5	2.3	-	-	3,034.2	37.0	145.5	1178.5	0.1
Agriculture, forestry and fishing	490.7	-	318.2	-	0.1	5.1	-	-	311.7	1.3	-	-	76.1	0.3	-	96.1	-
Commercial and public services	665.4	-	2.6	-	0.6	-	-	0.4	0.6	1.0	-	-	107.4	25.3	23.7	506.3	0.1
Households	3,575.2	-	15.2	-	6.3	0.6	-	0.1	8.2	-	-	-	2,850.7	11.4	121.8	576.1	-
Other areas	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Final consumption for non-energy purposes	1,205.7	-	1,170.0	54.4	122.5	-	-	-	2.4	8.2	270.5	712.0	33.2	-	-	-	2.5

Annex 4. Bibliography

Annex 4. Bibliography used in compiling of the report

The State Statistical Committee of the Republic of Azerbaijan	http://www.stat.gov.az
Eurasia Extractive Industries Knowledge Hub	http://eurasiahub.khazar.org
State Oil Company of Azerbaijan Republic	http://www.socar.az
Ministry of Ecology and Natural Resources of Azerbaijan Republic	http://www.eco.gov.az
State Oil Fund of the Republic of Azerbaijan	http://www.oilfund.az
Ministry of Taxes of the Republic of Azerbaijan	http://www.taxes.gov.az
Ministry of Energy of the Republic of Azerbaijan	http://www.minenergy.gov.az
The State Customs Committee of the Republic of Azerbaijan	http://www.customs.gov.az
Central Bank of the Republic of Azerbaijan	http://www.cbar.az
Chamber of Accounts of the Republic of Azerbaijan	http://www.sai.gov.az/
The official website of the President of the Republic of Azerbaijan	http://www.president.az/
The National Assembly of the Republic of Azerbaijan	http://www.meclis.gov.az/
The Cabinet of Ministers of the Republic of Azerbaijan	http://www.cabmin.gov.az/
The Ministry of Finance of the Republic of Azerbaijan	http://www.maliyye.gov.az
State Social Protection Fund under the Ministry of Labor and Social Protection of the Republic of Azerbaijan	http://www.ssp.gov.az
Ministry of Justice of the Republic of Azerbaijan	http://www.e-qanun.az
The Tariff (price) Council of the Republic of Azerbaijan	http://www.tariffcouncil.gov.azn
SOCAR Trading	http://www.socartrading.com
Organization of the Petroleum Exporting Countries "OPEC"	http://www.opec.org
British Petroleum Company	http://www.bp.com
Natural Gas World	http://www.naturalgaseurope.com
World Gold Council	http://www.gold.org
Total Global Homepage	http://www.total.com
"AzerGold" CJSC	http://www.azergold.az
Trend News Agency	http://www.az.trend.az

