

**EXTRACTIVE INDUSTRIES TRANSPARENCY  
COMISSION OF THE REPUBLIC OF AZERBAIJAN**

**Extractive Industries Transparency  
Independent Auditor's Report**  
For the year ended December 31, 2017

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## AZERBAIJAN EIT REPORT FOR THE YEAR 2017

LIST OF ABBREVIATIONS	
<b>AIOC</b>	Azerbaijan International Operating Company
<b>USD</b>	United States Dollars
<b>ACG</b>	Azeri–Chirag–Gunashli
<b>AGSC</b>	Azerbaijan Gas Supply Company
<b>SOFAZ</b>	State Oil Fund of Azerbaijan Republic
<b>CBAR</b>	Central Bank of Azerbaijan Republic
<b>A.S</b>	Aksjeselskap - Norwegian term for a stock-based company
<b>AZN</b>	Azerbaijani New Manat
<b>JV</b>	Joint Venture
<b>IMF</b>	International Monetary Fund
<b>BOTAS</b>	Petroleum Pipeline Cooperation
<b>BTC</b>	Baku–Tbilisi–Ceyhan
<b>SCP</b>	South Caucasus Pipeline
<b>SGC</b>	Southern Gas Corridor
<b>MLSSP</b>	State Social Protection Fund under the Ministry of Labour and Social Protection of Population of the Republic of Azerbaijan
<b>SC</b>	State Company
<b>VAT</b>	Value added taxes
<b>MEP</b>	Main Export Pipeline
<b>PSA</b>	Production Share Agreements
<b>EIT</b>	Extractive Industries Transparency
<b>MERA</b>	Ministry of Economy of the Republic of Azerbaijan
<b>Commission</b>	Extractive Industries Transparency Commission (EIT Commission)
<b>Secretary</b>	Secretariat of EIT Commission
<b>ERDPSA</b>	Agreement on the Exploration, Rehabilitation, Development and Production Sharing
<b>Kg</b>	Kilograms
<b>JLA</b>	Joint Lifting Agreement
<b>NGO</b>	Non-governmental organization
<b>WREP</b>	Western Route Export Pipeline
<b>JSC</b>	Joint Stock Company
<b>m</b>	Metre
<b>m<sup>3</sup></b>	Cubic metres
<b>Mln</b>	Million
<b>Bln</b>	Billion
<b>MMBTU</b>	1 million of British Thermal Unit
<b>LLC</b>	Limited Liability Company
<b>Nm<sup>3</sup></b>	Normal cubic metres
<b>SOA</b>	SOCAR Oil Affiliate
<b>Sm<sup>3</sup></b>	Standard cubic metres
<b>SOCAR</b>	State Oil Company of Azerbaijan Republic
<b>STYAS</b>	SOCAR Turkey Yatırım A.S
<b>Companies</b>	Extractive companies
<b>TAP</b>	Trans Adriatic Pipeline
<b>TANAP</b>	Trans Anatolian Natural Gas Pipeline
<b>HGA</b>	Host Government Agreement
<b>TPAO</b>	Turkish Petroleum Anonim Ortaklığı
<b>GDP</b>	Gross Domestic Product
<b>TIN</b>	Taxpayer Identification Numbers

## AZERBAIJAN EIT REPORT FOR THE YEAR 2017

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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 common 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. <sup>1</sup>
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. <sup>2</sup>

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<sup>1</sup>Ministry of Justice Unified electronic internet database <http://www.e-qanun.az/framework/4756>

<sup>2</sup> The official website of the Ministry of Taxes of the Republic of Azerbaijan, Law of the Republic of Azerbaijan on the application of special economic regime for export-purpose oil and gas activities <http://www.taxes.gov.az/modul.php?name=qanun&news=287>

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

### **Independent Auditor's Report**

***Report on factual findings – reconciliation between the state receipts related to the utilisation of natural resources in the Republic of Azerbaijan and payments (allocations) of local and foreign companies (Companies) operating in extractive industry.***

We provide the process of gathering, reconciliation and compilation of report on factual findings (the “EIT Report”) on the payments (allocations) of local and foreign companies (the “Companies”) operating in extractive industry in the Republic of Azerbaijan and state receipts from the Companies for the year ended December 31, 2017.

EIT Report contained the nine chapters and the appendixes:

- The first chapter describes the general overview of the Extractive Industry Transparency, the objective of the reporting, summary of the performed procedures, methodology and approaches and preparation of the EIT Report;
- Second and third chapters contain information and facts about the overview of the extractive industry, legal and fiscal regime in the Republic of Azerbaijan, operations related to state-owned enterprises and expanding their activities in local & foreign markets, share of extractive industry in exports;
- Fourth chapter comprises of information extractive industry companies, material payments, results of reconciliation process, data reliability, completeness and assurance procedures;
- Fifth chapter consists of information about distribution and management of extractive industry revenues and expenses;
- Sixth chapter reflects the contribution of the extractive industry to the economy of the Republic of Azerbaijan and its results;
- Seventh chapter encompasses the results of reconciliation process and summary of amendments & their explanations;
- Eighth chapter encloses the special audit procedures & results implemented by companies selected among the local & foreign firms operating in extractive industry;
- Ninth chapter includes the recommendations for reporting date and results.

Purpose of reconciliation – to ensure the completeness, reliability and accessibility of information regarding payments/receipts to the state coming from the extracting industries during 2017 due to the implementation of the Extractive Industry Transparency in the Republic of Azerbaijan.

In performing our work we referred to the International Standard on Related Services (“ISRS“) 4400 “Engagements to perform agreed upon procedures regarding Financial Information” published by the International Federation of Accountants (“IFAC”).

Our results of reconciliation, relevant corrections and factual findings are reported in chapter four and seven and relevant appendixes of this EIT Report.

Because the 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 financial information provided in this report including payments reported by the companies and government institutions. The information presented in our report, or information provided by licensees or government institutions, has not been subject to control or verification procedures unless otherwise stated in the report. Had we performed additional procedures, or had we performed an audit or review 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.

The objective of this report is to enhance transparency within the petroleum and mining industry. Our procedures are not designed to identify fraud or misstatements made by licensees and government bodies.

**November 26, 2018**

Baku, the Republic of Azerbaijan

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### 1.OVERVIEW

#### 1.1. Introduction

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;
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.

In accordance with paragraph 2 of the above mentioned Decree, the Extractive Industries Transparency (EIT) Commission (hereinafter referred to as the Commission) was established to ensure transparency and accountability in the extractive industry in Azerbaijan. The Commission carries out its activities based on the Annual Activity Plan.<sup>3</sup>

The Commission encourages broader implementation of consolidated reports on Extractive Industries Transparency (hereinafter EIT report) and promotes the implementation of EIT in order to increase public awareness on revenues and encourages the implementation of high transparency and accountability standards in public life, government transactions and business sector.

In accordance with the Decree, functions of the Commission's Secretariat on administering the current activities of the Commission are carried out by the State Oil Fund of the Republic of Azerbaijan.

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:

- **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.
- **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.
- **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

<sup>3</sup> 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>.

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

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organizations, private sector representatives and independent experts at each stage of administering of the report as it is prescribed by 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 Commission invited civil society representatives through the relevant announcement to participate in the proceedings, and 44 civil society representatives expressed their interest, were registered and participated in the preparation of annual EIT Report.

More detailed information and reports can be found at [www.eiti.az](http://www.eiti.az) and [www.oilfund.az](http://www.oilfund.az).

### 1.2. Scope of work

Baker Tilly Azerbaijan has been declared winner of "Quotation Request for Independent Auditor Service" conducted by the EIT Commission that involved participation of interested parties to prepare EIT report for the year ended December 31, 2017.

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 2017 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 prior year reports, recommendations and comments were referred in the preparation of the EIT Report for the year ended December 31, 2017,

### 1.3. Confidentiality of data

The Independent Auditor performs the task in accordance with the clause on confidentiality which was included in the contract No. AUD\_029/2018 with the State Oil Fund of the Republic of Azerbaijan ("SOFAZ") dated 3 May, 2018.

The Independent Auditor has to ensure the confidentiality of the work to be done in accordance with the signed contract and cannot discuss or share the supporting documents to be obtained during the reconciliation process with a third party without the permission of the Parties.

### 1.4. Approach and Methodology

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 (see 4.5. Extractive industry companies). The submitted reports were obtained, collected and reviewed by the Independent Auditor for all aspects of the International Audit Principles.

Relevant data that includes administering activities and tax policy of the extractive industry, results of initial research, results and recommendations of the reports on transparency in extractive industry for the previous years has been reviewed. General information has been collected on the basis of inquiries and appeals, as well as from open sources

- Initial reconciliation, investigation of differences and compilation of general data.

At this stage, the purpose of the Independent Auditor is to find out the differences in submitted reports and apply necessary adjustments by examining the occurred differences. In order to obtain an explanation of the differences revealed during the reconciliation process, the Independent Auditor contacts the relevant company and public authorities to inquire supporting documents to determine the cause of this discrepancy.

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

Compilation and structuring of essential part of general information is being organised at the same time. This general information is being included to the report with reference to the official internet pages, open sources and official letters of government agencies and companies.

- Preparation of the draft EIT report.

At this stage all the following data is being reflected in the report:

- The Independent Auditor's paragraph;
  - 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;
  - The initial structured of EIT report.
- Submission of the final EIT report.

This stage involves submission of EIT report to all interested parties, application of instructions given by the interested parties and Working Group for the report, presentation of recommendations on improvement of the quality of EIT report in future and electronic data files, which can be published along with the EIT report and that includes all tables reflected in the report and final EIT report is submitted to all interested parties including EIT Commission. The Independent Auditor also takes part in public awareness activities on the results achieved at the end of the reporting period.

### 1.5. Accounting policy

#### **Accounting Principles**

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, 2017.

#### **Foreign currency operations**

The payments reflected in reports submitted by foreign companies were reported in foreign currency. The payments reflected in reports submitted by local companies were reported in national currency

In the process of reconciliation, foreign currency payments have been converted to Azerbaijani Manat ("AZN") at the relevant payment exchange rate of the Central Bank of the Republic of Azerbaijan ("CBAR") on the basis of the maturity date and amount of payment received by relevant companies and government agencies.

The yearly average and year-end exchange rate of Azerbaijani manat for 2017 were expressed below: <sup>4 5</sup>

	Yearly average exchange rate for 2017	As at December 31, 2017
AZN/USD 1	1,7000	1,7001

### 1.6. Compilation of EIT report and civil society participation

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

- Identification of the range of companies involved in the reporting;
- Selection of the Independent Auditor;
- Preparation and discussion of the draft report by the Independent Auditor;

<sup>4</sup> The Central Bank of the Republic of Azerbaijan <https://www.cbar.az/other/azn-rates>

<sup>5</sup> State Statistical Committee of the Republic of Azerbaijan <https://www.azstat.org/MESearch/details>

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

- Provision of the project report to all parties for obtaining preliminary feedback;
- Amendment and finalization of the report on the basis of the recommendations made by the Working Group, consisting of members of the EIT Commission, civil society and extractive industry companies;
- Public presentation and discussion of the final version of the report;
- Provision of feedbacks by the representatives of the civil society on disclosed report.

The involvement of civil society representatives at all stages of report is ensured by 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 Industry.

## 2. EXTRACTIVE INDUSTRY, LEGAL AND FISCAL REGIME

### 2.1 Exploration and extraction

#### 2.1.1 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:<sup>6</sup>

- As a traveller, Marco Polo wrote in the fourteenth century, "people in this region had been using oil for several purposes, as well as transporting it to adjacent countries";
- In 1847 the first oil wells were drilled 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 metres deep. Gunashli is currently producing more than 60% of SOCAR's oil; The "Contact of the Century" was signed on September 20, 1994; and

<sup>6</sup> State Oil Company of the Azerbaijan Republic <http://new.socar.az/socar/az/company/about-socar/oil-history-in-azerbaijan>.

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

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- 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.

### Precious metals<sup>7</sup>

**Precious metals industry**<sup>8</sup>– is included study, research, exploration, management, as well as extraction, processing, sale and transportation of precious and non-ferrous metal ore deposits.

The final product acquisition of fine metal processing in the mining industry consists of the following steps:

- **Mining Area** - implementation of geological exploration works, evaluation and implementation of mine explosions;
- **Scales** - transportation of exploded ore and waste from the mining area by passing relevant automobile scales;
- **Crushing area** - loading of various ore by loading equipment from the ore reservoir to the furrow area;
- **Agglomeration** - transfer of loaded ore from equipment, sieves and agglomerators in the furrow area;
- **Heap leach area** - From the end point of the agglomerator, it is conveyed to the Leaching area and is irrigated with a chemical composition solution;
- **Cyanide Field** - After irrigation, it is absorbed by the gold and silver solution and drains through the drainage system to the existing pond and then transferred to the processing area with diving pumps;
- **Absorption-Desorption Restoration Plant** - In the processing area in activated charcoal vats, the solution is desorbed and transferred to the electrolysis process. The filtered solution (gold/silver free solution) is transferred to the other part of the pool - recycling to the leaching zone;
- **Electrolysis** - Precious metals that are contained in the solution in the electrolysis process are separated and dried;
- **Melting** - In the form of dried semi-finished precious metals, are transferred to the process of smelting;
- **Final product** - The final product is obtained as a result of the smelting process.

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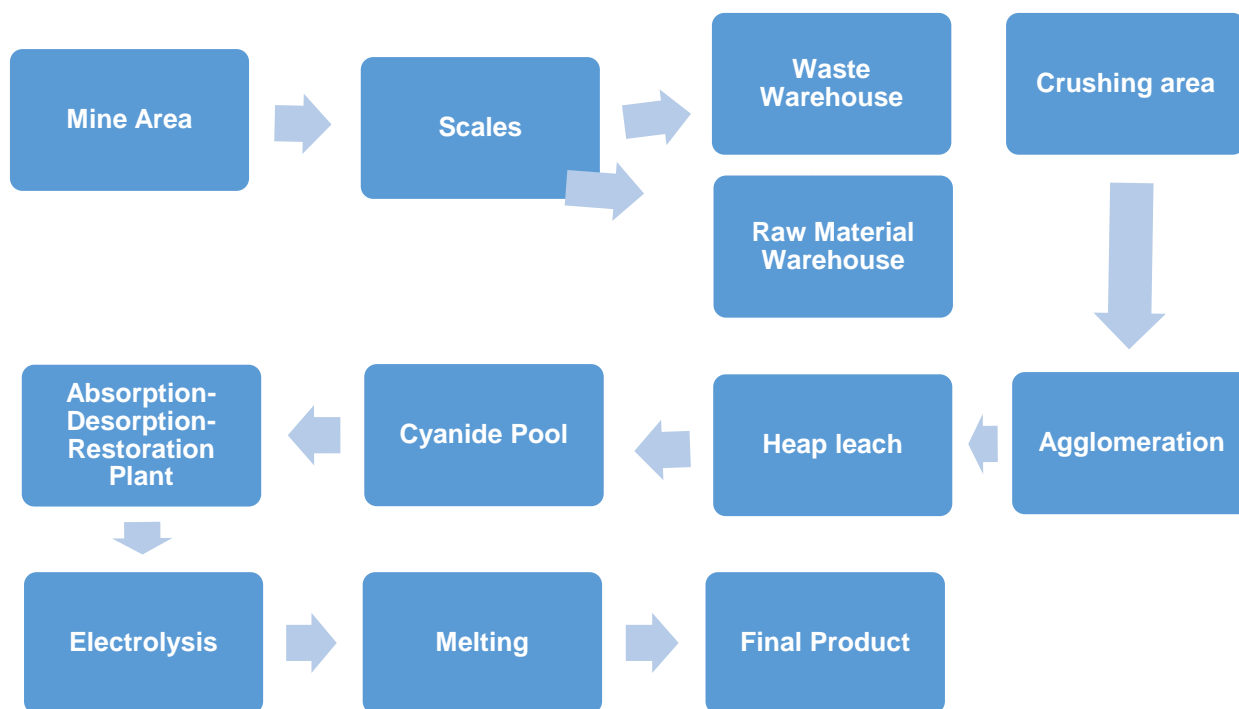
<sup>7</sup> Official letter of "Azergold" CJSC and official letter from "Azergold" CJSC by Independent Auditor

<sup>8</sup> Ministry of Ecology and Natural Resources of the Republic of Azerbaijan, "Azerbaijan's Mineral Resources <http://eco.gov.az/az/148-faydali-gazintilari>

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

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**Figure 1: Precious metals production process**<sup>9</sup>



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

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

## 2.2 Legal and fiscal regime

### 2.2.1 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.

<sup>9</sup> Figure 1 Presented by "AzerGold" CJSC.

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

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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 existing legal framework governing the activities of the mining industry, which is not limited to the following acts and regulations created by the government are publicly available and published in the official websites.<sup>10</sup>

- **THE CONSTITUTION OF THE REPUBLIC OF AZERBAIJAN;**
- **INTERNATIONAL AGREEMENTS:**

### **International Convention of 1969 on “Civil Liability for Oil Pollution Damage”:**

The participation of Azerbaijan Republic in the Convention was approved by the law number 691-IIQ dated June 18, 2004. The convention agreement is aimed at elimination or reduction of pollution at the territory (including territorial waters) of the contracted country.

### **International Convention of 1990 on “Oil Pollution Preparedness, Response and Co-Operation”:**

The participation of Azerbaijan Republic in the Convention was approved by the law number 690-IIQ dated 18 June 2004. According to the Convention, the parties undertake responsibility to take actions individually or jointly to get prepared against the events that could potentially cause oil pollution.

### **Agreement on “Oil and oil products transit through oil pipelines highways and coordinated policy”:**

The agreement signed in Moscow dated December 27, 1996 was approved by Law No. 228-IQ.

### **Agreement on “The creation of interstate oil and gas transportation systems for the organisational principles”:**

Framework Agreement on the creation of interstate oil and gas transportation systems for the organisational principles was signed by the Republic of Azerbaijan dated July 22, 1999 in Kiev and approved by the law number 938-IQ dated October 24, 2000. According to the Agreement, in order to establish the basis of mutually acceptable terms and conditions the parties carry out joint activities on restoration of existing oil and gas transportation system(s), construction of new interstate oil and gas transportation system(s), maintenance and establishment of one or more interstate oil and gas transportation system.

### **Framework Convention of 2003 on “The protection of the marine environment of the Caspian sea”:**

This Convention was approved by the law number 89-IIIQ dated April 4, 2006. The purpose of the Convention is to protect Marine Environment of the Caspian Sea from pollution, as well as preservation of biological resources of the Caspian Sea, its restoration and rational use.

### **Protocol of 2011 to Framework Convention on “On the protection of the marine environment of the Caspian Sea” and regional preparedness, responsiveness and cooperation in combating oil pollution:**

This Protocol was approved by the law number 508-IVQ dated December 21, 2012. The purpose of this Protocol is to take regional measures based on preparedness, responsiveness and cooperation for protection of Caspian from the oil pollution caused by ships and land-based sources of the oil contamination of the sea in the seabed.

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<sup>10</sup> Ministry of Justice of the Republic of Azerbaijan, "The unified electronic internet base of normative legal acts", <http://e-qanun.az>, <http://www.president.az/>, <http://www.meclis.gov.az/> and <http://www.cabmin.gov.az/>

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### **Protocol of 2012 to Framework Convention on “On the protection of the marine environment of the Caspian Sea” and protection of the Caspian Sea from pollution through land-based sources and activities carried out on the land:**

This Protocol was approved by the law number 911-IVQ dated February 25, 2014. Under the provisions of the Convention and accordance to the Protocol, the contracting parties individually or together will undertake all necessary actions to protect, control and reduce pollution of the Caspian Sea and its coastal areas, as a result of activities carried out on the land. The parties will exchange information and undertake joint actions on assessment and monitoring of the environmental impact.

## ● **CODES**

### **The Civil Code of the Republic of Azerbaijan approved according to the law numbered 779 IQ dated December 28, 1999:**

The purpose of the Civil Code, is to ensure the freedom of the civil relationships on the basis of equality of the parties without prejudice to the rights of third parties.

At the same time, the Code is regulated by the use of natural resources, environmental protection, civil law relations and other legislative acts.

Intergovernmental agreements maintained by the Republic of Azerbaijan are applied directly to the civil legal relations (except for the cases when application of international agreement requires adoption of internal legal acts) regulated by the Civil Code.

### **The Tax Code of the Republic of Azerbaijan approved according to the law numbered 905-IQ dated July 11, 2000:**

The Tax Code includes the tax system and the basis of taxation of Azerbaijani Republic, determines payment of taxes and its collection procedures, sets the rights and obligations of the taxpayers, tax authorities and other participants, determines forms and methods of tax control and liability for tax violation of tax, refer to complaints about activities (inactivities) of the state tax authorities and their officials.

If the provisions included in this Code and other normative-legal acts on taxation differ from those on the production sharing agreements and the agreements on main pipelines, including oil, gas and export oriented oil and gas activities and special economic zones which are approved by the legislation, then the provisions of these agreements or laws shall be applied.

### **The Water Code of the Republic of Azerbaijan approved according to the Law No. 418-IQ dated December 26, 1997:**

The Water Code of the Republic of Azerbaijan of Azerbaijan regulates legal issues regarding the use and protection of water bodies.

If the rules determined related with use and protection of water bodies in the international agreements of the Republic of Azerbaijan does not comply with the rules provided in this Code, then the provisions of the international treaties, which the Republic of Azerbaijan is a signatory to, shall prevail.

### **The Labour Code of the Republic of Azerbaijan approved according to the Law No. 618-IQ dated February 1, 1999:**

The Labour Code determines Labour, social and economic rights of employees and employers and minimum level of guarantees associated with these rights and includes principles and rules on Labour relations, leisure time, work environment (safe and healthy) envisaged in the second section of the Constitution.

### **The Land Code of the Republic of Azerbaijan approved according to the law numbered 695 – IQ dated June 25, 1999:**

The Land Code of the Republic of Azerbaijan is directed to settlement in the Republic of Azerbaijan of the land relations evolving from application of different types of land ownership, implementation of the obligations of owners, users and lessees of the earth connected with the earth and protection

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of their land rights, creation of conditions for rational use of lands and their protection, recovery and increase in fertility of the earth, recultivation of the lands which came to unfitness as a result of pollution and destruction, preserving and improving the environment.

### ● LAWS

#### **Law of Azerbaijan Republic No. 94-IQ on “Usage of Energy Resources” dated on May 30, 1996:**

This Law regulates legal, economic and social basics of state policies as well as defines mechanisms of their main directions of implementation in the sphere of utilization of energy resources, regulates relationship between government and juridical individuals.

#### **Law of Azerbaijan Republic No. 766-IIIQ on “Special economic regime for export oil and gas activity” dated February 2, 2009:**

This law defines basics of creation and implementation of special economical regime on Export purposely oil-gas activities in Azerbaijan Republic related to oil-gas activities realized out of Azerbaijan Republic borders, including out of Section of Caspian Sea belonging to Azerbaijan Republic.

#### **Law of Azerbaijan Republic No. 513-IQ on “Gas Supply” dated on June 30, 1998**

This law regulates activities on production, processing, transporting, containing, distribution, selling and using of natural gas and other kinds of gasses used as energy carriers in the form of gas and liquid form.

#### **Law of Azerbaijan Republic No. 493-IQ on “Subsoil” dated on February 13, 1998:**

This law regulates studying (search, exploration) of subsoil, effective use of it, relationships related to safety of undertaken activities and protection, provides protection of government interests, users of subsoil and citizens in use of subsoil.

#### **Law of Azerbaijan Republic No. 924-IIQ on “Precious metals and precious stones” dated on June 10, 2005:**

This law regulates relationships related to production, processing, usage and circulation of precious metals and precious stones.

#### **Law of Azerbaijan Republic on Energy dated on November 24, 1998:**

This law contains most common legal basics of government regulation of oil, gas and electric energy areas of energetics. Special rules might be taken into account in other laws accepted for different areas.

#### **The Law of the Republic of Azerbaijan on Technical Safety of November 2, 1999:**

This law defines the legal, economic, and social basis for the safe operation of potentially hazardous facilities, and regulates the activities of legal and physical persons operating these facilities to prevent accidents that may occur at these facilities and to eliminate the consequences of accidents.

### ● DECREES:

#### **Presidential decree of The Republic of Azerbaijan of September 14, 1994 No. 206 “On the results of negotiations with the consortium of foreign oil companies on the joint development oil fields in the Azerbaijani sector of the Caspian sea**

1. To approve the draft agreement on the Report of the State Oil Company of the Republic of Azerbaijan and shareholders of the Azeri-Chirag-Gunashli (ACG) field development, the distribution of oil extracted in the Azerbaijani sector of the Caspian Sea between State Oil Company of the Republic of Azerbaijan and “Amoco Caspian Sea Petroleum Ltd.”, “BP Exploration (Caspian) Ltd.”, “Den Norske Stats Olyeselskap a. s”, “Lukoil” Joint Stock Company, “Mak-Dermot Azerbaijan, INK”, “Pennzoil Caspian Corporation”, “Remko Khazar Energy Ltd”, “Turkiye Petrolleri a. o.”, “Yunokal Khazar Ltd.”
2. To charge Natig Aliyev, the President of the State Oil Company of Azerbaijan with signing the agreement on the Report of the State Oil Company of the Republic of Azerbaijan and shareholders of the Azeri-Chirag-Gunashli (ACG) field development, the distribution of oil

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extracted in the Azerbaijani sector of the Caspian Sea between State Oil Company of the Republic of Azerbaijan and "Amoco Caspian Sea Petroleum Ltd.", "BP Exploration (Caspian) Ltd.", "Den Norske Stats Olyeselskap a. s", "Lukoil" Joint Stock Company, "Mak-Dermot Azerbaijan, INK", "Pennzoil Caspian Corporation", "Remko Khazar Energy Ltd.", "Turkiye Petrolleri a. o.", "Yunokal Khazar Ltd."

### **Presidential decree of The Republic of Azerbaijan of February 13, 1999 No. 102 "About subsoil":**

By this decree "The rules of State Expertise of Geological Information and Mineral Resources on Usage Areas of the subsoil" was approved

### **Presidential decree of The Republic of Azerbaijan of March 6, 2000 No. 293 "About approval of Rules of maintaining the state stock balance of minerals":**

These rules are prepared according to the Law of The Republic of Azerbaijan "About subsoil" and the Presidential decree of The Republic of Azerbaijan "About application of the Law of The Republic of Azerbaijan "About subsoil" of April 27, 1998 No. 701 and establish procedure for maintaining the state stock balance of minerals on commercial fields in the territory of The Republic of Azerbaijan, including within the sector of the Caspian Sea (lake) belonging to it.

### **Presidential decree of The Republic of Azerbaijan of April 15, 2002 No. 685 "On safety of oil and gas export pipes":**

The special commission was created in order to ensure safety of Baku-Tbilisi-Ceyhan main export pipe planned to be constructed and gas export pipes together with objects related to export of crude oil.

### **Presidential decree of The Republic of Azerbaijan of October 23, 2003 No. 975 "On state regulation of subsoil use":**

This Statute was prepared according to the Law of the Republic of Azerbaijan "About subsoil", the implementation of the Presidential decree of The Republic of Azerbaijan of April 27, 1998 No. 701 "About subsoil" and provide the implementation of Presidential decree of The Republic of Azerbaijan of February 13 No. 102 "About Subsoil" and defines the terms and conditions for holding bids and tenders for the use of subsoil.

### **Presidential decree of The Republic of Azerbaijan of October 23, 2003 No. 973 "About approval of Rules of confirmation and write-off of inventories of minerals":**

These rules are prepared according to the Law of The Republic of Azerbaijan "About subsoil" and the Presidential decree of The Republic of Azerbaijan of April 27, 1998 No. 701 "About application of the Law of The Republic of Azerbaijan on subsoil" and establish rules of confirmation of inventories of minerals and write-off from the account of the subject of the got inventories of minerals, and also inventories which lost industrial value in the course of production, are not confirmed during the subsequent works on geological studying or operation of fields conducting operational works with entering of corresponding change into the state stock balance of minerals.

### **Decree 128 dated September 11, 2004 on "Approval of the Long-term strategy on the management of oil and gas revenues introduction" dated 27 September 2004:**

The long-term strategy for oil and gas revenues covers the years 2005-2025 and defines the basic principles of use of these revenues and medium-term expense policies. This strategy envisages the management of revenues collected from the sale of oil and gas in the State Oil Fund of the Republic of Azerbaijan and the state budget in accordance with the following sources.

### **Decree, dated April 5, 2017, "On Additional Measures to Increase Transparency And Accountability in Extractive Industry":**

Emphasizing the commitment of Azerbaijan to the principles of international transparency and accountability and continuation of management of material resources from natural resources for the welfare of the country the Commission for Transparency in Extractive Industries has been established.

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**Decree No. 22 of the President of the Republic of Azerbaijan dated July 22, 2011 “The Improvement of the management of State shares in the State of Baku-Tbilisi-Ceyhan (BTC) Main Export Pipeline (MEP) construction project”:**

The right of ownership of shares of Azerbaijan BTC Limited, owned by the Ministry of Economy and Industry of the Republic of Azerbaijan, attending in Baku-Tbilisi-Ceyhan Main Export Pipeline Project, shall be transferred to the State Oil Company of the Azerbaijan Republic.

- **ORDERS OF THE CABINET OF MINISTERS OF AZERBAIJAN REPUBLIC:**

**“Rules of definition of “Safety zone” for operated oil export pipelines” approved with decision No. 167 of Cabinet of Ministries of the Republic of Azerbaijan dated 2 November 2004:**

These rules were prepared in order to protect, create normal conditions for safety and reliable operation and prevent any situations that might happen in operating of oil exporting pipes excluding Baku-Tbilisi-Ceyhan and South Caucasus pipelines.

**“Rules and cases of carrying out analyses and examinations of precious metals, the products made of them, and also scrap and waste of precious metals” approved with decision No. 121 of Cabinet of Ministries of the Republic of Azerbaijan dated 10 May 2006:**

These rules are prepared for the purpose of execution of Item 1.17 of the Presidential decree of the Azerbaijan Republic of November 22, 2005 No. 317 "About application of the Law of the Azerbaijan Republic "About precious metals and gemstones" and determine rules and cases of carrying out analyses and examinations of precious metals, the products made of them and also scrap and waste (further - products) from precious metals.

**“Rules and criteria of reference of precious metals and gemstones to category of unique” approved with decision No. 123 of Cabinet of Ministries of the Republic of Azerbaijan dated 10 May 2006:**

These rules are prepared based on the Presidential decree of the Azerbaijan Republic of November 22, 2005 No. 317 "About application of the Law of the Azerbaijan Republic "About precious metals and gemstones" and determine rules and criteria of reference of precious metals and gemstones to category of unique.

**Decree No. 173 dated 6 November 2007 by Cabinet of Ministers of the Republic of Azerbaijan on “Rules for the collection and recording of scrap and waste of precious metals and precious stones when formed in legal entities, military units”**

These rules are developed according to the Presidential Decree No. 317 dated November 22, 2005 on the Law of the Republic of Azerbaijan "About application of the Law of the Republic of Azerbaijan" of “About precious metals and stones” and defines the rules for the collection and recording of these crumbs and wastes, the rules and criteria for the disposal of precious stones and precious stones in legal entities, including military units.

**“Rules of implementation by the legal entities who are engaged in production, processing, use and turnover of precious metals and gemstones and also the business owners performing transactions with precious metals and gemstones, protection of precious metals and gemstones in case of their production, processing, use, turnover and transportation of products made of them” approved with decision No. 174 of Cabinet of Ministries of the Republic of Azerbaijan dated November 6, 2007:**

These rules are prepared based on Presidential decree of the Azerbaijan Republic of 22 November 2005 "About application of the Law of the Azerbaijan Republic "About precious metals and gemstones" the Cabinet of Ministers of the Azerbaijan Republic decides No. 317 and determine "Rules of implementation by the legal entities who are engaged in production, processing, use and turnover of precious metals and gemstones and also by the business owners performing transactions with precious metals and gemstones of protection of precious metals and gemstones in case of their production, processing, use, turnover and transportation of products made of them.

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### **“Rule of quantity, accounting of quality and reporting during production, processing, usage and circulation of precious metals and precious stones.” approved with decision No. 197 of Cabinet of Ministries of the Republic of Azerbaijan dated December 7, 2007:**

These rules are prepared based on execution of Item 1.20 of Presidential decree of The Republic of Azerbaijan of November 22, 2005 "About application of the Law of The Republic of Azerbaijan "About precious metals and gemstones" the Cabinet of Ministers of The Republic of Azerbaijan decides No. 317 and determine “Rule of quantity, accounting of quality and reporting during production, processing, usage and circulation of precious metals and precious stones.”.

### **“E-qanun” portal**<sup>11</sup>

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

### **2.2.2 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
- Property tax
- Royalty (Mining tax)
- Excise tax
- Simplified tax
- Value added tax (“VAT”);
- Income tax;
- Land tax;and
- Road tax.

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<sup>11</sup> Ministry of Justice of the Republic of Azerbaijan, "Unified electronic internet base of normative legal acts", <http://www.e-qanun.az/>

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Based on the Tax Code of the Republic of Azerbaijan, rates and estimates of tax types are as follows:<sup>12</sup>

<b>Income tax</b>	<b>Monthly income</b>	< AZN 2,500	14%		
		> AZN 2,500	25% of the amount over AZN 350 + AZN 2,500		
	<b>Annual income</b>	< AZN 30,000	14%		
		> AZN 30,000	25% of the amount over AZN 4,200 + AZN 30,000		
<b>Property tax</b>	Entities pay property tax at a rate of 1% of the cost of fixed assets.				
<b>Royalty (Mining tax)</b>	<b>Crude oil</b>	26%			
	<b>Natural gas</b>	20%			
	<b>All kinds of metals</b>	3%			
<b>Land tax</b>		Industrial, construction, transport, communication, trade and household services and other special purpose lands (in AZN)		Lands of living funds, lands of yard areas and lands occupied by citizens (in AZN)	
		Up to 10,000 m <sup>2</sup>	Over 10,000 m <sup>2</sup>	Up to 10,000 m <sup>2</sup>	Over 10,000 m <sup>2</sup>
	<b>Baku city, as well as its settlements and villages</b>	10	20	0,6	1,2
	<b>Ganja, Sumgait, Khirdalan and settlements and villages of Absheron district</b>	8	16	0,5	1,0
	<b>Other cities and regional centers</b>	4	8	0,3	0,6
	<b>Cities, settlements and villages under the District</b>	2	4	0,1	0,2
	<b>Simplified tax</b>	<b>Baku</b>	4%		
<b>In other cities and regions, Nakhchivan Autonomous Republic</b>		2%			

<sup>12</sup> Ministry of Taxes – official web-site, <http://www.taxes.gov.az/modul.php?name=qanun&cat=3>

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<b>Income Tax</b>	Entities profits are taxed at a rate of 20%.
<b>VAT</b>	18% of each taxable transaction and the value of each taxable import.

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. <sup>13</sup>

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.

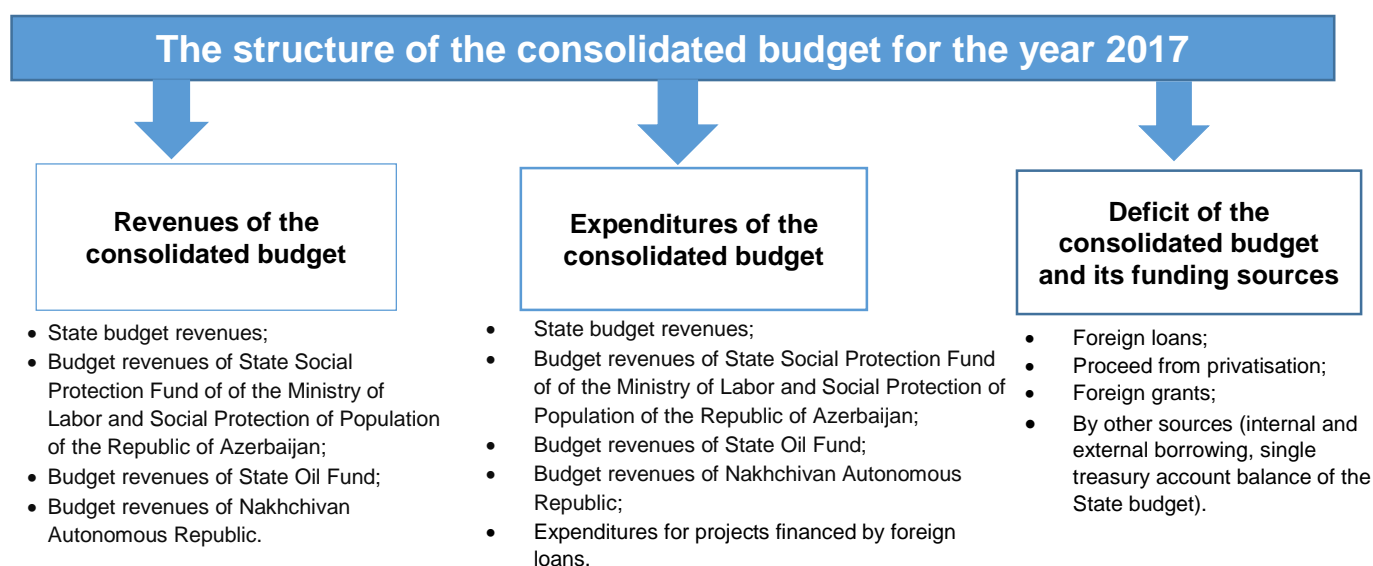
There are special tax regimes imposed on the entities working under the main Export Pipeline (Baku-Tbilisi-Ceyhan), Western Route Export Pipeline (Baku-Supsa), and South Caucasus Pipeline (Shah Deniz Gas).

### 2.2.3 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 Azerbaijan Republic is to solve the economic, social, and other strategic programs and problems of the country, to ensure the collection and effective use of financial funds for the exercise of state functions as defined by legislation.<sup>14</sup>

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.

**Figure 2a:** The budget structure in the Republic of Azerbaijan is as follows: <sup>15</sup>



<sup>13</sup> Ministry of Taxes of the Republic of Azerbaijan, "Tax Code" <http://www.taxes.gov.az/modul.php?name=qanun&cat=3>

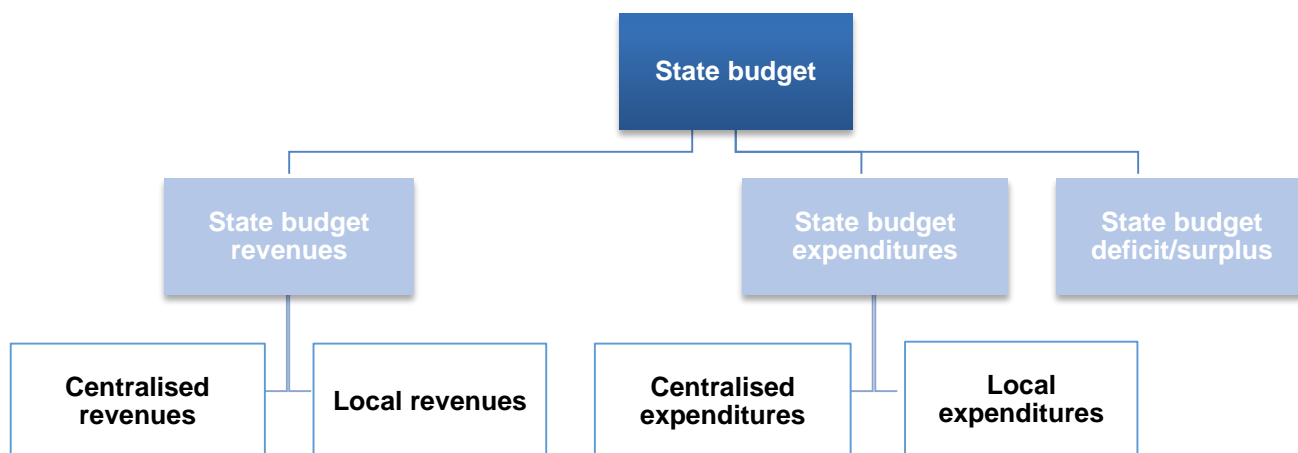
<sup>14</sup> Law of the Republic of Azerbaijan on State Budget, # 358-IQ, <http://e-qanun.az/framework/1126>

<sup>15</sup> Ministry of Finance of the Republic of Azerbaijan – "Citizen's Budget Guide" <http://maliyye.gov.az/sites/default/files/Binder1.compressed.protected.pdf>

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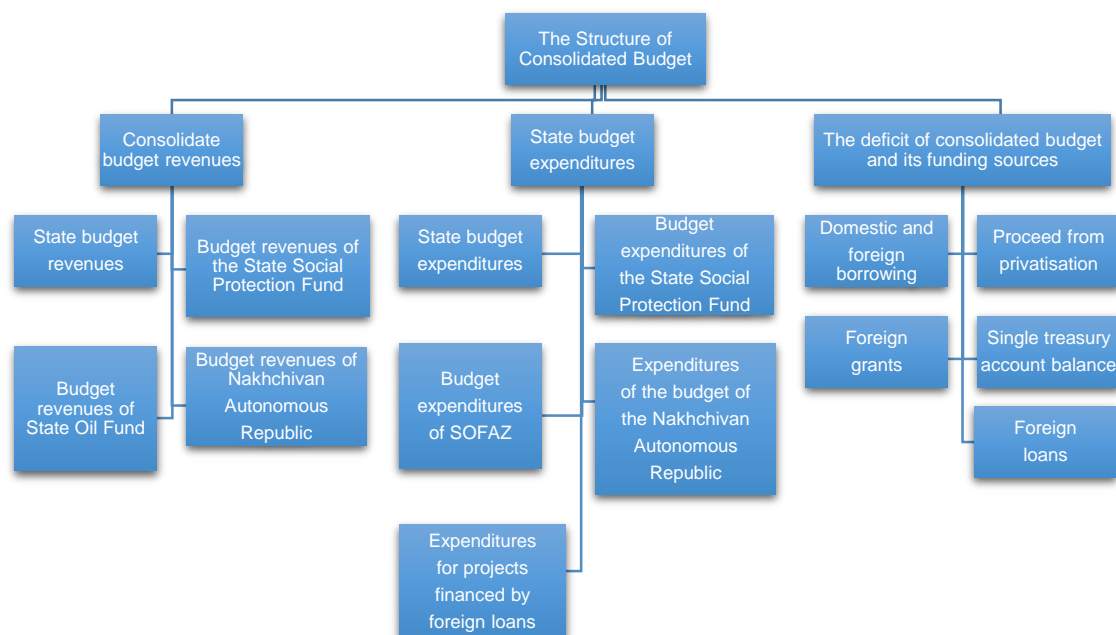
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**Figure 2b:** The budget structure of the Republic of Azerbaijan.<sup>16</sup>



**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.<sup>17</sup>

**Figure 3:** Consolidated budget structure of the Republic of Azerbaijan.<sup>18</sup>



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

Local self-governance principles, formulated in accordance with the status of the implementation of the municipal budget outline the municipal powers, which are defined by the Constitution and laws of Azerbaijan Republic in order to ensure the appropriate implementation of available financial

<sup>16</sup> Ministry of Finance of the Republic of Azerbaijan, book "Citizen's Budget Guide" <http://maliyye.gov.az/sites/default/files/Binder1.compressed.protected.pdf>

<sup>17</sup> "Law of the Republic of Azerbaijan on Budget System", # 452-IQD <http://www.e-ganun.az/framework/2052>

<sup>18</sup> The Ministry of Finance of the Republic of Azerbaijan, the book "Citizen's Budget Guide" <http://maliyye.gov.az/sites/default/files/Binder1.compressed.protected.pdf>

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resources. The formation of local budget funds for municipalities is regulated by Law No. 772-IQ “On the basics of municipal finance”, signed on December 7, 1999.

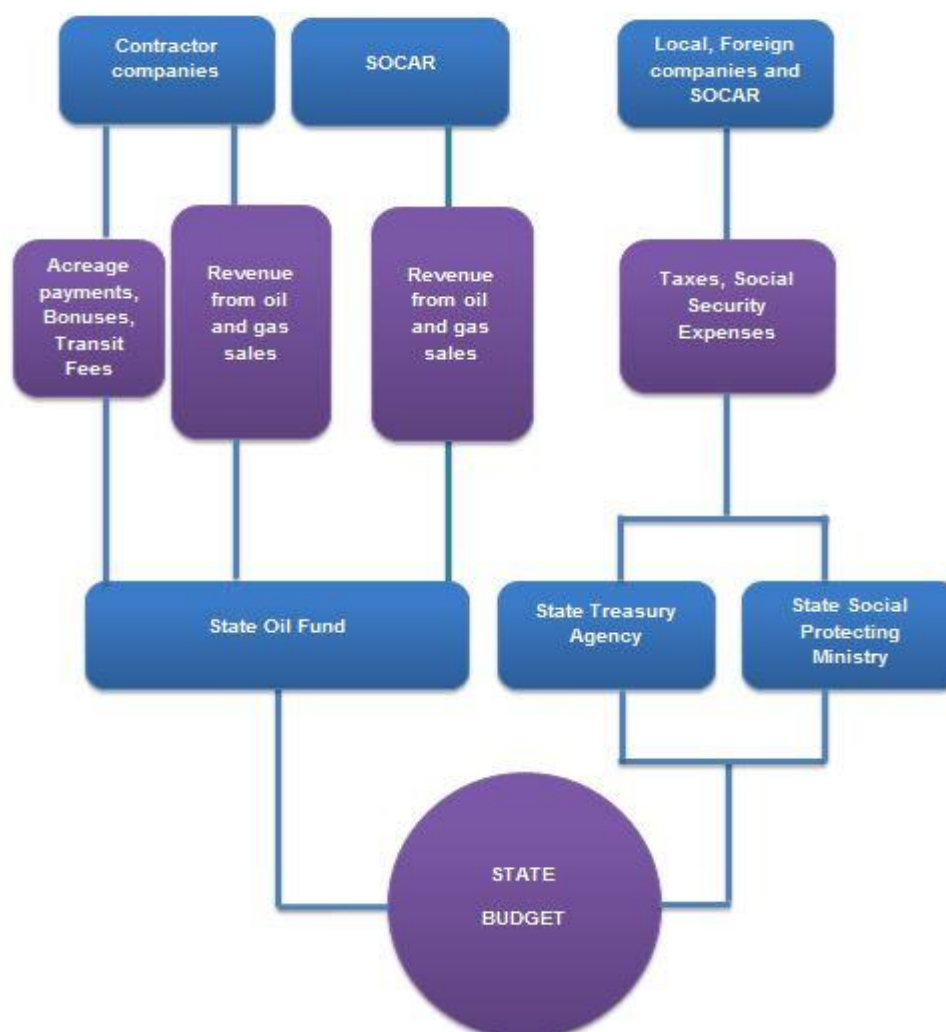
The revenues of local budgets are formed from the following taxes:

- 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”.<sup>19</sup>

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.

**Figure 4:** Extractive industry and state budget relations<sup>20</sup>



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

<sup>19</sup> The Law on the basis of municipal finance of the Republic of Azerbaijan <http://e-qanun.az/framework/5231>

<sup>20</sup> Introduced by Extractive Industries Transparency Commission

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

The roles and responsibilities of state bodies of the Republic of Azerbaijan are described below:

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

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

The powers of the President of Azerbaijan Republic are regulated by Article 109 of the Constitution of the Republic of Azerbaijan.<sup>21</sup>

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

The National Assembly of the Republic of Azerbaijan is an authority carrying out the legislative power. The governmental agreements of the Republic of Azerbaijan which provide for rules different from the laws of Azerbaijan.

The National Assembly of Azerbaijan Republic is regulated by the articles on Legislative power outlined in section V of the Third part of the Constitution of the Republic of Azerbaijan.<sup>22</sup>

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

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

The powers of the Cabinet of Ministers of Azerbaijan Republic are regulated by Article 119 of the Constitution of the Republic of Azerbaijan.<sup>23</sup>

#### ***The Ministry of Ecology and Natural Resources of the Republic of Azerbaijan***

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

The Ministry of Ecology and Natural Resources of Azerbaijan Republic functions in accordance with the Regulation approved by the President Decree No. 583 on September 18, 2001.<sup>24</sup>

One of the main aims of this authority is implementing state policy on studying natural resources, their use, restoration and protection and ensuring ecological safety in this regard and preservation of biodiversity. Further details can be found in the section 3.1 “Overview of the Mining Industry” of the Report.

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<sup>21</sup> Constitution of the Republic of Azerbaijan, 109”, <http://www.e-qanun.az/framework/897>

<sup>22</sup> Constitution of the Republic of Azerbaijan, Article 81-98”, <http://www.e-qanun.az/framework/897>

<sup>23</sup> Constitution of the Republic of Azerbaijan, Article 119”, <http://www.e-qanun.az/framework/897>

<sup>24</sup> Regulations on Ecology and Natural Resources of the Republic of Azerbaijan” <http://eco.gov.az/az/6-haqqimizda>

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

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

The Ministry of Energy of Azerbaijan Republic functions in accordance with the Regulation approved by the President Decree No. 149 on April 11, 2014.<sup>25</sup>

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

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

The Ministry of Finance of the Republic of Azerbaijan is the central executive authority agency implementing financial policy of the country. The Ministry implements its activities on the basis of Regulations that approved by the President Decree numbered 48 dated on 9 February 2009.<sup>26</sup>

### *Ministry of Taxes of the Republic of Azerbaijan*

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

Tax liabilities of local subcontractor organizations functioning according to the Production Sharing Agreements are regulated by the Tax Code of Azerbaijan Republic.

The Ministry of Taxes of Azerbaijan Republic functions in accordance with the Regulation approved by the President Decree No. 454 on March 29, 2001.<sup>27</sup>

### *Ministry of Economy of the Republic of Azerbaijan*

Central executive agency responsible for development of economic policy, economic and social forecasts of the Republic of Azerbaijan, development of various fields of economy, including industry, structural and innovation in the country's economy, investment activity, attraction and promotion of entrepreneurship, state support for entrepreneurship, competition protection, development and promotion, elimination of unfair competition, protection of consumer rights, procurement of goods (works and services) at the expense of public funds, implementation of state policy and regulation in the field of internal trade, foreign economic and trade relations, socio-economic development of the regions and housing and communal services.

### *State Social Protection Fund under the Ministry of Labour and Social Protection of Population of the Republic of Azerbaijan*

The State Social Protection Fund under the Ministry of Labour and Social Protection of Population of the Republic of Azerbaijan is an executive authority that provides mandatory state social insurance, social pensions, social allowances, pensions, compensations and social benefits, as well as implements activities in the field of social services for aiming social rehabilitation of the elderly, disabled people and children with disabilities, persons having difficult life conditions.

State Social Protection Fund acts in accordance with the Regulation approved by the Presidential Decree Regulations on the Ministry of Finance of the Republic of Azerbaijan dated June 24, 2016.<sup>28</sup>

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<sup>25</sup> "Statute of the Ministry of Energy of the Republic of Azerbaijan" [http://www.minenergy.gov.az/db/EN\\_Esasname.pdf](http://www.minenergy.gov.az/db/EN_Esasname.pdf)

<sup>26</sup> "Regulations on the Ministry of Finance of the Republic of Azerbaijan", <http://www.maliyye.gov.az/node/8>

<sup>27</sup> "Regulations on the Ministry of Taxes of the Republic of Azerbaijan", <http://www.taxes.gov.az/modul.php?name=qanun&news=369>

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### *The State Statistical Committee of the Republic of Azerbaijan*

The State Statistical Committee of the Republic of Azerbaijan is the 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. This area consists of activities defined by the Law of the Republic of Azerbaijan “On Official Statistics”.

The State Statistical Committee of the Republic of Azerbaijan acts in accordance with the Statute approved by the Decree No. 115 of the President of the Republic of Azerbaijan dated June 24, 2009.

State Statistical Committee of the Republic of Azerbaijan receives complete and reliable statistical information from extractive industry companies in accordance with specified rules, volume, and time; summarizes it; and publishes summary-statistical data.

### *State Oil Company of the Republic of Azerbaijan (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 2.6 “State Participation in Extractive Industry” of this Report.

State Oil Company of the Republic of Azerbaijan functions in accordance with Amendments to the Decree No. 127 on September 18, 2004 and the Charter approved by the President Decree No. 844 on January 24, 2003.<sup>29</sup>

### *State Oil Fund of Azerbaijan Republic*

The main responsibility of the Fund is to ensure the accumulation and effective management of foreign currency and other assets generated from the implementation of oil and gas exploration and development agreements as well as from the Fund’s own activities, in the best interest of citizens and future generations of the Republic of Azerbaijan. SOFAZ has been established as an extra-budgetary fund and acts as a legal entity having an independent management structure from the Government or the Central Bank of the Republic of Azerbaijan. Additional information can be found in the section 4.5. “Transactions related to State- owned enterprises” of this Report.

State Oil Fund of Azerbaijan Republic acts in accordance with the Regulation approved by the President Decree No. 434 on December 29, 2000.<sup>30</sup>

The following table depicts the structure of relationships between Government agencies and extractive industry companies.

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<sup>28</sup> 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>

<sup>29</sup> Charter of SOCAR, <http://socar.az/socar/az/company/regulations/socar-charter>

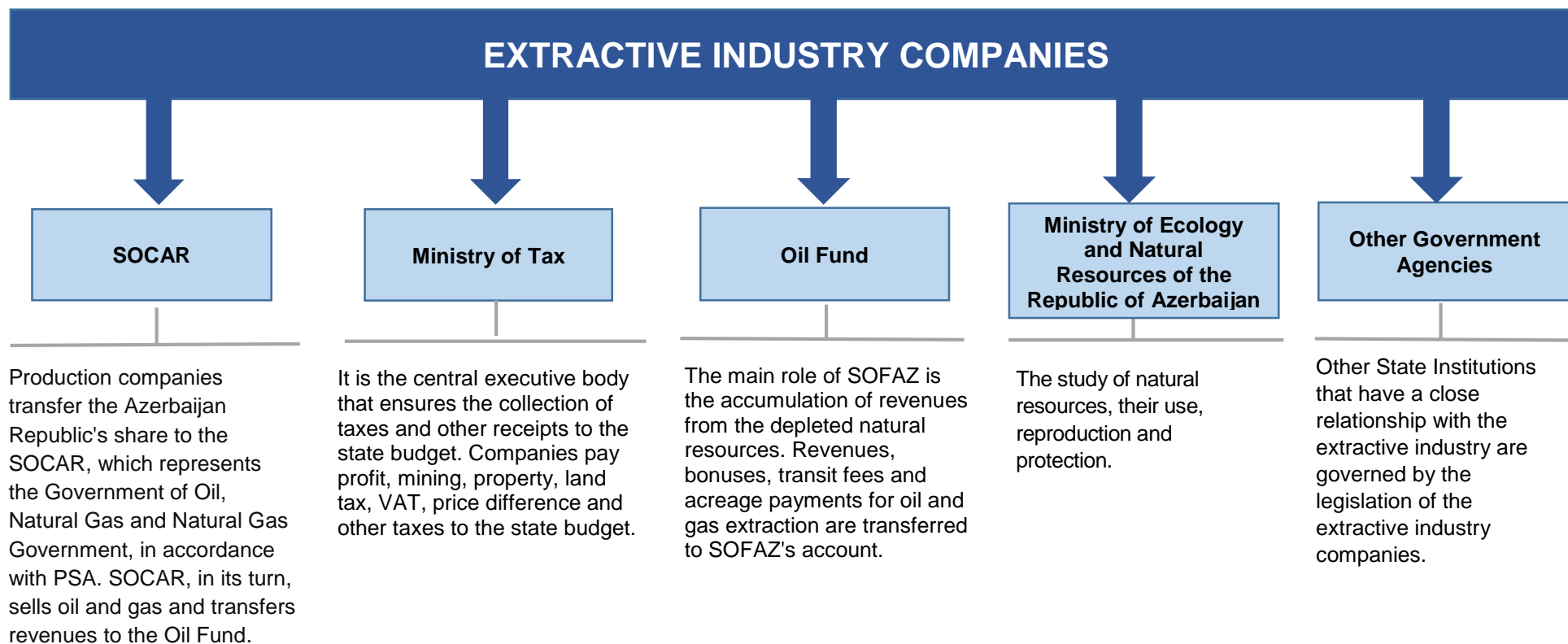
<sup>30</sup> “Statute of the State Oil Fund of the Republic of Azerbaijan”, <http://www.oilfund.az/uploads/esas.pdf>

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*Figure 5: Relationships between extractive industry companies and government agencies*



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### 2.2.5 Main highlights of the extractive industry

A number of innovations in the extractive industry have been applied during the year covered by the EIT report:

On September 14, 2017 the Azerbaijan Government and its co-venturers signed the amended and restated Azeri, Chirag and DeepWater Gunashli Production Sharing Agreement.

The Azerbaijan Government and the State Oil Company of the Republic of Azerbaijan (SOCAR), together with BP, Chevron, INPEX, Statoil, ExxonMobil, TP, ITOCHU and ONGC Videsh signed the amended and restated agreement on the joint development and production sharing (PSA) for the Azeri, Chirag fields and the Deep Water Portion of the Gunashli Field (ACG) in the Azerbaijan Sector of the Caspian Sea.

The contract was signed in Baku today in the presence of H.E. President Ilham Aliyev of the Republic of Azerbaijan and a group of visiting senior government and state officials, by Rovnag Abdullayev, President of SOCAR, on behalf of the Azerbaijan Government, and by the representatives of the co-venturer companies.

“Agreement on the Joint Development and Production Sharing (PSA) for the Azeri, Chirag fields and the Deep Water Portion of the Gunashli Field (ACG) in the Azerbaijan Sector of the Caspian Sea” signed on 14 September, 2017 among State Oil Company of the Republic of Azerbaijan (SOCAR), Azerbaijan (ACG) Limited, BP Exploration (Caspian Sea) Limited, Chevron Khazar Ltd., Exxon Azerbaijan Limited, INPEX Southwest Caspian Sea Ltd., Statoil, ITOCHU Oil Exploration (Azerbaijan) Inc., ONGC Videsh, Statoil Absheron, and Turkish Petroleum Corporation (TPAO), was approved by the Milli Majlis of the Republic of Azerbaijan on the Law of 818-VQ of 31 October, 2017, and its implementation was permitted.

BP is the operator in accordance with the amended and restated ACG PSA.

As part of the contract, the international co-venturers will pay a bonus of USD 3.6bn to the State Oil Fund of the Republic of Azerbaijan, and SOCAR will increase its equity share in the ACG PSA from 11.65% to 25%. During the next 32 years, there is the potential for more than USD 40bn capital to be invested in the ACG oil field.

Following approval of the contract, the new ACG participating interests will be as follows:

BP, 30.37%; AzACG (SOCAR), 25.00%; Chevron, 9.57%; INPEX 9.31%; Statoil 7.27%; ExxonMobil 6.79%; TP 5.73%; ITOCHU, 3.65% and ONGC Videsh Limited (OVL), 2.31%.

Subsequent to this contract, SOCAR and its co-venturers have also agreed to progress engineering development work to evaluate an additional production platform in the ACG contract area.

An agreement was signed on the construction of a new bitumen plant on 17 April, 2017.

At the Oil Refinery named after Heydar Aliyev, Azfen has signed a contract for construction and installation work on a new bitumen production facility.

Notably, annual production volume of bitumen plant to be constructed within first phase of reconstruction of H.Aliyev Oil Refinery will be 400,000 tons and it will produce EN 40/60 brand high quality road bitumen. The plant is expected to be launched in second half of 2018. This will enable to eliminate former “Azerneftiyag” oil refinery and to clean offshore line for White City project. Operation costs of the plant will be optimized. This will improve environmental condition in Baku city and contribute to social and economic development of the country.

Important documents on the “SOCAR GPC” project were signed in Beijing on May 15, 2017.

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The Azerbaijani delegation also participated in the international forum within the framework of the “One Belt - One Road” strategy launched on May 14, in Beijing. A Memorandum of Understanding was signed within the framework of the “SOCAR GPC” project.

A service agreement on the preliminary detailed design for the gas processing and polyethylene petrochemical complex as part of the “SOCAR GPC” project was signed between Azerbaijan’s state oil company SOCAR, China National Petroleum Corporation (CNPC) and Technip company during the international ‘One Belt – One Road’ forum in Beijing on May 15. This agreement will regulate the services to be rendered by China Huanqiu Contracting and Engineering Corporation (HQC), subsidiary of CNPC and Technip Italy for the preliminary detailed design work as part of the “SOCAR GPC” project. The signing ceremony was attended by SOCAR’s President and CNPC chairman.

The “SOCAR GPC” project envisages the processing of natural gas and gas condensate raw materials produced in Azerbaijan, polymerization of heavy fractions (C2 +), useful for gas chemistry in natural gas and production of high value-added gas chemicals.

On December 20, 2017, SOCAR and Statoil signed contracts on key principles for promising cooperation.

Two contracts were signed between SOCAR and Statoil on the main provisions of promising partnership. The signed documents cover exploration of some promising areas in the Azerbaijani sector of the Caspian Sea, main commercial principles and provisions of the Production-Sharing Agreement (PSA), as well as the main commercial principles and provisions of “Karabakh” oilfield risk service agreement.

“Agreement on the Joint Development and Production Sharing (PSA) for the Azeri, Chirag fields and the Deep Water Portion of the Gunashli Field (ACG) in the Azerbaijan Sector of the Caspian Sea” signed among State Oil Company of the Republic of Azerbaijan (SOCAR), Azerbaijan (ACG) Limited, BP Exploration (Caspian Sea) Limited, Chevron Khazar Ltd., Exxon Azerbaijan Limited, INPEX Southwest Caspian Sea Ltd., Statoil, ITOCHU Oil Exploration (Azerbaijan) Inc., ONGC Videsh, Statoil Absheron, and Turkish Petroleum Corporation (TPAO), was approved on October 31, 2017, and its implementation was permitted. With this Law:

1. “Agreement on the Joint Development and Production Sharing (PSA) for the Azeri, Chirag fields and the Deep Water Portion of the Gunashli Field (ACG) in the Azerbaijan Sector of the Caspian Sea” signed on September 14, 2017 among State Oil Company of the Republic of Azerbaijan (SOCAR), Azerbaijan (ACG) Limited, BP Exploration (Caspian Sea) Limited, Chevron Khazar Ltd., Exxon Azerbaijan Limited, INPEX Southwest Caspian Sea Ltd., Statoil, ITOCHU Oil Exploration (Azerbaijan) Inc., ONGC Videsh, Statoil Absheron, and Turkish Petroleum Corporation (TPAO), was approved and its implementation was permitted;
2. Guarantees and Obligations of the Government of the Republic of Azerbaijan given to the Contractor Parties by the Cabinet of Ministers of the Republic of Azerbaijan (hereinafter - Government Guarantees) have been adopted and their implementation is permitted;
3. Fifteen (15) Annexes (hereinafter referred to as “Annexes”) to the Basic Texts of the Agreement have been adopted and their implementation was permitted.

The law also states that after the entry into force of this Law, the Agreement, the Government Guarantees and the Annexes become Law. Except as otherwise specifically stated in the Agreement, any other existing or acceptable laws, decrees or administrative provisions of the Republic of Azerbaijan which do not conform to this Agreement, the Government’s guarantee and the Supplements during the period of the Agreement, the Government Guarantee Agreement, or their parts). Upon entry into force of this Law, all other rights and obligations which may be made in respect of any part of the contract area provided for the Agreement shall be canceled, and all other rights and obligations which may be made available under any agreement, contract or other such document shall be terminated, as well as after the entry into force of this Law, under the terms of the Agreement, within the period of time elapsed and in force, the Agreement shall give the Participants

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the exclusive right to conduct oil and gas operations in the contract area. After the entry into force of this Law, the rights and interests of the contracting parties (or their successors) under the Agreement, the Government, and the Annexes may not be modified, corrected or reduced without the prior consent of the Parties. All the necessary licenses, customs permits, visas, other powers and sanctions shall be granted to the participants of the Agreement for the exercise of the rights and obligations arising from the Agreement. Any amendments, additions or modifications to the Agreement or Supplement shall be made only with the written consent of the Parties to the Agreement and the Annexes.

On May 2, 2017, between the State Oil Company of the Republic of Azerbaijan (SOCAR) and SOCAR Umid Oil and Gas Limited on Exploration and Development of the offshore block including the Umid Field and the Babek Perspective Structure in the Azerbaijani Sector of the Caspian Sea, SOCAR's Umid Oil and Gas Limited and Umid, Babek Exploration and Production Company agree on the adoption and approval of the Contract on conducting oil and gas operations on exploration and development of the offshore block of Umid field and the Babek prespective structure in the Azerbaijani sector of the Caspian Sea the Law of the Republic of Azerbaijan on adoption was adopted. By this Law:

1. "Agreement between the State Oil Company of the Azerbaijan Republic (SOCAR) and the SOCAR Umid Oil and Gas Limited on the Exploration and Development of the Offshore Block of the Umid Field and the Prospect of Babak in the Azerbaijani Sector of the Caspian Sea (hereinafter - the Agreement) and the" The agreement between SOCAR Umid Oil and Gas Limited and Umut, Babek Eksploreyshn end Prodynshn Company on conducting oil and gas operations on exploration and development of the offshore block, including Umid field and prospective structure Babek in the Azerbaijani sector, was approved (hereinafter - the Contract), their implementation has been permitted;
2. The Guarantees and Obligations of the Government of the Republic of Azerbaijan (hereinafter referred to as "Government Guarantee") have been approved by the Resolution No 26 of the Cabinet of Ministers of the Republic of Azerbaijan dated February 3, 2017, and their implementation is permitted;
3. The five (five) Articles to the Basic Texts of the Agreement and 9 (nine) Annexes to the Basic Texts of the Contract have been adopted (hereinafter referred to as "Annexes") and their implementation is permitted.

The Law also states that after the entry into force of this Law, the Agreement, the Treaty, the Guarantee, and the Appendix are the Law. Except as otherwise specifically specified in the Agreement and the Agreement, any other existing or acceptable laws of the Republic of Azerbaijan, which do not comply with or incompatible with this Agreement, the Agreement, the Government and the Supplements during the period of the Agreement, the Contract, the Government, (or parts thereof) of this Agreement, and any other rights and obligations before any agreement, contract or other such document which has been previously signed on any part of the Contract Area provided for this Agreement and the Agreement, and shall be terminated as soon as this Law enters into force, and shall be deemed to have been duly and in accordance with the terms of this Agreement, the Agreement, the Government and the Appendix the Parties to the Agreement and the Contract shall have the exclusive right to conduct oil and gas operations in the contract area. After the entry into force of this Law, the rights and interests of the parties to the Agreement (or its successor rights) under the Agreement, Contract, Government, and Addendum may not be changed, corrected or reduced without the prior consent of those parties. All the necessary licenses, customs permits, visas, other authorities and sanctions are provided to the parties to the Agreement and the Contract for the performance of the rights and obligations arising from the Agreement and the Agreement. Any amendment, amendment, modification or amendment to the Agreement, the Contract or the Annex shall be made only with the written consent of the Parties to the Agreement, the Agreement and the Annexes.

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### 2.3 Allocation of licences

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 form of internatiolan best practice on bidding process and the common used are the tenders. The PSA contracts have been chosen for development of the hydrocarbon exploration projects with foreign partners in Azerbaijan. The best practice of PSA was set up by signing the Azeri-Chirag-Gunashli on September 20, 1994 and 17 out of 31 agreements on oil and gas were active until December 31, 2017.

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 Azerbaijan Republic and has the legal power to issue Decrees related to hydrocarbbon 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 us 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 Azerbaijan Republic and such authorities are put in effect by appropriate statute of President;
- Principles and conditions of further partnership agreed on the basis of Memorandum of Intentions;
- Agreement signed on key principles and commercial terms of PSA;
- PSA project agreed by the basis of an agreement of key principles and commercial term;
- PSA signed and submitted to the Parliament of Azerbaijan Republic for ratification.

Entry into force:

- After ratification, the President of Azerbaijan Republic signs a decree that puts PSA into effect.
- 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 very same process also exists for on-land 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.

### 2.4 Register of licenses in extractive industry

The Decree of the President of the Republic of Azerbaijan dated December 21, 2015 No. 713 “On some measures in the field of Licensing” approved the “Licensing Rules” and “List of activities requiring a license (except the cases arising out of the state security) and the amount of state duties paid for licensing for those activity types”. The Cabinet of Ministers of the Republic of Azerbaijan approved the “Rules on the maintenance of the single registry of licenses and permits” No. 347 dated

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September 16, 2016, in order to provide the implementation of the paragraph 1.4 of Decree No. 866 of the President of the Republic of Azerbaijan dated April 20, 2016 regarding the application of the Law No. 176-VQ 20 dated March 15, 2016 “On Licenses and Permits”. In accordance with the paragraph 1.2 of the Rules, the single registry of licenses and permits is maintained by the Ministry of Economy of the Republic of Azerbaijan and the registry of licenses and permits is open to the public. Thus, in accordance with the paragraph 2.2 of the “Rules on the single registry of licenses and permits”, the information contained in the registry is open to state authorities, municipalities, individuals and legal entities.

At the same time, according to Presidential Decree No. 310, dated March 28, 2000 exploration and exploitation of oil and gas belongs to exclusive competence of the state and may be conducted only by state entities or state controlled joint stock companies.

Government of Azerbaijan has all rights to engage in implementation of these type of activities by involvement of experienced and internationally recognised contractors. The legislative acts that confirm the PSAs explicitly stipulate that the participating parties to PSA are granted all permits and licenses to operate within the scope of PSAs (including explore or exploit oil, gas) and this law is publicly available.

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.<sup>31</sup>

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.

## 2.5 Disclosure of Contracts

Production Sharing Agreements concluded between the host governments (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 Azerbaijan Republic. 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 Azerbaijan Republic, 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 Azerbaijan Republic on Commercial Secret dated December 4, 2001).

The following six PSAs were disclosed within the scope of transparency measures in the extractive industry in: Azerbaijan.<sup>32</sup>

- ❖ Shah Deniz Production Sharing Agreement;
- ❖ Azeri Chirag Deep Water Gunashli – The amendment to the original contract in 2017 was not disclosed.
- ❖ Shafag-Asiman perspective structure;
- ❖ Kedabek, Gosha, Ordubad group, Soutely, Kyzbulag and Vejnaly deposits prospective gold mining areas;

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<sup>31</sup> EITI Azerbaijan's Official Web Site, Documents, PSA Registry, <http://www.eiti.az/index.php/en/senedler-2/registration-of-licenses>

<sup>32</sup> EITI official web-page-Agreements <http://www.eiti.az/index.php/az/senedler/sazishler>

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- ❖ Three blocks of South West Gobustan;
- ❖ Block including Zigh and Hovsan oil fields.

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.<sup>33</sup>

### 2.6 Beneficial ownership

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

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

In 2017, the EITI Commission initiated negotiations with the Asian Development Bank to provide technical assistance to implement a project on disclosure of beneficiary ownership information in the mining industry of Azerbaijan and a proper agreement was reached. As a result of the negotiations, the head of the EITI 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.

For more information on the disclosure of beneficial ownership information in the extractive industry of Azerbaijan, please visit official website of SOFAZ.<sup>34</sup>

### 2.7 State participation in extractive industry

#### 2.7.1 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 Azerbaijan Republic 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 Azerbaijan Republic 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.

<sup>33</sup> Ministry of Taxes of AR - <http://www.taxes.gov.az/modul.php?name=qanun&cat=16>

<sup>34</sup> SOFAZ official web-page [http://www.oilfund.az/az\\_AZ/about\\_found/beynelxalq-elageler/benefisiar\\_sahiblik.asp](http://www.oilfund.az/az_AZ/about_found/beynelxalq-elageler/benefisiar_sahiblik.asp)

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

- Annual report (2014-2017);
- Financial report (2009-2017);
- Sustainable development report (2011-2017).

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 2009-2017. During this period, the company was audited by only one company, Ernst and Young Holding.<sup>35</sup>

SOCAR functions in various sectors of oil, gas and petrochemical industry on the territory of Azerbaijan Republic 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 2017, SOCAR had 50,424 employees (compared to 50,735 in 2016).<sup>36</sup> SOCAR being the largest company in the country occupies an important place in the economy of the Republic of Azerbaijan.

Procurement procedures of SOCAR, outlined in "a collection of documents on the procurement and management of the organisation", are carried out in accordance with the Regulations. The regulation came into force according to the Decree of the President of Azerbaijan Republic No.844, dated on 24 January 2003.<sup>37</sup> 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 significant share on the major export route to the Azeri-Chirag-Gunashli (ACG) fields, the BTC Pipeline, as well as the ACG and Shah Deniz HPBS and the major international pipelines, including the SCP, the main export route for the ACG and Shah Deniz fields. Additionally, SOCAR owns a controlling stake in Petkim (51%), the only petrochemical manufacturer in Turkey.

### ❖ "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, 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.<sup>38</sup>

"AzerGold" CJSC, a state-owned entity, carries out exploration, exploration, development and management of non-ferrous metal ore deposits, application of new technologies in this field, modernization of material and technical basis and its effective utilization, as well as development of this field. "AzerGold" CJSC had 288 employees in 2017, (2016:186 employees). During the months of April-December 2017, "AzerGold" Closed Joint Stock Company (CJSC) has exported 60,552 ounces of gold and 86,806 ounces of silver on export operations. Exports of precious metals brought more

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<sup>35</sup> SOCAR's management, accountability and transparency research, prepared by the Eurasia Extractive Industries Knowledge Hub [http://eurasiahub.khazar.org/pdf/EN\\_SOCAR.pdf](http://eurasiahub.khazar.org/pdf/EN_SOCAR.pdf)

<sup>36</sup> SOCAR, "Sustainable Development report, 2017", "About the Company", p. 65 <http://www.socar.az/socar/assets/documents/az/socar-annual-reports/Davam%C4%B1%20inki%C5%9Faf%20%C3%BCzr%C9%99%20hesabat%20-%202017-ci%20il.pdf>

<sup>37</sup> SOCAR, "SOCAR standards", "Regulatory documents for procurement" <http://www.socar.az/socar/az/company/socar-standards/socar-standards>

<sup>38</sup> In response to an official letter No. BT 980 dated July 31, 2018 sent to "AzerGold" CJSC

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than 131.5 million manat to the economy of the country. In general, the Company has taken a leading position in the export of industrial products in the non-oil sector in 2017. Public procurement procedures are carried out in accordance with the Law of the Republic of Azerbaijan "On public procurements".<sup>39</sup>

### 2.7.2 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.<sup>39</sup>

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

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 15<sup>th</sup> 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 Azerbaijan Republic and conducts accounting procedures in accordance with the law of the Republic of Azerbaijan on "Accounting". The Company also prepares "Official statistics" in accordance with the relevant legislation and submits it to the State Statistical Committee of the Republic of Azerbaijan.

The Company'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.<sup>40</sup>

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

According to Clause 6 of the main Charter ("accounting, reporting and control in a company"), approved by Decree No 844 of the President of the Republic of Azerbaijan and dated January 24, 2003 any request from the government agencies on relevant reports and information must be prepared and submitted by SOCAR to them.<sup>41</sup>

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<sup>39</sup> SOCAR, "Legislation", "SOCAR Charter", <http://socar.az/socar/az/company/regulations/socar-charter>

<sup>39</sup>SOCAR, "Legislation", "SOCAR Charter", <http://socar.az/socar/az/company/regulations/socar-charter>

<sup>40</sup><http://www.e-qanun.az/framework/28955>

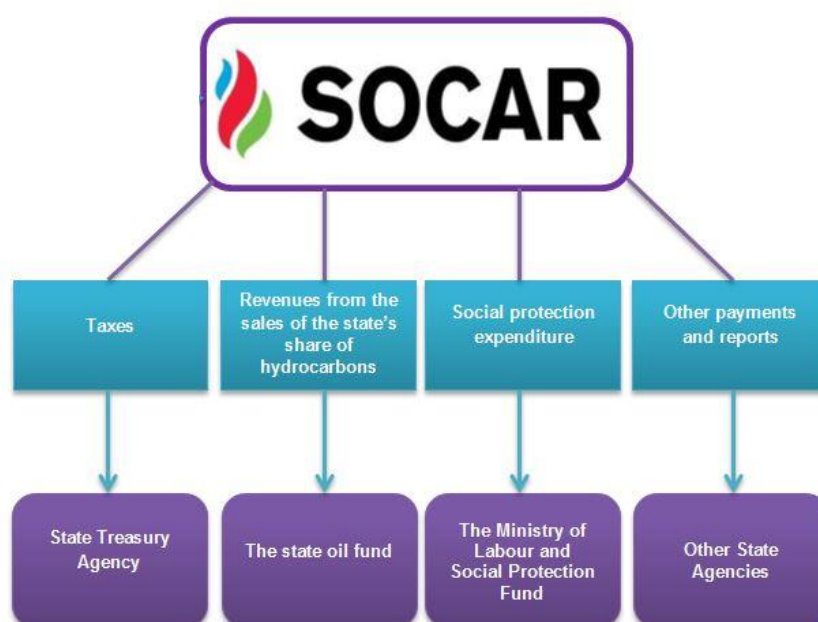
<sup>41</sup>E-qanun: "Statute of State Oil Company of the Republic of Azerbaijan", <http://www.e-qanun.az/framework/1899>

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**Figure 6:** Relationships between SOCAR and State agencies <sup>42</sup>



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 is consist 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).

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.

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<sup>42</sup> Figure 4 The Extractive Industries Transparency Commission

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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.<sup>43</sup>

### 2.7.3 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 capital<sup>44</sup>

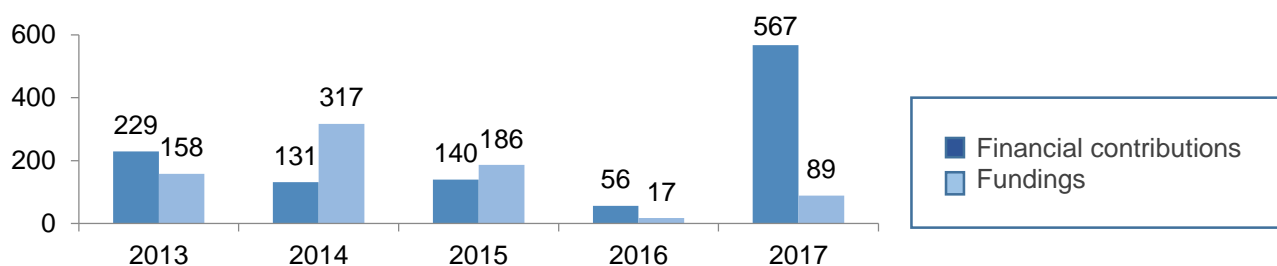
Increase in the amount of AZN 1,234 million in charter capital was registered during 2017 and accordingly the amount was reclassified from additional paid-in capital to charter capital. For the year ended December 31, 2017 the amount of additional charter capital was AZN 3,036 million.

#### Additional Paid-in Capital (APIC)<sup>45</sup>

During 2017, the Government contributed to the charter capital of SOCAR in the amount of AZN 243 million (2016: AZN 921 million). The increase in charter capital was not registered as of December 31, 2017 and recognized as APIC. The amount of cumulative additional paid-in capital was equal to AZN 4,541 million as of December 31, 2017.

#### Distributions to the Government<sup>45</sup>

According to the Government's specific decisions the state budget, various state agencies and projects implemented by the government are being financed by SOCAR. These types of contributions and financing (in the form of payments to subcontractors of state departments) in 2017 amounted to AZN 567 million and AZN 89 million. These funds were used primarily in the Republic of Azerbaijan to repair and reconstruct new recreation, transport, education and medical infrastructure.<sup>45</sup>



**Graph:** Financial contributions and funding by SOCAR (million AZN)<sup>46</sup>

#### SOCAR's allocation to the state

Budget revenues for SOCAR came up to 1,317.5 million AZN which is higher than in 2016 (AZN 1,240 million) based on the fact that the oil price in the state budget of 2017 is USD 40 (USD 25 in the state budget of 2016). These are consolidated taxes and other payments with State Oil Company along with Azerigas and Azerkimya state enterprises (excluding income tax for individuals). In 2017,

<sup>43</sup> "Decision of the Cabinet of Ministers of the Republic of Azerbaijan on approving the charter and structure of "AzerGold" CJSC. <http://www.e-ganun.az/framework/32799>

<sup>44</sup> SOCAR "Financial Statements, 2016", "Note 27, Charter capital, additional paid-in equity and retained earnings", page 67. <http://www.socar.az/socar/assets/documents/en/socar-financial-reports/2016.pdf>

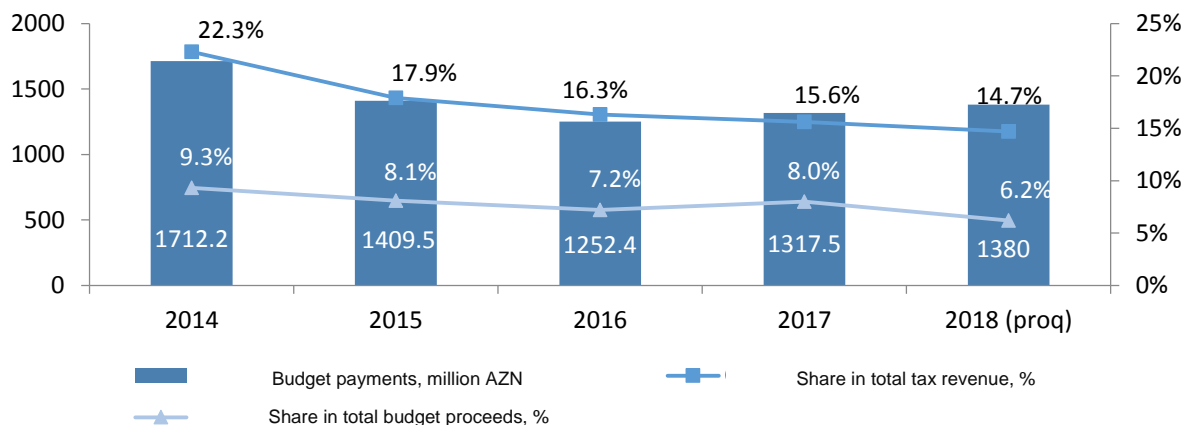
<sup>45</sup> SOCAR's management, accountability and transparency research, prepared by the Eurasia Extractive Industries Knowledge Hub [http://eurasiahub.khazar.org/pdf/EN\\_SOCAR.pdf](http://eurasiahub.khazar.org/pdf/EN_SOCAR.pdf)

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8% of the state budget total revenues, 16.7% of the state budget's oil revenues (AZN 7,884 million) and 73.9% of the tax revenues (AZN 1,784 million) collected from the oil sector came from SOCAR.<sup>46</sup>

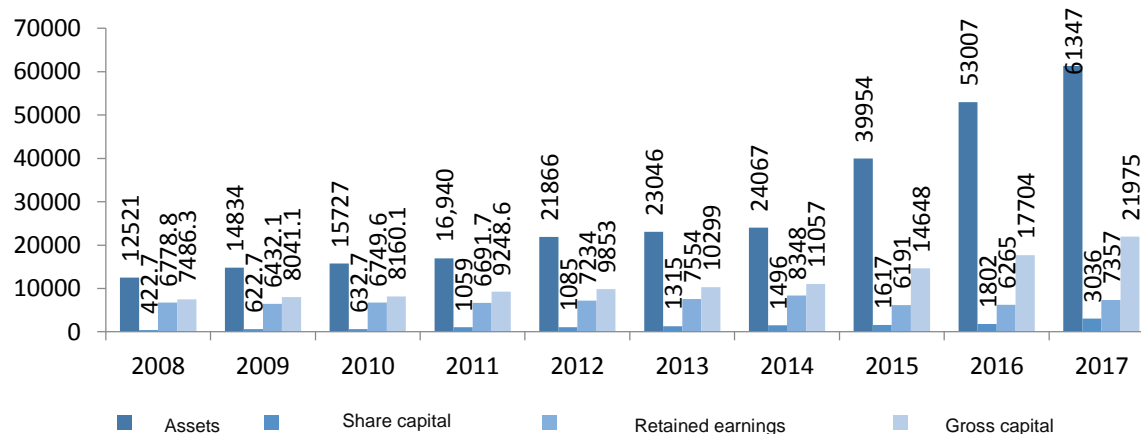


**Graph:** Budget payments of SOCAR – for the years 2014-2017 (million AZN)<sup>47</sup>

### Retained earnings<sup>47</sup>

The total amount of the retained earnings of SOCAR was AZN 7,357 million for the year ended December 31, 2017. 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 on the financial statements for the year ended December 31, 2017.



**Graph 1b:** The financial indicators of SOCAR for the years 2008-2017 (million AZN)<sup>51</sup>

The volume of retained earnings of SOCAR varies between 6-8 billion AZN per year. If in 2008 90.5% of Company's capital was formed on the account of retained earnings, this figure dropped to 33.5% by the end of 2017. The share of statutory capital meanwhile increased from 5.6% to 13.8%.<sup>51</sup>

<sup>46</sup> SOCAR's management, accountability and transparency research, prepared by the Eurasia Extractive Industries Knowledge Hub [http://eurasiahub.khazar.org/pdf/EN\\_SOCAR.pdf](http://eurasiahub.khazar.org/pdf/EN_SOCAR.pdf)

<sup>47</sup> SOCAR, Financial Statement 2016, Changes in Consolidated Capital, p. 4, <http://www.socar.az/socar/assets/documents/en/socar-financial-reports/2016.pdf>

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### **Balances and transactions of SOCAR with related parties**

At December 31, 2017, the outstanding balances with related parties were as follows (expressed in millions of Azerbaijani Manats): <sup>48</sup>

	State and state-controlled entities	Associates, joint ventures
Gross amount of trade receivables	151	127
Impairment provisions for trade and other receivables	(99)	(2)
Other receivables	-	13
Other non-current financial assets	-	250
Cash and cash equivalents	1,529	-
Restricted cash	234	-
VAT and other taxes receivables	534	-
Advances received	(100)	-
Advances received for the sale of shares	-	(4,076)
Borrowings from IBA (at fixed rates varying from 3 to 4 per cent)	(326)	-
Borrowings from the Ministry of Finance of Azerbaijan Republic	(1,194)	-
Deferred consideration payable for Methanol Plant	(62)	-
Bond payable to the Azerbaijani Investment Company ("AIC")	(157)	-
Trade and other payables	(248)	(1,457)
Taxes payable to State Oil Fund of Azerbaijan Republic ("SOFAZ")	(255)	-
Bond payable to SOFAZ	(784)	-
Other payables to SOFAZ	(1,902)	-
Taxes payable	(86)	-

The transactions with related parties for the year ended December 31, 2017 were as follows: (amounts are expressed in millions of Azerbaijani Manats): <sup>49</sup>

	State and state-controlled entities	Associates, joint ventures
Sale of natural gas	673	180
Sale of oil products	479	9
Services rendered	3	120
Interest on loans due to related parties	(67)	-
Corporate income tax	(264)	-
Excise tax	(440)	-
Price margin tax	(177)	-
Mining tax	(123)	-
Other taxes	(426)	-
Utility costs	(64)	(3)
Other operating expenses	(28)	(15)
Other operating income	250	-
Social security deductions	(134)	-
Social expenses	(29)	-
Transportation costs	(104)	(292)
Ecology service and environmental security	-	(1)
Security costs	(10)	-
Purchases of PPE and inventory	(9,069)	(691)
Dividends received from joint ventures	-	147

<sup>48</sup> SOCAR, "Financial statements 2017", "Statement of Changes in Consolidated Capital", p. 37, [http://www.socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye\\_hesabat.2017.pdf](http://www.socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye_hesabat.2017.pdf)

<sup>49</sup> SOCAR, "Financial statements 2017", "Statement of Changes in Consolidated Capital", p. 38, [http://www.socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye\\_hesabat.2017.pdf](http://www.socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye_hesabat.2017.pdf)

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

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Dividends received from associates	-	104
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The financial data of “AzerGold” CJSC and payments to the state budget are as follows:

### **Share capital**

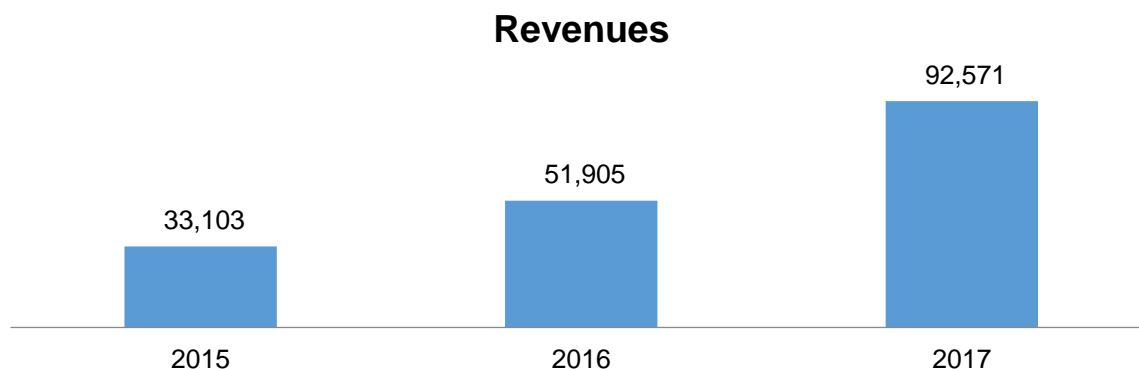
“AzerGold” CJSC registered as a taxpayer under the Ministry of Taxes of the Republic of Azerbaijan with the registration number 1403467421 on July 5, 2016. The Company’s share capital consists of 2 million ordinary shares with face value of AZN 1. The Company is 100% owned by The Republic of Azerbaijan. According to the initial unaudited financial statement of “AzerGold” CJSC for the year ended December 31, 2017 the charter capital was USD 1 296 600 (AZN 2 000 000) which was unchanged from the prior year.<sup>50</sup>

### **Retained earnings**

The initial retained earnings of “AzerGold” CJSC for the year ended December 31, 2017 was equal to USD 1,289,012.<sup>51</sup>

## 2.7.4 Financial performance and production data of state-owned enterprises

Financial and production data of SOCAR are shown below:



**Graph 1a: Revenues of SOCAR for 2015-2017 (billion AZN)**

SOCAR’s total revenues increased to 92.6 billion AZN by the end of 2017, while it was a total of 4.7 billion AZN 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 61% in 2017. Over the last 10 years, annual revenue from crude oil sales has increased from 1.1 billion to 56.6 billion AZN. During this period, its annual revenue from the sale of natural gas increased by 2.7 billion AZN compared to 2008 (AZN 515 million).<sup>51</sup>

### **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 3.3 billion AZN in 2008 to 90.9 billion AZN in 2017. (Figure 2-7) Main reason beyond SOCAR’s increased income was expansion of its sales and distribution operations.<sup>51</sup>

<sup>50</sup> “In response to an official letter No. BT 980 dated Julyn 31, 2018 sent to AzerGold CJSC

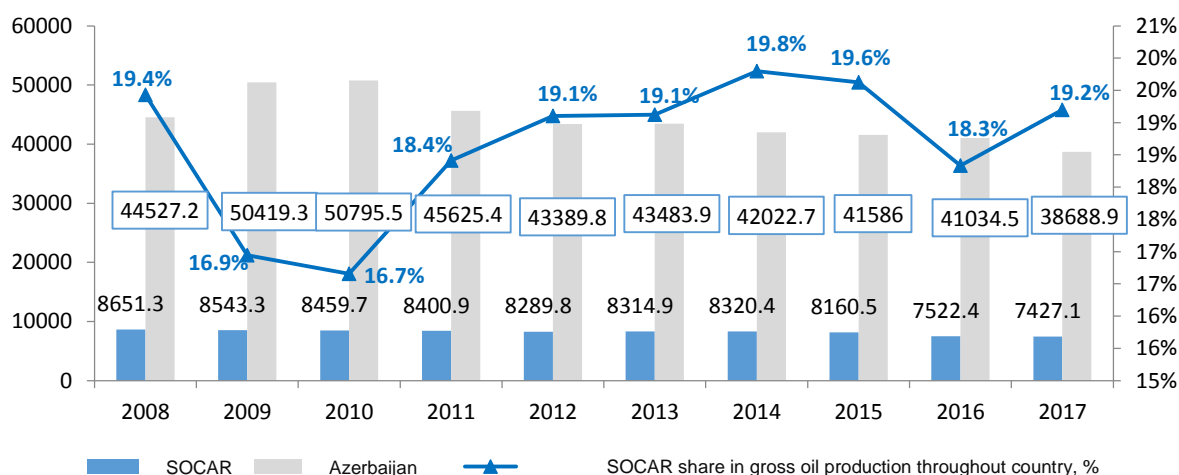
<sup>51</sup> SOCAR’s management, accountability and transparency research, prepared by the Eurasia Extractive Industries Knowledge Hub - [http://eurasiahub.khazar.org/pdf/EN\\_SOCAR.pdf](http://eurasiahub.khazar.org/pdf/EN_SOCAR.pdf)

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

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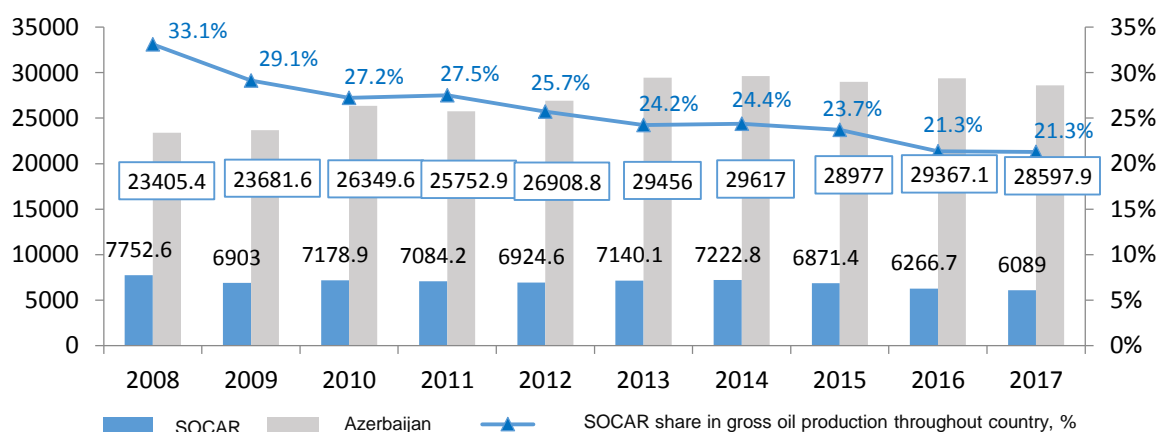
### Production indicators

SOCAR is responsible for all produced hydrocarbons and oil, petrochemical and gas products derived from their processing. An average of 40 million tons of oil and 29 million cubic meters of gas are produced annually in Azerbaijan. In 2008-2017 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 2008 (8.6 million tons). The record oil production (50.8 million tons) throughout the country was recorded however, in 2010, t. There was a tendency of decline in subsequent years and in 2017, it reached to the lowest level - to 7.4 million tons. Over the past 10 years, the company's oil production was decreased by 14.2%. 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 2017 it was increased to 19.2%.. <sup>51</sup>



**Graph 2: Oil production for the years 2008-2017 (thousand tons) <sup>51</sup>**

Along with the oil, gas production has also declined. The company's gas production in 2008 was 7.75 billion cubic meters, dropping to 6.09 billion cubic meters in 2017. The decline in gas production in the past 10 years was 21.5%. However, the gas production in the country was mainly driven (22.2%). The gas production of SOCAR in the country production declined from 33.1% to 21.3% in 2008-2017. The reason for this was increase in production throughout country and decrease in production throughout the company. <sup>51</sup>



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### Graph 2b: Gas production for the years 2008-2017 (million cubic meters)<sup>52</sup>

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.

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.<sup>53</sup>

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, 2017 are as follows:<sup>54</sup>

#### Liquidity Ratios:

Ratios	2015	2016	2017
Current ratio	1,363	1,118	1,123
Quick ratio	1,177	0,848	0,882
Interest coverage ratio	2,328	2,113	3,827

#### Solvency Ratios:

Ratios	2015	2016	2017
Debt to equity ratio (Total liability/Total equity)	1,728	1,994	1,792
Debt ratio (Total Liability/Total asset)	0,633	0,666	0,642

#### Profitability Ratios:

Ratios	2015	2016	2017
Gross margin ratio	0,098	0,087	0,056
Profit margin	0,098	0,041	0,016
Return on capital employed	-0,044	0,003	0,006
Return on asset	-0,040	0,004	0,002

<sup>52</sup> SOCAR's management, accountability and transparency research, prepared by the Eurasia Extractive Industries Knowledge Hub - [http://eurasiahub.khazar.org/pdf/EN\\_SOCAR.pdf](http://eurasiahub.khazar.org/pdf/EN_SOCAR.pdf)

<sup>53</sup> <http://www.socartrading.com/marketing/marketing-export>

<sup>54</sup> SOCAR, "Financial statements 2017", <http://www.socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye.hesabat.2017.pdf>

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

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### 2.7.5 Joint Ventures, associates and subsidiaries of state-owned enterprises

Information on subsidiaries' principal activities, country of incorporation and equity interest during 2017 are given in the tables below:

**Table 1: Joint ventures**<sup>55</sup>

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)
SOCAR KBR	Services	51%	Unchanged	44.0	25.0	(25.0)
Azeri M.I. Drilling Fluids	Production of chemical product	51%	Unchanged	201.0	87.0	(45.0)
Azerbaijan Riqs	Drilling services	10%	Unchanged	-	1,096.0	(7.0)
SOCAR Fugro	Geological services	51%	Unchanged	30.0	19.0	(14.0)
AZFEN	Construction	60%	Unchanged	796.0	265.0	(125.0)
"AzGerneft" LLC*	Exploration, development and production of hydrocarbons	40%	Unchanged	51.0	108.0	(30.0)
Ekol Engineering Services	Clearing services	48%	Unchanged	10.0	5.0	(1.0)
Caspian Shipyard Company	Ships maintenance services	20%	Unchanged	-	4.0	-
Oil and Gas ProServis	Procurement services	30%	Unchanged	1.0	17.0	(9.0)
Sarmatia	Project services	27%	Unchanged	-	1.0	(2.0)
SOCAR AQS	Drilling services	13.4%	Unchanged	288.0	496.0	(233.0)
"SOCAR Baghlan" LLC	Procurement services	51%	Unchanged	-	15.0	(19.0)
SOCAR Foster Viler Engineering Services	Engineering services	65%	Unchanged	4	1.0	(1.0)
SOCAR CAPE	Construction	51%	Unchanged	141.0	66.0	(28.0)
SOCAR Construction	Construction	97%	Unchanged	-	11.0	(1.0)
STYAS	Construction	60%	Unchanged	-	12,219.0	(4,371.0)

Changes in beneficial ownership levels of SOCAR's joint ventures in 2017:

- SOCAR KP has already been eliminated as a joint venture for the year ended December 31, 2017. SOCAR CNG was a subsidiary of SOCAR Petroleum.<sup>56</sup>
- On August 7, 2017, other shareholder of SOCAR and SOCAR Umid Nobel Oil, eliminated a joint venture and established a joint operating company Umid, Babek Exploration and Production Company to exploit the Umid and Babek fields. As a result, investment balance of SOCAR in "SOCAR Umid" in the amount of AZN 304 million was disposed.
- According to the Purchase and Sale Agreement on December 27, 2017, SOCAR agreed to purchase AZN 80 million (USD 47 million) a 50% interest in SOCAR Aurora Terminal ("SATSA"), a joint venture on 10 January 2018, and a loan from SATSA agreed to sell the amount of debt to Global Terminal Holding B LP at a total price of AZN 80 million (USD 47 million).
- During 2017 SOCAR Turkey Yatirim A.S. ("STYAS") and "Azerbaijan Rigs" LLC invested additional funds in the amount of AZN 542 million (2016: AZN 198 million) and AZN 22 million (2016: AZN 17 million) respectively to the share capital of joint ventures.
- In 2017, accreditation agreements were signed on the construction of the SOCAR Star processing plant (a subsidiary of STYAS). Commission fees and interest rates paid by SOCAR in the amount of AZN 28 million (2016: AZN 44 million) were recognized as additional investments to STYAS.

<sup>55</sup>SOCAR, "Financial statements 2017", "Note18, Investments in joint ventures [http://www.socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye\\_hesabat.2017.pdf](http://www.socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye_hesabat.2017.pdf)

<sup>56</sup> Official electron letter from SOCAR

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- On December 25, 2017, Nober Oil purchased 73.77% of shares in SOCAR, investing AZN 139 million in property, plant and equipment with a fair value of its charter capital. As a result, the share of SOCAR in SOCAR AQS decreased from 51% to 13,38% and SOCAR has lost its carrying amount of 37.62% in the amount of AZN 46 million and recognized estimated loss for disposal in the amount of AZN 27 million.
- On December 27, 2017, SOCAR signed a purchase and sale agreement with the Global Terminal Holdings BLP on the sale of 50% of the share capital of AZN 51 million (December 31, 2016: AZN 50 million) at SATSA. The operation was completed on January 10, 2018.

**Table 2: Subsidiaries** <sup>57</sup>

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	65%
"SOCAR Polimer" LLC	Chemical products	Azerbaijan	57%
"BOS Shelf" LLC	Construction	Azerbaijan	90%

During 2017 information on the participation rate of SOCAR in joint and subsidiaries, changes in equity share, revenue, assets and liabilities during the reporting period are shown in the following tables:

**Table 3a: Associates** <sup>58</sup> (Main associates of SOCAR)

Name of associate and subsidiary	Activity	SC participating interest (%)	Change in participation rate during reporting period (%)	Revenue (mln AZN)	Assets (mln AZN)	Liabilities (mln AZN)
The South Caucasus Pipeline ("SCP")	Pipeline construction	10%	Unchanged	633.0	8,662.0	(688.0)
BTC Co	Pipeline construction	25%	Unchanged	1,595.0	9,340.0	(2,234.0)
"Southern Gas Corridor" CJSC ("SGC" CJSC)	Gas supply	49%	Unchanged	218.0	18,848.0	(13,209.0)

<sup>57</sup> SOCAR, "Financial statements, 2017", "Note 1, Group and its operations", p. 6, <http://www.socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye.hesabat.2017.pdf>

<sup>58</sup> SOCAR, "Financial statements, 2017", "Note 19, Investments to associated enterprises", p. 56-60, <http://www.socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye.hesabat.2017.pdf>

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

Name of associates and subsidiaries	Activity	SC participating interest (%)	Change in participation rate during reporting period (%)	Revenue (mln AZN)	Assets (mln AZN)	Liabilities (mln AZN)
"Ateshgah Insurance Company" CJSC	Insurance services	10%	Unchanged	41.0	43.0	(30.0)
Azerbaijan Gas Supply Company	Sales and distribution	28%	Unchanged	2,719.0	501.0	(500.0)
AzLab	Analysis Services	50%	Unchanged	2.0	5.0	-
Caspian Geophysical	Analysis and other geological studies	45%	Unchanged	-	12.0	-
"Caspian Pipe Coatings" LLC	Cleaning of pipes, coating and other. services	50%	Unchanged	15.0	22.0	(6.0)
Cross Caspian Oil and Gas Logistics	Supply and Logistics Services	34%	Unchanged	4.0	3.0	(2.0)
South Caucasus Pipeline Hold Co ("SCPC Hold Co.")	Construction of the pipeline	10%	Unchanged	-	136.0	(1.0)
Tankanlagen Mellingen AG ("TAMAG")	Sales and storage	33%	Unchanged	5.0	13.0	(3.0)
Tanklager Taegerschen AG ("TLT")	Sales and storage	21%	Unchanged	2.0	2.0	-
SOGEP AG	Sales and storage	34%	Unchanged	6.0	6.0	(5.0)
UBAG AG	Sales and storage	24%	Unchanged	26.0	38.0	(32.0)
SAPPRO SA	Sales and storage	13%	Unchanged	19.0	5.0	(3.0)
SARACO SA	Sales and storage	20%	Unchanged	22.0	19.0	(16.0)
Electrogas Malta	Sales and storage	33%	Unchanged	251.0	1,279.0	(1,364.0)
Octognoe		20%	New	2.0	53.0	(31.0)
CI GNL		26%	New	-	15.0	(30.0)

- During 2017, SOCAR has made additional contributions in share capital of its associates, South Caucasus Pipeline Hold Co ("SCPC" Hold Co.) and Southern Gas Corridor ("SGC" CJSC) in the amount of AZN 98 million (2016: AZN 104 million) and AZN 140 million (2016: AZN 693 million), respectively.

"AzerGold" CJSC do not have any associate or subsidiary.

### 2.7.6 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 2017 is indicated in the Table 17.

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 24. The information on transfer which is carried out by the State Oil Fund to the state budget for 2017 is indicated in the Table 25.

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

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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.

The allocations made to the government reflect the monetary investment or funding by SOCAR to the state budget, separate government agencies and projects carried out by the government in accordance with the special regulations of the government. Such kind of contributions are recognised as a reduction of capital. Non-monetary contributions are recognized in the carrying amount of the assets transferred.<sup>59</sup>

### 2.7.7 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:

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 future 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.

These projects (SD2, SCPX, TANAP and TAP projects together with the Projects) are known as the Southern Gas Corridor. In order to consolidate, manage and finance State-owned shareholding projects, the Southern Gas Corridor Closed Joint-Stock Company ("CQD CJSC") was established by the Order of the President of the Republic of Azerbaijan dated February 25, 2014 № 287. 51% of the CQD shares belong to the State (the Ministry of Economy) and 49% to SOCAR.

During 2014-2017, totally, USD 1,232.1 million or AZN 1,530.3 million was transferred from the SOFAZ (on behalf of the Ministry of Finance) to the funding the share of Azerbaijan in the Southern Gas Corridor.<sup>60</sup>

#### **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 m<sup>3</sup> of gas and up to 50,000 barrels of condensate per year to 10.9 billion cubic meters of gas per year. 6 billion cubic meters of gas will be supplied to Turkey and 10 billion cubic meters will be supplied to European consumers.

After achieving significant commissioning and completion milestones across the whole gas value chain during 2017, Shah Deniz 2 and South Caucasus Pipeline Expansion (SCPX) system entered the start-up phase on June 30, 2018.

The total works needed to obtain the first gas for the SD2 project has now exceeded 100%, including engineering, design, procurement, construction and operation tests.<sup>61</sup>

On March 15, 2017 the second topsides unit built for the Shah Deniz Stage 2 platforms sailed away from Baku Deepwater Jackets Factory named after Heydar Aliyev to Shah Deniz contractual area in Caspian Sea. On 1 June 2017 the first topsides unit built for the Shah Deniz Stage 2 platforms sailed away.<sup>62</sup> The topside of Production and Steep Pipe platform (HD) sailed away on September 15, 2018.

<sup>59</sup> SOCAR, "Financial Statements 2017", "Note 2, Basis of the preparation of financial statements and accounting standards", p. 20, <http://www.socar.az/socar/assets/documents/az/socar-financial-reports/Maliyve.hesabat.2017.pdf>

<sup>60</sup> SOFAZ Annual report 2017, [http://www.oilfund.az/uploads/REPORT\\_AZ\\_2017.pdf](http://www.oilfund.az/uploads/REPORT_AZ_2017.pdf)

<sup>61</sup> [https://www.bp.com/az\\_az/caspian/operationsprojects/Shahdeniz/SDstage2.html](https://www.bp.com/az_az/caspian/operationsprojects/Shahdeniz/SDstage2.html)

<sup>62</sup> [https://www.bp.com/az\\_az/caspian/operationsprojects/Shahdeniz/projecthistory.html](https://www.bp.com/az_az/caspian/operationsprojects/Shahdeniz/projecthistory.html)

# EXTRACTIVE INDUSTRY COMISSION IN THE REPUBLIC OF AZERBAIJAN

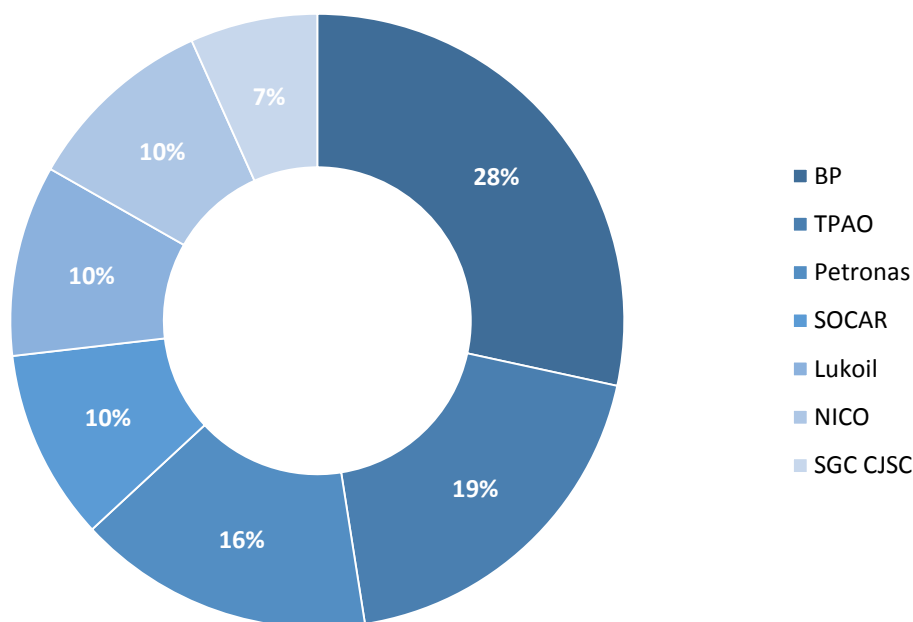
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The first gas export to the Republic of Turkey is supplied as planned in 2018 and Europe is scheduled for 2020.

The total capital expenses of the SD2 project is expected to be USD 22.7 billion.

The Contracting Parties to the Shah Deniz Project are:



### 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 m<sup>3</sup>.

#### SCP Expansion (SCPX)

Expansion covers the construction of a new 48-inch pipeline to pass through the territory of Azerbaijan and Georgia, as well as two new compressor stations in Georgia. The length of the new pipeline will be 489 km (424 km in the territory of Azerbaijan, 63 km in Georgia and 2 km in TANAP interconnection). The pipeline is expected to start operating in 2018.

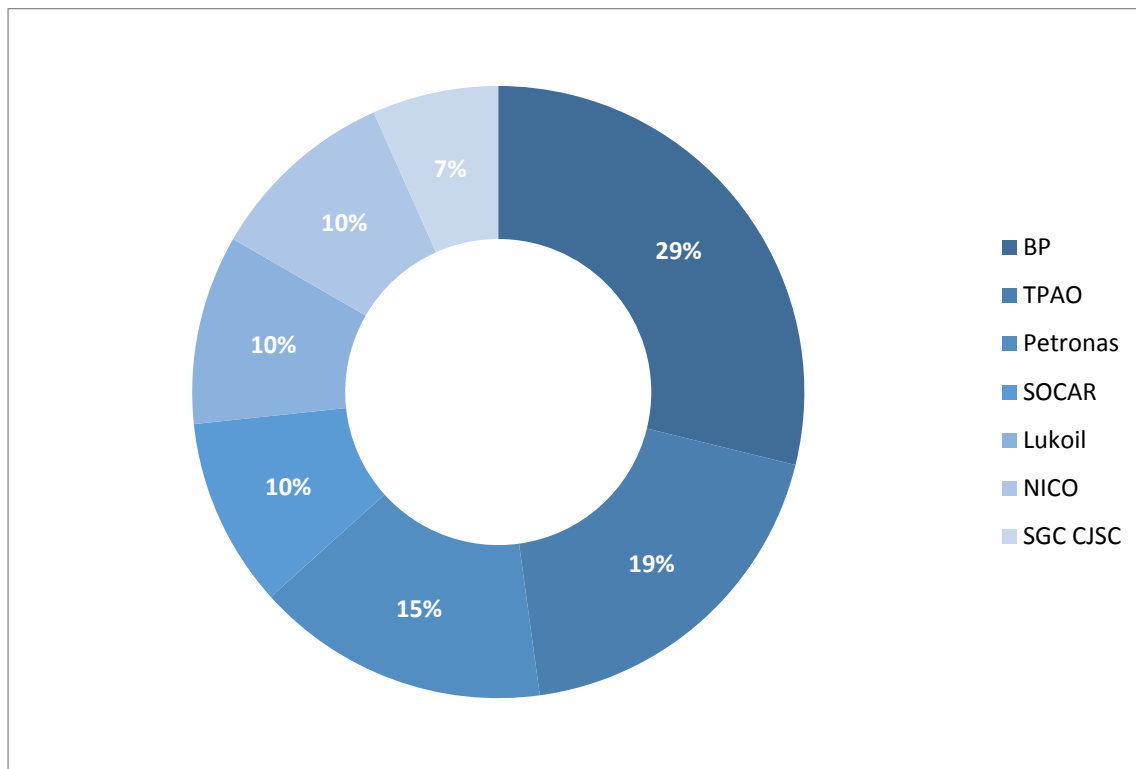
As a result of the expansion, the capacity of the pipeline will be increased by 16 billion cubic meters, reaching a total of 23.4 billion m<sup>3</sup>, and thus, the overall gas transportation capacity will triple. The pipeline will be connected to the TANAP on the Georgian-Turkish border to deliver natural gas to Europe via Turkey.

It is expected that the total capital expenditure of the SCPX project is amounted to USD 4.5 billion. Pipeline owners are:

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### TANAP

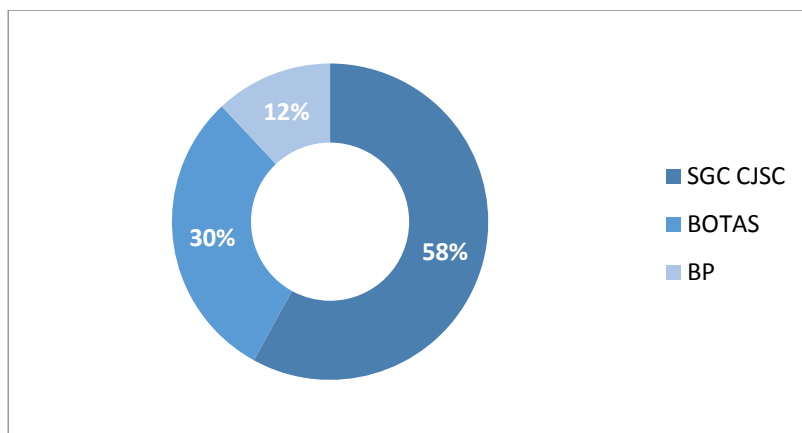
TANAP is a part of the Southern Gas Corridor that will transport gas from the Shah Deniz-2 field to Turkey and from Europe to the Azerbaijani sector of the Caspian Sea. TANAP, with a length of 1,804 km, (additionaly 2 underwater pipelines transiting the Dardanelles with lenght of 17.5 km.) is expected to be commissioned in Eskisehir in mid-2018. The capital expenditure required for the pipeline is USD 8.0 billion. The initial capacity of the pipeline is 16 bln. m3, and later this amount is about USD 31 billion. m3. Works on construction of TANAP are underway.

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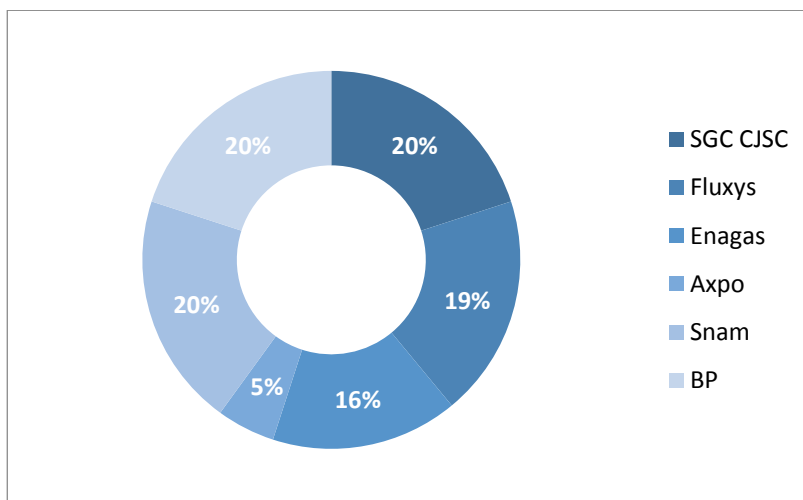
Shareholders of TANAP are given below:



### TAP

The TAP project consists of designing, construction and exploitation of the natural gas pipeline connecting Greece to the Greek -Turkish border, linking to TANAP and crossing Greece, Albania and the Adriatic Sea to Italy and joining the Snam Rete Gas (SRG) network. The TAP project was selected as a profitable way to export natural gas from Azerbaijan to European markets. The Intergovernmental Agreement between TAP project Albania, Italy and Greece was signed in February 2013. The 878 km long pipeline is 550 kilometers to Greece, 215 km to Albania, 105 km to Adriatic Sea, 8 km to Italy. The total capital expenditure of the TAP project is expected to be about EUR 4.5 billion.

Shareholders of TAP are given below:



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### 2.7.8 Loans and guarantees received by state-owned enterprises

The loans received and bonds issued by SOCAR for the year ended December 31, 2017 are provided below: <sup>63</sup>

#### New loans

In 2017, SOCAR has received long-term loans from local and international financial institutions in the amount of AZN 798 million (USD 457 million), AZN 186 million (EUR 101 million) and AZN 254 million (368 million GEL). In addition, SOCAR has received a new short-term loan of AZN 140 million (USD 82 million) from the local financial institution.

Total debt obligations of SOCAR as of December 31, 2017 are estimated at AZN 15,511 million. AZN 5,998 million of these are short-term debt liabilities, and AZN 9,513 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. <sup>64</sup>

For the year ended December 31, 2017 trade payables of SOCAR were as follows: (amounts expressed in millions of AZN). <sup>65</sup>

Funds	Interest rate	Maturity date	Total loan liability at initial currency	Balance for the year ended December 31, 2017
Current funds with USD	1.7-14%	January 2018-December 2018	2,280	3,864
Current funds with TL	9.66-15.35%	January 2018-December 2018	617	275
Current funds with GEL	10.25-15.5%	January 2018-December 2018	108	58
Current funds with other currency	0.7-20%	January 2018-September 2018	361	481
Current part of long-term liabilities			-	1,320
<b>Current portion of the total short-term liabilities and long-term liabilities</b>			-	<b>5,998</b>

Funds	Interest rate	Maturity date	Long-term portion	Current portion
USD 1000 million	4.75%	March 2023	1,663	20
USD 750 million	6.95%	March 2030	1,224	27
USD 489 million	LIBOR + 6.95%	July 2025	758	15
USD 300 million	LIBOR + 3.25%	March 2022	502	7
USD 260 million	LIBOR +4.3% + 1.25%	December 2022	431	-
USD 485 million	LIBOR + 1%	December 2024	353	131
Euro 251 million	EURIBOR + 3.03%	June 2028	308	1
USD 200 million	LIBOR + 1.335%	December 2027	286	14
AZN 378 million	3.5%	October 2024	283	107
Euro 249 million	EURIBOR + 0.95%	June 2028	265	1
AZN 600 million	4%	June 2022	260	66
AZN 350 million	3%	June 2023	250	110
USD 100 million	5%	October 2021	170	2

<sup>63</sup> SOCAR financial statements 2016, p 96 [http://www.socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye\\_hesabat.2016.pdf](http://www.socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye_hesabat.2016.pdf)

<sup>64</sup> SOCAR's management, accountability and transparency research, prepared by the Eurasia Extractive Industries Knowledge Hub - [http://eurasiahub.khazar.org/pdf/EN\\_SOCAR.pdf](http://eurasiahub.khazar.org/pdf/EN_SOCAR.pdf)

<sup>65</sup> SOCAR financial statements 2017, p 61 <http://www.socar.az/socar/assets/documents/en/socar-financial-reports/Financial%20report%202017.pdf>

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Funds	Interest rate	Maturity date	Long-term portion	Current portion
USD 100 million	LIBOR + 3.25%	February 2022	168	4
USD 100 million	LIBOR + 3.25%	April 2022	167	2
USD 106 million	LIBOR +4.675%	March 2028	163	17
USD 106 million	5%	March 2028	163	17
JPY 15,398 million	1.5%	April 2039	161	8
USD 78 million	4%	December 2027	157	-
USD 101 million	LIBOR + 2.8%	April 2022	138	34
USD 100 million	LIBOR + 2.33%	June 2020	114	57
AZN 98 million	3.5%	December 2028	98	-
USD 50 million	4.81%	December 2019	85	-
AZN 100 million	3.5%	January 2026	80	23
USD 65 million	6.25%	December 2024	80	19
USD 150 million	LIBOR + 1.8%	November 2019	74	73
USD million	LIBOR + 1.8%	December 2019	74	73
USD million	LIBOR + 2.4%	May 2020	73	49
USD 55 million	LIBOR + 5.25%	September 2024	71	14
Euro 35 million	LIBOR + 0.063%	December 2026	71	-
AZN 70 million	4%	January 2027	63	10
Euro 35 million	LIBOR + 0.072%	November 2025	62	9
USD 29 million	4%	December 2027	59	-
AZN 144 million	0.16% (0.15%+ 0.01%)	January 2045	55	8
USD 38 million	4.01%	December 2023	54	10
Euro 40 million	EURIBOR + 2.25%	December 2020	54	27
USD 50 million	LIBOR + 2.2%	July 2020	48	25
CHF 22 million	LIBOR + 0.0714% or 0%	January 2019	38	-
USD 150 million	LIBOR + 2.5%	March 2019	37	74
USD 150 million	LIBOR + 2.2%	May 2019	37	73
USD 24 million	4.26%	December	32	8
Euro 20 million	1.64%	October 2023	31	6
Euro 20 million	LIBOR + 0.872%	September 2023	31	6
USD 52 million	6%	January 2020	30	-
USD 50 million	LIBOR + 1.8%	November 2019	29	29
USD 50 million	LIBOR + 1.8%	December 2019	25	24
GEL 51 million	14%	July 2020	20	13
USD 10 million	5%	October 2020	17	-
USD 35 million	LIBOR + 2.35%	April 2020	13	9
Euro 12 million	LIBOR + 3%	March 2022	11	3
USD 20 million	LIBOR + 2%	April 2023	10	-
USD 5 million	5%	June 2020	9	-
USD 6 million	4.26%	December 2022	7	2
USD 5 million	4.26%	December 2022	7	2
Euro 7 million	LIBOR + 3%	March 2022	7	2
USD 4 million	4.26%	December 2022	6	1
USD 6 million	4.01%	February 2020	5	5
USD 4 million	4.26%	December 2022	5	1
Euro 5 million	LIBOR + 3%	March 2022	5	1
USD 150 million	LIBOR + 2.5%	November 2018	-	73
Other long-term debt obligations			16	8
<b>Total long-term debt obligations</b>			<b>9,513</b>	<b>1,320</b>

(\*) LIBOR and EURIBOR change from 3 to 12 months.

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### ***Bond repayment***

On February 6, 2017 SOCAR fully repaid AZN 185 million (USD 97 million) of its outstanding 5.45 per cent senior unsecured notes (with original balance of USD 500 million) due on February 9, 2017.

### ***Issuance of notes***

On March 10, 2017 SOCAR's associate – SGC issued AZN 1,720 million (USD 1 billion) senior unsecured notes guaranteed by the Republic of Azerbaijan ("Notes") bearing interest rate of 6.875 per cent per annum with maturity due on March 24, 2026.

For the year ended December 31, 2017, borrowings of "AzerGold" CJSC from the following financial institutions were as follows:

<b>Long-term debt obligations</b>			
<b>Bank</b>	<b>Effective interest rate</b>	<b>Maturity date</b>	<b>December 31, 2017</b>
<b>"PashaBank" OJSC</b>			<b>17,940.321</b>
Credit 1	4%	November, 2021	11,768.183
Credit 2	4%	December, 2021	-
Credit 3	4%	March, 2022	6,172.137
<b>"Xalq Bank" OJSC</b>			<b>87,000.000</b>
Credit	4%	November, 2021	87,000.000
<b>Total long-term debt obligations</b>			<b>104,940.321</b>
<b>Short-term debt obligations</b>			
<b>"PashaBank" OJSC</b>			<b>5,196.061</b>
Credit 1	4%	December, 2018	3,731.214
Credit 2	4%	December, 2018	-
Credit 3	4%	December, 2018	1,429.177
Accrued interest rate		On demand	35,671
<b>"Xalq Bank" OJSC</b>			<b>58,001</b>
Accrued interest rate		On demand	58,001
<b>Total short-term debt obligations</b>			<b>5,254.062</b>

## 3. OVERVIEW OF THE MINING INDUSTRY

### 3.1. Summary of Mining Industry

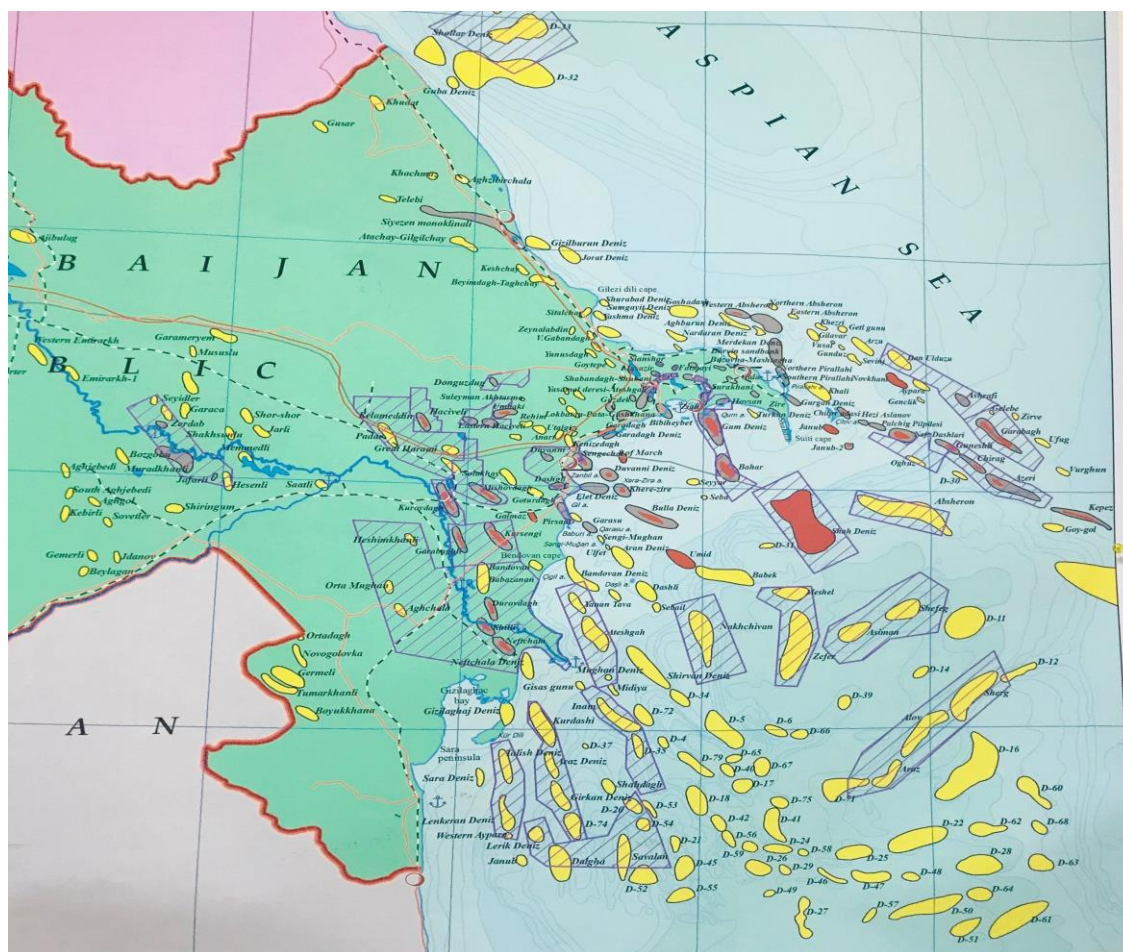
#### ***Oil and gas industry***

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

***Figure 7: The map of oil and gas fields***

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In 2017, 17 out of 31 PSAs signed on oil and gas reserves were operating.

**Table 4: Offshore fields**

Date of signature	Contractors and their participating interests			Reserves	
	Name of the company	Year end 2016 %	Year end 2017 %	Oil	Gas
<i>The Agreement on joint development and production sharing for the Azeri and Chirag fields and the Deep Water Portion of the Gunashli</i> <sup>66</sup> (production stage)					
20.09.1994	BP Exploration (Caspian Sea) Limited	35.8	30.37	✓	
	Azerbaijan (EYSC) Limited	11.6	25.0		
	Shevron Khazar Ltd	11.3	9.57		
	Inpex Southwest Caspian Sea, Ltd.	11.0	9.31		
	Equinor*	8.6	7.27		
	Exon Azerbaijan Limited	8.0	6.79		
	Turkiye Petrolleri Anonim Ortaglđı.	6.8	5.73		
	Itochu Oil Exploration (Azerbaijan) Inc.	4.3	3.65		
ONGC Videsh Limited	2.7	2.31			
<i>Shahdeniz</i> <sup>67</sup> (production stage)					
04.06.1996	BP Exploration (Caspian Sea) Limited	28.8	28.8		✓
	Azerbaijan (Shah Deniz) Limited	10.0	10.0		
	Lukoil Overseas Shah Deniz Ltd.	10.0	10.0		
	Naftiran Intertrade Co (NICO) Limited	10.0	10.0		

<sup>66</sup> BP, "Operations and Projects", "Azeri-Chirag-Deepwater Gunashli", [http://www.bp.com/az\\_az/caspian/operationsprojects/ACG.html](http://www.bp.com/az_az/caspian/operationsprojects/ACG.html).

<sup>67</sup> BP, "Operations and Projects", "Shah Deniz", [http://www.bp.com/az\\_az/caspian/operationsprojects/Shahdeniz.html](http://www.bp.com/az_az/caspian/operationsprojects/Shahdeniz.html)

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	Petronas Azerbaijan Shah Deniz S.A.R.L	15.5	15.5		
	Turkish Petroleum Overseas Company Ltd	19.0	19.0		
	SGC Upstream LLC	6.7	6.7		
<b>Absheron field<sup>68</sup> (exploration stage)</b>					
<b>27.02.2009</b>	SOCAR-in Ortaq Shirketi	40.0	50.0		✓
	Total E & P Absheron B.V	20.0	50.0		
	ENGIE Eand P Absheron B.V.*	20.0	00.0		
<b>Shafag-Asiman field<sup>69</sup> (exploration stage)</b>					
<b>07.10.2010</b>	BP Shafag-Asiman Limited	50.0	50.0		✓
	SOCAR-in Ortaq Shirketi	50.0	50.0		
<b>Shallow Water Absheron Peninsula<sup>70</sup> (exploration stage)</b>					
<b>14.04.2015</b>	BP Exploration (Caspian Sea) Limited	50.0	50.0		✓
	SOCAR-in Ortaq Shirketi	50.0	50.0		
<b>Bahar and Gum Deniz block of offshore fields (production stage)</b>					
<b>22.12.2009</b>	Bahar Energy Limited	80.0	80.0	✓	✓
	SOCAR-in Ortaq Shirketi	20.0	20.0		

\* The board of directors of Statoil proposes 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, 2018.<sup>71</sup>

Equinor ASA, the new name of Norwegian oil and gas supermajor Statoil ASA, was approved at the annual general meeting and became effective on 16 May 2018.<sup>72</sup>

\* According to the letter dated March 23, 2017, "ENGIE Eand P Absheron BV" was withdrawn from the PSA on Absheron Gas Field and divided the shares equally in 20% between SOCAR Ortaq Shirketi and Total E & P Absheron B.V.

### Azeri-Chirag-Gunashli

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.<sup>73</sup> 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. As a part of the Agreement SOCAR's share in ACG will grow to 25% from 11,65% and international partners will pay USD 3,6 billion to SOFAZ as a bonus. USD 33 billion was invested to ACG and our country gained direct profit more than USD 125 billion by producing 440 million tons oil since the "Contract of the Century" was signed on September 20, 1994.<sup>74</sup>

It was Azerbaijan's first offshore PSA. With a lifetime of 30 years, it represented the first major investment by Western multinational companies in any country of the former Soviet Union and became known as The Contract of the Century.

Discovered in the early 1970s when Azerbaijan was part of the Soviet Union, ACG is the largest oilfield in the Azerbaijan sector of the Caspian basin. Lying beneath 120 metres of water about 120 km east of Baku, it comprises a series of individual "reservoir horizons" located 2,000–3,500 metres beneath the Caspian seabed.

<sup>68</sup> SOCAR, "Activity", <http://www.socar.az/socar/az/activities/exploration/absheron>

<sup>69</sup> BP, "Operations and Projects", "Shafag-Asiman" [http://www.bp.com/az\\_az/caspian/operationsprojects/Shafagasiman.html](http://www.bp.com/az_az/caspian/operationsprojects/Shafagasiman.html)

<sup>70</sup> BP, "Operations and Projects", "Shallow Waters of Absheron Peninsula", [http://www.bp.com/az\\_az/caspian/operationsprojects/SWAP.html](http://www.bp.com/az_az/caspian/operationsprojects/SWAP.html)

<sup>71</sup> Equinor official web-page - <https://www.equinor.com/en/news/15mar2018-statoil.html>

<sup>72</sup> <http://www.naturalgasintel.com/articles/114401-brief----statoil-now-equinor>

<sup>73</sup> BP, "Operations and Projects", "Azeri-Chirag-Gunashli", [https://www.bp.com/az\\_az/caspian/operationsprojects/ACG.html](https://www.bp.com/az_az/caspian/operationsprojects/ACG.html)

<sup>74</sup> SOCAR Annual Report 2017, <http://www.socar.az/socar/assets/documents/az/socar-annual-reports/illik-hesabat-2017.pdf>

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To date the field has been developed in several phases: Chirag has been producing since 1997 as part of the Early Oil Project. This was followed by Phase 1 of the Azeri Project - Central Azeri, where production started in early 2005. Phase 2 included West Azeri, which started production in December 2005, and East Azeri, which started production in late 2006. The next ACG development phase - Phase 3 Deepwater Gunashli - started up in April 2008.

More than USD 456 million in operating expenditure and about USD 1.176 billion in capital expenditure on ACG activities were spent during 2017. In 2017, ACG continued to safely and reliably deliver stable production. Total ACG production for the year was on average 588,000 barrels per day (b/d) (about 215 million barrels or 29 million tonnes in total) from the Chirag (51,000 b/d), Central Azeri (137,000 b/d), West Azeri (124,000 b/d), East Azeri (82,000 b/d), Deepwater Gunashli (117,000 b/d) and West Chirag (77,000 b/d) platforms.<sup>75</sup>

At the end of the year, 115 oil wells were producing, while 54 wells were used for gas and water injection.<sup>76</sup>

In 2017, ACG delivered an average of about 7.9 million cubic metres per day of ACG associated gas to SOCAR (2.9 billion cubic metres in total), primarily at the Sangachal Terminal but also to SOCAR's Oil Rocks facility. The remainder of the associated gas produced was re-injected for reservoir pressure maintenance.<sup>77</sup>

### ○ *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. It is one of the world's largest gas-condensate fields. It is located on the deep water shelf of the Caspian Sea, 70 km south-east of Baku, in water depths ranging from 50 to 500 m. Shah Deniz Stage 1 began operations in 2006. It has the capacity to produce around 10 billion cubic meters of gas per annum (bcma) and approximately 50,000 barrels a day of condensate. During 2014, the existing Shah Deniz facilities were further de-bottlenecked which increased their production capacity from 27.3 million standard cubic metres to 29.5 million standard cubic metres of gas per day.<sup>78</sup>

More than USD 451 million in operating expenditure and about USD 2.88 billion in capital expenditure on SD2 activities were spent during 2017.

During 2017 the Shah Deniz field continued to provide deliveries of gas to markets in Azerbaijan (to SOCAR), Georgia (to GOGC), Turkey (to BOTAS) and to BTC Company in multiple locations.

10.2 billion standard cubic metres (bcm) of gas and 2.4 million tons (about 19 million barrels) of condensate the Shah Deniz field during the year were produced.

The existing Shah Deniz facilities' production capacity is currently 30 million standard cubic metres of gas per day (around 10.9 bcma).

SD10 well on the Alpha platform of SD1 was completed in 2017 and brought it on production. The drilling operations on the SDA11 well were resumed and are currently ongoing.

In the frame of the preparations of the Istiglal drilling rig and Maersk Explorer for the launch and subsequent upgrade of production 14 wells also 4 wells in northern flank of the field, 3 wells in western flank of the field were have already been drilled. Drilling operations on SD2 will continue in order to deliver all wells required to reach the planned plateau level of gas production.<sup>79</sup>

Shah Deniz Stage 2, or Full Field Development (FFD) is a giant project that will add a further 16 billion cubic meters per year (bcma) of gas production to the approximately 10 bcma produced by Shah Deniz Stage 1. Around USD 22,7 billion in capital investment is expected to be required for SD2

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<sup>75</sup> BP, News, Business Information, results of the first three quarters of 2017 - [https://www.bp.com/az\\_az/caspian/press/businessupdates/third-quarter-2017-results.html](https://www.bp.com/az_az/caspian/press/businessupdates/third-quarter-2017-results.html)

<sup>76</sup> BP, News, Business Information, results 2017 - [https://www.bp.com/az\\_az/caspian/press/businessupdates/2017-year-end--results1.html](https://www.bp.com/az_az/caspian/press/businessupdates/2017-year-end--results1.html)

<sup>77</sup> BP, News, Business Information, results 2017 - [https://www.bp.com/az\\_az/caspian/press/businessupdates/2017-year-end--results1.html](https://www.bp.com/az_az/caspian/press/businessupdates/2017-year-end--results1.html)

<sup>78</sup> BP, News, "Operations and Projects", "Shah Deniz", "Shah Deniz Stage 1" - [https://www.bp.com/az\\_az/caspian/operationsprojects/Shahdeniz/SDstage1.html](https://www.bp.com/az_az/caspian/operationsprojects/Shahdeniz/SDstage1.html)

<sup>79</sup> Marja news site- <http://marja.az/news/20737>

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to produce the gas and transport it to the Georgia-Turkey border. From there, additional pipeline systems will deliver 6 bcma of gas to Turkey and a further 10 bcma of gas to markets in Europe, in a route known as the Southern Gas Corridor. Shah Deniz gas will travel 3,500 kilometres, to elevations of over 2,500 metres, and over 800 metres below the sea. This was followed by the commencement of commercial gas deliveries to Turkey from the Shah Deniz 2 development project as planned on 30 June 2018. The Shah Deniz 2 project is being delivered safely, on schedule and within budget.<sup>80</sup>

In 2017 the construction of the upper modules of two platforms of SD2 was completed. They delivered safely and installed throughout the sea.<sup>81</sup>

- ***Shallow Water Absheron Peninsula***

BP signed a new 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.

This PSA was ratified by the Milli Majlis on April 14, 2015.

This was achieved as part of BP's long-term commitment to Azerbaijan and as part of its efforts to ensure that Azerbaijan's hydrocarbon resources are fully developed to the mutual benefit of the country and BP.

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

The PSA contract area stretches along the margins of the Caspian basin to the south of the Absheron peninsula. The acreage features water depths of up to 40 metres with potential reservoir depths of 3000-5000 metres. This will enable BP to bring its experience and advanced technology solutions from other shallow water areas around the world to this area.

The 3D seismic acquisition programme covers acquisition of 1300 square kilometres of 3D data. The acquisition programme used BP's advanced, proprietary Independent Simultaneous Source with Nodes (ISSNTM) technology.

At the end of 2017 the processing and interpretation of the 3D data acquired from the Shallow Water Absheron Peninsula (SWAP) contract area was finalized. A Notice of Prospectivity was signed with SOCAR, 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 ongoing.<sup>82</sup>

- ***Shafag-Asiman***

BP and State Oil Company of the Republic of Azerbaijan (SOCAR) signed a new 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 per cent interest while SOCAR will hold the remaining 50 per cent equity.

The block lies some 125 kilometers (78 miles) to the South-East of Baku. It covers an area of some 1100 square kilometers and has never been explored before. It is located in a deepwater section of about 650-800 meters with reservoir depth of about 7000 meters.

Since early 2012 when the Gilavar seismic vessel completed the planned 3D seismic acquisition on the Shafag-Asiman structure, the first 3D seismic ever conducted on the contract area, we have been

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<sup>80</sup> BP, News, "Operations and Projects", "Shah Deniz", "Shah Deniz Stage 2" - [https://www.bp.com/az\\_az/caspian/operationsprojects/Shahdeniz/SDstage2.html](https://www.bp.com/az_az/caspian/operationsprojects/Shahdeniz/SDstage2.html)

<sup>81</sup> Marja news site - <http://marja.az/news/20737>

<sup>82</sup> BP, News, "Operations and Projects", "Shallow Waters of Absheron Peninsula" - [https://www.bp.com/az\\_az/caspian/operationsprojects/SWAP.html](https://www.bp.com/az_az/caspian/operationsprojects/SWAP.html)

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processing the acquired data. This processing is believed to be the largest 3D survey ever processed in-country.

The data processing was completed and interpretation of the seismic dataset started during 2014.

Planning for the first exploration well on the Shafag-Asiman block has been continued during the reporting time for 2017. <sup>83</sup>

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<sup>83</sup> BP, News, "Operations and Projects", "Shafag-Asiman" [https://www.bp.com/az\\_az/caspian/operationsprojects/Shafaqasiman.html](https://www.bp.com/az_az/caspian/operationsprojects/Shafaqasiman.html)

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**Table 5: Onshore fields** <sup>84</sup>

Date of signature	Contractors and their participating interests			Reserves	
	Name of the company	Year end 2016%	Year end 2017%	Oil	Gas
<b>Padar Area and the Adjacent Prospective Structures (exploration stage)*</b>					
27.04.1999	Kura Valley Development Company Ltd.	80,0	80,0	✓	
	SOCAR Affiliate	20,0	20,0		
<b>Balakhany, Sabunchu, Ramana and Kurdakhany (production stage)</b>					
06.05.2011	UGE-LANCER PTE Ltd.	75,0	75,0	✓	
	SOCAR Affiliate	25,0	25,0		
<b>The Block that includes Kurovdagh Oil Field (production stage)</b>					
03.02.2009	Shirvan Investment Limited	80,0	80,0	✓	
	SOCAR Affiliate	20,0	20,0		
<b>The Block that includes Kursangi and Garabaghly (production stage)</b>					
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		
<b>The Block including Mishovdagh and Kelameddin (production stage)</b>					
12.09.2000	Karasu Development Company	85,0	85,0	✓	
	"Ali Bayramli Neft" LLC	15,0	15,0		
<b>The Block Including the Neftchala, Hilli, Durovdag-Babazanan Oil Fields and South-West. Flange of the Mugan Monocline (producing stage)</b>					
03.02.2009	Neftechala Investments Limited	80,0	80,0	✓	
	SOCAR Affiliate	20,0	20,0		
<b>The Block includes Pirsaat oil field and the adjacent territories (exploration stage)</b>					
04.06.2003	Petro-Hong-Kong Pirsaat Oil	80,0	80,0	✓	
	SOCAR Affiliate	20,0	20,0		
<b>Surakhany field (production stage)</b>					
16.08.2005	Novatis Oyl F.Z.E.	75,0	75,0	✓	
	SOCAR Affiliate	25,0	25,0		
<b>Zig and Hovsan Oil Fields (production stage)</b>					
03.11.2006	Apsheiron Investment Limited	75,0	75,0	✓	
	SOCAR Affiliate	25,0	25,0		
<b>Binagadi, Girmaki, Chakhnaglar, Sulutepe, Masazir, Fatmai, Shabandagh and Sianshor Fields (production stage)</b>					
29.09.2004	Azen Oyl Kompani B.V.	75,0	75,0	✓	
	SOCAR Affiliate	25,0	25,0		
<b>The Block includes Shikhzagirli, Sheytanud, Burgut, Donguzdug, Nardaran, Ilkhichi, Western Hajyvalli, Sundi, Eastern Hajyvalli, Turagay, Kanizadag, Western Duvanny, Solakhay and Dashgyl fields of Southern-West Gobustan (production stage)</b>					
02.06.1998	Commonwealth Gobustan Limited	80,0	80,0	✓	
	"Gobustan Neft" LLC	20,0	20,0		
<b>Muradkhanli, Jafarli and Zardab oil fields (production stage)</b>					
16.03.2016	Zenit Aran Oil Company Limited	-	80,0	✓	
	SOCAR Affiliate	-	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 and the impossibility of the production of hydrocarbons in the industry field, exploration and development of the Block included Padar Area and Perspective Structures in the Republic of Azerbaijan and also according to PSA Article 30.3 (b) to refuse from the contract area.

<sup>84</sup> SOCAR, "Activities", <http://new.socar.az/socar/az/activities/production>

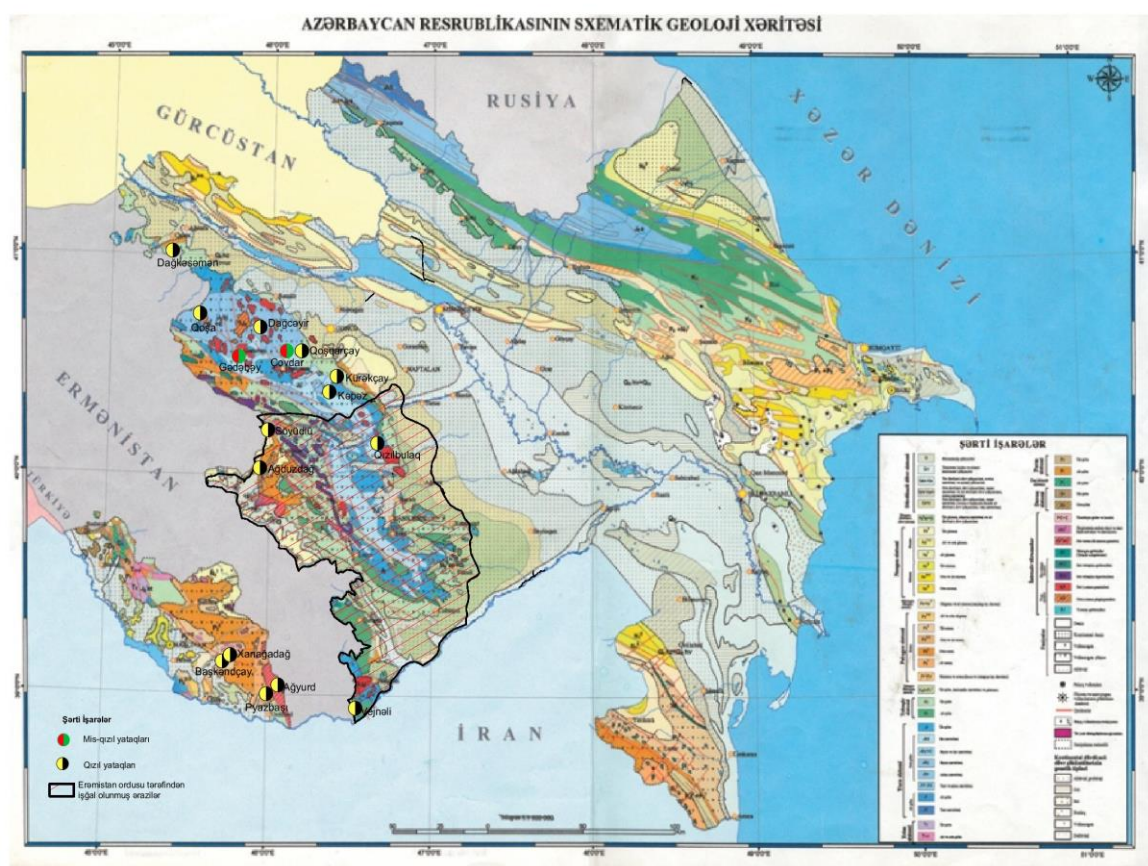
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### Gold and silver extraction <sup>85</sup>

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

**Figure 8.** Placement scheme of gold and silver deposits in the territory of the Republic of Azerbaijan



On August 20, 1997, contract on exploration, use, and share production of Gadabay, Gosha, Ordubad group (Piyasbashi, Agturd, Shakardara, Kalaki), Soyudlu, Gizilbulag, and Vejnali perspective gold deposits was signed between the “Azergizil” State Company and “R.V. Investment Group Services” in accordance with the decree of the President of Azerbaijan Republic “on exploration and use of several gold deposits of Azerbaijan Republic” dated February 5, 1996. In 2000, according to the decree of the President of Azerbaijan Republic “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 Azerbaijan Republic 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. <sup>86</sup>

“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

<sup>85</sup> The Ministry of Ecology and Natural Resources of the Republic of Azerbaijan, the “Mineral Resources of Azerbaijan”, <http://www.eco.gov.az/faydaliqazintilar.php>.

<sup>86</sup> Official web-page of the President of the Republic of Azerbaijan, <http://www.president.az/articles/9268>.

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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 34,2 thousand ounces of gold, 51,9 thousand ounces of silver received from the oxide exploitation, also 34,2 thousand ounces of gold, 51,9 thousand ounces of silver as a result of purchase and sale, in total 65.7 thousand ounces of gold, 93.5 thousand ounces silver were exported in Chovdar Ore Processing Area for refining.<sup>87</sup>

During April-December 2017 "AzerGold" CJSC has exported 60,552 ounces of gold and 86,806 ounces silver in total export operations. Exports of precious metals brought more than AZN 121 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 of the current year, signed a contract with the famous Swiss Argor-Heraeus Company on purification of precious metals.<sup>88</sup>

**Table 6: PSA on extraction of metal ores**

Date of signature	Contractors and their shares		Reserves Gold and silver
	Company	%	
	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). Based on the field management process in international practice, the Sulfide Phase production feasibility study is being prepared in accordance with the feasibility study of the field, adopted by international methodological approaches and standards. Geophysical exploration works are being carried out on the study of side area (near and farther fences). In addition, field tests on ground and geological exploration in perspective areas in Dashkesen and Goy-Leyk regions have been started and is continuing.

"AzerGold" CJSC initiated preliminary exploration of Filizchay and Mazimchay fields in the territory of the contract area in 2017. Works on the preparation of the Initial Investigations (IT) document in accordance with internationally accepted standards in the Filizchay field are underway. Resource drilling works on the Mazimchay field are continuing.<sup>89</sup>

"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, its 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.

<sup>87</sup> In response to an official letter No. BT 980 dated July 31, 2018 sent to "AzerGold" CJSC

<sup>88</sup> <http://azergold.az/azergold-gsc-bu-il-150-min-unsivaya-yaxin-qivm%C9%99ti-metal-ixrac-edib>

<sup>89</sup> In response to an official letter No. BT 980 dated July 31, 2018 sent to "AzerGold" CJSC

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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. It is planned to conduct metallurgical, laboratory, geotechnical, hydrological and ecological research in coming years.

Besides, borehole drilling works have been carried out to calculate reserves on another bed in Mazımchay area, Balakan district.

That were also carried out the complex joint geophysical surveys of the Goydag-Alinja ore in the territory of Nakhchivan Autonomous Republic, and in the near future it is planned to conduct drilling and calculate the reserves.

Experimental samples taken from ore rocks in Dashkesen-Goygol areas are tested in an internationally-certified laboratory, and plan of exploration works is being prepared according to results of the analysis. Geological surveys will be continued in this direction in the coming years.<sup>90</sup>

### 3.2. Production volume

The production volume and amount of extraction by the foreign and local extractive companies in 2017 are shown in the table below:

**Table 7:** Production volume<sup>91</sup>

Baku				
Commodity	Volume (thsd. tonnes)	Volume (thsd. barrels)	Price (US dollars)	Amount (thsd. US dollars)
<b>Oil (including condensate) production</b>	38,140	272,429	52.9	14,411,471
Commodity	<b>Volume, (mln,m3)</b>	<b>Volume, (MMBTU)</b>	<b>Price,(US dollars)</b>	<b>Amount,(US dollars)</b>
<b>Natural gas production</b>	18,126	640,119,690	5,7	3,648,682,233
Siyazan				
Commodity	<b>Volume (mln. m3)</b>	<b>Volume (thsd. barrels)</b>	<b>Price,(US dollars)</b>	<b>Amount (thsd. US dollars)</b>
<b>Oil (including condensate) production</b>	51.6	369	52.9	19,497
Commodity	<b>Volume (mln. m3)</b>	<b>Volume, (MMBTU)</b>	<b>Price,(US dollars)</b>	<b>Amount,(US dollars)</b>
<b>Natural gas production</b>	8.3	293,115	5.7	1,670,753
Neftchala				
Commodity	<b>Volume (thsd. tonnes)</b>	<b>Volume (thsd. barrels)</b>	<b>Price,(US dollars)</b>	<b>Amount (thsd. US dollars)</b>
<b>Oil (including condensate) production</b>	32.5	232	52.9	12,280
Salyan				
Commodity	<b>Volume (thsd. tonnes)</b>	<b>Volume (thsd. barrels)</b>	<b>Price,(US dollars)</b>	<b>Amount (thsd. US dollars)</b>
<b>Oil (including condensate) production</b>	159.6	1,140	52.9	60,306
Commodity	<b>Volume (mln. m3)</b>	<b>Volume, (MMBTU)</b>	<b>Price,(US dollars)</b>	<b>Amount (US dollars)</b>
<b>Natural gas production</b>	41.0	1,447.915	5.7	8,253.116
Imishli				
Commodity	<b>Volume (thsd. tonnes)</b>	<b>Volume (thsd. barrels)</b>	<b>Price,(US dollars)</b>	<b>Amount (thsd. US dollars)</b>
<b>Oil (including condensate) production</b>	12.4	89	52.9	4,685

<sup>90</sup> "AzerGold" CJSC, News, <http://azergold.az/azergold-qsc-bu-il-150-min-unsivaya-yaxin-qiyim%C9%99tli-metal-ixrac-edib/>

<sup>91</sup> 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/](https://www.stat.gov.az/menu/6/statistical_yearbooks/)

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Shirvan				
Commodity	Volume (thsd. tonnes)	Volume (thsd. barrels)	Price,(US dollars)	Amount (thsd. US dollars)
<b>Oil (including condensate) production</b>	240.5	1,718	52.9	90,875
Commodity	Volume (mln. m3)	Volume, (MMBTU)	Price,(US dollars)	Amount (US dollars)
<b>Natural gas production</b>	11.1	391,997	5.7	2,234,380

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 ACG field constituted 214.75 million barrels, which was 1.4% above the forecasted amount (211.7 million barrels). Since oil prices were higher than estimated throughout the reference year, the respective revenue item was executed at 112.3% higher level than projected in the budget (AZN 9,826.2 million). That is, the average sale price of oil constituted USD 52.9 per barrel in 2017 in contrast to USD 41.9 that was forecasted in the budget plan.<sup>92</sup>
- 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 2017, the average price per natural gas in the world market was USD 5.7.<sup>93</sup>
- 3) *Gold and silver production:* As the volume indicator of gold and silver produced in Azerbaijan Republic is kg, this volume was calculated by using the special formula and replaced with the ounces expression (1 kg=35.15 troy ounces). In 2017, the average prices of domestically produced gold, silver and copper and concentrates in the world market were USD 1,275, 16.69 and 6,823 respectively.<sup>94</sup>

**Table 8: Production volume**<sup>95</sup>

Gadabay				
Commodity	Volume (kq)	Volume (ounces)	Price (US dollars)	Amount (US dollars)
<b>Gold production</b>	6,390.80	205,464.22	1,275.00	261,966.880.50
Commodity	Volume (kq)	Volume (ounces)	Price (US dollars)	Amount (US dollars)
<b>Silver production</b>	704.90	22,662.54	16.69	378,237.71
Commodity	Volume (tonnes)	Volume (tonnes)	Price (US dollars)	Amount (US dollars)
<b>Copper and concentrates</b>	2,062.50	2,062.50	6,823.00	14,72.437.50

### 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 2017 amounted to \$ 22.6 billion, of which approximately 61% or USD 13.8 billion were pertained to exports, 39% or USD 8.8 billion were pertained to imports. In the reporting year, the volume of foreign trade operations increased by 27.8% compared to 2016, the volume of export operations increased by 51.1%, and the volume of import transactions increased by

<sup>92</sup> State Oil Fund of the Republic of Azerbaijan, Annual Report - 2017., [http://www.oilfund.az/uploads/REPORT\\_AZ\\_2017.pdf](http://www.oilfund.az/uploads/REPORT_AZ_2017.pdf)

<sup>93</sup> "World bank quarterly report", "Commodity Markets Outlook", "Appendix – Table A.1", page 29, <http://pubdocs.worldbank.org/en/271041524326092667/CMO-April-2018-Full-Report.pdf>

<sup>94</sup> "World bank quarterly report", "Commodity Markets Outlook", "Appendix – Table A.2", page 21,

<https://openknowledge.worldbank.org/bitstream/handle/10986/26457/CMO-April-2017.pdf?sequence=1&isAllowed=y>

<sup>95</sup> 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/](https://www.stat.gov.az/menu/6/statistical_yearbooks/)

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2.9%. Oil and natural gas are the main export products of the country. Total exports in 2016 were in the amount of 15.3 billion USD.<sup>96</sup>

**Table 9a: Volume of exported goods during 2015-2017\***<sup>97</sup>

Name of the product	Volume		
	2015	2016	2017
Cruide oil (thsd tonnes)	21,960.3	34,096.4	27,227.9
Natural gas (mln. m <sup>3</sup> )	8,432.7	8,396.0	7,543.5
Finished and semi-finished silver (kg)	-	-	-

Name of the product	Amount (mln. USD)		
	2015	2016	2017
Cruide oil	8,866.2	10,692.8	10,706.8
Natural gas	1,505.0	1,096.7	1,193.7
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.

The data on gold, silver and copper was not included in this report due to the fact that these goods were not exported in 2017.

**Table 9b: Volume of exported goods during 2015-2017** <sup>\*98</sup> ( thousand tons).

Name of the product	Volume		
	2015	2016	2017
Cruide oil (thsd tonnes)	35,109.9	34,972.3	32,845.0
Natural gas (thsd m <sup>3</sup> )	8,145.2	8,049.1	8,859.7
Finished and semi-finished silver (kg)	-	-	-

Name of the product	Amount (mln, USD)		
	2015	2016	2017
Cruide oil	12,382.59	10,292.21	12,300.8
Natural gas	1,851.75	1,147.16	1,263.7
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 2017

In 2017 in the country 87.9 percent of energy products with total production volume of 64.9 million tons of oil equivalent made primary energy products, 8.6 percent - oil processing products, 3.5 percent - heat and electricity. Last year 69.8 percent of all primary energy products made crude oil (including gas condensate), 29.7 percent - natural gas, 0.5 percent - energy products produced on renewable energy sources. At present Azerbaijan is a country exporting crude oil, natural gas and oil products. In 2017 volume of export in the country made 43.3 million tons of oil equivalent of which 78.0 percent - crude oil, 19.1 percent - natural gas, 2.6 percent - oil products, 0.3 percent - electricity.

<sup>96</sup> The State Customs Committee of the Republic of Azerbaijan, "The most exported goods", <http://customs.gov.az/az/faydali/qomruk-statistikasi/statistics-bulletin/>

<sup>97</sup> 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/](http://www.stat.gov.az/menu/6/statistical_yearbooks/)

<sup>98</sup> State Statistical Committee of the Republic of Azerbaijan / Foreign Trade of Azerbaijan [https://www.stat.gov.az/menu/6/statistical\\_yearbooks/](https://www.stat.gov.az/menu/6/statistical_yearbooks/)

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency For the year ended December 31, 2017

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### 4. TAXES AND REVENUES TO BE COVERED IN THE EIT REPORT

#### 4.1. Significant payments

The marginal value of income (in kind and value) 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.

Significant sources of revenue are as follows:

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

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.

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### 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 <sup>99</sup>	Description of payments
<b>Revenue from oil production</b>	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..
<b>Revenue from gas production</b>	Extractive companies transfer the State's share to the Azerbaijan Gas Supply Company in the form of products in accordance with PSA. Revenues from the sale of gas are transferred to SOFAZ..
<b>Revenues from non-ferrous metals extraction</b>	In the Republic of Azerbaijan, precious metals and precious stones from the earth's surface, other products and revenues derived from their production are owned by extraction subjects of precious metals and precious stones..
<b>Profit tax</b>	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.
<b>Bonus</b>	Bonuses represent fees paid by the oil Companies for the delegation and transfer of extractive rights. These fees are paid at certain stages of oil and gas field development according to appropriate agreements with the Government. Bonuses are transferred in regards with SOFAZ.
<b>Transit fees</b>	Transit fees are the payments which are made in accordance with transferring crude oil and gas through the pipeline. Transit fees are transferred in regards with SOFAZ.
<b>Acreage fees</b>	Exploration of acreage fees period, as well as during the additional exploration period, other contracting parties deemed to fees payments for each square kilometre of Contract areas. Acreage fees are transferred to SOFAZ.
<b>Royalty (Mining tax)</b>	The extraction of mineral resources in the territory of Azerbaijan Republic, and also on Azerbaijani sector of the Caspian Sea is levied with tax on mining. Royalty is transferred to the state budget.
<b>Other payments</b>	Other payments are related to the payments which were not mentioned above. They include other taxes (Property tax, Land tax, VAT, Exchange Difference, gas, and oil products export of the product in the contract (sale) price (export costs less) the difference between the wholesale price of domestic saving (export tax character), the difference in price rise causes handed over to the government in the form of in-kind products (gold and silver). Other taxes are also paid to the state budget.

<sup>99</sup> State Oil Fund of the Republic of Azerbaijan, "Terms", [http://www.oilfund.az/az\\_AZ/about\\_fund/terminler.asp](http://www.oilfund.az/az_AZ/about_fund/terminler.asp).

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

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### 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	
<b>Oil-gas resources</b>					
oil (USD mln)	32,537	32,532	(0,005)	-	-
gas (USD mln)	227,796	0,243	(227,553)	-	-
oil (mln barrels)	131,693	131,682	(0,011)	-	-
natural gas (thsd m3)	6,301.823	6 301,853	0,030	-	-
associated gas (thsd m3)	2,830.760.176	2,993.969.118	163,209.279	-	-
<b>Gold-silver resources</b>					
gold (thsd ounces)	6,366	6,366	-	-	-
silver (thsd ounces)	2,978	2,978	-	-	-
gold concentrate (thsd ounces)	0,686	0,686	-	-	-
silver concentrate (thsd ounces)	14,898	14,898	-	-	-
Non-ferrous metals-copper concentrate (thsd. ton)	0,213	0,213	-	-	-
<b>Taxes and other payments</b>					
profit tax (USD mln)	379,561	379,149*	(0,412)	-	-
profit tax (mln AZN)	9,287	9,287	-	-	-
royalty (mln AZN)	109,548	109,548	-	-	-
VAT (mln AZN)	169,057	162,310	(6,747)	-	-
property tax (mln AZN)	80,182	80,182	-	-	-
land tax (mln AZN)	26,969	26,969	-	-	-
price change (mln AZN)	165,293	165,293	-	-	-
other taxes (mln AZN)	99,551	99,551	-	-	-
acreage fees (USD mln)	2,118	2,118	-	-	-
transit fee (USD mln)	4,238	10,456	6,218	-	-
bonuses (USD mln)	0,972	1,405	(0.01)	-	0,443

Changes to initial amount of the reporting companies has been presented in the part of 7.6 of the report.

- \* The amount presented by the government is expressed in AZN terms (AZN 656,013 million). For the purpose of reconciliation these amounts have been translated into US Dollars at the official exchange rate date.

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**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.)					(USD mln.)	(mln. AZN)	(mln AZN)					
	Monetary inflow from oil	Monetary inflow from gas	Bonus	Transit fee	Acreage fee	Profit tax	Royalty (Mining tax)	VAT	Property tax	Land tax	Price changes	Other taxes	
Apsheron Investment Limited	3,840	-	-	-	-	-	-	-	-	-	-	-	
Azen Oil Company B.V.	7,420	-	-	-	-	0,200	-	-	-	-	-	-	
Azerbaijan (ACG) Limited	-	-	-	0,490	-	73,020	-	-	-	-	-	-	
Azerbaijan (Shah Deniz) Limited	-	22,755	-	-	-	-	-	-	-	-	-	-	
Bahar Energy Limited	0,161	0,243	-	-	-	-	-	6,747	-	-	-	-	
BP Exploration (Azerbaijan) Limited	-	65,604	0,026	-	-	-	-	-	-	-	-	-	
BP Exploration (Caspian Sea) Limited	-	-	-	1,519	-	118,788	-	-	-	-	-	-	
BP Shafag-Asiman Limited	-	-	-	-	2,118	-	-	-	-	-	-	-	
BP Apsheron Limited	-	-	-	-	-	-	-	-	-	-	-	-	
CNPC International(Kura) Limited	0,514	-	-	-	-	2,010	-	-	-	-	-	-	
Commonwealth Gobustan Limited	-	-	-	-	-	-	-	-	-	-	-	-	
Exxon Azerbaijan Limited	-	-	-	0,340	-	20,306	-	-	-	-	-	-	
ENGIE E AND P ABSHERON B.V.	-	-	-	-	-	-	-	-	-	-	-	-	
Ali-Bayramli Neft LLC	-	-	-	-	-	0,415	-	-	-	-	-	-	
Fortunamate Assets Limited	0,514	-	-	-	-	2,217	-	-	-	-	-	-	
Inpex Southwest Caspian Sea, Ltd.	-	-	-	0,465	-	24,773	-	-	-	-	-	-	
Itochu Oil Exploration (Azerbaijan) Inc.	-	-	-	0,182	-	18,096	-	-	-	-	-	-	
Karasu Development Company	-	-	-	-	-	0,415	-	-	-	-	-	-	
Kura Valley Development Company LTD	-	-	-	-	-	-	-	-	-	-	-	-	
Gobustan Neft LLC	-	-	-	-	-	-	-	-	-	-	-	-	
Lukoil Overseas Shah Deniz	-	22,755	0,009	-	-	-	-	-	-	-	-	-	
Naftiran Intertrade Co (NICO) Limited	-	22,755	0,013	-	-	-	-	-	-	-	-	-	
Neftchala Investments Limited	0,797	-	-	-	-	-	-	-	-	-	-	-	
Novatis Oil F.Z.E.	5,598	-	-	-	-	1,177	-	-	-	-	-	-	
ONGC Videsh Limited	-	-	-	0,115	-	10,723	-	-	-	-	-	-	
Petronas Azerbaijan Shah Deniz S.A.R.L	-	35,271	0,020	-	-	-	-	-	-	-	-	-	
Petro-Hong-Kong Pirsaat Oil	-	-	-	-	-	-	-	-	-	-	-	-	
R.V. Investment Group Services	-	-	-	-	-	-	-	-	-	-	-	-	
Salyan Neft LLC	-	-	-	-	-	0,470	-	-	-	-	-	-	
SGC Upstream LLC	-	15,178	-	-	-	-	-	-	-	-	-	-	
Statoil Apsheron A.S	-	-	-	0,363	-	39,395	-	-	-	-	-	-	
Chevron Khazar, Ltd.	-	-	-	0,478	-	36,880	-	-	-	-	-	-	
Shirvan Investment Limited	5,615	-	-	-	-	-	-	-	-	-	-	-	
Total E & P Apsheron B.V	-	-	0,887	-	-	-	-	-	-	-	-	-	
Turkish Petroleum Anonim Ortakligi	-	-	-	0,286	-	24,553	-	-	-	-	-	-	
Turkish Petroleum Overseas Company Ltd	-	43,235	0,017	-	-	-	-	-	-	-	-	-	
UGE-LANCER PTE.LTD	7,500	-	-	-	-	6,123	-	-	-	-	-	-	
Zenith Aran Oil Company Limited	0,578	-	-	-	-	-	-	-	-	-	-	-	
SOCAR	-	-	-	-	-	-	9,287	109,548	162,310	80,182	26,969	165,293	
"Azergold" CJSC	-	-	-	-	-	-	-	-	-	-	-	-	
AzGerneft	-	-	-	-	-	-	-	-	-	-	-	-	
<b>Total</b>	<b>32,537</b>	<b>227,796</b>	<b>0,972</b>	<b>4,238</b>	<b>2,118</b>	<b>379,561</b>	<b>9,287</b>	<b>109,548</b>	<b>169,057</b>	<b>80,182</b>	<b>26,969</b>	<b>165,293</b>	<b>99,551</b>

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**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)							
	(mln. barrels)	(thsd. m³)	(thsd. m³)	(thsd. ounces)				(thsd.ton)
	Crude oil	Natural gas	Associated gas	Gold	Silver	Gold in concentrate of copper	Silver in concentrate of copper	Non-ferrous metals (copper concentrate)
Apsheon Investment Limited	-	-	30 941,511	-	-	-	-	-
Azen Oil Company B.V.	-	-	2 735,330	-	-	-	-	-
Azerbaijan (ACG) Limited	15,340	-	-	-	-	-	-	-
Azerbaijan (Shah Deniz) Limited	-	-	-	-	-	-	-	-
Bahar Energy Limited	-	6 301,823	656,870	-	-	-	-	-
BP Exploration (Azerbaijan) Limited	-	-	-	-	-	-	-	-
BP Exploration (Caspian Sea) Limited	47,120	-	2 733 130,172	-	-	-	-	-
BP Shafag-Asiman Limited	-	-	-	-	-	-	-	-
BP Apsheon Limited	-	-	-	-	-	-	-	-
CNPC International (Kura) Limited	-	-	38 620,446	-	-	-	-	-
Commonwealth Gobustan Limited	-	-	-	-	-	-	-	-
Exxon Azerbaijan Limited	10,535	-	-	-	-	-	-	-
ENGIE E AND P ABSHERON B.V.	-	-	-	-	-	-	-	-
Ali-Bayramli Neft LLC	-	-	-	-	-	-	-	-
Fortunamate Assets Limited	-	-	-	-	-	-	-	-
Inpex Southwest Caspian Sea, Ltd.	14,438	-	-	-	-	-	-	-
Itochu Oil Exploration (Azerbaijan) Inc.	5,660	-	-	-	-	-	-	-
Karasu Development Company	-	-	1 465,000	-	-	-	-	-
Kura Valley Development Company LTD	-	-	-	-	-	-	-	-
Gobustan Neft LLC	-	-	-	-	-	-	-	-
Lukoil Overseas Shah Deniz	-	-	-	-	-	-	-	-
Naftiran Intertrade Co (NICO) Limited	-	-	-	-	-	-	-	-
Neftchala Investments Limited	-	-	-	-	-	-	-	-
Novatis Oil F.Z.E.	-	-	4 155,388	-	-	-	-	-
ONGC Videsh Limited	3,583	-	-	-	-	-	-	-
Petronas Azerbaijan Shah Deniz S.A.R.L	-	-	-	-	-	-	-	-
Petro-Hong-Kong Pirsaat Oil	-	-	-	-	-	-	-	-
R.V. Investment Group Services	-	-	-	6,366	2,978	0,686	14,898	0,213
Salyan Neft LLC	-	-	-	-	-	-	-	-
SGC Upstream LLC	-	-	-	-	-	-	-	-
Statoil Apsheon A.S	11,276	-	-	-	-	-	-	-
Chevron Khazar, Ltd.	14,844	-	-	-	-	-	-	-
Shirvan Investment Limited	-	-	9 625,590	-	-	-	-	-
Total E & P Apsheon B.V	-	-	-	-	-	-	-	-
Turkish Petroleum Anonim Ortaklığı	8,889	-	-	-	-	-	-	-
Turkish Petroleum Overseas Company Ltd	-	-	-	-	-	-	-	-
UGE-LANCER PTE.LTD	-	-	9 429,869	-	-	-	-	-
Zenith Aran Oil Company Limited	0,008	-	-	-	-	-	-	-
SOCAR	-	-	-	-	-	-	-	-
"Azergold" CJSC	-	-	-	-	-	-	-	-
AzGernett	-	-	-	-	-	-	-	-
<b>Total</b>	<b>131,693</b>	<b>6 301,823</b>	<b>2 830 760,176</b>	<b>6,366</b>	<b>2,978</b>	<b>0,686</b>	<b>14,898</b>	<b>0,213</b>

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### 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 2017 (The table was prepared on the basis of the adjusted final figures).

Foreign extractive industry companies	Final amount (mln. AZN)	
	EIT companies	Government
<b>“Agreement on the Joint Development and Production Sharing (PSA) for the Azeri, Chirag fields and the Deep Water Portion of the Gunashli Field (ACG)”</b>		
Azerbaijan (ACG) Limited	73,513	73,513
BP Exploration (Caspian Sea) Limited	120,307	120,307
Chevron Khazar, Ltd.	37,358	37,358
Exxon Azerbaijan Limited	20,646	20,646
Inpex Southwest Caspian Sea, Ltd.	25,238	25,238
Itochu Oil Exploration (Azerbaijan) Inc.	18,278	18,278
ONGC Videsh Limited	10,838	10,838
Statoil Apsheron A.S	39,758	39,758
Turkish Petroleum Anonim Ortaklığı	24,839	24,839
<b>Shahdaniz</b>		
Azerbaijan (Shah Daniz) Limited	-	-
BP Exploration (Azerbaijan) Limited	0,026	0,026
SGC Upstream LLC	-	-
Lukoil Overseas Shah Deniz	0,009	0,009
Naftiran Intertrade Co (NICO) Limited	0,009	0,009
Petronas Azerbaijan Shah Deniz S.A.R.L	0,014	0,014
Turkish Petroleum Overseas Company Ltd	0,017	0,017
<b>Binaqadi, Qırmaki, Chaxnaqlar, Sulutepe, Masazir, Fatmayi, Shabandag and Sianshor oil fields</b>		
Azen Oil Company B.V.	7,615	7,615
<b>The Block including Bahar and Gum-Deniz fields</b>		
Bahar Energy Limited	0,404	0,404
<b>Zigh and Hovsan oil fields</b>		
Apsheron Investment Limited	3,840	3,840
<b>Shafag-Asiman field</b>		
BP Shafag-Asiman Limited	2,118	2,118
<b>The Block including Kursengi and Qarabaghli oil fields</b>		
CNPC International (Kura) Limited	2,524	2,524
Fortunamate Assets Limited	2,731	2,731

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“Salyan Oil” LLC	0,470	0,470
<b>The Block including Mishovdagh and Kelameddin oil fields</b>		
Karasu Development Company	-	-
“Ali-Bayramli Oil” LLC	0,415	0,415
<b>The Block including Neftchala, Xilli, Durovdagh-Babazanan oil fields and the South–West Flange of Mughan Monoklinalin</b>		
Neftechala Investment Limited	0,797	0,797
<b>Surakhani field</b>		
Novatis Oil F.Z.E.	6,775	6,775
<b>The Block including Balakhani-Sabunchu-Ramana and Kurdekhani fields</b>		
UGE-LANCER PTE.LTD	13,623	3,623
<b>The Block including Kurovdagh oil field</b>		
Shirvan Investment Limited	5,615	5,615
<b>The Block including Padar Area and the Adjacent Prospective structures</b>		
Kura Valley Development Company LTD	-	-
<b>The Block including Pirsaat oil field and the adjacent areas</b>		
Petro-Hong-Kong Pirsaat Oil	0,014	0,014
<b>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</b>		
Commonwealth Gobustan Limited	-	-
<b>Absheron oil field</b>		
Total E & P Apsheron B.V	0,887	0,887
ENGIE E AND P ABSHERON B.V	0,443	0,443
<b>Agreement on Exploration and Production Sharing of Gadabay, Gosha, Ordubad Group (Pizabashi, Aghyurd, Shekerdere, Keleki), Soyudlu, Gizilbulagh and Vejneli prospective gold ore deposits</b>		
R.V. Investment Group Services	-	-
<b>Muradkhanli, Cafarli and Zardab oil fields</b>		
Zenith Aran Oil Company Limited	0,578	0,578

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### 4.5. 4.5. Extractive industry companies

The following companies have participated in EIT reporting for 2017 and submitted their reporting forms to the Independent Auditor.

**Table 15: 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	Apsheron Investment Limited	Igor Kirdoda	Oil-gas	1401089201	07.05.2018	✓	Zigh Hovsan
2	Azen Oil Company B.V	Sara Suleymanova	Oil-gas	1700357251	29.05.2018	✓	Binagadi, Girmaki, Chakhnaglar, Sulutepe, Masazir, Fatmayi, Shabandagh and Sianshor oil fields
3	Azerbaijan (ACG) Limited	Bakirov Shaig	Oil-gas	9900025071	29.05.2018	✓	“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	Azerbaijan (Shah Deniz) Limited	Khalilov Khalid	Oil-gas	9900050981	22.05.2018	✓	Shahdeniz
5	Bahar Energy Limited	Norman Benson	Oil-gas	1401921221	30.05.2018	✓	Block including Bahar and Gum-Deniz f
6	BP Exploration (Azerbaijan) Limited	Gary Jones	Oil-gas	9900070341	01.06.2018	✓	Shahdeniz
7	BP Exploration (Caspian Sea) Limited	Gary Jones	Oil-gas	9900070211	01.06.2018	✓	“Agreement on the Joint Development and Production Sharing (PSA) for the Azeri, Chirag fields and the Deep Water Portion of the Gunashli Field (ACG)”
8	BP Shafag-Asiman Limited	Gary Jones	Oil-gas	1701289681	01.06.2018	✓	Shafag-Asiman
9	CNPC	Aliusmanov Yagub	Oil-gas	1700489661	07.06.2018	✓	Block including Kursengi and Garabaghly
10	Commonwealth	Richard Pegge	Oil-gas	9900007571	21.05.2018	✓	Three Blocks including the Shikhzegirli, Sheytanud, Burgud, Donguzlug, Nardaran, Ilkhichi, West Gadjiveli, Sundi, East

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#	Name of the company	Responsible person	Extractive industry	TINs of registered branches or representative offices in Azerbaijan	Reporting date	Stamped and signed	PSA
							Gadjiveli, Turagay, Kenizedag, West Duvanny, Duvanny, Solakhay, and Dashgil Fields of South-West Gobustan
11	Exxon Azerbaijan Limited	Robert O. Syvertsen	Oil-gas	9900061991	31.05.2018	✓	“Agreement on the Joint Development and Production Sharing (PSA) for the Azeri, Chirag fields and the Deep Water Portion of the Gunashli Field (ACG)”
12	BP Absheron Limited	Gary Jones	Oil-gas	1403619281	01.06.2018	✓	Shallow water area around the Absheron Peninsula
13	Fortnamate Assets Limited	Aliusmanov Yagub	Oil-gas	9900058401	07.06.2018	✓	Block including Kursengi and Garabaghly
14	Inpex Southwest Caspian Sea, Ltd.	Yasuhisa Kanehara	Oil-gas	9900023231	30.05.2018	✓	“Agreement on the Joint Development and Production Sharing (PSA) for the Azeri, Chirag fields and the Deep Water Portion of the Gunashli Field (ACG)”
15	Itochu Oil Exploration (Azerbaijan) Inc.	Yoshihisa Okada	Oil-gas	9900017401	31.05.2018	✓	“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 Ismaylova	Oil-gas	9900028001	29.05.2018	✓	Block including Mishovdagh and Kelameddin
17	Kura Valley Development Company LTD	Igor Kirdoda	Oil-gas	Not obtained	05.07.2018	✓	The Block including Padar Area and the Adjacent Prospective structures
18	Lukoil Overseas Shah Deniz	V.V. Kuznetsov	Oil-gas	9900074991	The date was not introduced	✓	Shahdeniz
19	Naftiran Intertrade Co (NICO) Limited	Mehdi Javadi	Oil-gas	9900072741	14.06.2018	✓	Shahdeniz

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#	Name of the company	Responsible person	Extractive industry	TINs of registered branches or representative offices in Azerbaijan	Reporting date	Stamped and signed	PSA
20	Neftchala Investments Limited	Babayev Kamil	Oil-gas	1401551781	04.06.2018	✓	The Block including Neftchala, Xilli, Durovdagh-Babazanan oil fields and the South–West Flange of Mughan Monoklinalin
21	Novatis Oil F.Z.E.	Mammadov Azer	Oil-gas	1700478091	16.05.2018	✓	Surakhani
22	ONGC Videsh Limited	Somnath De	Oil-gas	1701431501	30.05.2018	✓	“Agreement on the Joint Development and Production Sharing (PSA) for the Azeri, Chirag fields and the Deep Water Portion of the Gunashli Field (ACG)”
23	Petronas Azerbaijan Shah Deniz S.A.R.L	Khamizan Johari	Oil-gas	2003417531	21.05.2018	✓	Shahdeniz
24	Petro-Hong-Kong Pirsaat Oil	Tan Xingyi	Oil-gas	9900045941	14.05.2018	✓	The Block including Pirsaat oil field and the adjacent areas
25	R.V. Investment Group Services LLC	Bahruz Rustamov	Mining	9900047931	30.05.2018	✓	Agreement on Exploration and Production Sharing of Gadabay, Gosha, Ordubad Group (Pizabashi, Aghyurd, Shekerdere, Keleki), Soyudlu, Gizilbulagh and Vejneli prospective gold ore deposits
26	Equinor Apsheron AS*	Aynur Sultanli	Oil-gas	9900066351	01.06.2018	✓	“Agreement on the Joint Development and Production Sharing (PSA) for the Azeri, Chirag fields and the Deep Water Portion of the Gunashli Field (ACG)”

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#	Name of the company	Responsible person	Extractive industry	TINs of registered branches or representative offices in Azerbaijan	Reporting date	Stamped and signed	PSA
27	Zenith Aran Oil Company Limited	Ismayilzade Oqtay	Oil-gas	2003712971	27.06.2018	✓	Muradkhanli, Jafarli and Zardab
28	Chevron Khazar, Ltd.	Bakhtiyar Akhundov	Oil-gas	9900046581	29.05.2018	✓	“Agreement on the Joint Development and Production Sharing (PSA) for the Azeri, Chirag fields and the Deep Water Portion of the Gunashli Field (ACG)”
29	Shirvan Investment Limited	Shirinov A.Z.	Oil-gas	1401553101	11.05.2018	✓	Block including Kurovdagh
30	Total E & P Apsheron B.V	Patrick Corvest	Oil-gas	1401620891	21.05.2018	✓	Absheron
31	Turkish Petroleum Anonim Ortaklığı	Namiq Ismayilov	Oil-gas	9900006091	31.05.2018	✓	“Agreement on the Joint Development and Production Sharing (PSA) for the Azeri, Chirag fields and the Deep Water Portion of the Gunashli Field (ACG)”
32	Turkish Petroleum Overseas Company Ltd	Namiq Ismayilov	Oil-gas	9900005861	31.05.2018	✓	Shahdeniz
33	UGE-LANCER PTE.LTD	Oktay Askerov	Oil-gas	1501980421	11.05.2018	✓	Block including Balakhani-Sabunchu-Ramana and Kurdekhani

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 15 May.<sup>100</sup>

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.<sup>101</sup>

<sup>100</sup> Equinor – official web-page, <https://www.equinor.com/en/news/15mar2018-statoil.html>

<sup>101</sup> <http://www.naturalgasintel.com/articles/114401-brief---statoil-now-equinor>

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### Local companies with PSA contractor

#	Name of the company	Responsible person	Extractive industry	TIN	Reporting date	Stamped and signed	PSA
1	"Ali-Bayramli Oil" LLC	Musayev Sayyad	Oil-gas	9900076291	22.05.2018	✓	The Block including Mishovdagh and Kelameddin oil fields
2	"Gobustan Neft" LLC	Karimov Yashar	Oil-gas	9900076161	21.05.2018	✓	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
3	"Salyan Neft" LLC	Aliyev Ziyafat	Oil-gas	9900076031	21.05.2018	✓	Block including Kursengi and Garabaghly
4	"SGC Upstream" LLC	Murad Suleymanov	Oil-gas	1701618791	30.05.2018	✓	Shahdeniz

### Other local extractive industry companies

#	Name of the company	Responsible person	Extractive industry	TIN	Reporting date	Stamped and signed
1	AzGerneft	Isayev Chingiz	Neft-qaz	9900047091	Date has not been submitted	✓
2	SOCAR	Vuqar Sharifov	Neft-qaz	9900003871	06.08.2018	✓
3	"Azergold" CJS	Naghiyev Teymur	Mining	1403467421	30.05.2018	✓

In 2017, the government agencies involved in the reconciliation process are listed below:

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

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency For the year ended December 31, 2017

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

**Table 16:** *The last buyers of crude oil, which is owned by SOCAR and the state in 2017:*<sup>102</sup>

Company name	Quantity (net US bbl)	USD (million)
BP	2,676,324	146.81
CHINAOIL	2,971,578	145.84
CPC	3,193,861	158.76
ENI	9,184,649	496.11
EXXON	18,768,156	1,033.30
Galp Energia Espania (PETROGAL)	7,428,102	410.44
GLENCORE	5,795,390	319.83
IndianOil Corporation Ltd. (IOCL)	4,623,428	240.89
IRVING	7,061,214	388.98
KMG	2,738,707	147.44
Kuwait Petroleum International (KPI)	4,569,456	248.82
OMV	2,728,886	156.05
ORL	2,756,469	147.5
PAZ Oil	3,245,042	187.75
Pertamina	6,643,333	358.38
PKN ORLEN	9,860,974	534.68
ROSNEFT	3,398,966	195.16
SARAS	7,200,501	369.71
STIR	2,855,016	147.34
TOTALERG	3,201,090	172.46
TOTSA	2,476,450	137.85
UNIPEC	3,089,489	153.38
CEPSA	1,059,773	66.11
CHEVRON	629,764	32.55
GALTRADE	682,203	31.49
GUNVOR	682,260	34.90
HELLENIC PETROLEUM SA	682,246	34.88
INA	682,258	35.69
ITOCHU	1,784,488	96.01
MERCURIA	1,058,359	53.50
PETCO Trading UK (PES)	1,049,767	68.18
PETRA ENERGY SA	642,455	35.09
PV OIL	1,049,787	54.84
REPSOL	1,364,787	71.99
SAHARA Energy	655,421	30.59
SHELL	1,460,009	71.80
SINOCHEM	1,049,733	57.25
VITOL	682,238	39.51
<b>Total</b>	<b>131,682,629</b>	<b>7,111.86</b>

Additionally, the amount and value of natural gas exported by SOCAR for the year ended December 31, 2017, is shown in the following table:

<sup>102</sup> 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

# EXTRACTIVE INDUSTRY COMISSION IN THE REPUBLIC OF AZERBAIJAN

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Country for th export of natural gas	Volume (m3)	USD (million)
Georgia	1,199,749.293	187.97
<b>Total</b>	<b>1,199,749.293</b>	<b>187.97</b>

No gold, silver and copper products have been exported in 2017.

### **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 2017.

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

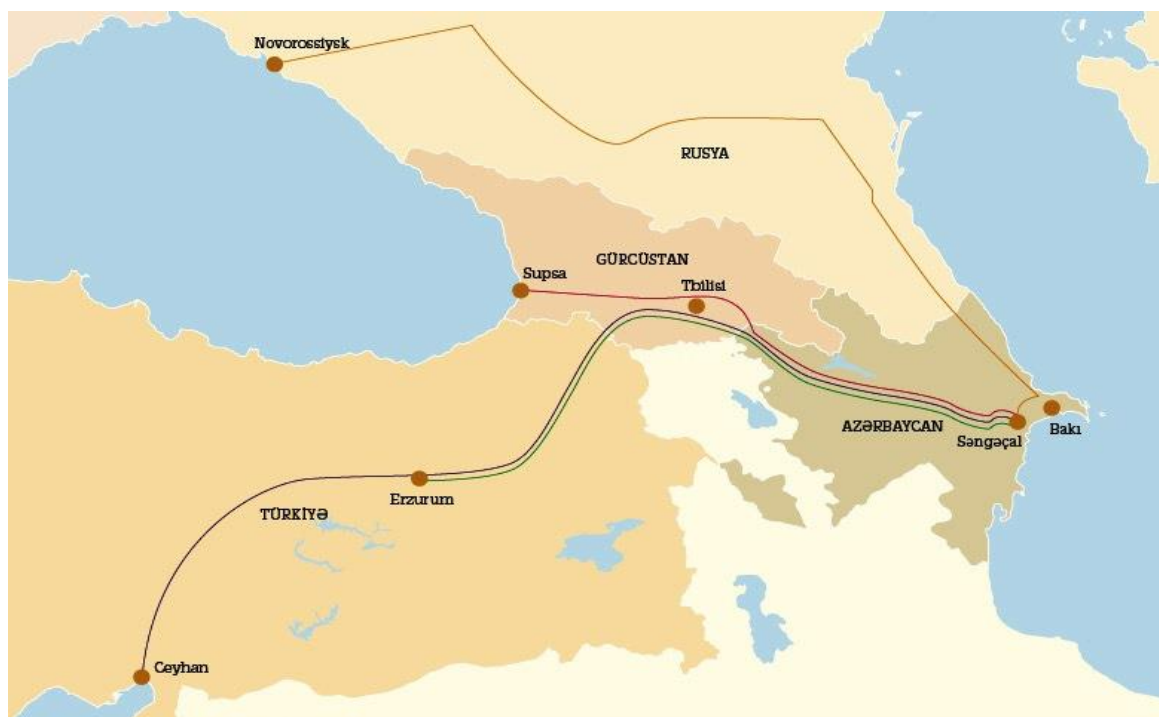
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### 4.8. Transit revenues

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 9:** Pipelines



#### **Baku-Tbilisi-Ceyhan** <sup>103</sup>

Baku–Tbilisi–Ceyhan (“BTC”) pipeline carries oil from the Azeri–Chirag–Deepwater Gunashli (“ACG”) field and condensate from Shah Deniz across Azerbaijan, Georgia and Turkey. It provides a connection between Sangachal terminal on the shores of the Caspian Sea and Ceyhan marine terminal on the Turkish Mediterranean coast. Along the length of 443 km of all the 1,768 km-long pipeline buried in the ground crosses through Azerbaijan, 249 km through Georgia and 1,076 km through Turkey.

**Figure 10:** Baku-Tbilisi-Ceyhan pipeline



<sup>103</sup>BP, "Operations and Projects", "Pipelines", "Baku-Tbilisi-Ceyhan", [http://www.bp.com/az\\_az/caspian/operationsprojects/pipelines/BTC1.html](http://www.bp.com/az_az/caspian/operationsprojects/pipelines/BTC1.html)

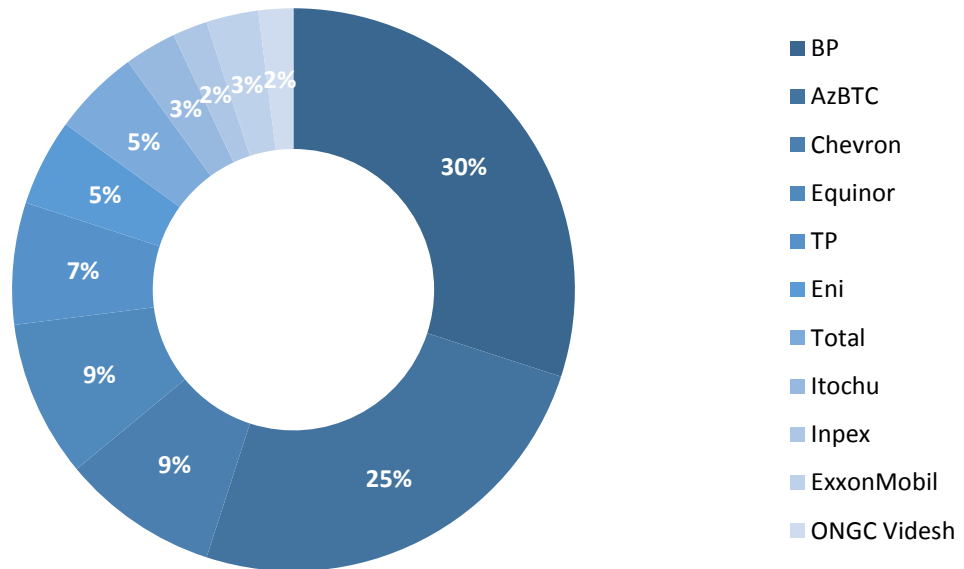
# EXTRACTIVE INDUSTRY COMISSION IN THE REPUBLIC OF AZERBAIJAN

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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 11:** Shareholders of BTC Co

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During 2017, BTC exported around 256 million barrels, approximately 34 million tonnes of crude oil loaded on 333 tankers at Ceyhan. <sup>104</sup>

BTC pipeline currently carries mainly ACG oil and Shah Deniz condensate. In addition, Turkmenistan and Kazakhstan oil was transported via the BTC.

### *South Caucasus Pipeline* <sup>105</sup>

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

In order to minimise environmental and social impacts, to make cost saving on operating and capital expenditure these two projects were connected and were built at the same time and at the same construction corridor with BTJ pipeline.

The length of the pipeline is 692 km, of which 443 km are in Azerbaijan and 249 km in Georgia. The diameter is 42 inches. This pipeline was put into operation in late 2006 and then delivered to Azerbaijan and Georgia, and from July 2007 to Turkey, the Shah Deniz Stage 1 gas.

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<sup>104</sup> Azer Tag news web-page -

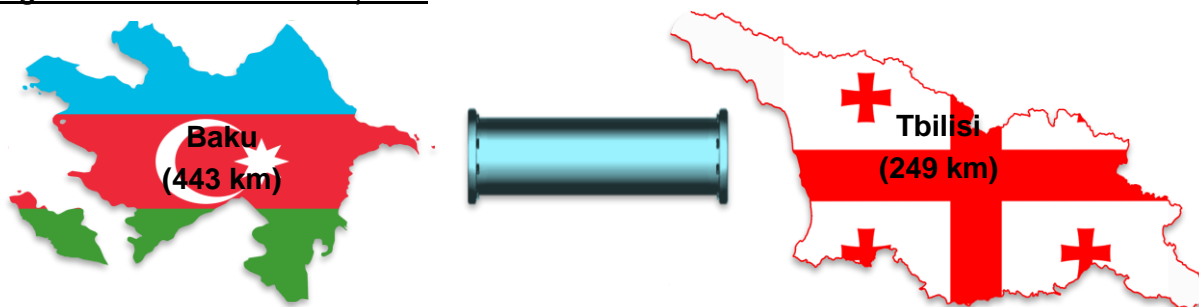
[https://azertag.az/xeber/Baki\\_Tbilisi\\_Ceyhan\\_esas\\_ixrac\\_neft\\_boru\\_kemerinin\\_istifadeye\\_verilmesinden\\_12\\_il\\_otur-1179440](https://azertag.az/xeber/Baki_Tbilisi_Ceyhan_esas_ixrac_neft_boru_kemerinin_istifadeye_verilmesinden_12_il_otur-1179440)

<sup>105</sup>BP, "Operations and Projects", "Pipelines", "South Caucasus Pipeline",  
[http://www.bp.com/az\\_az/caspian/operationsprojects/pipelines/SCP.html](http://www.bp.com/az_az/caspian/operationsprojects/pipelines/SCP.html)

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**Figure 12: South Caucasus Pipeline**



In 2017, daily average throughput of South Caucasus Pipeline (SCP) was about 20,5 million cubic metres of gas per day.<sup>106</sup>

Parts of the South Caucasus Pipeline passing through Azerbaijan and Georgia belong to SCPC, while Turkey passes through Turkey to BOTAS.

### **Western Route Export Pipeline**<sup>107</sup>

The Western Route Export Pipeline ("WREP") transports crude oil from offshore oil fields in the Caspian Sea to the Black Sea, from where the crude is further shipped via tankers through the Bosphorus to European markets. 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. Construction started following the ratification of the intergovernmental agreement between Azerbaijan and Georgia in April 1996 and was completed in November 1998. WREP has been in operation since February 1999.

**Figure 13: Western Route Export Pipeline**



### **Baku-Novorossiysk pipeline**<sup>108</sup>

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. (Built in 1983, in 1995-1996, direction of movement was changed by AIOC and SOCAR).

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). The pipeline metering station is situated in Shirvanovka. The route starts from Sangachal oil terminal in Azerbaijan. The price of the terminal is USD 72 million, the capacity is

<sup>106</sup> Azer Tag news web-page - <https://azertag.az/xeber/1137364>

<sup>107</sup> BP, "Operations and Projects", "Pipelines", "Western Route Export Pipeline"  
[http://www.bp.com/az\\_az/caspian/operations/projects/pipelines/WREP1.html](http://www.bp.com/az_az/caspian/operations/projects/pipelines/WREP1.html)

<sup>108</sup> SOCAR, Transmission, Baku Novorossiysk Oil Pipeline" <http://www.socar.az/socar/az/activities/transportation/baku-novorossiysk-oil-pipeline>

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100,000 tonnes (730,000 thsd. barrels). Terminal consists of 4 reservoirs each with a capacity of 25,000 tonnes.

Final point is Novorossiysk port. The port is capable of carrying 34 mln.tonnes of oil and oil products. The operator of Azerbaijan is AIOC, the operator of the Russian part is Russian "Transneft" company that incurs expenses based on repairs and reconstruction of existing facilities as well as the construction of new facilities.

**Figure 14: Baku-Novorossiysk pipeline**



Azerbaijan crude oil is transported through the territory of Russia. The respective activities of the parties as well as their roles and responsibilities are governed by the Agreement signed between Azerbaijan and the Russian Federation dated January 18, 1996. According to this agreement, following negotiations between Russia and foreign companies, multilateral contracts and documents were signed; describing all commercial and legal aspects of relations between parties and organization representing their governments in details:

- ✦ Agreement between "Transneft" company and Azerbaijan International Operating Company (AIOC) on Azerbaijani oil transported through the territory of Russian Federation;
- ✦ Basis of agreement among participants of "Contract of the Century" – SOCAR, AIOC and foreign companies on oil exports via the northern route;
- ✦ The agreement between Government of the Republic of Azerbaijan and AIOC on assisting in the transportation of oil.

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

Baku-Tbilisi-Ceyhan Main Export Pipeline (BTC) and South Caucasus Gas Pipeline (SCG) are infrastructure projects designed by foreign investors within the framework of "Azeri-Chirag-Gunashli" and "Shah-Deniz" projects with the purpose of ensuring the access to the world market of the crude oil and gas which will be produced in the sector of the Caspian Sea belonging to Azerbaijan Republic. In this regard, these pipelines belong to the investors of "Azeri-Chirag-Gunashli" and "Shah-Deniz" projects up to a certain period.

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.

For the year ended December 31, 2017, the SOFAZ's other source of income was USD 10,5 million or AZN 17.9 million (transit fees), which was obtained from the transfer of hydrocarbons through the territory of Azerbaijan.<sup>109</sup>

<sup>109</sup> SOFAZ, Annual Report, page. 37 [http://www.oilfund.az/uploads/REPORT\\_AZ\\_2017.pdf](http://www.oilfund.az/uploads/REPORT_AZ_2017.pdf)

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

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**Figure 17: Transit fees**<sup>110</sup>

Transfer authority	Date	Amount (million)	
		USD	AZN
AIOC	11.01.2017	0,8	1,51
AIOC	13.02.2017	0,8	1,32
AIOC	13.03.2017	1,0	1,72
AIOC	13.04.2017	1,0	1,76
AIOC	12.05.2017	0,9	1,54
AIOC	13.06.2017	1,1	1,80
AIOC	12.07.2017	1,1	1,84
AIOC	14.08.2017	0,8	1,38
AIOC	12.10.2017	0,9	1,52
AIOC	13.11.2017	1,1	1,79
AIOC	13.12.2017	1,0	1,74
<b>Total</b>		<b>10,5</b>	<b>17,92</b>

### 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 2017.

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 accountability

Reports submitted by Companies and the State in 2017 are included individually in the EIT report for each company. The reporting data provided by Companies involved in the confiscation are classified in Annex 3 by the EIT report.

### 4.11. Data quality and assurance

An independent auditor has collected the initial reporting forms in May-August 2018. All necessary reports have been submitted by the state and companies. After collecting the initial reporting forms, the process of reconciliation was initiated and analyzed and the differences were determined. Initial reports of extractive industry companies and state-approved figures have been observed

40 foreign and local companies participated in the process of reconciliation and presented their reports for 2017.

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).*

An independent auditor has carried out special verification procedures to obtain reasonable assurance about the reconciliation process. More detailed information is provided in Section 8 of the

<sup>110</sup> State Oil Fund Annual Report, p. 37 [http://www.oilfund.az/uploads/REPORT\\_AZ\\_2017.pdf](http://www.oilfund.az/uploads/REPORT_AZ_2017.pdf)

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report. Specific audit involves checking the selection of cash and disbursement transfers indicated in the report.

Under the terms of PSA, companies involved in the extractive industry must fulfill their contractual obligations under appropriate procedures. Under the PSA accounting procedures, all companies must be audited by international audit companies not later than 7 months after each calendar year.<sup>111</sup>

Audit of financial statements of companies is carried out according to International Auditing Standards. Although EIT reports are prepared on a cash basis, the Company's financial statements have been computed on a computational basis.

Companies operating in the PSA submit tax returns, financial statements and income tax returns with the relevant reference by auditor for each calendar year to the tax authorities not later than fifteen (15) March or fifteen (15) April or thirty (30) June.

Reports are signed by the company's executives because the EIT reports are not available to independent auditors. It was noted that the company's executives were reporting reports to ensure the accuracy and completeness of the information.

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 Administrator.

The figures submitted by the companies and the state companies during the reconciliation process have been fully checked and reflected in the report by mentioning the necessary adjustments. As a result of the reconciliation process, all differences were eliminated.

SOCAR's financial statements are audited in accordance with international audit standards and are published on the official website.<sup>112</sup> State bodies pass inspection procedures by the Accounts Chamber of the Republic of Azerbaijan. 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. SOFAZ's financial statements are audited annually in accordance with international audit standards and are posted on the official website.<sup>113</sup>

## 5. DISTRIBUTION OF EXTRACTIVE INDUSTRY REVENUES AND EXPENSES

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

In 2017 revenues of the state budget approved in the amount of AZN 16,516.58 million, expenditures - AZN 17,594.48 million, deficit - AZN 1,077.79 million. Oil revenues of the state budget totaled AZN 7,884 million and were 14.5% less than in the previous year. The share of oil revenues to the State Oil Fund has been AZN 6,100 million, which is 19.9% less than in the previous year.<sup>114 115</sup>

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<sup>111</sup>"Perspective Structure of PSA-Shafaq-Asiman", "Appendix 3 - Accounting Rule," "1.3 Audit,"

<http://www.eiti.az/index.php/az/senedler/sazishler/44-shefeg-asiman-hasilatin-pay-bolgusu>

<sup>112</sup>SOCAR, "Economic and Statistical Indicators", "SOCAR Reports", "Financial Reporting 2017",

[http://www.socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye\\_hesabat\\_2017.pdf](http://www.socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye_hesabat_2017.pdf)

<sup>113</sup> State Oil Fund Annual Report 2017", [http://www.oilfund.az/uploads/REPORT\\_AZ\\_2017.pdf](http://www.oilfund.az/uploads/REPORT_AZ_2017.pdf)

<sup>114</sup> Ministry of Finance of the Republic of Azerbaijan - About Execution of the State Budget of the Republic of Azerbaijan for 2017

<file:///D:/D&S/Bilqeyz.Alakbarli/Downloads/5aeada5decee9.pdf>

<sup>115</sup> Accounting Chamber of The Republic Of Azerbaijan - Statement of the state budget of the Republic of Azerbaijan for 2017

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**Table 18: Revenue and expenses of the state budget for 2015-2017 (million AZN)**<sup>116, 117</sup>

Revenue	2015	2016	2017
Income tax of physical entities	982.5	1,145.7	1,040.3
Profit tax of legal entities	2,211.1	1,983.2	2,285.9
Land tax	48.7	50.3	50.4
Property tax	148.2	174.7	178.6
Value Added Tax	3,454.7	3,623.5	3,668.6
Excise Tax	647.8	625.1	612.6
Royalty Tax	116.1	110.3	111.1
Other receipts (including SOFAZ transfer to the state budget)	8,130.0	7,615.0	6,100.0
Other proceeds	1,758.8	2,177.9	2,469.3
<b>Total</b>	<b>17,497.9</b>	<b>17,505.7</b>	<b>16,516.8</b>

Expenses	2015	2016	2017
National economy	1,173.1	2,904.4	2,679.4
Education	1,700.8	2,192.7	2,621.3
Court authority, law enforcement agencies	1,105.7	1,117.1	1,177.6
Education	1,605.1	1,754.4	1,742.7
Healthcare	708.2	702.5	704.7
Social protection and social security	1,857.2	2,645.2	2,350.2
Culture, art, information and activities not included in other categories	272.4	687.4	253.3
Agriculture, forestry, fishing, hunting and environmental protection	547.6	585.4	506.2
Industry, construction and minerals	5,002.5	2,707.1	2,707.4
Other expenses	3,211.9	2,455.0	2,851.8
<b>Total</b>	<b>17,184.5</b>	<b>17,751.2</b>	<b>17,594.6</b>

The amount of transfer from SOFAZ to the state budget in 2017 amounted to AZN 12.1 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.<sup>118</sup>

<sup>116</sup> Law of the Republic of Azerbaijan on the Execution of the State Budget of the Republic of Azerbaijan for 2017 ", <http://www.maliyye.gov.az/node/966>

<sup>117</sup> State Statistical Committee of the Republic of Azerbaijan, "Azerbaijan in Figures", [http://www.stat.gov.az/menu/6/statistical\\_yearbooks/](http://www.stat.gov.az/menu/6/statistical_yearbooks/)

<sup>118</sup> State Oil Fund of the Republic of Azerbaijan, Annual Report-2017, Execution of the State Oil Fund's Budget for 2017, [http://www.oilfund.az/uploads/REPORT\\_AZ\\_2017.pdf](http://www.oilfund.az/uploads/REPORT_AZ_2017.pdf)

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**Table 19: The income sources of SOFAZ in 2015-2017 (mln AZN)**

Sources	2015	2016	2017
Proceeds from the sale of profit oil and gas	7,369.6	8,320.0	11,030.0
Revenue from managing the funds	335.6	1,068.8	1,083.6
Payments on transit fees	11.6	18.0	17.9
Bonus payments	2.1	0.1	2.4
Acreage fees	2.2	3.3	3.6
Other revenue and receipts	-	-	-
<b>Total</b>	<b>7,721.1</b>	<b>9,410.2</b>	<b>12,137.5</b>

**Table 20: The breakdown of payments of Oil Fund in 2015-2017 (mln AZN)**

Samur–Apsheron irrigation system	2015	2016	2017
The administrative expenses of Oil Fund	8,130.0	7,615.0	6,100.0
Education of Azerbaijani youth abroad	150.0	90.0	105.0
New Baku-Tbilisi-Kars railway construction project	90.0	70.0	70.0
Financing of the participating interest of the Republic of Azerbaijan on Construction of “Star” Oil Refinery Project in Turkey Republic	27.9	20.1	18.1
Financing of the participating interest of the Republic of Azerbaijan in “South Gas Corridor” projects	35.5	31.6	17.0
Samur–Apsheron irrigation system	61.5	66.2	20.5
The administrative expenses of Oil Fund	-	331.8	735.4
Education of Azerbaijani youth abroad	692.9	797.4	-
Upper limit of the transfer to the Central Bank of the Republic of Azerbaijan for sustaining macroeconomic stability	-	-	3,949.5
<b>Total</b>	<b>9,187.8</b>	<b>9,022.1</b>	<b>11,015.5</b>

## 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.<sup>119</sup>

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.

The Chamber of Accounts of the Republic of Azerbaijan issues an opinion on the draft state budget and extra-budgetary state budgets and the annual report on the execution of the state budget and relevant bills.

<sup>119</sup> "Decision of the Cabinet of Ministers of the Republic of Azerbaijan", <http://www.e-qanun.az/framework/5840>

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The Chamber of Accounts conducts audits of state and consolidated budget revenues and expenditures, including extra-budgetary state funds in accordance with legislation.<sup>120</sup>

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 macroeconomic 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.<sup>121</sup>

## 6. CONTRIBUTION OF THE EXTRACTIVE INDUSTRY TO THE ECONOMY OF AZERBAIJAN

### 6.1. Social expenditures

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 148 million in Azerbaijan.

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
- Sports, education and culture support

Charity and sponsor support:

**Table 21: SOCAR's payments for 2017 for charity, social and sponsorship coverage**<sup>122</sup>

Payment Description	(thousand AZN)
Sports	10,473
Financial associations and trade unions	2,508
Education	4,293
Culture and arts	2,105
Healthcare	12
Material assistance to individuals	569
<b>Total</b>	<b>19,960</b>

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.

<sup>120</sup> "Law of the Republic of Azerbaijan on Chamber of Accounts, July 2, # 700-IQ", <http://www.e-qanun.az/framework/3865>

<sup>121</sup> "Law of the Republic of Azerbaijan on Budget System, July 2, 2002, # 358- IIQ", <http://www.e-qanun.az/framework/1126>

<sup>122</sup> SOCAR, "Sustainable Development Report", "Social Activity and Support for Regional Development," p. 34, <http://www.socar.az/socar/assets/documents/az/socar-annual-reports/davamli-inkisaf2016.pdf>

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In 2017, BP and its partners in joint ventures spent only 5.7 million dollar on social investment projects in Azerbaijan.<sup>123</sup> Social projects and related costs of BP in 2017 are shown in the following table:<sup>124</sup>

Project's name	Organizers/their bank details	Duration (start date/end date)	Total expenses (USD or AZN)
Azerbaijan Society of Petroleum Geologists	Azerbaijan Society of Petroleum Geologists	30.11.2017/31.12.2017	AZN 10,000
Summer Courses in Geology	BP Azerbaijan	14.08.2017/02.09.2017	USD 46,751.8
Enterprise Development Programme	EKVITA LLC	October 2012/November 2018	USD 171,608.92
The School of Project Management (SPM) in Azerbaijan	Twentyeighty Strategy Execution (UK) Ltd.	November 2010/June 2018	USD 18,962.51
Vocational Training Services to Company Communities Phase 2	SOCAR	December 2015/January 2017	USD 12,236.8
Supporting the Establishment of Effective Migration Management in Azerbaijan	The International Organization for Migration (IOM)	21.04.2015/31.08.2018	USD 34,433.39
Social Infrastructure Development	Perlit MMC	August 2017/December 2017	USD 117,815.23
IT Essential Course -vocational training phase 2	International Training and Project Center	August 2017/ January 2018	USD 16,194.06
Community Awareness Sessions on Tuberculosis	"German Industrial and Medical Consulting" and "State Lung Institute" in Azerbaijan	November 2015/September 2017	
Building Early Intervention Services	United Aid for Azerbaijan	Phase 1: June 2016/August 2017 Phase 2: September 2017/September 2018	Phase 1: USD 42,140.46 Phase 2: USD 0
Capacity Building for English Language Teachers and English Language Training for Community Members	Phase 1: British Council Trading International Ltd. Phase 2: The Branch of the British Council in the Republic of Azerbaijan	Phase 1: April 2016/April 2017 Phase 2: August 2017/August 2018	USD 46,729.9
Agricultural Vocational Education: Development of New Occupations	Phase 1: British Council Trading International Ltd., Phase 2: The Branch of the British Council in the Republic of Azerbaijan,	Phase 1: August 2016/April 2017 Phase 2: July 2017/July 2018	USD 51,925.09
Establishment of Big Data Sciences Research and Training Center at ADA University	"ADA University" Foundation	November 2016/ November 2017	USD 55,743.2
Build Your Future Youth Support Project	"LEGACY" CSR Consulting and Management Company LLC	Phase 1: September 2016/August 2017 Phase 2: August 2017/November 2018	USD 21,656.77
FIRAVAN project	SERVET-FYZ LLC	March 2017/ September 2018	USD 32,994.75
Provision of support services under "Yellow/Sweet Gold" social investment project	PULS-R Limited Responsible Society	Phase 1: March 2017/December 2017 Phase 2: December 2017/December 2020	1st Stage: USD 63,417.10 2nd Stage: USD 0
Azerbaijan Business Case Competition 2017	US Educated Azerbaijani Alumni Association (AAA)	August 2017/December 2017	AZN 9,000
ADA Baku Summer Energy School	ADA University Foundation	July 2017/July 2017	AZN 34,016
3rd International Forum: BIG DATA DAY	ADA University Foundation	May 2017/May 2017	AZN 17,008
"Educating through Innovation" STEAM conference	US Educated Azerbaijani Alumni Association (AAA)	May 2017/June 2017	AZN 8,000
Conference on "Ethics and Compliance in Azerbaijan"	American Chamber of Commerce	December 2017/December 2017	AZN 10,000
BP supported seven Azerbaijani athletes	Individual Olympic and Paralympic Athlete	2017/2017	USD 75,712

<sup>123</sup> BP official web-page, [http://www.bp.com/az\\_az/caspian/press/businessupdates/2016-year-end--results11.html](http://www.bp.com/az_az/caspian/press/businessupdates/2016-year-end--results11.html)

<sup>124</sup> State Payments Report of BP, BP Azerbaijan's Social Performance and Related Costs

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Baku 2017 Islamic Solidarity Games	Azerbaijan Islamic Solidarity Games Operations Committee (AISGOC) and Azerbaijan National Olympic Committee	May 2017/May 2017	USD 2,513.297
Translation of Microeconomics by Case, Fair and Oster book into the Azerbaijani language	Qlobal TFD	September 2017/September 2020	USD 24,840
Translation of International Economics: Theory and Policy(11th edition) textbook by Krugman, Obsfeld and Melitz	MODULUS LLC	September 2017/September 2018	USD 7,057
Oil and Gas Scholarship Programme	BP and its co-ventures implemented by the universities of Turkey & Azerbaijan	2017/2017	USD 30,690.80
Supporting Improvement of Computer Science Education in high schools of Azerbaijan	International Training and Project Center	December 2017/December 2020	-
Enhancing employability skills for people with disabilities	The Branch of the British Council in the Republic of Azerbaijan	December 2017/December 2018	-
Translation of Macroeconomics by Olivier Blanchard book into the Azerbaijani language	Khazar University	September 2017/September 2020	-

### 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. <sup>125</sup>

SOCAR paid AZN 165.3 million to the state budget for 2017 on revenues from the price difference.

In accordance with the relevant government decisions, the SOCAR is required to make direct financial contributions on a regular basis or fund the construction and maintenance projects (including transfer of assets) by government, state institution. The amount of such contributions and financing (in the form of payments to subcontractors of state departments) in 2017 amounted to AZN 567 million and AZN 89 million (2016: AZN 56 million and AZN 17 million, respectively) and, accordingly, It has been used in the Republic of Azerbaijan as well as for the repair and reconstruction of the new recreation, transport, education and medical infrastructure. <sup>126</sup>

### 6.3. Industry and Field structure of GDP

<sup>125</sup> International Monetary Fund, "Guidance for the Transparency of Natural Resources Revenues (2007)", <http://www.imf.org/external/np/pp/2007/eng/051507g.pdf>

<sup>126</sup> SOCAR, "Financial Statement 2017", "Note 28, Charter capital, additional paid-in capital and retained earnings", p. 70 <file:///D:/D&S/Bilgevs.Alakbarli/Desktop/Maliyye.hesabat.2017.pdf>

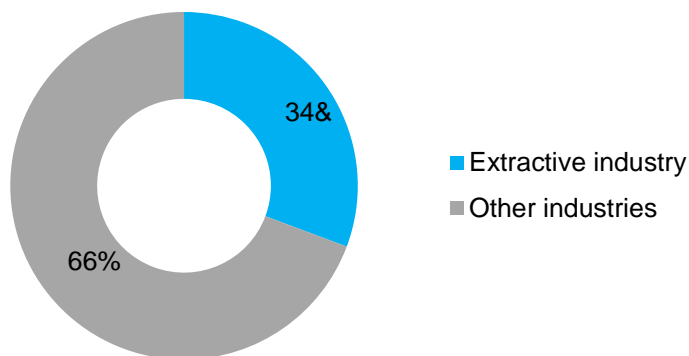
# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

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In 2016 GDP increased in 0,1% though the Azerbaijani economy declined by 3.1% in 2016. Gross Domestic Product (GDP) is AZN 70.1 bn. and GDP per capital consists of 7.2 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 2.7% in real terms. Noting that non-oil GDP has decreased by 4.5% in 2016. The share of the non-oil sector in GDP in 2017 was 62.8%. 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 34.1%.



**Graph 3: Area structure of GDP in 2017 (percentage)** <sup>127</sup>

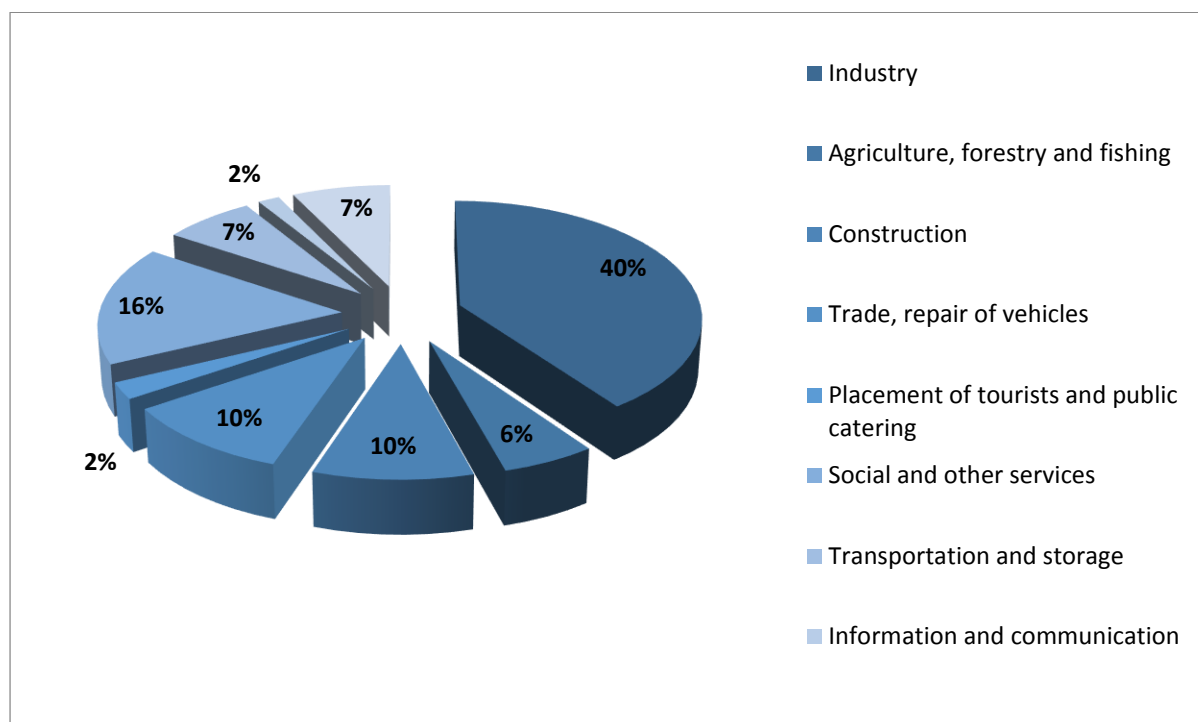
Industrial sector is the leading sector in the structure of GDP, which is in the amount of 70.1 billion AZN. The share of the industry in the structure of GDP increased from 37.1% in 2016 to 40% in 2017. The share of social and other services in the GDP was 16.4%, the share of the construction sector is 9.5%, the share of trade, repair of vehicles is 10.4%, the share of net taxes on product and imports is 7.3%, transport and warehouse the share of agriculture in agriculture, forestry and fishing increased by 5.6%, tourists placement and public catering - 2.3%, information and communication - 1.6%.

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<sup>127</sup> "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](http://www.stat.gov.az/menu/6/statistical_yearbooks)

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**Graph 4:** *Field structure of GDP for 2017 (in percentage)* <sup>128</sup>

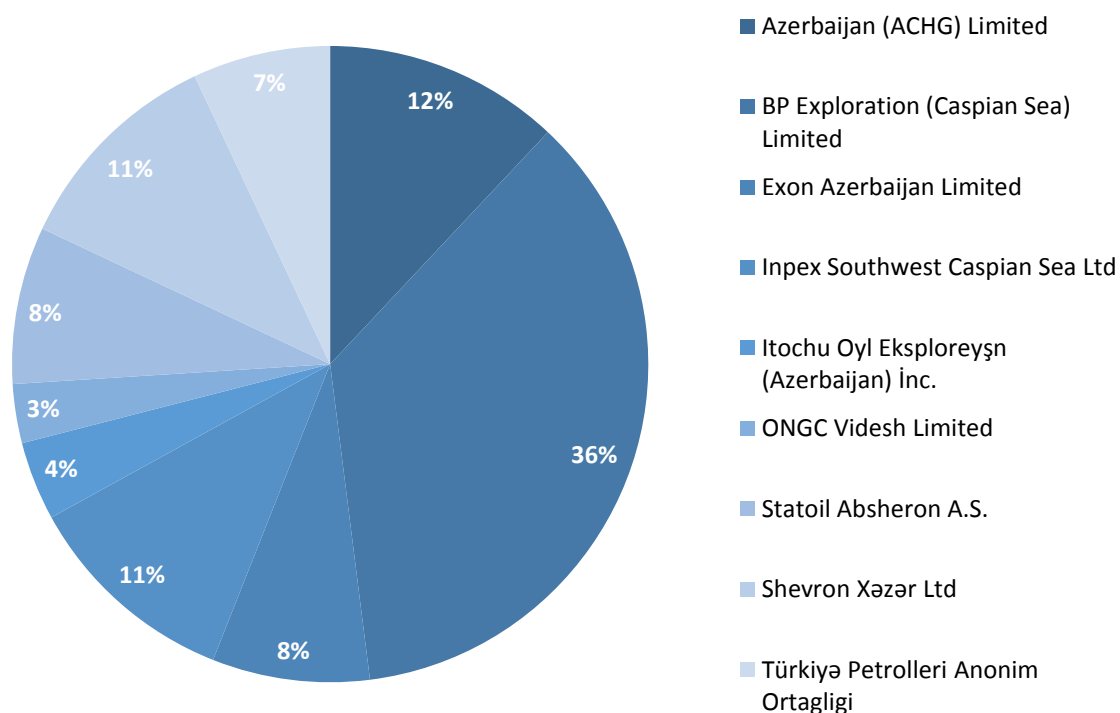
### 6.4. The state revenue from the extraction industry

In 2017, 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. Totally AZN 12,137.5 million (USD 7,065.5 million) were included in the Fund's revenue. It should be noted that SOFAZ's revenue from sales of hydrocarbons has increased in comparison with 2016. This increase was mainly due to the increase in crude oil prices. Thus, the average selling price per barrel of oil was about USD 41.9 million in 2016, while in the reporting year this amount was USD 52.9. In dollar terms, SOFAZ revenues increased by 19.4% compared to 2016.

<sup>128</sup> State Statistical Committee of the Republic of Azerbaijan, "Statistical Publications", "E-version of Publications", "National Accounts of Azerbaijan" [http://www.stat.gov.az/menu/6/statistical\\_yearbooks](http://www.stat.gov.az/menu/6/statistical_yearbooks)

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**Graph 5:** Indicator of budget revenue from 13 major foreign companies (in percent)

Share of the government in foreign companies' production:

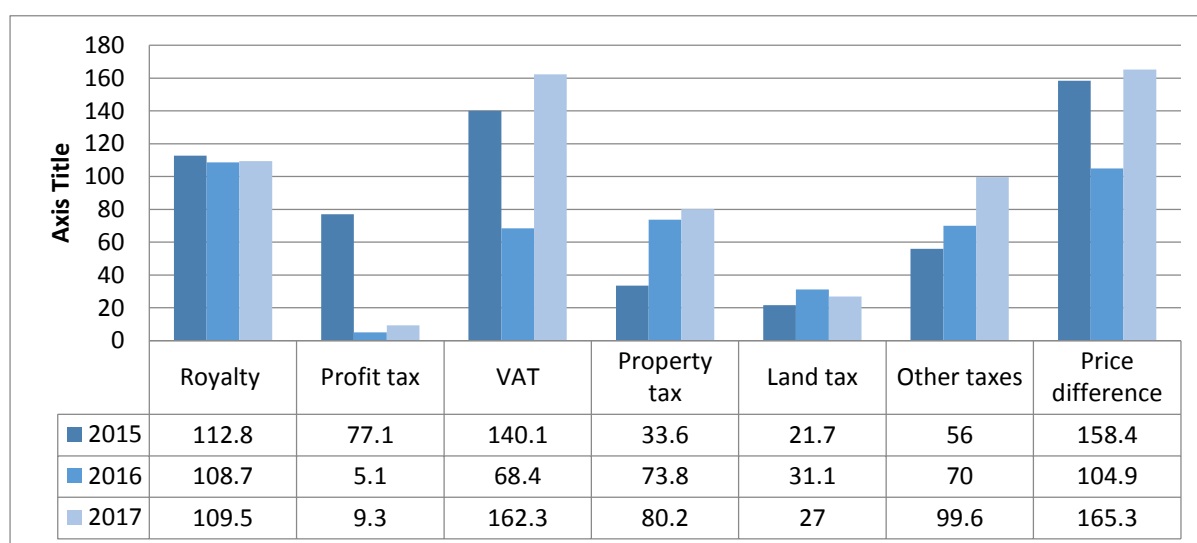
Payment	2015 (mln. USD)	2016 (mln. USD)	2017 (mln. USD)
<b>Cash</b>			
Cash generated from oil production	45.8	24.5	32.5
Cash generated from gas production	323.3	64.4	0.24
Profit tax	739.1	258.8	379.1*
Bonus	2	0.05	1.4
Transit fees	11.6	11.3	10.5
Acreage fee	2.1	2.1	2.1
Gold	9.0	9.0	8.1
Silver	0.6	2.1	0.1

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Payment	2015	2016	2017
<b>In-kind</b>			
Crude oil (million barrels)	140	127.4	131.7
Natural gas (thousand cubic meters)	18,721.2	18,949.5	6,301.9*
Associated gas (thousand cubic meters)	2,892.988	3,380.408	2,993.760



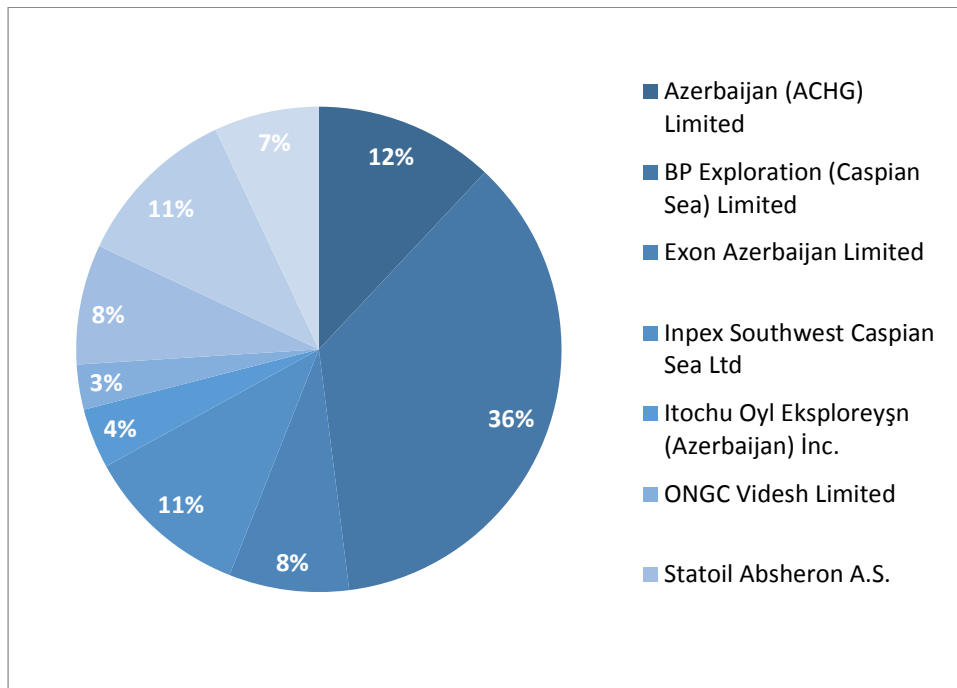
*Graph 6: Government's share in production sector of the local companies:*

- \* According to the Protocol signed between SOCAR, Affiliation ("ONS") and the Bahar Energy Limited dated April 19, 2017, the parties agreed that, within the period of this Protocol, in accordance with Article 14 of the ERDPSA and Article 5 of JLA, Compensation Carbohydrates shall be sold out in according with the relevant Sales Agreement by SOCAR. Thus, Bahar Energy Limited suspended gas delivery compensated in kind from the date of the specified protocol.
- \* The amount presented by the government is expressed in AZN terms (AZN 656,013 million). For the purpose of reconciliation of these amounts have been translated into US Dollars at the official exchange rate date.

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**Graph 7:** *Crude oil transfers to the PSA for the ACG ACQ (million barrels).*

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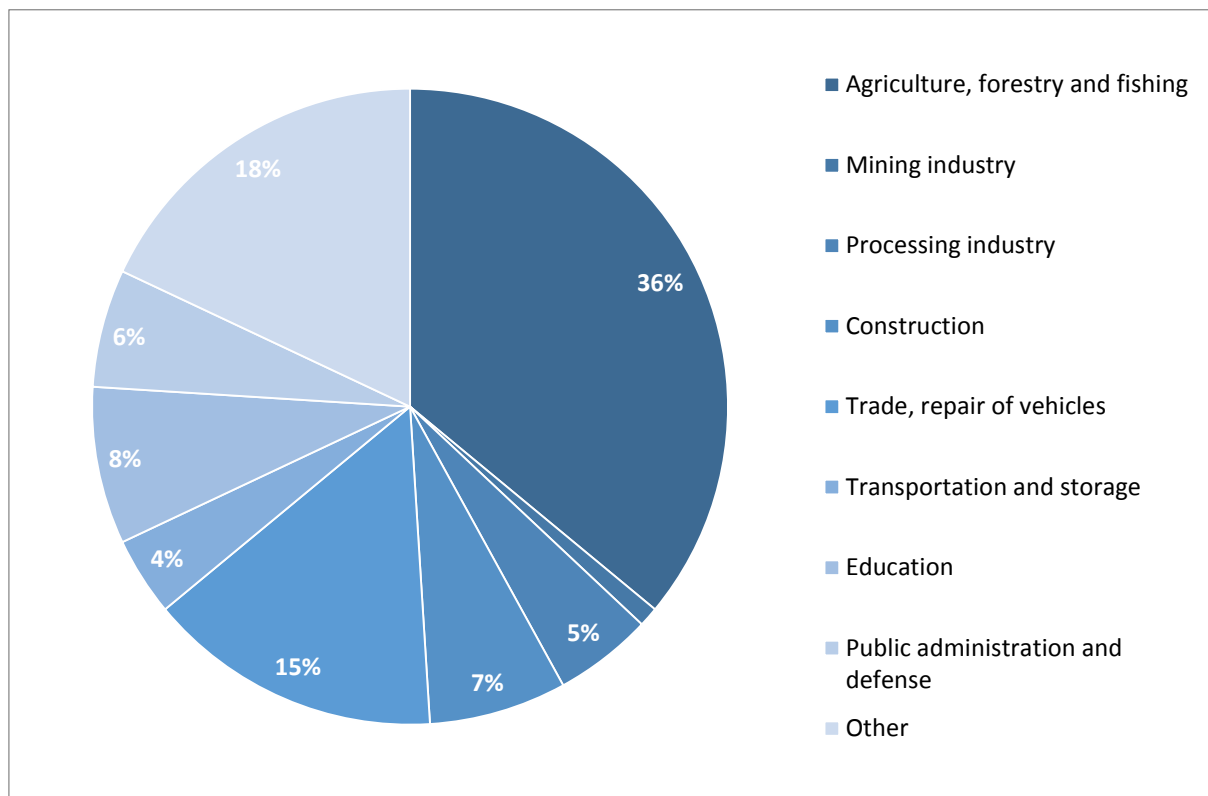
### 6.5. Employment in the extractive industry

#### **Characteristics of employment in the sectors of economy:** <sup>129</sup>

In 2017 the economically active population was 5,073.8 thousand people and among them 4,822.1 thousand people were employed in the economy. The mining extraction industry employed 38.1 thousand people.

**Table 22a: Employment in the extractive industry**

Employment	2017 (thsd people)
Number of economically active population	5,073.8
Number of people employed in the economy	4,822.1
Number of people in Mining industry	37.9



**Graphics 8: Structure of general employment (2017)** <sup>130</sup>

For the year ended December 31, 2017, the number of Azerbaijanian citizens who are BP employees was 2,448, including employees employed on a contractual basis. About 89% of the Company's

<sup>129</sup> 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/](http://www.stat.gov.az/menu/6/statistical_yearbooks/).

<sup>130</sup> 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/](http://www.stat.gov.az/menu/6/statistical_yearbooks/).

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qualified employees are local specialists, many of whom are senior managers, including six vice presidents of the company's regional management staff. <sup>131</sup>

**Table 22b: SSPF payments of extractive industry companies.** <sup>132</sup>

SSPF payments (mln AZN)	2015	2016	2017
Local and foreign extractive companies	58.1	62	119*
<b>Total</b>	<b>58.1</b>	<b>62</b>	<b>119</b>

- \* For the year ended December 31, 2017, in comparison with previous years, the amount of AZN 119 million reflected SSPF payments of relevant Operations companies.

### 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 metres in the shelf of the Caspian Sea. The formation of oil deposits in rocks belongs to Cenozoic period. Oil production is connected with the excavation works in Balakhany-Sabunchu-Ramana with inclusion of Bibiheybat. The main oil producing areas are located near Baku. There are 5 areas onshore of oil and gas condensate put into exploration at the territory of the Apsheron peninsula and the Lower and Middle Kura, coastal areas of the Caspian Sea and Shamakhi-Gobustan. There are 43 oil, gas and condensate regions in the Azerbaijan Republic from which 38 are suitable for exploitation.

**Table 23** Oil (including condensates) production (commodity), thsd tonnes <sup>133</sup>

Regionsr	2015	2016	2017
Baku	41,039	40,495	38,140
Siyazan	49	52	52
Neftchala	39	34	33
Salyan	175	167	160
Imishli	17	14	12
Shirvan	250	237	241
<b>Total</b>	<b>41,569</b>	<b>40,999</b>	<b>38,638</b>

An important oil production area near Baku is Sabunchu, Surakhani and Bibiheybat. Oil production in Baku in 2017 reached 38,140,000 tons and it is 98.7 percent of total oil production.

Oil production in kind in 2017, including condensate, was 1 512,000 tonnes on the land and 37,124 tonnes in the sea.

**Table 24: Gas production (commodity), mln. cubic metres** <sup>133</sup>

Regions	2015	2016	2017
Baku	19,186	18,664	18,126
Siyazan	7	8	8
Salyan	35	39	41
Shirvan	9	8	11
<b>Total</b>	<b>19,237</b>	<b>18,719</b>	<b>18,186</b>

<sup>131</sup> BP official web-page, News, Business information, Results of 2017 - [https://www.bp.com/az\\_az/caspian/press/businessupdates/2017-year-end--results1.html](https://www.bp.com/az_az/caspian/press/businessupdates/2017-year-end--results1.html)

<sup>132</sup> This information is based on the information received by the EIT Commission from the SLPP..

<sup>133</sup> 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/](https://www.stat.gov.az/menu/6/statistical_yearbooks/)

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Gas production in kind in 2017 on associated gas was 4 112 mln cubic metres and on natural gas was 14 074 cubic metres.

**Table 25: Gold production, kg (production of main products)** <sup>134</sup>

Region	2015	2016	2017
Gadabay	2,229	1,895	6,391
<b>Total</b>	<b>2,229</b>	<b>1,895</b>	<b>6,391</b>

**Table 26: Silver production, kg (production of main products)** <sup>134</sup>

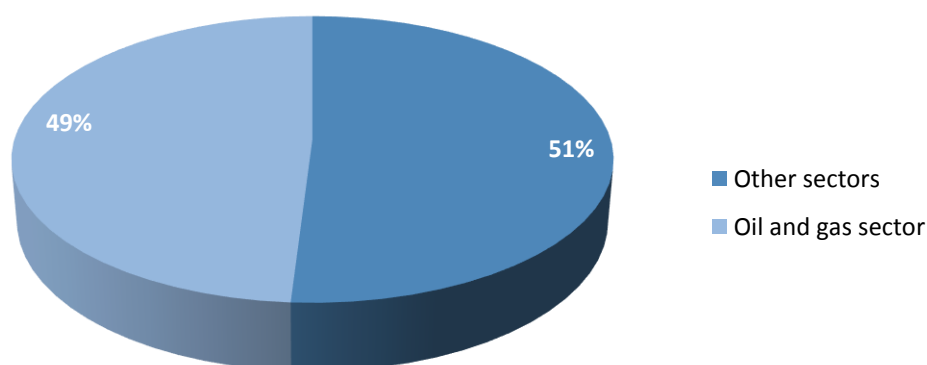
Region	2015	2016	2017
Gadabay	133	320	705
<b>Total</b>	<b>133</b>	<b>320</b>	<b>705</b>

**Table 27: Copper ores and concentrates, tonnes (the main production)** <sup>134</sup>

Region	2015	2016	2017
Gadabay	969	1,947	2,063
<b>Total</b>	<b>969</b>	<b>1,947</b>	<b>2,063</b>

### 6.7. Other information

17,430.3 million manat was allocated to the main capital from all financial sources for the development of economic and social spheres of the country in 2017 and was 2.8% higher than the prior year. In 2017, 48.7% and AZN 8,448.0 million of the funds invested in capital were allocated to the oil sector. AZN 2 126,2 million (12.2% of total investment) of AZN 8 946.4 million spent on non-oil sector development was used in non-oil sector.



**Graph 9: Total investment in main capital** <sup>135</sup>

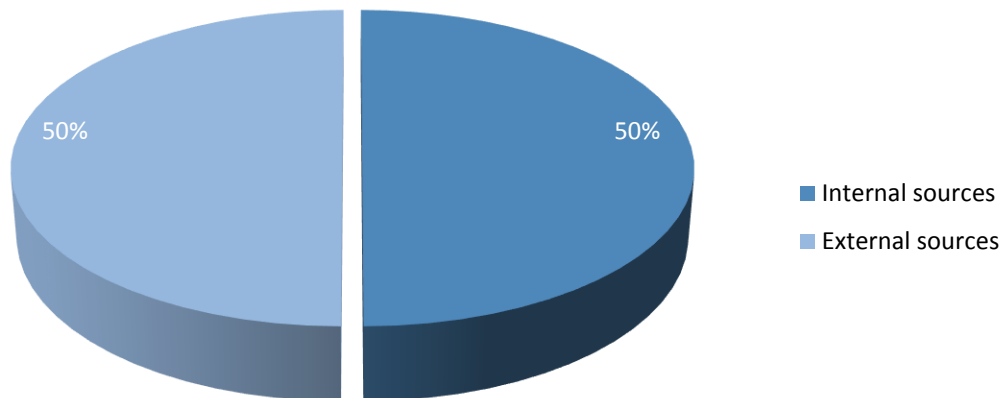
<sup>134</sup> State Statistical Committee of the Republic of Azerbaijan, "Statistical Publications", "E-version of Publications", "Azerbaijan Industry", [https://www.stat.gov.az/menu/6/statistical\\_yearbooks/](https://www.stat.gov.az/menu/6/statistical_yearbooks/)

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In addition, AZN 8,765.3 million or 50.3% of the funds directed to fixed assets were internal funds.



**Graph 10:** Total investment in main capital, million AZN <sup>136</sup>

### 6.7.1. Environmental protection and rational utilization of natural resources

The main activity of SOCAR's Environmental Department in the sphere of environmental monitoring has been to carry out quantitative and qualitative monitoring of harmful wastes in gaseous, liquid and solid forms emitted to the atmosphere as a result of natural and anthropogenic impacts at enterprises and companies subordinated to SOCAR, on scientific grounds with the purpose of assessing and forecasting the conditions of air, water and soil environment, implementing regular control and research system defining their chemical content, degree of contamination, radioactive and hydro-biological features and physical characteristics. Environmental monitoring works being carried out are regulated by provisions of international conventions covering offshore and onshore protection of environment (Oslo-Paris Convention, Tehran Framework Convention), orders and resolutions of the President of the Republic of Azerbaijan, Article 18 of the law On Protection of Environment, Regulations on State Monitoring of Environment and Natural Resources approved by Decision No.90 of the Cabinet of Ministers dated July 1, 2004 and the Environmental Policy document approved by Order No.77 of SOCAR dated May 12, 2008, which defines directions of the practical works in the field of protection of environment, ecological safety and effective use of natural resources at the enterprises and organizations of SOCAR. The research object of environmental monitoring being carried out by SOCAR's Environmental Department covers oil and gas production departments acting in oil and gas fields belonging to SOCAR in the Azerbaijani sector of the Caspian Sea and those working onshore, oil-gas and petrochemical enterprises, as well as production areas of contract areas of Operating Companies and Joint ventures on Production Sharing Agreement.

<sup>135</sup> 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/](https://www.stat.gov.az/menu/6/statistical_yearbooks/)

<sup>136</sup> 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/](https://www.stat.gov.az/menu/6/statistical_yearbooks/)

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Estimated liability for environmental remediation as of December 31, 2017 amounted to AZN 58 million (2016: AZN 76 million). Changes in any of these conditions may result in adjustments to provisions recorded by SOCAR.<sup>137</sup>

### 6.7.2 Alternative energy sources

Today energy safety, global climate changes and contamination of the environment are among the main problems worrying the mankind. Various means are offered for their solution, of which the most important one is the use of renewable and alternative sources of energy. The Republic of Azerbaijan is, by its geographical location and climate conditions, one of those countries that have favourable conditions to use sources of alternative energy. The Resolution of the President of the Republic of Azerbaijan on "The State Program for Use of Alternative and Renewable Energy Sources in the Republic of Azerbaijan" proves that in this issue Azerbaijan has expressed its solidarity with the world community. Although SOCAR have been producing fossil fuels, they have been taking continuous steps towards using alternative and renewable energy sources.

Wide-scale greenery planting works are carried out now at SOCAR's production areas and rehabilitated territories. The Ecological Park project covering 9.3 ha area allocated in the territory of Khazar district has been implemented in order to meet the demand for trees and shrubs, and ensure the enlightenment of population in environment issues.

In the Ecological Park great preference is given to the use of clean and waste-free technologies. In order to meet part of the demand for electricity in the Park from alternative and renewable energy sources, four wind generators with 10 kW/hour each and solar panels with total capacity of 20 kW/hour have been installed as a pilot project. With the purpose of meeting the demand of the new administrative building of the Environmental Department constructed in the Balakhany production area located in the territory of Sabunchu district, a decision was made on installation of solar panels with total capacity of 20kW/hour.<sup>138</sup>

The State Agency for Alternative and Renewable Energy Sources of the Republic of Azerbaijan (SAARES) was established by Decree of the President of the Republic of Azerbaijan on February 1, 2013, with the aim of improving the management system in the field of alternative and renewable energy in Azerbaijan.

The Regulations of the State Agency for Alternative and Renewable Energy Sources of the Republic of Azerbaijan were subsequently approved by Presidential Decree on February 1, 2013.

Pursuant to the Regulations, the Agency is the central executive authority which implements state policy on and regulatory control over alternative and renewable energy and its sound management, and ensures the effective organization of activities concerning alternative and renewable energy sources, as well as coordination and state control in this field.

The Agency participates in the development of a unified state policy for the respective field and ensures implementation of the afore-mentioned policy. It also oversees progress in the alternative and renewable energy field, establishing the required infrastructure and ensuring the application of alternative and renewable energy to economic and social fields. The Agency is also responsible for the implementation of measures related to power generation, energy consumption and energy efficiency using alternative and renewable energy sources, and conducting state registration and inventory in this field.<sup>139</sup>

The list of projects implemented by the Agency, which are in the transition period and prospective, is listed on the official website of the State Agency for Alternative and Renewable Energy Sources of the Republic of Azerbaijan.<sup>140</sup>

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<sup>137</sup> SOCAR financial statements for 2017 – [http://www.socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye\\_hesabat.2017.pdf](http://www.socar.az/socar/assets/documents/az/socar-financial-reports/Maliyye_hesabat.2017.pdf)

<sup>138</sup> SOCAR.az, Environment and Security, <http://www.socar.az/socar/az/environment-and-safety/menu/alternative-energy-use>

<sup>139</sup> State Agency for Alternative and Renewable Energy Sources - <http://area.gov.az/page/3>

<sup>140</sup> State Agency for Alternative and Renewable Energy Sources - <http://area.gov.az/page/8>

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### Relation with international organizations <sup>141</sup>

#### International Renewable Energy Agency (IRENA)

The International Renewable Energy Agency (IRENA) was officially established in the city of Bonn on January 26, 2009. IRENA is globally recognised as one of the most prestigious organisations in the renewable energy field. Since its inception 145 states have joined the Organisation and 31 states are candidates for membership.

The Republic of Azerbaijan joined IRENA in 2009 and became a full member after ratification of the International Renewable Energy Agency Charter in the National Parliament (Milli Majlis) on May 2, 2014.

#### Economic Cooperation Organisation (ECO)

The Economic Cooperation Organisation (ECO) is an intergovernmental regional organisation established in 1985 by Iran, Pakistan and Turkey. The Organization consists of the Council of Ministers of Foreign Affairs of the Member States. The Council of Ministers (COM) approves the policies, Regional Planning Council and Secretary Council. Headquartered in Tehran, the Council of Permanent Representatives (CPR) consists of Permanent Representatives and/or Ambassadors of the Member States.

The 2nd Meeting of the ECO Experts Group on Renewable Energy Sources (RES) was held in Baku on 20-21 November, 2013. The Meeting mooted the initiative regarding the establishment, in cooperation with the ECO Secretariat, of a Data Information Network (DIN) in Baku in order to create and exchange information in the field of RES technologies, energy potential, projects, standards and regulations among the ECO Member States. In addition, it was determined that ECO Member States may assist the Gobustan Experimental Polygon and Training Centre with the organization of training, research and the distribution of information relating to projects implemented in the relevant states.

#### Organisation of the Black Sea Economic Cooperation (BSEC)

The Organisation of the Black Sea Economic Cooperation (BSEC) was established on June 4, 1992. On June 25, 1992, the Heads of State and Government representatives of eleven countries - Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine - signed the Summit Declaration and the Bosphorus Statement in Istanbul, giving birth to the Black Sea Economic Cooperation (BSEC)

Coordination of the Member States is managed by the Permanent International Secretariat of the Organisation of the Black Sea Economic Cooperation (BSEC PERMIS). BSEC PERMIS is headquartered in Istanbul and is responsible for providing administrative support for the BSEC. Currently, the Secretary-General is appointed for a 3-year term, with the right to re-election.

The principal decision making body of the Organisation of the Black Sea Economic Cooperation is the Council of the Ministers of Foreign Affairs. The Council convenes at least once every six months in order to analyse the cooperation results and assign new responsibilities. Each member state presides over the Organisation for a 6-month period and hosts the Meeting of the Council of Ministers of Foreign Affairs in its territory at the end of this period. The Council has the authority to:

- approve and amend the Procedures;
- create the organisational structure;
- establish and authorise subsidiary bodies within the framework of the BSEC, reserving the right to modify or terminate their mandate;
- make decisions related to the membership and status of the Observers.

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<sup>141</sup> State Agency for Alternative and Renewable Energy Sources - <http://area.gov.az/page/7>

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Cooperation in the field of alternative and renewable energy sources, which is essential in the modern world, has been established between BSEC and our country. The State Agency for Alternative and Renewable Energy Sources has been represented a representative of the State Agency for Alternative and Renewable Energy Sources is involved in the BSEC Secretariat's Network of cooperation between national administrative bodies and/or other organisations. .

### **The Cooperation Council of Turkic Speaking States**

The decision to establish the Cooperation Council of Turkic Speaking States was adopted at the 10th Summit of the Heads of the Turkic Speaking States on September 16, 2010, in Istanbul.

A new field of cooperation in relation to Alternative Energy was approved during the 5th Summit of the Cooperation Council of Turkic Speaking States on September 11, 2015, in Astana. Currently, working groups of the Member States are being established.

### **The United Nations Economic Commission for Europe (UNECE)**

The United Nations Economic Commission for Europe was established in 1947 to encourage economic cooperation among its member states.

Besides countries in Europe, it also includes Canada, the Central Asian republics, Israel and the United States of America. It currently has 56 member states. The UNECE Secretariat headquarters is in Geneva, Switzerland.

Nearly half of the world's renewable energy potential is located in the UNECE region. Alternative and Renewable Energy Sources is one of the main areas of UNECE activity, and the Republic of Azerbaijan actively cooperates with this organization.

The Working Group for Renewable Energy of the United Nations Economic Commission for Europe has operated since 2014. Meetings of the Working Group are regularly held with the support of the United Nations Economic Commission for Europe.

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### 7. RECONCILIATION RESULTS

We present below detailed results of the reconciliation process, as well as differences noted between the amounts paid by Extractive Companies and amounts received by Government entities. We have included the amounts initially reported by 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	32,537	32,532	0,005	0,005	-	32,532	32,532	-
Monetary Inflow from gas	227,796	0,243	(227,553)	(227,553)	-	0,243	0,243	-
Bonuses	0,972	1,405	0,433	0,433	-	1,405	1,405	-
Transit fee	4,238	10,456	6,218	6,218	-	10,456	10,456	-
Acreage fee	2,118	2,118	-	-	-	2,118	2,118	-
Profit tax (USD)	379,561	379,149**	(0,412)	0,412	-	379,149	379,149	-

\* The bracket represents the reduction of total amount.

\*\* The amount represented by the government is expressed in AZN terms (AZN 656,013 million). For the purpose of reconciliation these amounts have been converted into USD 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	Extractive companies	Government	Difference
Crude Oil (oil (million barrels)	131,693	131,682	(0,011)	(0,011)	-	131,682	131,682	-
Natural Gas (thsd. m <sup>3</sup> )	6,301.823	6,301.853	0,030	0,030	-	6,301.853	6,301.853	-
Associated Gas (thsd. m <sup>3</sup> )	2,830.760.176	2,993.969.118	163,209.279	163,209.279	-	2,993.969.118	2,993.969.118	-
Gold (thsd. ounces)	6,366	6,366	-	-	-	6,366	6,366	-
Silver (thsd. ounces)	2,978	2,978	-	-	-	2,978	2,978	-
Gold in copper concentrate (thsd. ounces)	0,686	0,686	-	-	-	0,686	0,686	-
Silver in copper concentrate (thsd. ounces)	14,898	14,898	-	-	-	14,898	14,898	-
Non-ferrous metal - Copper concentrate (thsd. tonnes)	0,213	0,213	-	-	-	0,213	0,213	-

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### 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 AZN)

Revenue streams	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Profit tax	9,287	9,287	-	-	-	9,287	9,287	-
Royalty	109,548	109,548	-	-	-	109,548	109,548	-
VAT	169,057	162,310	6,747	(6,747)	-	162,31	162,31	-
Property tax	80,182	80,182	-	-	-	80,182	80,182	-
Land tax	26,969	26,969	-	-	-	26,969	26,969	-
Price changes	165,293	165,293	-	-	-	165,293	165,293	-
Other taxes	99,551	99,551	-	-	-	99,551	99,551	-

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### 7.3. Adjustments

#### 7.3.1 Adjustments to cash transfers

##### *Adjustments made on information presented by foreign companies*

##### ➤ *Monetary flow from oil production*

Total difference in oil revenues was amounted USD 0.005 million.

(million USD)

Foreign extractive companies	Per Companies			Per Government			Final difference
	Original	AJE	Final	Original	AJE	Final	
Apsheron Investment Limited	3.840	-	3.840	3.840	-	3.840	-
Azen Oil Company	7.420	(0.005)*	7.415	7.415	-	7.415	-
Bahar Energy Limited	0.161	-	0.161	0.161	-	0.161	-
CNPC	0.514	-	0.514	0.514	-	0.514	-
Fortunamate Assets Limited	0.514	-	0.514	0.514	-	0.514	-
Neftechala Investments Limited	0.797	-	0.797	0.797	-	0.797	-
Novatis Oil F.Z.E.	5.598	-	5.598	5.598	-	5.598	-
Zenith Aran Oil Company Limited	0.578	-	0.578	0.578	-	0.578	-
Shirvan Investments Limited	5.615	-	5.615	5.615	-	5.615	-
UGE-LANCER PTE.LTD	7.500	-	7.500	7.500	-	7.500	-
<b>Total</b>	<b>32.537</b>	<b>(0.005)</b>	<b>32.532</b>	<b>32.532</b>	<b>-</b>	<b>32.532</b>	<b>-</b>

- \* As numbers were not rounded properly in the report submitted by Azen Oil Company, difference in the amount of USD 0.005 million was originated.

##### ➤ *Monetary flow from gas production*

Total difference in gas revenues was amounted USD 227.553 million.

(million USD)

Foreign extractive companies	Per Companies			Per Government			Final difference
	Original	AJE	Final	Original	AJE	Final	
Azerbaijan (Shah Deniz) Limited	22.755	(22.755)*	-	-	-	-	-
BP Exploration (Azerbaijan) Limited	65.604	(65.604)*	-	-	-	-	-
Lukoil Overseas Shah Deniz Ltd.	22.755	(22.755)*	-	-	-	-	-
SGC Upstream LLC	15.178	(15.178)*	-	-	-	-	-
Petronas Azerbaijan Shah Deniz S.A.R.L	35.271	(35.271)*	-	-	-	-	-
Naftiran Intertrade Co (NICO) Limited	22.755	(22.755)*	-	-	-	-	-
Turkish Petroleum Overseas Company Ltd	43.235	(43.235)*	-	-	-	-	-
Bahar Energy Limited	0.243	-	0.243	0.243	-	0.243	-
<b>Total</b>	<b>227.796</b>	<b>227.553</b>	<b>0.243</b>	<b>0.243</b>	<b>-</b>	<b>0.243</b>	<b>-</b>

- \* Within the framework of the SD1 project, the amount of USD 227.553 million was invested by SOCAR for purchasing the same amount of relevant annual gas volumes from SOCAR (Azerbaijan) and purchased by SOCAR within the framework of agreements on gas purchase among the buyers, not included in SOFAZ.<sup>142</sup>

SOCAR and the Azerbaijan Gas Supply Company ("AGSC") are partners in the Agreement on Upstream Acquisition Agreement ("UAA"), "Shah Deniz Optimization Project" (Debottlenecking SPA) and Gas Purchase and Sale Agreements. According to Articles 13.3, 9.3 and 9.12 of the Debottlenecking SPA, Azeri SPA and ASS Agreements, unpaid amount by SOCAR to AGSC and

<sup>142</sup> SOFAZ Report 2017- [http://www.oilfund.az/uploads/REPORT\\_AZ\\_2017.pdf](http://www.oilfund.az/uploads/REPORT_AZ_2017.pdf)

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the payable amount of AGSC may be offset. In 2017, the sale of Shah Deniz gas was implemented by the AGSC, and the total revenue from this sale was USD 227,554million. Within the framework of the above-mentioned Agreements, the Board of Directors of the AGSC decided to replace that amount in 2017 with SOCAR's debt.

### ➤ **Bonuses**

The total difference in bonuses was in the amount of USD 0.433 million.

(million USD)

Foreign extractive companies	Per Companies			Per Government			Final difference
	Original	AJE	Final	Original	AJE	Final	
BP Exploration (Azerbaijan) Limited	0.026	-	0.026	0.026	-	0.026	-
Lukoil Overseas Shah Deniz Ltd.	0.009	-	0.009	0.009	-	0.009	-
Naftiran Intertrade Co (NICO) Limited	0.013	(0.004)*	0.009	0.009	-	0.009	-
Petronas Azerbaijan Shah Deniz S.A.R.L	0.020	(0.006)*	0.014	0.014	-	0.014	-
Total E & P Absheron B.V.	0.887	-	0.887	0.887	-	0.887	-
Turkish Petroleum Overseas Company Ltd.	0.017	-	0.017	0.017	-	0.017	-
<b>Engie E &amp; P Absheron B.V. *</b>	-	-	-	0.443	-	0.443	0.443
<b>Total</b>	<b>0.972</b>	<b>(0.010)</b>	<b>0.962</b>	<b>1.405</b>	<b>-</b>	<b>1.405</b>	<b>0.443</b>

- \* The above-mentioned differences in the amount of USD 0.006 million and USD 0.004 million, were due to the fact that Petronas Azerbaijan Shah Deniz S.A.R.L and Naftiran Intertrade Co (NICO) calculated by using the accrual method instead of the cash method.
- \* According to the letter dated March 23, 2017, "ENGEE E & P Absheron BV" equally divided its 20% of the Absheron gas pipeline's shares in the PSA between SOCAR Joint Venture and Total E & P Absheron B.V contracting parties and separated from the project.

### ➤ **Transit fee**

Total difference in transit fees was in the amount of USD 6.218 million. The figures of total transit fees represented by the relevant companies are shown in the table below:

(million USD)

Foreign extractive companies	Per Companies			Per Government			Final difference
	Original	AJE	Final	Original	AJE	Final	
Azerbaijan (ACG) Limited	0.490	-	0.490	0.490	-	0.490	-
BP Exploration (Caspian Sea) Limited	1.519	-	1.519	1.519	-	1.519	-
Exxon Azerbaijan Limited	0.340	-	0.340	0.340	-	0.340	-
Inpex Southwest Caspian Sea, Ltd.	0.465	-	0.465	0.465	-	0.465	-
Itochu Oil Exploration (Azerbaijan) Inc.	0.182	-	0.182	0.182	-	0.182	-
ONGC Videsh Limited	0.115	-	0.115	0.115	-	0.115	-
Statoil Apsheron A.S	0.363	-	0.363	0.363	-	0.363	-
Chevron Khazar, Ltd.	0.478	-	0.478	0.478	-	0.478	-
Turkish Petroleum Anonim Ortaklığı	0.286	-	0.286	0.286	-	0.286	-
SOFAZ	-	6.218*	6.218	6.218	-	6.218	-
<b>Total</b>	<b>4.238</b>	<b>6.218</b>	<b>10.456</b>	<b>10.456</b>	<b>-</b>	<b>10,456</b>	<b>-</b>

The difference of USD 6.218 million included in the Government's schedule relates to transit fees that were paid by the Government to itself for the transit of its own oil entitlement. Each month SOFAZ and contractors pay fees to the Azerbaijan International Operating Company (AIOC), the operating company of the ACG oilfield), the levels of which are determined by the Republic of Azerbaijan and Georgia for the transportation of oil (Government's entitlement to oil profits) through Western Route

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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.

### ➤ Value added tax

Total difference of value added tax was in the amount of USD 6.747 million. The figures of total VAT represented by the relevant companies are shown in the table below:

Foreign extractive companies	Per Companies			Per Government			Final difference
	Original	AJE	Final	Original	AJE	Final	
Bahar Energy Limited	6.747	(6.747)*	-	-	-	-	-
SOCAR	162.310	-	162.310	162.310	-	162.310	-
<b>Total</b>	<b>169.057</b>	<b>(6.747)</b>	<b>162.310</b>	<b>162.310</b>	<b>-</b>	<b>162.310</b>	<b>-</b>

- \* The amount of USD 6.747 million of tax paid by Bahar Energy Limited from the source of payment was incorrectly included as VAT to the report.

### ➤ Profit tax

Difference of Profit tax was in the amount of USD 0.412 million. The figures of total Profit tax represented by the relevant companies are shown in the table below:

Foreign extractive companies	Per Companies			Per Government			Final difference
	Original	AJE	Final	Original	AJE	Final	
Azen Oil Company B.V.	0.200	-	0.200	0.200	-	0.200	-
Azerbaijan (ACG) Limited	73.020	0.003*	73.023	73.023	-	73.023	-
BP Exploration (Caspian Sea) Limited	118.788	-	118.788	118.788	-	118.788	-
CNPC International (Kura) Limited	2.010	-	2.010	2.010	-	2.010	-
Exxon Azerbaijan Limited	20.306	-	20.306	20.306	-	20.306	-
Fortunate Assets Limited	2.217	-	2.217	2.217	-	2.217	-
Inpex Southwest Caspian Sea, Ltd.	24.773	-	24.773	24.773	-	24.773	-
Itochu Oil Exploration (Azerbaijan) Inc.	18.096	-	18.096	18.096	-	18.096	-
Novatis Oil F.Z.E.	1.177	-	1.177	1.177	-	1.177	-
ONGC Videsh Limited	10.723	-	10.723	10.723	-	10.723	-
Statoil Absheron A.S	39.395	-	39.395	39.395	-	39.395	-
Chevron Khazar, Ltd.	36.880	-	36.880	36.880	-	36.880	-
Turkish Petroleum Anonim Ortaklığı	24.553	-	24.553	24.553	-	24.553	-
UGE-LANCER PTE.LTD	6.123	-	6.123	6.123	-	6.123	-
Ali-Bayramli Oil LLC	0.415	-	0.415	0.415	-	0.415	-
Salyan Oil LLC	0.470	-	0.470	0.470	-	0.470	-
Karasu Development Company	0.415	(0.415)*	-	-	-	-	-
<b>Total</b>	<b>379.561</b>	<b>(0.412)</b>	<b>379.149</b>	<b>379.149</b>	<b>-</b>	<b>379.149</b>	<b>-</b>

Local extractive companies	Per Companies			Per Government			Final difference
	Original	AJE	Final	Original	AJE	Final	
SOCAR	9.287	-	9.287	9.287	-	9.287	-
<b>Total</b>	<b>9.287</b>		<b>9.287</b>	<b>9.287</b>	<b>-</b>	<b>9.287</b>	<b>-</b>

- \* As numbers were not rounded properly in the report submitted by Azerbaijan(ACG) Limited, difference in the amount of USD 0.003 million was originated.
- \* The difference in the amount of USD 0.415 million was arised by the fact that the profit tax was paid by Karasu Development Company instead of "Ali-Bayramli Oil" LLC, was shown in the report for technical reasons. An Independent auditor has obtained sufficient and appropriate payment documents as an audit evidence.

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- \* In order to be sure of difference, an Independent auditor has obtained appropriate payment documents.

### 7.3.2 Adjustments to the transactions in kind

#### Adjustments to the transactions in kind

##### ➤ Associated gas

The difference of associated gas was in the amount of 163,209.279 thousand m<sup>3</sup>. The figures of total associated gas represented by the relevant companies are shown in the table below:

Foreign extractive companies	Per Companies (thousand m <sup>3</sup> )			Per Government (thousand m <sup>3</sup> )			Final difference
	Original	AJE	Final	Original	AJE	Final	
Apsheron Investment Limited	30,941.511		30,941.511	30,941.511	-	30,941.511	-
Azen Oil Company B.V.	2,735,330		2,735.332	2,735.332	-	2,735.332	-
Bahar Energy Limited	656,870		656,870	656,870	-	656,870	-
BP Exploration (Caspian Sea) Limited	2,733,130.172	163,209.279*	2,896,339.451	2,896,339.451	-	2,896,339.451	-
CNPC International (Kura) Limited	38,620.446		38,620.446	38,620.446	-	38,620.446	-
Karasu Development Company	1,464.661		1,464.661	1,464.661	-	1,464.661	-
Novatis Oil F.Z.E.	4,155.388		4,155.388	4,155.388	-	4,155,388	-
Shirvan Investments Limited	9,625.590		9,625.590	9,625.590	-	9,625,590	-
UGE-LANCER PTE Ltd.	9,429.869		9,429.869	9,429.869	-	9,429.869	-
<b>Total</b>	<b>2,830,760.176</b>	<b>163,209.279</b>	<b>2,993,969.118</b>	<b>2,993,969.118</b>	<b>-</b>	<b>2,993,969.118</b>	<b>-</b>

- \* According to information received from SOCAR, the associated gas produced by Azeri-Chirag-Gunashli (Chirag) field for the year 2017 was accepted by SOCAR in the amount of 2,896,339.451 thousand cubic meters but transferred to the Government in the amount of 2,803,821.745 thousand cubic meters. The difference has been spent on SOCAR's internal needs. The disclosure of the remaining difference in the amount of 70,691 thousand cubic meters is given below: The "Gas Export" Department accepts the associated gas volumes from BP in two locations, Sangachal Main Installations (SMI) and Oil Rocks GSC. In 2017, 2,347.337 thousand cubic meters at T = 150C on the Azeri Chirag Gunashli field and 2,376.127 thousand cubic meters of gas at T = 200C (0.5% of the measuring junction after deducting the coefficient of error). were hand overed in Sangachal Main Installations. The associated gas volumes extracted from Chirag field are handed over to the "Gas Export" Department under the Contract. In 2017, 511,441 thousand cubic meters of gas at T=150C, and 520,211 thousand cubic meters of gas at T = 200C was transported from Chirag (after applying the coefficient of moisture). Totally, for the year 2017, 2 858 778 thousand cubic meters of gas at T=150C and 2,896.339 thousand cubic meters of gas at T= 200C was transported from ACG and Chirag fields. 2,347.337 thousand cubic meters of 2,733.130 thousand cubic meters of gas is the associated gas transported from ACG and 535,869 thousand cubic meters is transported from Chirag field, as indicated in the information provided by BP on the delivered associated gas for the year 2017, and total sum consists of 2,733.130 thousand cubic meters at T=00C (coefficient 1.05491). 2,858.778 thousand cubic meters of associated gas at T=150C, handed over to Gas Export Department during 2017, consists of 2,709.973 cubic meters when turned into T = 00C. The difference of 23,157 thousand cubic meters was caused by the loss of gas during the transportation from the Chirag platform to the Oil Rocks. These losses are coefficient of error of transport and delivery equipment, gas intake and transport losses in the underwater gas pipeline with the length of 51 km and diameter of 400 mm.

##### ➤ Natural gas

Total difference of natural gas was 0.030 thousand m<sup>3</sup>. The figures of total natural gas represented by the relevant companies are shown in the table below:

Foreign extractive companies	Per Companies (thousand m <sup>3</sup> )			Per Government (thousand m <sup>3</sup> )			Final difference
	Original	AJE	Final	Original	AJE	Final	
Bahar Energy Limited	6,301.823	0.030*	6,301.853	6,301.853	-	6,301.853	-
<b>Total</b>	<b>6,301.823</b>	<b>0.030</b>	<b>6,301.853</b>	<b>6,301.853</b>	<b>-</b>	<b>6,301.853</b>	<b>-</b>

- \* As the figures were not rounded properly in the report submitted by Bahar Energy Limited, difference in the amount of USD 0.030 million was originated

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency For the year ended December 31, 2017

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### ➤ *Crude oil*

Total difference of natural gas was 0.011 million barrel. The difference in the amount of 0.008 million barrel was arisen by the fact that the compensation for oil hand overed by Aran Oil Operating Company Limited to the contractor party, incorrectly was shown as delivery of crude oil to the Government. According to the information provided by the representative of SOCAR, the remaining 0.003 million barrels were arisen due to the incorrect rounding.

## 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);
- Selecting specific items according to their characteristics; and
- Statistical and non-statistical sampling.

### **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.

### **Selecting specific items:**

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

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

### **Statistical and non-statistical sampling:**

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

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

There were 40 participating countries on the reconciliation process in 2017. We selected 15 (fifteen) companies using the random selection method by certain class of transactions for the figures shown in the report. Although some of these companies did not have any transactions in 2017, they were included in the selection process and were followed by discussions.

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

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The Independent Auditor has selected fifteen (15) local and foreign extractive companies from the general list using the random selection method has obtained audit evidence that is important for reconciliation process:

No	Company	Examination date
1	Bahar Energy Limited	03.10.2018
2	Novatis Oil F.Z.E.	13.09.2018
3	UGE-LANCER PTE Ltd.	18.09.2018
4	"AzGerneft" LLC	18.09.2018
5	CNPS International (Kura) Limited	21.09.2018
6	Fortunate Assets Limited	21.09.2018
7	R.V. Investment Group Services	13.09.2018
8	Total E & P Absheron B.V.	25.09.2018
9	"AzerGold" CJSC	20.09.2018
10	Inpex Southwest Caspian Sea Ltd.	27.10.2018
11	Itochu Oil Exploration (Azerbaijan) Inc.	28.09.2018
12	Zenith Aran Oil Company Limited	20.09.2018
13	Karasu Development Company	20.09.2018
14	Shirvan Investments Limited	20.09.2018
15	Apsheron Investments Limited	20.09.2018

The Independent Auditor has audited all transactions relevant to the HSG report in these companies and reviewed the following documents during the audit:

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

The amount of payments to be paid to the government by companies during the verification of the documents has been confirmed.

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency For the year ended December 31, 2017

### 9. RECOMMENDATIONS AND RESULTS

#### 9.1. Independent Auditor's Recommendations on the preparation and compliance of EIT Report for the year ended December 31, 2017.

##### 1) Application of criteria of significance

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.

##### 2) Delays in the presentation of the reports by companies

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.

##### 3) Availability of a single centralized system in the process of reconciliation

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.

##### 4) Changes in the reporting forms applied

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.

##### 5) Social expenses of SOCAR (financial statements)

To provide disclosure of the social expenses reported by SOCAR.

##### 6) The existence of a single registry or platform for the Production Sharing Agreement

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, availability of the electron version of PSA data and most importantly, the introduction of changes and additions to PSA agreements. Simplify data acquisition.

##### 7) To obtain more detailed information

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.

##### 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.

# **EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN**

## **Consolidated Report on Extractive Industry Transparency**

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### **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 responsible persons for the state and companies for analysing the data 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.

### **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.

### **11) Annexes to the applied report forms**

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.

### **12) Presentation of audit reports by extractive industry companies**

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.

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.

### **13) Necessity of the research team for EIT report**

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.

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.

### **14) Presentation of valuation reports of oil and gas and mining industry resources by extractive industry companies**

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.

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

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### 15) The change in the applied report form

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 R.V. 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.

### 16) Difference between transit fees during the reconciliation

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 purposeful to consider this difference as a permanent, to reconcile with the amount from relevant department of SOFAZ.

### 17) Repeated technical errors made by the companies during the reconciliation

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.

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 technical errors from causing every year.

### 18) Signing of report templates by leading staff

We consider it more purposeful to sign relevant reporting templates by the management, responsible persons of the company in order to ensure the reliability of the submitted information.

## 9.2. Implementation of relevant recommendations on the EIT report for 2016

Recommendation	Status (positive/negative/ continuing)	Details of the work performed
Section 2, Sub-sections 2, 3, 4, 5, 6 and 7 may be included in Section 2 of the "Legal Framework and Contracts". In the "Exploration and Production" section, Section 1 can be included.	Positive	The structure change is indicated in the Section 2 of the report.
In the sub-section "Extractive Industry Review", information is provided on oil and gas industry processes, whereas only about the fields about precious metals are reported. In the future, it would be logical to eliminate this distinction in the Reports.	Positive	The information was included into the Sub-section "Overview of extractive industry" of the Section "Extractive industry, legal and fiscal regime"
The section entitled "Legal regime" does not mention Decrees and Decisions of the Cabinet of Ministers about precious metals.	Positive	The information was included into the Sub-section "Legal regime" of the Section "Extractive industry, legal and fiscal regime"
Providing tax rates on various types of taxes in the section "Fiscal Regime" will help to make the report more comprehensive.	Positive	The information was included into the Sub-section "Fiscal regime" of the Section "Extractive industry, legal and fiscal regime"
In the section of "Information on financial performance and extraction of State enterprises", no information is given about "AzerGold" CJSC	Negative	Information has not been received

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

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and the reason is not disclosed.		
There is no information about AzerGold CJSC in the section "Joint ventures, subsidiaries and affiliates of state-owned enterprises" and the reason is not disclosed.	Positive	"AzerGold" CJSC has no joint venture, associated or subsidiary. The information is included in the sub-section of the report "Joint ventures, associates, and subsidiaries of state-owned enterprises" of the Section "Extractive industry, legal and fiscal regime".
In the section "Joint ventures, subsidiaries and affiliates of state-owned enterprises", the activities of SOCAR's subsidiaries in 2016 include participation shares and other information. It would be more appropriate if the owners of the rest of the shares were indicated.	Negative	Information has not been received.
There is no information about "AzerGold" CJSC in the "State-owned enterprise information" section and the reason is not mentioned.	Negative	Information has not been received.
In the "Loans and Guarantees Received by the State Institutions" section, it would be more appropriate to show the objectives and terms of the loans.	Negative	The information contained in the sub-section on "Loans and Guarantees Received by State Entities" of the "Extractive Industry, Legal and Fiscal Regime" includes tables reflecting the terms of all the loans of SOCAR and AzerGold and their residual values as of the end of 2017. It was not possible to obtain information about the purposes of the loans.
The reason for the differences in tables 9a and 9b is obvious (customs formalization issue), but the fact that the difference is large is inaccurate and requires explanation.	Negative	Information has not been received.
It is necessary to provide tariffs for pipelines in the subsection "Transport income".	Negative	Information has not been received.
Under "Data reliability, integrity and certainty procedures", it would be expedient to include companies' information about international audit undertaken by companies (date, auditor's name/title, source of disclosure of auditor opinion), Results of audit of state entities carried out by the Chamber of Accounts and source of disclosed opinion.	Negative	Information has not been received.
It would be expedient to include the Information about which state institution approves SOCAR's social expenditures.	Negative	Information has not been received.
More information should be indicated in the sub-section "Quasi-fiscal expenditure" relevant expenditure of the SOCAR should be stated on what normative documents are based.	Negative	Information has not been received.
Enhancing information in Sub-section "Other Information" subsection would enrich the Report.	Positive	The subsection "Other Information" of the Section 6 "Contribution of the Azerbaijani Economy to the Extractive Industry" of the report includes additional information on Environmental Protection and Rational Use of Natural Resources and Alternative Energy Source
There is not a complete list of legal documents regulating the processes in the extractive industry of the country in the Sub-section "Legal regime" and there is a need to complete that list.	Positive	The information was included in the sub-section of the Section 2 "Legal Regime" in the "Extractive Industry, Legal and Fiscal Regime" of the report.

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

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<p>The "Map of Oil and Gas Field" is repeated as in previous reports in the sub-section "Oil &amp; Gas Industry".</p>	Positive	<p>The information was included in the sub-section "Extractive Industry Review" in the Section 3 "Mining industry review" of the report</p>
<p>If all PSA in the country are based on similar experience and similar provisions, disclosure such agreements by a group of companies and not disclosing by others referring as a commercial secret is not clear.</p>	Negative	
<p>The main focus of this chapter could be made on hydrocarbon deposits in the country, elucidation of which part of them is located onshore and which is offshore, which oil and gas reserves are currently being exploited and those that differ in production capacity.</p>	Positive	<p>The report "Extractive Industry Review" under section 3 "Overview of the extractive industry" of the report provides information on the offshore and offshore fields.</p>
<p>First of all, information on status of existing pipelines remains unclear and causes additional questions. Each of existing pipelines has a different status and requires additional explanation to understand who owns them and which agreement supports their operation. And while provided information on BTC, Baku-Supsa and Baku-Tbilisi-Erzurum partly answer above questions, the same cannot be told about Baku-Novorossiysk pipeline. The report does not supplement any information on ownership of the pipeline by SOCAR.</p>	Positive	<p>The section 4 "Transport Revenues" of the report "Taxes and Income Included in the EIT Report" was included in this report.</p>
<p>Technical characteristics privileges significant information such as revenues on pipelines. The revenues from pipelenes to state budget are formed by different channels. For example it cannot be applied to other revenues the same transit fees collected Baku-Supsa Pipeline to SOFAZ.</p>	Negative	<p>Information has not been received.</p>
<p>The report for 2015 provides information on the relationship between the country's oil and gas industry and its relations with SOCAR the largest state-owned enterprise and its separate government agencies. It is regrettable that improvements in the materials of this unit and necessary additions are missing. It does not mention that SOCAR annually publishes 3 reports (annual financial report, annaul activities report and sustainability development report). EIT Report contains information about the summary of all three reports of SOCAR and also indicates links to these reports.</p>	Positive	<p>In the Section 2 "Extractive Industries, Law and Fiscal Regime" of the report, the subsection "General Information" contains the names of reports published by SOCAR.</p>
<p>Data provided in the Extractive Industries Transparency 2016 Report on the financial flows between SOCAR and government agencies (p. 49 and 54) is incomplete. Although there was information in SOCAR's financial statements for 2016 on the company's foundation capital, additional paid-in capital, state allocations and retained earnings, it did not provide information on financial flows between the company and other government agencies.</p>	Positive	<p>The subsection "Transactional industry, law and fiscal regime" under section "Financial flows between state enterprises and the state" of the report contains information on operations and balances with SOCAR related parties.</p>
<p>Apart from SOCAR, the report provides general information only on BP's social expenses. This means that other extractive companies operating in the extractive industry have no social expenditure or corporate social responsibility activities, or information about their activities is in open sources not placed. It would be purposful for the Government Commision on EIT to make appropriate appeals to companies.</p>	Negative	<p>Information has not been received.</p>
<p>The report 4.5. "Sale of state share in production and others revenues in kind" (p. 98) the schedule of final buyers of crude oil to SOCAR and the</p>	Positive	<p>The subsection "Revenues in the form of sale of state share and other natural resources" of the Section 4</p>

# EXTRACTIVE INDUSTRY COMISSION IN THE REPUBLIC OF AZERBAIJAN

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Government of Azerbaijan in 2016 was shown (buyer's name, volume and value of oil purchased). In the report for 2015 also lists both the crude oil and the number of countries in which natural gas is exported throughout the year and the amount and value of the exported natural gas. But for some reason this year's export of natural gas no relevant information was provided.

"Taxes and Income Revenues in EIT Report" contains the information on the name of the countries in which it was exported and the natural export information on the quantity and value of gas.

# EXTRACTIVE INDUSTRY COMISSION IN THE REPUBLIC OF AZERBAIJAN

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## ANNEXES

### **Annex 1. Statement of the EIT Committee of the Republic of Azerbaijan**

The schedule of payments/allocations received during the year ended December 31, 2017 by the Government of the Republic of Azerbaijan (the "Government") from the local and foreign Companies operating in the extractive industries of the Republic of Azerbaijan (collectively the "Companies"), was prepared in accordance with the "Agreement" signed between the National Committee of the EIT on one side and the local and foreign Companies operating in the extractive industries of the Republic of Azerbaijan on another side in 2018.

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The Chairman of EIT committee

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency For the year ended December 31, 2017

### Annex 2. Reporting templates

#### Report on payments made to the company

Company: \_\_\_\_\_

TIN: \_\_\_\_\_

Affiliation: Foreign  Local

Activity type: \_\_\_\_\_

Participation type of activity: \_\_\_\_\_

Reporting period:

Jan 1 – December 31, 2017

1. Company transfers to the government (in kind)		Volume	unit of a measure
1.1.	Oil and condensate		
1.2.	Natural gas		
1.3.	Associated gas		
1.4.	Gold		
1.5.	Silver		
1.6.	Precious metals:		
	a)		
	b)		
1.7.	Other natural resources:		
	a)		
	b)		
2. Company payments to the government (in cash) *		Mln US Dollars	mln 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 fees		
2.9.	Transit fees		
2.10.	Other payments:		
	a)		
	b)		
3. Taxes			
3.1.	Royalty (mining tax)		
3.2.	Profit tax		
3.3.	Value Added Taxes		
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)		
4. Other			
4.1.			

Authorized Representative of the Company: \_\_\_\_\_

(signature, surname, name)

stamp

Date: \_\_\_\_\_

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

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

Proceeds		AMOUNT*		VOLUME						
		mIn USD dollar	mIn AZN	Oil (mln barrel)	Gas (thousand cubic meters)	Gold (thousand ounces)	Silver (thousand ounces)	Non-ferrous metals (thousand tonnes)	In concentrate of copper gold (thousand ounces)	silver (thousand ounces)
1		2	3	4	5	6	7	8	9	10
1.1	<b>Oil and condensate</b>									
1.2	<b>Natural gas</b>									
1.3	<b>Associated gas</b>									
1.4	<b>Precious metals</b>									
1.5	<b>Gold</b>									
1.6	<b>Silver</b>									
1.7	Other receipts to the government, in total, including:									
	1.7.1. gold in concentrate of copper									
	1.7.2. silver in concentrate of copper									
<b>2. Receipts by the Host Government from local companies.Host's Government Production entitlement in local company's</b>										
2.1	<b>Oil and condensate</b>									
2.2	<b>Natural gas</b>									
2.3	<b>Associated gas</b>									
2.4	<b>Base metals</b>									
2.5	<b>Gold</b>									
2.6	<b>Silver</b>									
<b>3. Other receipts of the State from foreign companies (including payments collected through a local government company)</b>										
3.1	<b>Royalties</b>									
3.2	<b>Profit tax</b>									
3.3	<b>Other tax (excluding employee income tax, social tax and withholding tax)</b>									
3.4	<b>Signing bonuses and other bonuses</b>									
3.5	<b>License fees, entry fees and other considerations for licenses</b>									
3.6	Other receipts, in total, including:									
	3.6.1. acreage fees									
	3.6.2. transit fees									
	3.6.3. proceeds resulting from price change in the gas sale agreement									
<b>4. Other host government receipts from local companies</b>										
4.1	<b>Taxes:</b>									
	4.1.1. Royalties									
	4.1.2. Profit tax									
	4.1.3. Value added tax									
	4.1.4. Land tax									
	4.1.5. Property tax									
	4.1.6. Difference in price									
	4.1.7. Other tax(excluding employee income tax, contributions to the State Social Protection Fund and withholding tax)									
4.2	<b>Signing bonuses and bonuses</b>									
4.3	<b>License fees, entry fees and other considerations for licenses</b>									
4.4	<b>Other receipts, in total, including:</b>									
<b>Total:</b>										

Chairman of the Extractive Industries Commission: \_\_\_\_\_

Date: \_\_\_\_\_

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency For the year ended December 31, 2017

### Annex 3. Energy balance for the year 2017 (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	57,036.0	39,810.4	-	-	-	-	-	-	-	-	-	-	16,967.6	258.0	-	-	-
Import	2,521.6	64.4	472.0	-	-	134.6	84.8	2.6	1.2	199.0	6.9	42.9	1,968.5	-	-	9.3	7.4
Export	-43,311.2	-33,797.7	-1,139.7	-	-93.4	-7.2	-186.6	-	-614.7	-12.7	-	-225.1	-8,263.5	-	-	-110.3	-
Filled in fuel tanks for international flights	-208.5	-	-208.5	-	-	-	-163.4	-	-45.1	-	-	-	-	-	-	-	-
For the fuel tanks of ships	-45.1	-	-45.1	-	-	-	-	-	-45.1	-	-	-	-	-	-	-	-
For the fuel tanks of aircraft	-163.4	-	-163.4	-	-	-	-163.4	-	-	-	-	-	-	-	-	-	-
Changes in reserves (balances)	-566.0	23.4	-60.2	-	3.3	-32.3	0.3	-	29.5	-83.7	4.3	18.4	-528.9	-0.3	-	-	-
<b>Total energy provision</b>	<b>15,471.9</b>	<b>6,100.5</b>	<b>-936.4</b>	<b>-</b>	<b>-90.1</b>	<b>95.1</b>	<b>-264.9</b>	<b>2.6</b>	<b>-629.1</b>	<b>102.6</b>	<b>11.2</b>	<b>-163.8</b>	<b>10,143.7</b>	<b>257.7</b>	<b>-</b>	<b>-101.0</b>	<b>7.4</b>
Statistical difference	66.1	-	35.0	-	-	15.1	-	-	14.8	0.4	3.3	1.4	28.2	-	-	2.7	0.2
Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transformation sector processes	-4,020.6	-6,048.6	5,287.5	217.1	240.6	1,254.1	606.2	-	1,873.5	-75.3	231.9	939.4	-5,288.1	-221.7	158.7	2,091.6	-
Electricity generating power plants	-1,977.2	-	-31.0	-	-	-	-	-	-10.5	-20.3	-	-0.2	-3,055.6	-221.6	-	1,331.0	-
Heat and electric power generating thermal power plants	-1,558.4	-	-294.4	-	-	-	-	-	-0.1	-294.3	-	-	-2,039.0	-	14.4	760.6	-
Heat exchangers (Boiler rooms)	-44.5	-	-0.4	-	-	-	-	-	-0.1	-0.3	-	-	-188.4	-	144.3	-	-
Gas processing plants	28.0	-	33.1	-	13.4	-	-	-	-	-	-	19.7	-5.1	-	-	-	-
Domna ovens	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Oil refineries	-468.4	-6,048.6	5,580.2	217.1	227.2	1,254.1	606.2	-	1,884.2	239.6	231.9	919.9	-	-	-	-	-
Petrochemical plants	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Transformation Processes	-0.1	-	-	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-
Domestic consumption of energy sector	1,147.7	10.1	354.4	217.1	-	-	-	-	-	-	-	137.3	457.2	-	1.0	325.0	-
Losses	972.0	41.8	-	-	-	-	-	-	-	-	-	-	717.5	-	19.2	193.5	-
<b>Final consumption</b>	<b>9,265.5</b>	<b>-</b>	<b>3,961.7</b>	<b>-</b>	<b>150.5</b>	<b>1,334.1</b>	<b>341.3</b>	<b>2.6</b>	<b>1,229.6</b>	<b>26.9</b>	<b>239.8</b>	<b>636.9</b>	<b>3,652.7</b>	<b>36.0</b>	<b>138.5</b>	<b>1,469.4</b>	<b>7.2</b>
Final consumption for energy purposes	8,210.0	-	2,936.2	-	15.3	1,334.1	333.4	0.6	1,227.6	22.4	-	2.8	3,628.8	36.0	138.5	1,469.4	1.1
Industry and construction	1,098.1	-	86.5	-	0.2	-	-	0.1	68.0	15.4	-	2.8	699.5	1.5	-	310.6	-
Ferrous metallurgy	59.9	-	-	-	-	-	-	-	-	-	-	-	29.3	-	-	30.6	-
Chemistry and petrochemistry	189.9	-	1.7	-	-	-	-	-	-	-	-	1.7	163.6	-	-	24.6	-
Non-ferrous metallurgy	64.7	-	-	-	-	-	-	-	-	-	-	-	0.7	-	-	64.0	-
Manufacture of non-metallic mineral substances	316.9	-	1.5	-	-	-	-	-	-	0.4	-	1.1	284.2	-	-	31.2	-
Transportation equipment	1.7	-	0.1	-	-	-	-	-	0.1	-	-	-	0.2	-	-	1.4	-
Manufacture of machinery and equipment	31.7	-	3.5	-	-	-	-	-	1.2	2.3	-	-	12.1	-	-	16.1	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

	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						
Mining	18.5	-	2.5	-	-	-	-	-	-	2.5	-	-	-	7.6	-	-	8.4	-
Manufacture of food and tobacco	221.5	-	10.0	-	0.1	-	-	0.1	-	7.5	2.3	-	-	159.0	1.4	-	51.1	-
Manufacture of paper, pulp and printing products	4.5	-	-	-	-	-	-	-	-	-	-	-	-	0.4	-	-	4.1	-
Woodworking and wood products production	4.5	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-	4.4	-
Weaving, leather and clothing industry	21.8	-	0.4	-	-	-	-	-	0.3	0.1	-	-	-	7.9	-	-	13.5	-
Construction	142.2	-	66.4	-	0.1	-	-	-	56.1	10.2	-	-	-	23.4	0.1	-	52.3	-
Other industries	20.3	-	0.4	-	-	-	-	-	0.3	0.1	-	-	-	11.0	-	-	8.9	-
<b>Transportation</b>	<b>2,563.9</b>	-	<b>2,527.5</b>	-	<b>7.3</b>	<b>1,327.5</b>	<b>333.4</b>	-	<b>859.0</b>	<b>0.3</b>	-	-	-	<b>1.1</b>	<b>0.1</b>	-	<b>34.2</b>	<b>1.0</b>
Automobile	2,136.8	-	2,136.8	-	7.3	1,327.5	-	-	802.0	-	-	-	-	-	-	-	-	-
Railway	38.0	-	9.0	-	-	-	-	-	8.7	0.3	-	-	-	-	0.1	-	27.9	1.0
Indoor air	333.4	-	333.4	-	-	-	333.4	-	-	-	-	-	-	-	-	-	-	-
Inland water	48.3	-	48.3	-	-	-	-	-	48.3	-	-	-	-	-	-	-	-	-
Pipeline	7.4	-	-	-	-	-	-	-	-	-	-	-	-	1.1	-	-	6.3	-
Other types of transport	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Other sectors of the economy</b>	<b>4,548.0</b>	-	<b>322.2</b>	-	<b>7.8</b>	<b>6.6</b>	-	<b>0.5</b>	<b>300.6</b>	<b>6.7</b>	-	-	-	<b>2,928.2</b>	<b>34.4</b>	<b>138.5</b>	<b>1,124.6</b>	<b>0.1</b>
Agriculture, forestry and fishing	444.1	-	297.4	-	0.1	5.9	-	-	291.3	0.1	-	-	-	56.7	1.7	-	88.3	-
Commercial and public services	709.8	-	8.8	-	1.2	-	-	0.4	0.6	6.6	-	-	-	234.4	19.5	24.3	422.7	0.1
Households	3,394.1	-	16.0	-	6.5	0.7	-	0.1	8.7	-	-	-	-	2,637.1	13.2	114.2	613.6	-
Other areas	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Final consumption for non-energy purposes</b>	<b>1,055.5</b>	-	<b>1,025.5</b>	-	<b>135.2</b>	-	<b>7.9</b>	<b>2.0</b>	<b>2.0</b>	<b>4.5</b>	<b>239.8</b>	<b>634.1</b>	<b>23.9</b>	-	-	-	-	<b>6.1</b>

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

Consolidated Report on Extractive Industry Transparency  
For the year ended December 31, 2017

## Annex 4. Reconciliation sheets by extractive companies

### Apsheron Investment Limited

(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	3,840	3,840	-	-	-	3,840	3,840	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	30 941.511	30,941.511	-	-	-	30,941.511	30,941.511	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

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### Azen Oil Company B.V.

(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	7,420	7,420	-	-	-	7,420	7,420	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	0,200	0,200	-	-	-	0,200	0,200	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	2,735.330	2,735.330	-	-	-	2,735.330	2,735.330	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### Azerbaijan (ACG) Limited

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	0,490	0,490	-	-	-	0,490	0,490	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	73,020	73,020	-	-	-	73,020	73,020	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	15,340	15,340	-	-	-	15,340	15,340	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### Azerbaijan (Shahdeniz) Limited

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	22,755	-	22,755	(22,755)	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

AzGerneft

(million AZN)

Revenue streams	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Monetary inflow from Oil	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### “AzerGold” CJSC

(million AZN)

Revenue streams	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Monetary inflow from Oil	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Gold (thsd. ounces)	-	-	-	-	-	-	-	-
Silver (thsd. ounces)	-	-	-	-	-	-	-	-
Gold in concentrate of copper (thsd. ounces)	-	-	-	-	-	-	-	-
Silver in concentrate of copper (thsd. ounces)	-	-	-	-	-	-	-	-
Non-ferrous metals – copper concentrate (thsd. tonnes)	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### Bahar Energy Limited

(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	0,161	0,161	-	-	-	0,161	0,161	-
Monetary Inflow from Gas	0,243	0,243	-	-	-	0,243	0,243	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	-	-	-	-	-	-	-	-
Value added tax	6,747	-	6,747	(6,747)	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	6 301,823	6 301,823	-	-	-	6 301,823	6 301,823	-
Associated Gas (thsd. m <sup>3</sup> )	656,870	656,870	-	-	-	656,870	656,870	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### BP Exploration (Azerbaijan) Limited

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	65,604	-	65,604	(65,604)	-	-	-	-
Bonuses	0,026	0,026	-	-	-	0,026	0,026	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### BP Exploration (Caspian Sea) Limited

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	1,519	1,519	-	-	-	1,519	1,519	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	118,788	118,788	-	-	-	118,788	118,788	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	47,120	47,120	-	-	-	47,120	47,120	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	2,733.130.172	2,896.339.451	163,209.279	(163,209,279)	-	2,896.339.451	2,896.339.451	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### BP Shafag-Asiman Limited

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	2,118	2,118	-	-	-	2,118	2,118	-
Profit taxes	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### CNPC International (Kura) Limited

(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	0,514	0,514	-	-	-	0,514	0,514	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	2,010	2,010	-	-	-	2,010	2,010	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	38,620.446	38,620.446	-	-	-	38,620.446	38,620.446	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### Commonwealth Gobustan Limited

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### Exxon Azerbaijan Limited

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	0,340	0,340	-	-	-	0,340	0,340	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	20,306	20,306	-	-	-	20,306	20,306	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	10,535	10,535	-	-	-	10,535	10,535	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

BP Absheron Limited

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### “Ali-Bayramli Neft” LLC

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	0,415	0,415	-	-	-	0,415	0,415	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### Fortunamate Assets Limited

(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	0,514	0,514	-	-	-	0,514	0,514	-
Monetary Inflow from Gas								
Bonuses								
Transit fee								
Acreage fee								
Profit taxes	2,217	2,217	-	-	-	2,217	2,217	-
Other taxes								

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### Inpex Southwest Caspian Sea, Ltd

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	0,465	0,465	-	-	-	0,465	0,465	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	24,773	24,773	-	-	-	24,773	24,773	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	14,438	14,438	-	-	-	14,438	14,438	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### Itochu Oil Exploration (Azerbaijan) Inc.

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	0,182	0,182	-	-	-	0,182	0,182	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	18,096	18,096	-	-	-	18,096	18,096	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	5,660	5,660	-	-	-	5,660	5,660	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### Karasu Development Company

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	0,415	-	0,415	(0,415)	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	1,465.000	1,465.000	-	-	-	1,465.000	1,465.000	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### Kura Valley Development Company Ltd.

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### “Gobustan Neft” LLC

(million AZN)

Revenue streams	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Monetary inflow from Oil	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

Lukoil Overseas Shah Deniz Ltd.

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	0,009	0,009	-	-	-	0,009	0,009	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### Naftiran Intertrade Co (NICO) Limited

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	22,755	-	22,755	(22,755)	-	-	-	-
Bonuses	0,013	0,009	(0,004)	0,004	-	0,009	0,009	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### Neftechala Investment Limited

(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	0,797	0,797	-	-	-	0,797	0,797	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### Novatis Oil F.Z.E.

(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	5,598	5,598	-	-	-	5,598	5,598	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	1,177	1,177	-	-	-	1,177	1,177	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	4,155.388	4,155.388	-	-	-	4,155.388	4,155.388	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### ONGC Videsh Limited

(mln USD)

Revenue streams	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Monetary inflow from Oil	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	0,115	0,115	-	-	-	0,115	0,115	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	10,723	10,723	-	-	-	10,723	10,723	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	3,583	3,583	-	-	-	3,583	3,583	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

Petronas Azerbaijan Shah Deniz S.A.R.L

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	35,271	35,271	-	-	-	35,271	35,271	-
Bonuses	0,020	0,014	(0,006)	0,006	-	0,014	0,014	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### Petro-Hong-Kong Pirsaat Oil

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### R.V.Investment Group Services

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Gold (thsd. ounces)	6,366	6,366	-	-	-	6,366	6,366	-
Silver (thsd. ounces)	2,978	2,978	-	-	-	2,978	2,978	-
Gold in concentrate of copper (thsd. ounces)	0,685	0,685	-	-	-	0,685	0,685	-
Silver in concentrate of copper (thsd. ounces)	14,898	14,898	-	-	-	14,898	14,898	-
Non-ferrous metals – copper concentrate (thsd. tonnes)	0,213	0,213	-	-	-	0,213	0,213	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### “Salyan Oil” LLC

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	0,470	0,470	-	-	-	0,470	0,470	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### “SGC Upstream” LLC

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	15,178	-	15,178	(15,178)	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### SOCAR

(million AZN)

Revenue streams	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Monetary inflow from Oil	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	9,287	9,287	-	-	-	9,287	9,287	-
Royalty	109,548	109,548	-	-	-	109,548	109,548	-
VAT	162,310	162,310	-	-	-	162,310	162,310	-
Property tax	80,182	80,182	-	-	-	80,182	80,182	-
Land tax	26,969	26,969	-	-	-	26,969	26,969	-
Price changes	165,293	165,293	-	-	-	165,293	165,293	-
Other taxes	99,551	99,551	-	-	-	99,551	99,551	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### Statoil Absheron A.S

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	0,363	0,363	-	-	-	0,363	0,363	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	39,395	39,395	-	-	-	39,395	39,395	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	11,276	11,276	-	-	-	11,276	11,276	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

Chevron Khazar Ltd.

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	0,478	0,478	-	-	-	0,478	0,478	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	36,880	36,880	-	-	-	36,880	36,880	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	14,844	14,844	-	-	-	14,844	14,844	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### Shirvan Investment Limited

(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	5,615	5,615	-	-	-	5,615	5,615	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	9,625.590	9,625.590	-	-	-	9,625.590	9,625.590	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### Total E & P Apsheron B.V

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	0,887	0,887	-	-	-	0,887	0,887	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

### Turkish Petroleum Anonim Ortaklığı

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	0,286	0,286	-	-	-	0,286	0,286	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	24,553	24,553	-	-	-	24,553	24,553	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	8,889	8,889	-	-	-	8,889	8,889	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

Turkish Petroleum Overseas Company Ltd.

(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	-	-	-	-	-	-	-	-
Monetary Inflow from Gas	43,235	-	43,235	(43,235)	-	-	-	-
Bonuses	0,017	0,017	-	-	-	0,017	0,017	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

UGE-LANCER PTE. Ltd.

(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	7,500	7,500	-	-	-	7,500	7,500	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	6,123	6,123	-	-	-	6,123	6,123	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	-	-	-	-	-	-	-	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	9,429.869	9,429.869	-	-	-	9,429.869	9,429.869	-

# EXTRACTIVE INDUSTRY COMISSION IN THE REPUBLIC OF AZERBAIJAN

## Consolidated Report on Extractive Industry Transparency

For the year ended December 31, 2017

Zenith Aran Oil Company Limited

(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	0,578	0,578	-	-	-	0,578	0,578	-
Monetary Inflow from Gas	-	-	-	-	-	-	-	-
Bonuses	-	-	-	-	-	-	-	-
Transit fee	-	-	-	-	-	-	-	-
Acreage fee	-	-	-	-	-	-	-	-
Profit taxes	-	-	-	-	-	-	-	-
Other taxes	-	-	-	-	-	-	-	-

Product	Template originally lodged			Adjustments		Final amount		
	Extractive companies	Government	Difference	Extractive companies	Government	Extractive companies	Government	Difference
Crude Oil (million barrels)	0,008	0,008	-	-	-	0,008	0,008	-
Natural Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-
Associated Gas (thsd. m <sup>3</sup> )	-	-	-	-	-	-	-	-

# EXTRACTIVE INDUSTRY COMMISSION IN THE REPUBLIC OF AZERBAIJAN

**Consolidated Report on Extractive Industry Transparency**  
For the year ended December 31, 2017

## Annex 4. Bibliography used in compiling of the report

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