

STATUTE OF THE OIL CONTRACTS DEPARTMENT OF THE STATE OIL FUND OF THE REPUBLIC OF AZERBAIJAN

1. GENERAL PROVISIONS

- 1.1. The Oil Contracts Department (the Department hereafter) is a structural unit of the State Oil Fund of the Republic of Azerbaijan (the Fund hereafter).
- 1.2. The Department is guided by the Constitution of the Republic of Azerbaijan, the laws of the Republic of Azerbaijan, the decrees and orders of the President of the Republic of Azerbaijan, the “Statute of the State Oil Fund of the Republic of Azerbaijan”, the decrees and orders of the Fund, as well as this Statute in its activities.
- 1.3. The Department operates in collaboration with other structural units of the Fund in fulfilling the functions identified by this Statute.
- 1.4. Terms and definitions:

Acreage payments - payments due to the State from foreign investors for the use of contract area in connection with oil and gas exploration and development;

Bonuses - Production Sharing Agreements signature or performance bonuses paid to the State;

Production Sharing Agreement (PSA) – agreement, having the force of law in the Republic of Azerbaijan, signed between the Republic of Azerbaijan and foreign investors regarding the oil and gas exploration, development and production sharing.

Profit hydrocarbons – attributable to the Republic of Azerbaijan share of crude oil and gas related to the realization of the Production Sharing Agreements.

“PLATTS”- information agency specialized in the publication of price quotations of oil, natural gas, oil and chemical products, industrial metals sold in various markets.

Transit income - revenues generated from oil transported through export pipeline over the territory of the Republic of Azerbaijan;

2. THE MAIN OBJECTIVE OF THE DEPARTMENT

To ensure the representation of the interests of the Republic of Azerbaijan according to the agreements signed between the Republic of Azerbaijan and foreign investors in regard to oil and gas exploration, development and production sharing, as well as in strategic energy projects, financed by the Fund.

3. THE FUNCTIONS OF THE DEPARTMENT

- 3.1. To conduct the supervision on revenues generated from implementation of the agreements on exploration, development and production sharing of oil and gas fields, and transportation between the Republic of Azerbaijan and foreign investors, net revenues generated from the sale of the share of the Republic of Azerbaijan in hydrocarbons; the bonuses paid by investors to the State for signing or executing the oil and gas agreements; acreage payments by investors

to the State for the use of the area contracted for oil and gas exploration and development; revenues generated from oil and gas transported over the territory of the Republic of Azerbaijan through export pipelines, as well as the supervision on the dividends attributable to the Republic of Azerbaijan gained from the strategically important energy projects, financed by the Fund.

- 3.2. Within the framework of PSA's and transportation agreements, as well as the strategically important energy projects financed by the Fund, to provide a function of participation in management in order to ensure the supervision of the stakes belonging to the Republic of Azerbaijan.

4. THE RESPONSIBILITIES OF THE DEPARTMENT

- 4.1. Creation of the database of the agreements and related amendments.
- 4.2. Creation of the monitoring system for the gains from the sale of profit hydrocarbons attributable to the Republic of Azerbaijan under PSA's and transportation agreements, bonuses and acreage fees, transit incomes, as well as dividends gained from the stakes belonging to the Republic of Azerbaijan in the strategically important energy projects financed by the Fund.
- 4.3. Based on the financial models, preparation of forecasts regarding profits from the stakes attributable to the Republic of Azerbaijan, gained in the framework of PSA's and strategically important energy projects financed by the Fund.
- 4.4. Analysis and preparation of the proper reports regarding main commercial indicators of the PSA's, transportation agreements and strategically important energy projects financed by the Fund, and the gains attributable to the Republic of Azerbaijan.
- 4.5. Verification and confirmation of Net Back Value (NBV) reports in order to share profit from the sale of hydrocarbons between the State and the Contractor within the framework of PSA's;
- 4.6. Preparation of Joint Lifting Agreements and supervision of their implementation in order to share profit from the sale of hydrocarbons between the State and the Contractor within the framework of PSA's;
- 4.7. Within the framework of the PSA's, supervision of the implementation of the procedure of income tax payment to the State by Contractor;
- 4.8. Within the framework of transportation agreements, implementation of payment procedure for transportation expenses attributable to the stake of the Republic of Azerbaijan;
- 4.9. Within the framework of the PSA's, input of the hydrocarbons sales parties attributable to the State into the internal system, making analysis of selling prices on alternative markets and preparing appropriate reports based on the information provided by PLATTS agency;
- 4.10. Within the framework of PSA's and strategically important energy projects, participation in approval of Annual work program and budget and supervision of their implementation;
- 4.11. Within the framework of the PSA's and strategically important energy projects financed by the Fund, in order to ensure the protection of interests of the State, represent the Fund at the State Commissions, Steering committees, supervisory councils and working groups and other meetings;

- 4.12. Jointly with Budget, Forecasting and Projects Department, creating the monitoring system of funding mechanism and usage of funds of the strategically important energy projects and preparation of the related reports;
- 4.13. Within the framework of PSA's and strategically important energy projects, sending appropriate inquiries in order to gather necessary information.

5. ORGANIZATION OF THE OPERATIONAL PROCESS OF THE DEPARTMENT

- 5.1. The organizational structure and the number of employees of the Department are determined by the Executive Director of the Fund.
- 5.2. The operations of the Department are overseen by the Director of the Department. The Director of the Department is appointed and dismissed from his position by the Executive Director of the Fund. The Director of the Department bears personal responsibility for the accomplishment of the responsibilities assigned to the Department.
- 5.3. The Director of the Department:
 - 5.3.1. Allocates work the employees under his supervision, coordinates their activities and monitors the execution of duties and oversees employee discipline in the workplace.
 - 5.3.2. Informs the management of the Fund on important issues about the activities of the Department.
 - 5.3.3. Provides the management of the Fund with proposals regarding the enforcement of appropriate incentives and disciplinary measures for the employees of the Department.
 - 5.3.4. Ensures the review of incoming letters, requests, complaints and proposals in accordance with the legislation.
 - 5.3.5. Ensures the execution of the clerical work of the Department.
 - 5.3.6. Represents the Department.
- 5.4. In the case of absence of the Department Director, his/her duties are delegated to one of the employees within the Department.
- 5.5. The employees of the Department are appointed and dismissed from their positions by the Executive Director.