

EITI REPORT 2012



ETI
AZERBAIJAN
2012

AZERBAIJAN

EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE

REPORT 2012

AZERBAIJAN

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ABBREVIATIONS AND ACRONYMS

ACG	Azeri-Chirag-Gunashli
AIOC	Azerbaijan International Operating Company
AZN	Azerbaijani manat
Committee	Committee on EITI of the Republic of Azerbaijan
Companies	Extractive industry companies operating in Azerbaijan
EITI	Extractive Industries Transparency Initiative
EITI Secretariat	Azerbaijan EITI Secretariat
GDP	Gross domestic product
Government	Government of the Republic of Azerbaijan
MOU	Memorandum of Understanding
NGO	Non-governmental organization
PSA	Production Sharing Agreement
SOFAZ	State Oil Fund of the Republic of Azerbaijan
SOCAR	State Oil Company of the Azerbaijan Republic
TOR	Terms of Reference
USD	Dollars of the United States of America
VAT	Value added tax
k	Thousand
kcm	Thousand cubic metres
mboe	Millions of barrels of oil equivalent
m ³	Cubic metres
Nm ³	Normal cubic metres
Sm ³	Standard cubic metres

REPUBLIC OF AZERBAIJAN

Area: 86,6 thousand sq. km

Population: 9356,5 thousand persons

Capital: Baku

Official language: Azerbaijani

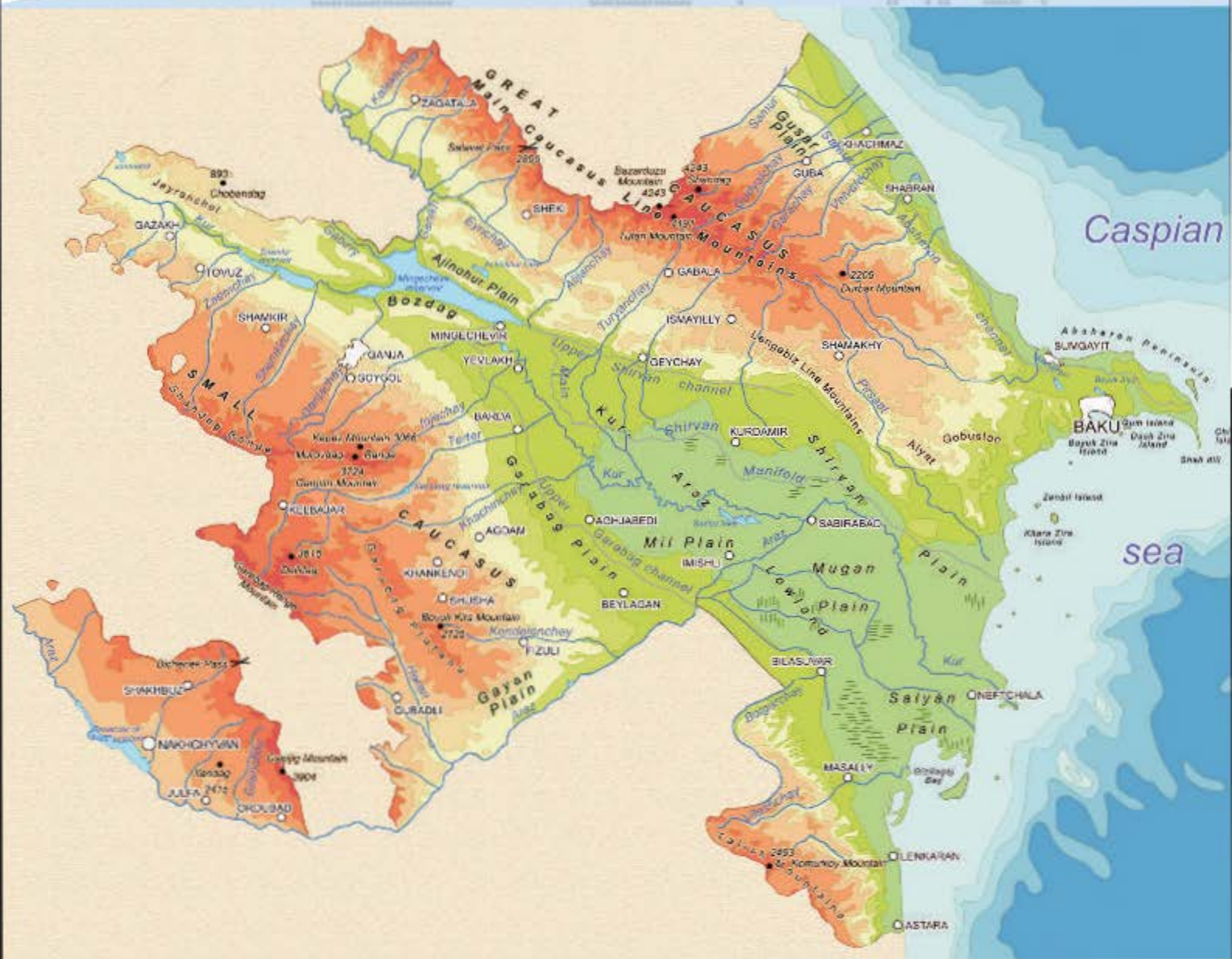
Currency: Manat

National Flag of the Republic of Azerbaijan



State Emblem of the Republic of Azerbaijan





Map of the Republic of Azerbaijan

**ANALYSIS OF
MACROECONOMIC SITUATION
IN THE REPUBLIC OF
AZERBAIJAN IN 2012**

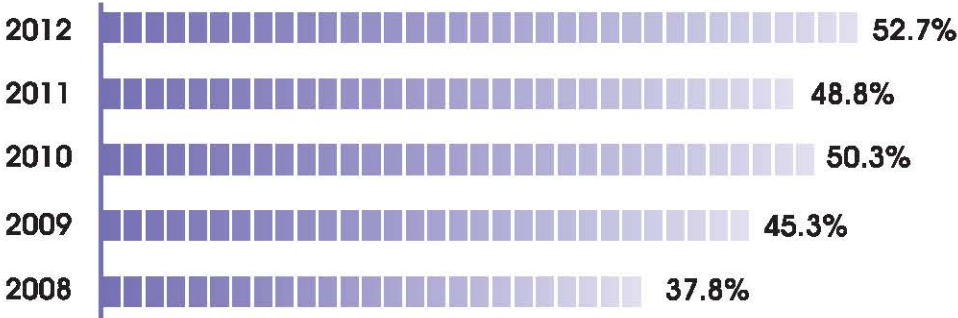
Thanks to sound policies and reforms in the diversification of the economy pursued by the President Ilham Aliyev in 2012, Azerbaijan's economy has continued to grow even during the financial and economic crisis that has engulfed the entire world. Post-crisis uncertainties in the global economy and finances continued in 2012. Economic growth slowed down in the developed countries, especially in the Eurozone. Financial and economic difficulties along with rising unemployment continue to be relevant in these countries. In contrast to the developed nations, the developing and newly industrialized countries felt more confident in these critical conditions.

Against the background of continued high crude oil prices in the world market and the growth of non-oil sector in 2012, the gross domestic product (GDP) increased by 2.2% compared to the previous year, total capital investments amounted to AZN 15.3 bln., the share of GDP per capita reached AZN 5.9 thousand. In the World Economic Forum's report on global competition titled "The Global Competitiveness Report 2012-2013" Azerbaijan occupied the 46th place among 144 countries. Progress has been achieved in the country compared to the previous period in terms of improvement of business environment. According to the magazine "Doing Business-2013" jointly published by the International Finance Corporation and the World Bank, Azerbaijan was in the 67th place among 185 countries in 2012. According to this parameter Azerbaijan occupied a place among "upper middle income" countries.

Real sector. Due to the decline in oil production in 2012, the gross domestic product of the oil sector (the oil GDP) decreased by 5.0%. Compared to the previous year, the volume of GDP in real terms increased by 2.2% and reached AZN 54.0 bln. The GDP growth has been achieved at the account of non-oil sector. The share of non-oil sector in total GDP amounted to 52.7% at the end of the reporting year.

Share of non-oil sector in GDP

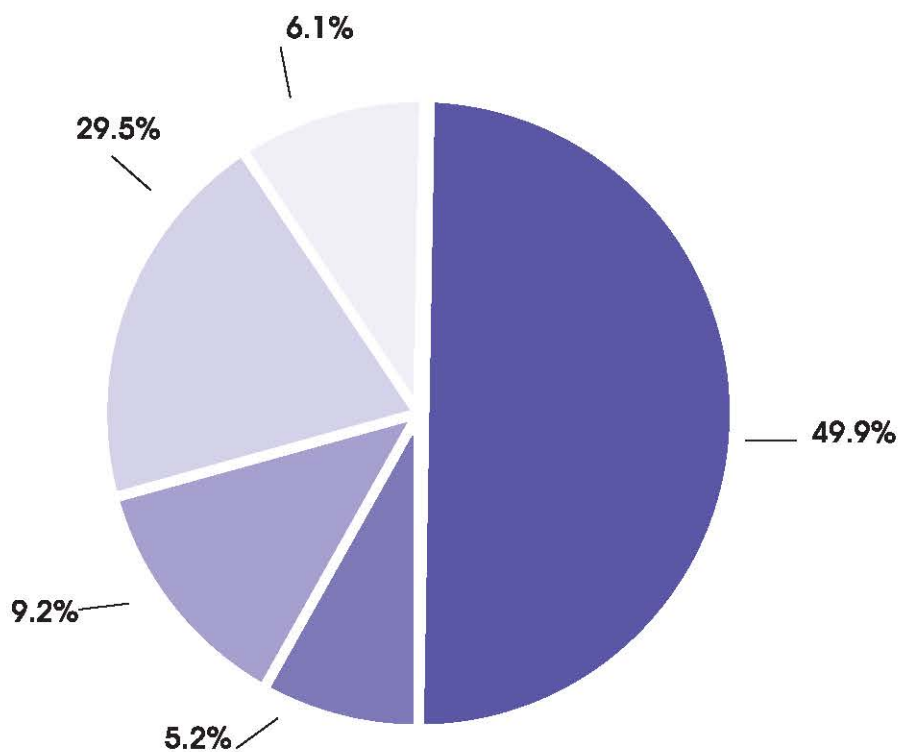
Source: Ministry of Economic Development of the Republic of Azerbaijan



Industrial production occupied a central position in the sectoral structure of the GDP. The share of this sector in GDP structure amounted to 49.9%. In addition, significant growth has been observed in the development of various structures of non-oil sector. So, the following real growth rates observed in various fields: 18.4% in construction industry, 7.6% in production of services, 7.0% in net taxes on production and imports, and 5.8% in agriculture, forestry and fishery sectors. Shares of production sectors in GDP are shown in the following graph.

Sectoral structure of GDP (2012)

Source: Ministry of Economic Development of the Republic of Azerbaijan

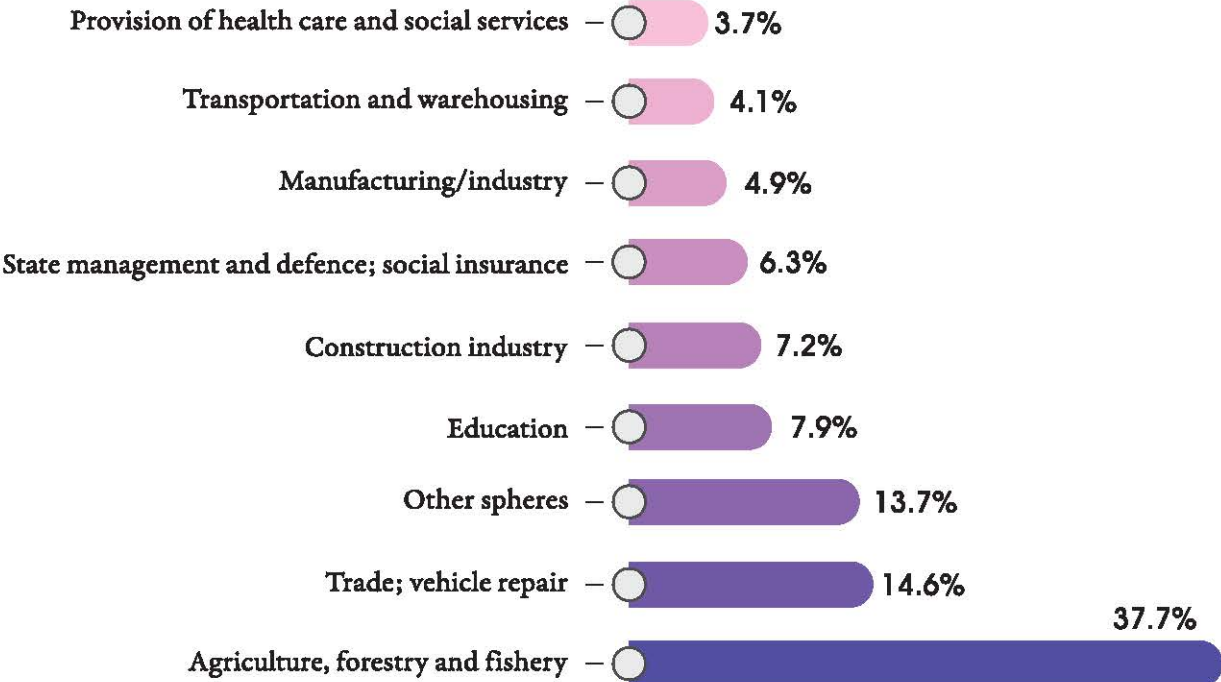


- Industry
- Agriculture, forestry and fishery
- Construction
- Services
- Net taxes imposed on products and import

Incomes of population. The increase was identified in the incomes of population in 2012. During the year, the incomes of population increased by 12.5% in real terms and reached AZN 34 723.9 mln., while a real increase in average monthly salaries was 7.5% which makes AZN 396.0. The poverty rate fell to 6.0% as a result of the steps undertaken to reduce the poverty, and the unemployment rate dropped down to 5.2%. According to the UN report on human development titled "Human Development Report 2013 ", Azerbaijan occupied the 82nd place among 186 countries in 2012 and joined the group of countries at "high human development" level.

Total employment structure (2012)

Source: Ministry of Economic Development of the Republic of Azerbaijan



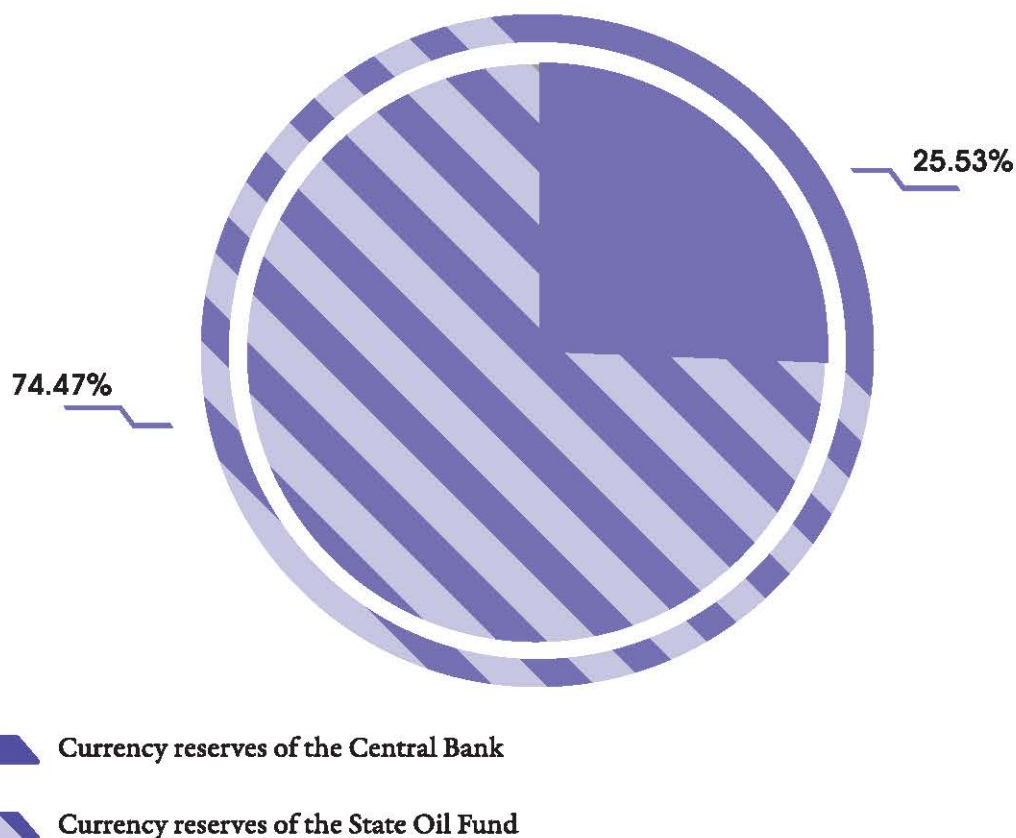
Financial sector. The stability in the financial sector remained; the rate of inflation reached 1.1% which means the lowest level compared to previous years. In addition, the exchange rate of the national currency against foreign currencies was maintained stable. According to calculations by the Central Bank of the Republic of Azerbaijan, 0.4 pp of total average annual inflation rate was caused by an increase in the cost of food, 0.3 pp by an increase in the cost of non-food goods, and another 0.4 pp associated with an increase in the cost of services.

Strategic currency reserves. At the beginning of 2012, the volume of the Oil Fund's assets amounted to USD 29 800.0 mln. During the year, assets of the State Oil Fund increased by USD 4 329.4 mln. (i.e. by 14.5%) and amounted to USD 34 129.4 mln. by the end of the year.

As of December 31, 2012, the share of the State Oil Fund in the structure of the state strategic currency reserves was USD 34.1 bln. while the share of the Central Bank of the Republic of Azerbaijan was 11.7 bln. Thus, 74.47% of the state currency reserves have been formed from the funds of the State Oil Fund.

Strategic currency reserves (2012)

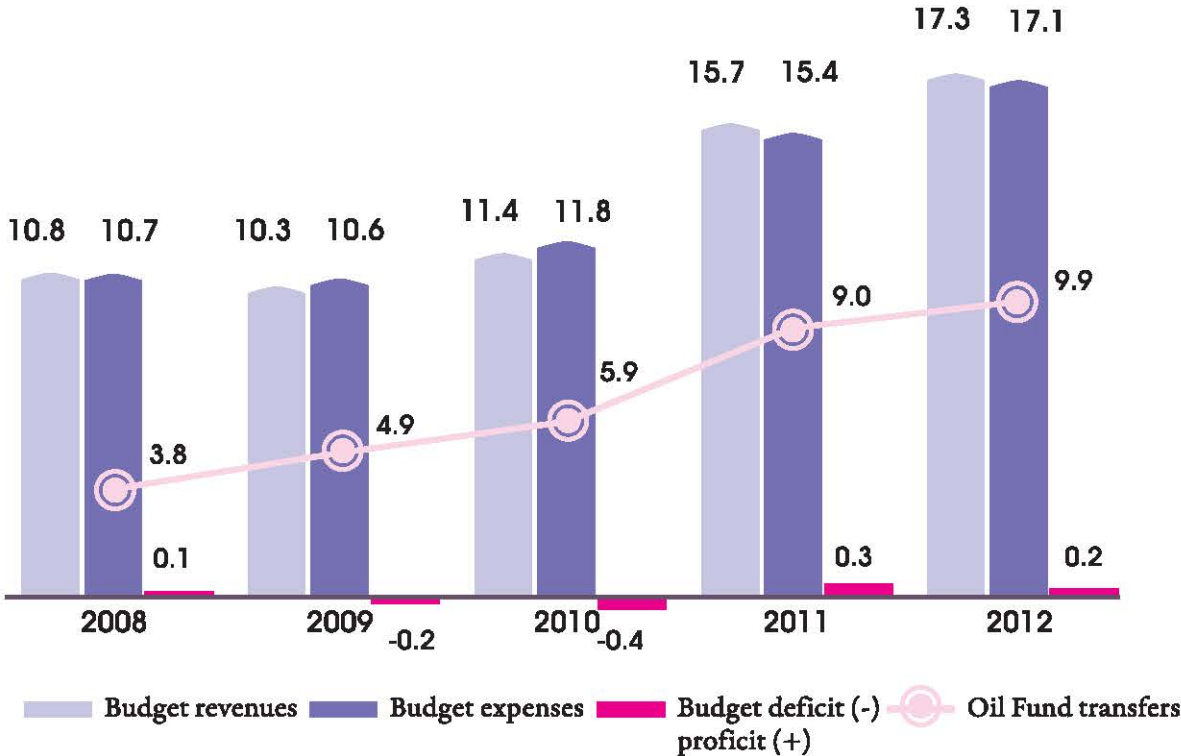
Source: State Oil Fund of the Republic of Azerbaijan and Central Bank of the Republic of Azerbaijan



Fiscal sector. During the reporting year, the revenues of the state budget amounted to AZN 17.3 bln. while its expenses amounted to AZN 17.1 bln. and budget profit of AZN 0.2 bln. was accumulated by the end of the reporting year. Revenues of the Oil Fund formed an important part of the state budget revenues. AZN 9.9 bln. or 57.3% of the revenues of the state budget was formed out of the transfers of the State Oil Fund. Furthermore, the volume of transfers from the State Oil Fund to the state budget increased by AZN 905 mln. (i.e. 10.1%) compared to the last year.

Share of transfers in the state budget, bln. AZN

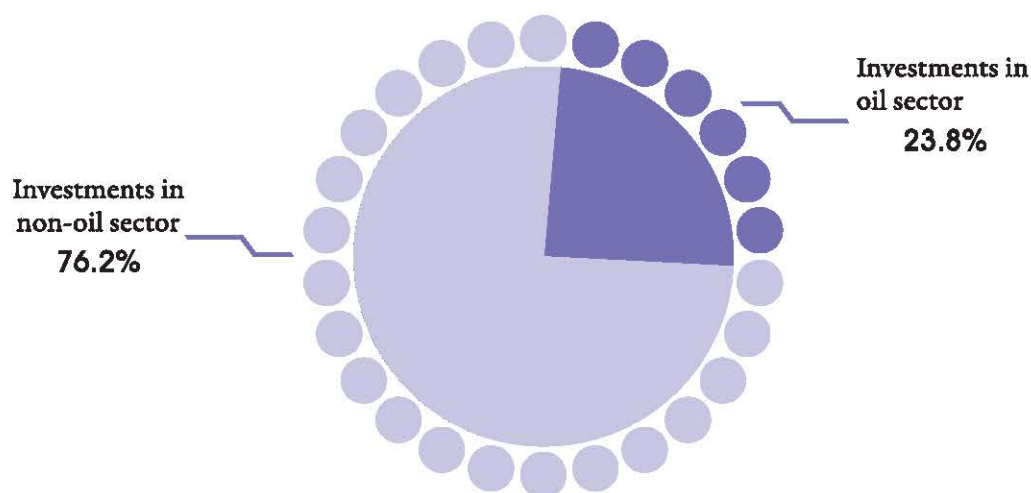
Source: State Oil Fund of the Republic of Azerbaijan and Central Bank of the Republic of Azerbaijan



Investments. In 2012, there was a noticeable increase in the volume of foreign and domestic investments. During the year, the total capital investments increased by 18.0% in real terms and reached AZN 15 338.5 mln., out of which AZN 11 690.5 mln. was invested in non-oil sector, while AZN 3 648.0 mln. was directed to oil sector.

Total capital investments (2012)

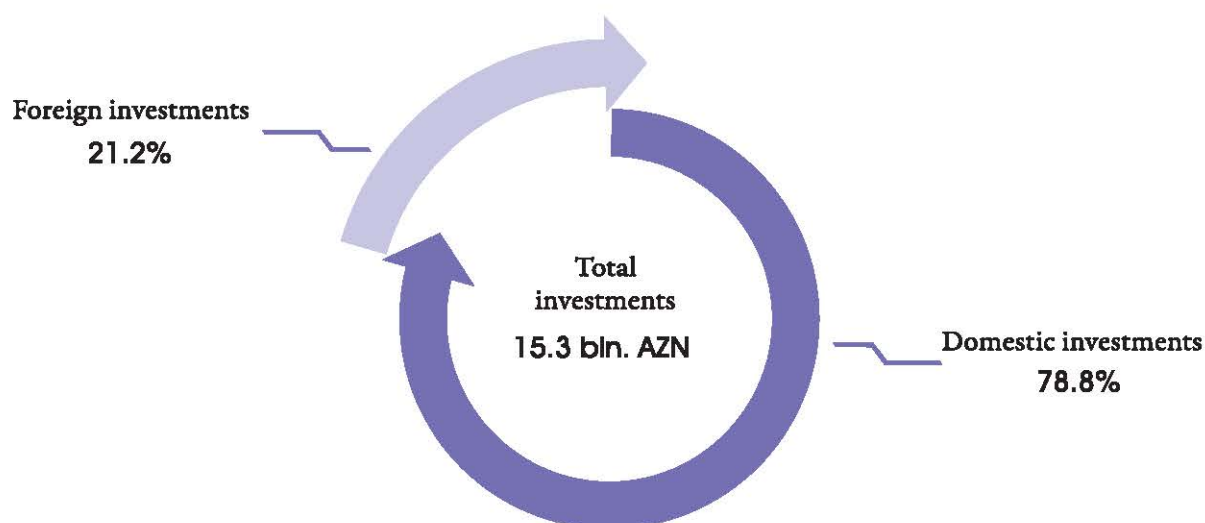
Source: Ministry of Economic Development of the Republic of Azerbaijan



In addition, domestic investments significantly exceeded foreign investments in the total volume of investments. Thus, compared to the previous year, domestic investments increased by 16.6% in real terms and reached AZN 12 079.6 mln. or 78.8% of the total investment. At the same time, foreign investment has in real terms increased by 23.4% and reached AZN 3 258.9 mln.

Total capital investments (2012)

Source: Ministry of Economic Development of the Republic of Azerbaijan



Foreign trade. The global economic crisis has also affected foreign trade. Compared to previous periods, the position of the leading countries in the world trade turnover has even more weakened. The growth of exports from the developed countries in 2012 amounted to 2.1%, while this rate in the developing countries was 3.6%.

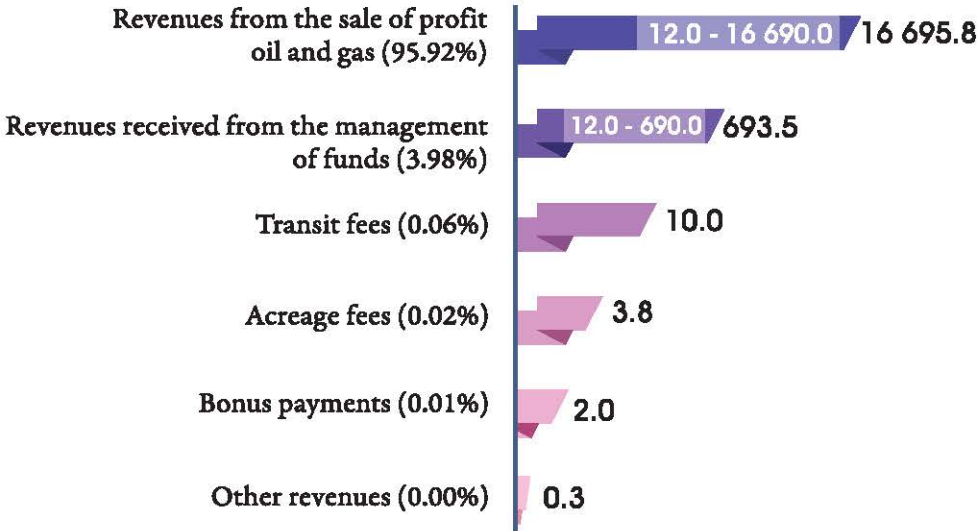
Due to continued high prices of Azerbaijani oil in the world market in 2012, the country experienced favorable trade position. Foreign trade turnover of the country amounted to USD 33 560.84 mln. including export turnover of USD 23 907.97 mln. and the volume of import operations amounted to USD 9 652.87 mln. In other words, the foreign trade balance has been closed up with a surplus of about USD 14 255.1 mln. (Source: State Customs Committee of the Republic of Azerbaijan).

At the same time, the volume of exports fell by 10.0%, and import operations decreased by more than 1.0% compared to 2011. During 2012, the decline in exports was caused by the decline in oil production in the country.

In 2012, the State Oil Fund received its revenues from the following sources: proceeds from sales of the Republic of Azerbaijan's share of hydrocarbons, transit fees, bonus payments, acreage fees, revenues from the management of the Fund's assets and other revenues. A total of AZN 13 674.1 mln. (USD 17 405.4 mln.) was received last year from these sources. Income structure is shown in the following diagram.

Sources of formation of SOFAZ revenues (mln. USD)

Source: State Oil Fund of the Republic of Azerbaijan



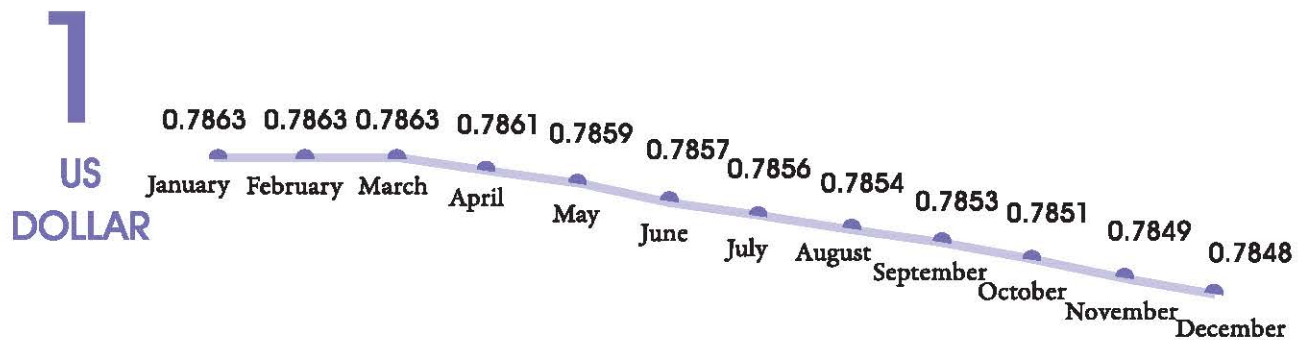
Average price per barrel of the state profit oil sold
in the world market in 2012

\$112.21

Source: State Oil Fund of the Republic of Azerbaijan

Exchange rate for AZN in 2012

Source: Central Bank of the Republic of Azerbaijan



Average exchange rate for the year: 1 US dollar = 0.7856 AZN



**REPORT OF THE GOVERNMENT
OF THE REPUBLIC
OF AZERBAIJAN ABOUT
AGGREGATED RECEIPTS
FROM THE EXTRACTIVE
INDUSTRIES**

Reporting period: Annual, 2012 (Jan-Dec)						
	Value		Volume			
	mln. US dollar	mln. AZN manat	Oil	Gas	Gold	Silver
1.Receipts by Host Government from the foreign companies Host Government's production entitlement (including indirect entitlement through the host state owned company) in foreign company's						
1.1. Oil Production Stream						
in kind (mln barrel)			160.755			
in cash	73.025					
1.2. Gas Production Stream						
in kind (thousand cubic metres)						
natural				6489.251		
associated				3513137.678		
in cash	365.458					
1.3. Base metals Production Stream						
in kind (thousand tons)						
in cash						
1.4. Precious metals Production Stream						
in kind (thousand ounces)						
gold					6.560	
silver						6.369
in cash						

Reporting period: Annual, 2012 (Jan-Dec)

	Value		Volume			
	mln. US dollar	mln. AZN manat	Oil	Gas	Gold	Silver
2.Receipts by Host Government from local companies Host Government's production entitlement in local company's						
2.1. Oil Production Stream						
in kind (mln barrel)						
in cash						
2.2. Gas Production Stream						
in kind (thousand cubic metres)						
natural						
associated						
in cash						
2.3. Base metals Production Stream						
in kind (thousand tons)						
in cash						
2.4. Precious metals Production Stream						
in kind (thousand ounces)						
in cash						
3.Other host government receipts from foreign companies (including receipts collected through the host state-owned company)						
Royalties						
in kind						
in cash						
Profit tax		1437.854				

Reporting period: Annual, 2012 (Jan-Dec)						
	Value		Volume			
	mln. US dollar	mln. AZN manat	Oil	Gas	Gold	Silver
Other tax (excluding employee income tax, social tax and withholding tax)						
Dividends						
Signing bonuses and other bonuses	2.000					
License fees, entry fees and other considerations for licenses						
Other receipts, in total, including:						
a) Acreage fees	3.829					
b) Transit fees	10.044					
4. Other host government receipts from local companies						
Royalties		122.770				
Profit tax		90.299				
Value added tax		75.299				
Land tax		10.900				
Property tax		24.967				
Price change		345.828				
Other tax (excluding employee income tax, contributions to the State Social Protection Fund and withholding tax)		1.291				
Dividends						
Signing bonuses and other bonuses						
License fees, entry fees and other considerations for licenses						
Other receipts, in total, including:						
Total	454.356	2109.208	160.755	3519626.929	6.560	6.369

**THE COMMITTEE ON THE
EXTRACTIVE INDUSTRIES
TRANSPARENCY INITIATIVE OF THE
REPUBLIC OF AZERBAIJAN**

**INDEPENDENT ACCOUNTANTS'
REPORT 2012**

JUNE 2013

INDEPENDENT AUDITOR'S REPORT

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

We have examined the accompanying Statement of the EITI Committee of the Republic of Azerbaijan (henceforth the “Committee”) shown in Appendix 1, that the schedule of payments/allocations received during the year ended 31 December 2012 by the Government of the Republic of Azerbaijan (the “Government”) from the extractive industry companies (the “Companies”) is prepared in accordance with the Memorandum of Understanding (MoU) dated 24 November 2004 signed between the Committee, the local and foreign Companies operating in the Extractive Industries of the Republic of Azerbaijan, specified in Appendix 2, and the Non-Governmental Organisations and individuals specified in Appendix 3 (the “MoU”). The Committee is responsible for this Statement. Our responsibility is to express an opinion on the Statement based on our examination.

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

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

Summary of Work Performed

To examine the Statement of the Committee (Appendix 1) we have compared the schedule of payments/allocations received during the year ended 31 December 2012 by the Government (“Government’s schedule”) and the schedules prepared by the Companies (parties to the MoU) (“Companies’ schedule”) specified in Appendix 2. We carried out procedures as considered necessary under the circumstances to determine the reasons for the differences between the above schedules. We have conducted certain assurance procedures by testing the amounts recorded in the Reporting Templates on sample basis. We have applied assurance procedures to four extractive companies. Our findings are presented in the notes set out on pages 32-41.

OPINION

In our opinion, the accompanying Statement of the EITI Committee of the Republic of Azerbaijan is prepared in accordance with the aforementioned requirements and is fairly stated in all material respects, based on the work described in this report and except for adjustments, if any, which may have been required had we tested all payments/allocations made by the Companies and all payments/allocations received by the Government during the year ended 31 December 2012.

Moore Stephens Azerbaijan

10 June 2013

EXECUTIVE SUMMARY

In many countries, money from oil, gas and mining is associated with poverty, conflict and corruption. Commonly referred to as the "resource curse", this is often driven by a lack of transparency and accountability around the payments that companies are making to governments, and the revenues that governments are receiving from those companies. The EITI seeks to create that missing transparency and accountability. It is a voluntary initiative, supported by a coalition of companies, governments, investors and civil society organisations. Alongside other efforts to improve transparency in government budget practice, the EITI begins a process whereby citizens can hold their governments to account for the use of those revenues.

EITI was launched at the World Summit for Sustainable Development in 2002. The EITI supports improved governance in resource-rich countries through the full publication and verification of company payments and government revenues from oil, gas and mining industries. EITI is recognised as an international brand of transparency in extractive industries. Azerbaijan joined the Initiative in 2003. Azerbaijan has instituted a regular process of disclosing, reconciling and publishing payments of extractive sector companies to the government and government receipts from those companies. The first EITI report in Azerbaijan was published in 2005. This is the 17th EITI Report in Azerbaijan, and covers the year ended 31 December 2012.

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

OBJECTIVES AND SCOPE OF THE WORK

The assignment was performed by Moore Stephens Azerbaijan according to the Terms of Reference (ToR) issued by the Azerbaijan EITI Secretariat. According to the ToR the assignment should consist of the reconciliation report for the year ended 31 December 2012.

Objective:

The objective of the Independent Reconciler was to collect, review and reconcile payments by extractive companies with revenues received by the Government from extractive companies.

Accounting policy:

The cash basis of accounting was used for the reconciliation of the actual amounts paid by the extractive companies and received by the Government for the year 2012.

Currency:

The reporting currency is USD for foreign Companies and Azerbaijani manat (AZN) for local Companies.

Materiality Threshold:

The assessment of materiality thresholds for revenues (in kind and in cash) received by the Government from foreign and local extractive companies operating in Azerbaijan was determined in two stages:

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

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

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

Above mentioned revenue sources make up more than 99% (99.99%) of total governmental revenues from the extractive industries.

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

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

Stages of the Reconciliation process:

There were several stages during the Reconciliation process is set out as follows:

1. Inception stage

This is the initial stage of collecting information:

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

2. Reconciliation stage:

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

- Document review;
- Collecting, collating and analysing data from extractive sector payments and government receipts;
- Data aggregation and reconciliation.

3. Fieldwork stage

This stage is performed on a sample basis to increase the level of assurance. The following steps were taken:

- Selection of companies from the list of extractive companies on a sample basis;
- Conducting fieldwork to review primary supporting documents on site at the selected companies; and
- Including the conclusion on the completion of work performed.

4. Feedback Stage:

The activities at this stage will be the following:

- Dissemination of report to the EITI Committee;
- Recommendations made in the final report;
- Presentation of the report to the general public.

DESCRIPTION OF THE METHODOLOGY:

Our approach was to ensure that there would be continuous communication with the Companies, the Government and all other stakeholders through regular consultations. This process would ensure all concerns and queries were addressed at the earliest possible time and that the objectives of the Independent Reconciliation took central stage. Our report includes only commentary on the factual information received from the Companies and the Government.

The main roles of the Independent Reconciler have included the following key tasks:

DISTRIBUTION OF REPORTING TEMPLATES: This task involved ensuring that all the Companies and the Government who are required to complete the Reporting Templates were aware of their requirements and had the final Reporting Template on hand. It was agreed that a letter from the EITI Secretariat would accompany the distribution of the Reporting Templates.

FOLLOW UP TASKS: This task entailed communicating with the Companies and the Government ensuring any queries were clarified and the deadlines adhered to.

- Once we received confirmation from the EITI Secretariat that the Reporting Templates had been distributed to all the Companies, we requested a list of key contact details to commence our follow up exercise.
- Our initial follow up exercise was to ensure that the Reporting Templates had been received. If not, we highlighted this to the EITI Secretariat to ensure the Reporting Template was distributed to the Companies who had not received it.

COLLECTION OF DATA: This task involved collecting completed Reporting Templates and supporting documentation.

- The deadline for submission of Reporting templates is set by the EITI Secretariat and stated as 15th of March of each year. In addition, we asked the EITI Secretariat to update companies of the status, to assist us in reminding the Companies of the importance of providing us with the Reporting Templates.
- In order not to delay the process and to ensure our Final Report is published within the required timeline, we commenced the reconciliation process with the limited information in our possession whilst together with the EITI Secretariat we continued to follow up the non-respondents.

▶ **Payments of Companies**

We received Reports from the Companies who had reported payments. The Reporting Templates were prepared by EITI Azerbaijan and covered all types of payments. The manuals with technical guidelines were attached to Reporting Templates.

▶ **Receipts of Government Reports**

We received the Reports from the following Government agencies:

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

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

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

DISCREPANCIES: When discrepancies were identified, we contacted the Companies and the Government agencies involved for additional clarifications to enable us to reconcile these discrepancies.

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

Below we highlight some additional stages which we have used during the assignment:

We have performed procedures to obtain reasonable assurance over the transactions involved in the Reconciliation process. Furthermore, we selected a sample of Companies among those participating in the Reconciliation process and performed additional procedures.

The following are three different sampling options:

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

We selected four extractive companies and tested all items (100% testing) related to those Companies.

We vouched the recorded amounts from the Reporting templates to original supporting documents including:

- Bank documents: bank statements and authorised payment orders;
- Tax documents: receipts of payment of profit tax;
- Monthly act of acceptance for Associated and Natural Gas; and
- Other relevant documents.

We have obtained reasonable assurance on the amounts stated by the Companies. Based on work undertaken, we conclude that the objective of the procedure has been met.



SUMMARY OF REPORTS BY THE GOVERNMENT AND THE EXTRACTIVE COMPANIES

Foreign Extractive Companies							
	Reported by Government					Reported by	
	Value		Volume			Value	
	mln USD	mln AZN	mboe	Kcm	K. Ounces	mln USD	mln AZN
Monetary inflow for oil production	73.0					86.6	
Monetary inflow for gas production	365.5					365.5	
Crude oil			160.8				
Associated Gas				3 513 137.7			
Natural Gas				6 489.3			
Gold					6.6		
Silver					6.4		
Bonuses	2.0					1.0	
Transportation tariff to SOFAZ	10.0					3.5	
Acreage fees	3.8					2.8	
Profit tax	1 829.8					1 810.6	

Local Extractive Companies							
	Reported by Government					Reported by	
	Value		Volume			Value	
	mln USD	mln AZN	mboe	Kcm	K. Ounces	mln USD	mln AZN
Royalty		122.8					122.8
Profit tax		90.3					222.3
Other taxes		112.4					112.3
Price changes		345.8					345.8

*The brackets mean a deduction from the total amount.

Foreign Extractive Companies								
foreign extractive Companies			Difference					Notes
Volume			Value		Volume			
mboe	Kcm	K. Ounces	mln USD	mln AZN	mboe	Kcm	K. Ounces	
			(13.6)*					1
			-					2
161.3					(0.5)			3
	3 592 478.0					(79 340.3)		4
	6 489.3					-		5
		6.1					0.5	6
		6.4					-	7
			1.0					8
			6.5					9
			1.0					10
			19.2					11

Local Extractive Companies								
local extractive Companies			Difference					Notes
Volume			Value		Volume			
mboe	Kcm	K. Ounces	mln USD	mln AZN	mboe	Kcm	K. Ounces	
				-				12
				(132.0)				13
				0.1				14
				-				15

NOTES

Government's share in foreign Companies' extractive outputs

Note 1 Cash inflows from foreign Companies' oil production revenue

This represents the Government's entitlement to foreign Companies' oil production transferred to it as monetary funds. Extractive companies transfer Government share either in kind or in cash in accordance with respective Production Sharing Agreements ("PSAs").

	Confirmed	Adjustment	USD (mln) Final
Government's schedule	73.0	–	73.0
Companies' schedule	86.6	(13.6)	73.0
Difference	(13.6)	(13.6)	–

The differences of \$ 13.6 million represents errors, and consist of rounding error made by one foreign extractive company and another foreign company's transfer to SOCAR which should not have been included in this report. The figures were vouched to the relevant supporting documents. They should be deducted from the Companies' schedule.

Note 2 Cash inflows from foreign Companies' gas production revenue

This represents the Government's entitlement to foreign Companies' gas production transferred to it as monetary funds. Extractive companies transfer Government share in money terms in accordance with the Shah Deniz PSA.

	Confirmed	Adjustment	USD (mln) Final
Government's schedule	365.5	–	365.5
Companies' schedule	365.5	–	365.5
Difference	–	–	–

No differences identified.

Note 3 Crude oil

This represents the Government's oil production entitlement in the foreign Companies' oil production revenues, transferred in kind.

	Confirmed	Adjustment	Barrels (mln) Final
Government's schedule	160.8	–	160.8
Companies' schedule	161.3	(0.5)	160.8
Difference	(0.5)	(0.5)	–

The difference of 0.4 and 0.1 million barrels was incorrectly included in the Companies' schedule by two different foreign extractive companies. These payments relate to SOCAR's commercial activity and, therefore, are not reportable. We confirmed these differences by receiving additional information from SOCAR and reviewing relevant supporting documents of the companies concerned.

Note 4 Associated Gas

This represents associated gas coming from the performing oilfields. It is transferred free of charge according to the agreements with the Government.

	Confirmed	Adjustment	thousand cubic metres (kcm) Final
Government's schedule	3 513 137.7	–	3 513 137.7
Companies' schedule	3 592 478.0	(79 340.3)	3 513 137.7
Difference	(79 340.3)	(79 340.3)	–

This difference occurred due to some companies and explained as below:

1) The Government reported the volume of gas received from one foreign extractive company as 3 418 265.70 thousand cubic metres (Kcm) whilst the foreign extractive company reported 3 497 701.0 Kcm. According to the information received from that foreign extractive company this difference is due to the following reasons:

**cubic metres
(thousands)**

When converting the Sangachal terminal volumes to Nm³ a technical error occurred in one of the foreign companies' reports; instead of dividing by factor 1.07322, the numbers were multiplied by it. So the correct number for associated gas from the Sangachal terminal is 2 667 659.772 Nm³ and the total volume is 3 196 498.648 Nm³:

Reported amount – 3 497 701.0

Corrected amount – 3 196 498.7

Difference – (301 202.3)

(301 202.3)

Volume of gas delivered to the Sangachal Terminal

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

Government – 2 863 067.5 Sm³

Company – 2 667 736.9 Nm³

Difference – 195 407.8 kcm

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

When comparing company's Nm³ numbers with the Government's Sm³ numbers the gas volumes delivered to Sangachal Terminal are similar in both the Company's and the Government's reports, equalling to 3 025 101.4 kcm.

195 407.8

Note 4 Associated Gas (continuation)

Volume of gas delivered to Oil rocks

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

Government – 555 198.1 Sm³

Company – 528 838.9 Nm³

Difference – 26 359.3 min m³

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

Also the difference between those figures is the result of transportation losses and parties using different measurement times.

26 359.3

We confirmed this difference by receiving additional explanations from SOCAR and the company concerned.

(79 435.2)

2) The breakdown of the difference made by other companies:

cubic metres (thousands)

One of the foreign extractive companies has included incomplete amount related to Associated Gas. The difference was confirmed by receiving additional explanations from the company and was added to the Companies' schedule.

95.9

The difference occurred as a result of a rounding error made by three companies and was confirmed by reviewing monthly breakdowns of gas delivered to SOCAR by the company concerned.

(1.0)

94.9

Note 5 Natural Gas

This represents natural gas extracted from gas fields or non-performing oilfields. Natural gas is the Government's entitlement to foreign companies' production revenues, transferred to the Government in-kind.

	cubic metres (thousands)		
	Confirmed	Adjustment	Final
Government's schedule	6 489.3	–	6 489.3
Companies' schedule	6 489.3	–	6 489.3
Difference	–	–	–

No differences noted.

Note 6 Gold

This represents the Government's entitlement to the foreign Company's gold production revenues, transferred as in-kind payments.

	thousand ounces		
	Confirmed	Adjustment	Final
Government's schedule	6.6	(0.5)	6.1
Companies' schedule	6.1	–	6.1
Difference	(0.5)	(0.5)	–

The Government has reported Gold, Gold in copper concentrate and Copper in copper concentrate as one lump-sum amount which caused the difference. We have obtained supporting documents and adjusted the amount reported by the Government.

Note 7 Silver

This represents the Government's entitlement to the foreign Company's silver production revenues, transferred as in-kind payments.

	Confirmed	Adjustment	Final
Government's schedule	6.4	–	6.4
Companies' schedule	6.4	–	6.4
Difference	–	–	–

No differences noted.

Other inflows to the Government from the foreign extractive companies

Note 8 Bonuses

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.

	Confirmed	Adjustment	Final
Government's schedule	2.0	–	2.0
Companies' schedule	1.0	1.0	2.0
Difference	1.0	1.0	–

This difference represents the payment for an acreage fee (see Note 10) paid by one foreign extractive company amounting to USD 1 mln and mistakenly reported as a bonus. The remaining difference of USD 2 mln is due to the omission from the report of the bonus by another foreign extractive company.

Note 9 Transportation tariff

This represents the fees paid by the foreign extractive companies to SOFAZ for oil transportation by the Western Route Pipeline.

	USD (mln)		
	Confirmed	Adjustment	Final
Government's schedule	10.0	–	10.0
Companies' schedule	3.5	–	3.5
Difference	6.5	–	6.5

The amount of USD 6.5 million included in the Government's schedule relates to transit fees that were paid by the Government to itself for the transit of its own oil entitlement. Each month SOFAZ and contractors pay fees to the Azerbaijan International Operating Company ("AIOC" - operating company of the ACG oilfield), the levels of which are determined by the Republic of Azerbaijan and Georgia for the transportation of oil (Government's entitlement to oil profits) through Western Route Pipeline and operating costs (operational and capital expenditure). AIOC pays Georgia's share from the total fees collected. SOFAZ receives only the transportation tariff's share determined by the Republic of Azerbaijan. Because of the nature of the transaction this is a permanent difference. We confirmed the overall amount allocated to the Government by obtaining confirmations from AIOC and SOFAZ.

Note 10 Acreage fees

This represents fees paid by the foreign extractive Companies for the use of land/sea acreage during the exploration stage.

	USD (mln)		
	Confirmed	Adjustment	Final
Government's schedule	3.8	–	3.8
Companies' schedule	2.8	1.0	3.8
Difference	1.0	1.0	–

The payment of acreage fee was omitted by one foreign extractive company and reported as bonuses (Note 8) and should be added to companies' schedule.

Taxes paid to the Government by the foreign extractive companies

Note 11 Profit tax

Profit tax is levied on the difference between a taxpayer's taxable income and expenses (deductions) allowed for in the Tax Code of the Republic of Azerbaijan.

	Confirmed	Adjustment	USD (mln) Final
Government's schedule	1 829.8	(1.5)	1 828.3
Companies' schedule	1 810.6	17.7	1 828.3
Difference	19.2	16.2	-

Profit tax of \$ 5.7 million relating to a payment from a subsidiary of one of the foreign extractive companies, which does not operate in the extractive industry and therefore should not have been reported. The explanation was provided in the report by the foreign company and should be excluded from the companies' schedule. (5.7)

The payments of \$ 42.5 million and \$ 17.2 million were omitted from the report of two different foreign extractive companies. Relevant payment documents have been reviewed. The difference should be added to the companies' schedule. 59.7

A difference of \$ 1.5 million noted represents the aggregate total of an overstatement of taxes paid by one foreign extractive company amounting to \$ (4.6) million, and an understatement of taxes paid by another foreign extractive company amounting to \$ 3.1 million. We have vouched the difference to supporting documents and necessary adjustments. (1.5)

We noted a difference of \$ 6.9 million represents the amount of the fourth quarter payment of year 2012, which should not be reported because the amount has been paid in 2013. The difference was confirmed by reviewing and examining supporting documents. (6.9)

The difference of \$ 2.4 million represents the amount of penalties paid to the Ministry of Taxes of Azerbaijan Republic by one of the foreign extractive companies. The difference was confirmed by reviewing and examining supporting documents. 2.4

The difference of \$ 31.8 million represents the amount of the 4th quarter payment for the year 2012 which should not be reported because the amount was paid in 2013. The difference was vouched to supporting documents (payment documents to the Ministry of Taxes of Azerbaijan Republic). (31.8)

Total			16.2
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Taxes paid to the Government by the local extractive Companies

Note 12 Royalty

Royalty (mining tax) is paid for extracting minerals from the subsurface strata of the earth on the territory of the Republic of Azerbaijan (including the Caspian Sea sector).

	Confirmed	Adjustment	AZN (mln) Final
Government's schedule	122.8	–	122.8
Companies' schedule	122.8	–	122.8
Difference	–	–	–

No differences noted.

Note 13 Profit tax

Profit tax is levied on the difference between a taxpayer's taxable income and expenses (deductions) allowed for in the Tax Code of the Republic of Azerbaijan.

	Confirmed	Adjustment	AZN (mln) Final
Government's schedule	90.3	–	90.3
Companies' schedule	222.3	(132.0)	90.3
Difference	(132.0)	(132.0)	–

The amount of \$132.0 million was incorrectly reported by a local extractive company. SOCAR's several subsidiaries had tax prepayments to the State Budget, and others had tax liabilities. In accordance with the decree of the Cabinet of Ministers, those subsidiaries agreed to offset their mutual debts, simultaneously settling their prepayments and liabilities to the State Budget. The amount of difference should be deducted from the Company's schedule because the figure was not reportable under EITI. We have obtained reasonable explanations substantiated by supporting documents.

Note 14 Other taxes

Other taxes comprise property, land, road fund taxes, VAT and other taxes. Withholding tax, personal profit tax and social protection contributions and duties should not be included.

	Confirmed	Adjustment	AZN (mln) Final
Government's schedule	112.4	–	112.4
Companies' schedule	112.3	0.1	112.4
Difference	0.1	0.1	–

The following is the breakdown of the other taxes paid by the companies:

	Government's schedule	Companies' schedule	AZN (mln) Difference
VAT	75.2	75.1	0.1
Property tax	25.0	25.0	–
Land tax	10.9	10.9	–
Other taxes	1.3	1.3	–
Total	112.4	112.3	0.1

The VAT payments relate to two local extractive companies, which have changed their legal status, and represent an overdue tax payment. The amount was confirmed by reviewing supporting documents obtained from the company and the breakdown provided by the Ministry of Taxes of Azerbaijan Republic.

Note 15 Price changes

This represents gains from the price difference between the budgeted price and the world market price of the exported oil.

	Confirmed	Adjustment	AZN (mln) Final
Government's schedule	345.8	–	345.8
Companies' schedule	345.8	–	345.8
Difference	–	–	–

No differences noted.

SUMMARY OF ADJUSTED SCHEDULES BY THE GOVERNMENT AND THE EXTRACTIVE COMPANIES

Foreign Extractive Companies							
	Government's schedule					Foreign extractive	
	Value		Volume			Value	
	mln USD	mln AZN	mboe	Kcm	K. ounces	mln USD	mln AZN
Monetary inflow for oil production	73.0					73.0	
Monetary inflow for gas production	365.5					365.5	
Crude oil			160.8				
Associated Gas				3 513 137.7			
Natural Gas				6 489.3			
Gold					6.1		
Silver					6.4		
Bonuses	2.0					2.0	
Transportation tariff to SOFAZ	10.0					3.5	
Acreege fees	3.8					3.8	
Profit tax	1 828.3					1 828.3	

Local Extractive Companies							
	Government's schedule					Local extractive	
	Value		Volume			Value	
	mln USD	mln AZN	mboe	Kcm	K. ounces	mln USD	mln AZN
Royalty		122.8					122.8
Profit tax		90.3					90.3
Other taxes		112.4					112.4
Price changes		345.8					345.8

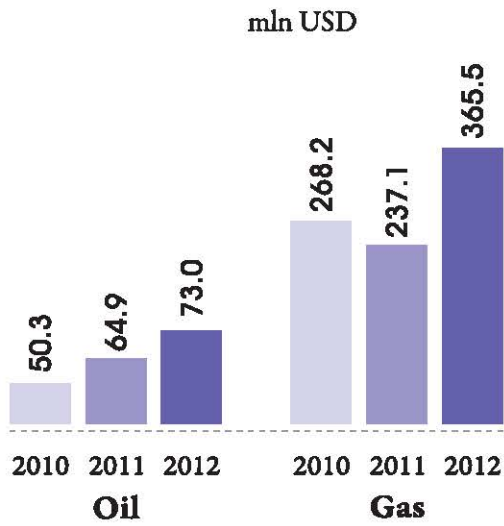
Foreign Extractive Companies								
Companies' Schedule			Difference					Notes
Volume			Value		Volume			
mboe	Kcm	K. ounces	mln USD	mln AZN	mboe	Kcm	K. ounces	
			-					1
			-					2
160.8					-			3
	3 513 137.7					-		4
	6 489.3					-		5
		6.1					-	6
		6.4					-	7
			-					8
			6.5					9
			-					10
			-					11

Local Extractive Companies								
Companies' Schedule			Difference					Notes
Volume			Value		Volume			
mboe	Kcm	K. ounces	mln USD	mln AZN	mboe	Kcm	K. ounces	
				-				12
				-				13
				-				14
				-				15

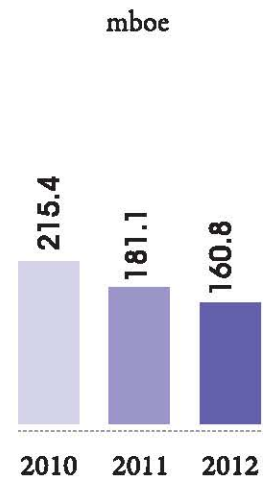
COMPARISON OF ADJUSTED DATA OF 2010, 2011 AND 2012

Government's interest in the foreign Companies' extractive output

Monetary inflow from Oil and Gas

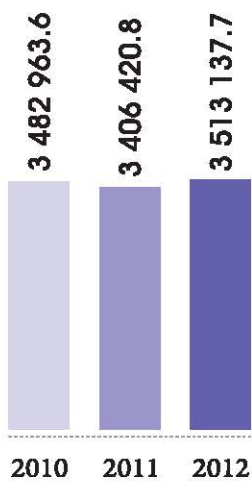


Crude oil



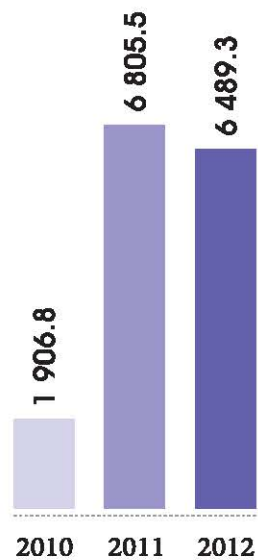
Associated Gas

thous. cubic metres



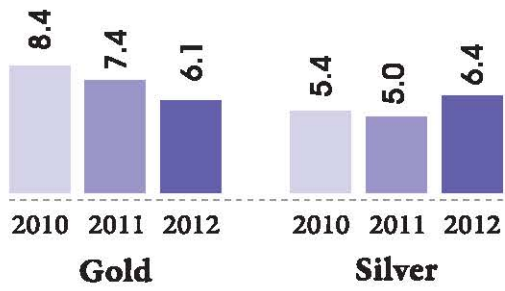
Natural Gas

thous. cubic metres



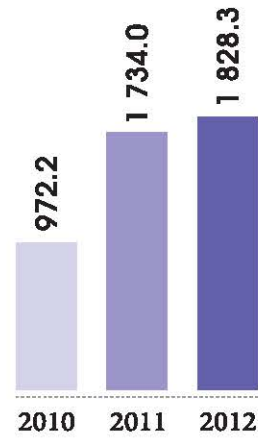
Gold and Silver

thous. ounces



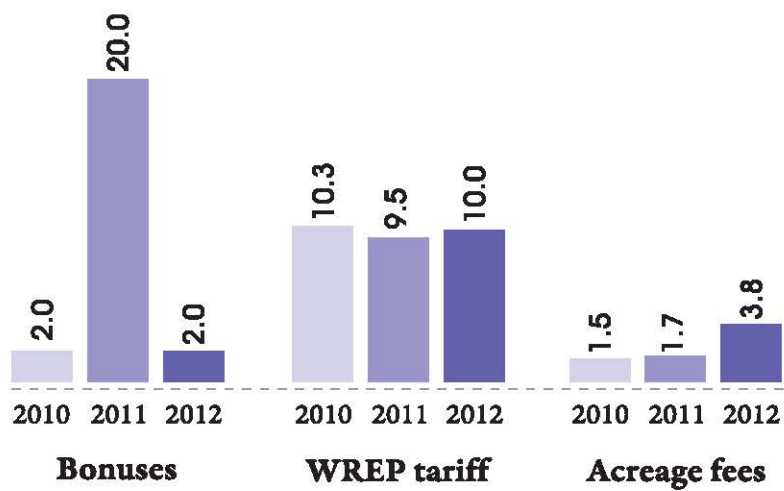
Profit Tax

mln USD



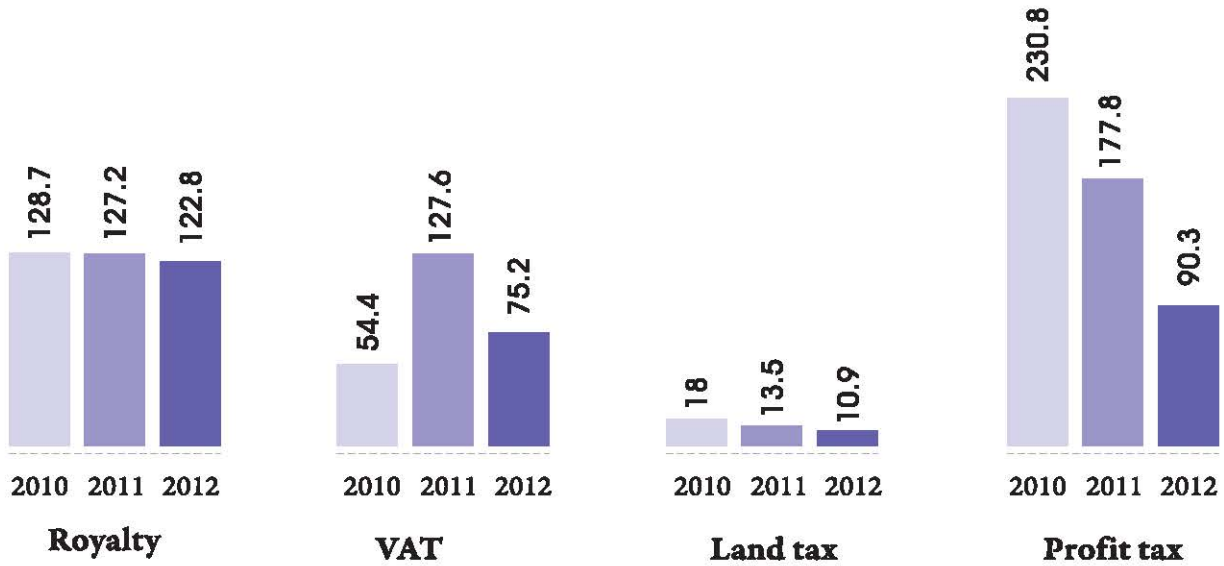
Other Payments

mln USD



Government's interest in the local Companies' extractive output

Taxes
mln AZN



COMMENTS AND RECOMMENDATIONS ON IMPROVING THE RECONCILIATION PROCESS:

FORMAT OF THE REPORTING FORMS

The information contained in the Reporting Template includes relevant details on each extractive company payment and the corresponding receipt from the government agency.

We recommend that the reporting template should be amended as follows in future:

- Production revenues from mineral resources (e.g. oil, gold, silver) should each be shown separately;
- Taxes should be separately reported and royalties should also be reported;
- Other taxes should be split so as to identify the type of tax reported (e.g. VAT, property, land, road tax);
- Irrelevant items should be deleted from the forms; and
- In-kind and in-cash payments to the Government should be split into separate lines.

CERTIFIED REPORTING TEMPLATES

In accordance with recommendations 12 and 13 of the EITI rules adopted in 2011, all extractive companies and Government Agencies are required to ensure that reports are based on accounts which have been audited to international standards.

We noted that oil companies and Government agencies were not instructed to submit reporting templates certified by an auditor.

We recommend for future years that the Committee takes necessary steps to ensure that reports submitted by oil companies and governmental agencies are certified by an external auditor (in the case of extractive companies), or a public entity/authority in the case of Government Agencies.

TRAINING & SEMINARS

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

OTHER RECOMMENDATIONS

We recommend updating the Manual for Technical Guidelines for the Reporting Forms. It would be useful to include examples of common mistakes stated year to year.

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

Appendix 1

Statement of the Extractive Industries Transparency Initiative ("EITI") Committee of the Republic of Azerbaijan

The schedule of payments/allocations received during the year ended 31 December 2012 by the Government of the Republic of Azerbaijan (the "Government") from the local and foreign Companies operating in the Extractive Industries of the Republic of Azerbaijan, specified in Appendix 2 (collectively - the "Companies"), is prepared in accordance with the Memorandum of Understanding dated 24 November 2004 signed between the National Committee of the EITI, the local and foreign Companies operating in the extractive industries of the Republic of Azerbaijan and the non-governmental organisations detailed in Appendix 3.



The Chairman of the EITI Committee

Appendix 2

List of Extractive Companies party to the Memorandum of Understanding (MoU)

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

Appendix 3

List of Non-Governmental Organisations (“NGO”s) and Individuals party to the Memorandum of Understanding (MoU)

1.	Development of Society and Civil Relationships” Public Union
2.	“Eco-Renaissance” Public Union
3.	“Democratic Institutions and Human Rights” Public Union
4.	Eurasian Lawyers Union
5.	Carpet World Union
6.	“Azerbaijan -Ellada” Intellectual Centre
7.	Women’s Problems Research Centre
8.	Caucasus International Centre for Strategic Researches
9.	“Social Initiatives and Human Rights” Public Union
10.	Centre for Economic and Political Researches
11.	Economic and Social Development Centre
12.	“Youth's Scientific Development Support” Public Union
13.	“Human Rights and Enlightenment” Public Union
14.	“Taraggy” Social Development Public Union
15.	Economic and Ecological Researches Centre
16.	“Centre for Support to Democratic Election” Public Union
17.	Democratic Values Protection Fund
18.	Social Centre for Financial Monitoring
19.	Scientific-Technical Development and Education Fund
20.	“Social Economic Researches” Public Union
21.	“Gender Equality” Public Union
22.	International Ecological Energy Academy
23.	“Taraggy Public Researches Centre” Public Union
24.	“Journalists in Extreme Situations” Public Union
25.	Society for Democratic Reforms
26.	Multimedia Information and Technology Centre
27.	Political Pluralism Institute
28.	“RegionunSesi” newspaper
29.	Humanitarian Researches Society
30.	Democracy Monitoring
31.	Mine Victims Society
32.	“Towards Healthy Life” Public Union

33.	“Dalgha” Youth Movement
34.	Development of Refugee and Internally Displaced Women
35.	“Dalgha” Public Ecological and Nature Preservation Union
36.	“Back to Native Land” Public Union
37.	“Democracy and Women Initiatives” Public Union
38.	Democratic Development and Economic Cooperation Public Union
39.	Social Strategy and Analytic Researches Public Union
40.	“Helping to Preservation of Ecological Environment” Social Union
41.	Modern Development and Legal Assistance Centre
42.	“Regional Development and Human Rights” Public Union
43.	Transportation Systemic Problems Institute
44.	Independent Consumers Union
45.	Azerbaijan Construction Union
46.	“Progress” Public Union
47.	Women Solidarity
48.	“Democratic Reformist Youth” Public Union
49.	The Greens Movement
50.	Economic Researches Centre
51.	“Buta” Children's Humanitarian Fund
52.	Regional Education
53.	Regional Human Rights and Social Researches Centre
54.	“Ghuzaran” Social Researches Centre
55.	Islam, Democracy and Human Rights Centre
56.	“Ecolex” Organization
57.	Earth's Friends, Azerbaijan
58.	“Umid” Humanitarian and Social Support Centre
59.	“Karabakh” Regional Agricultural Public Union
60.	Young Lawyers Union
61.	Youth Development Centre
62.	“Khilaskar” Public Union
63.	“Finance” Transparent Budget Public Union
64.	Media Development Centre
65.	Democratic Reforms Centre
66.	Intellectual Economists Club
67.	“Echo” International Journalist Researches Centre
68.	“Aran Ecologic Education” Public Union
69.	“Civilization Monitoring and Researches” Public Union
70.	Political Culture Centre of Azerbaijani Women

71.	“Expert” Economic Magazine
72.	“Bilik” Public Union
73.	“Helping to Democracy” Public Union
74.	“Citizen's Education” Public Union
75.	“Young Generation's Education” Public Union
76.	“GalajayaInam” Public Care Union for People in Need
77.	Citizen's Labour Rights Protection League
78.	“Yevlakh Regional Development Centre” Public Union
79.	Free Teachers Union
80.	“Rhuzgar” Ecological Public Union
81.	“Legal Education of Youth in Regions” Public Union
82.	“Helping Centre to Young Journalists” Public Union
83.	“Civil Initiatives and Laws Improvement Centre” Public Union
84.	“Human Rights-2003” Public Union
85.	Democracy and NGO's Development Resource Centre
86.	Young National Democrats Union
87.	Economic and Legal Education Centre of Journalists
88.	“World of Women” Public Union
89.	Ganja City Children's Fund
90.	Constitution Fund
91.	“Care for Aged Intellectuals” Public Union
92.	Society for Democratic Reforms
93.	“XXI Century Education Centre” Public Union
94.	Caucasus Media Researches Centre
95.	“Free Person” Human Rights Protection Centre
96.	Economic Technologies Institute
97.	Democratic Initiatives Support Centre
98.	Oilworkers Rights Protection Organisation
99.	Democratic Development Platform
100.	“Legal Initiatives Centre” Public Union
101.	“Azerbaijan Football Development Centre” Social Union
102.	Democracy and Ecological Balance
103.	“Election Researches Centre” Public Union
104.	“Agricultural Industry Engineers” Public Union
105.	Researches for International Relations
106.	Merchants and Manufacturers Union
107.	Education for Aged Union
108.	Business Researches Centre at Khazar University

109.	Oil Research Centre
110.	Educational Research Center
111.	Public Association for Assistance to Free Economy
112.	“Electronic Election” Public Union
113.	Economic Innovation Centre
114.	Centre for Equal Opportunities
115.	“Inam” Pluralism Centre
116.	Centre of Helping to Civil Society Building
117.	HVA's Regional Division
118.	“Healthy Development in Azerbaijan” Public Union
119.	Training and Monitoring Centre for Social and Economic Rights
120.	“ELS” Independent Researches Centre
121.	“Vision of Development” Research Centre Public Union
122.	“Care for Karabakh Disabled People” Society
123.	“Eco-World” Public Union
124.	XXI Century Human Rights Fund, Azerbaijan
125.	“Youth Club” Public Union
126.	National Ecological Forecasting Centre
127.	Aran Human Rights Resource Centre
128.	Independent Economic Centre
129.	“Human Rights and Propaganda of Laws” Public Union
130.	“Ulduz” Electronic Organization
131.	“Support to Young Poets” Public Union
132.	“Civil Society Institute” Public Union
133.	Economic Journalism Centre
134.	“No Torture” Public Researches Union
135.	Our Common House
136.	“Young Entrepreneurs Club” Public Union
137.	“Regional Women Initiatives” Public Union
138.	“Regional Human Rights and Media Centre” Public Union
139.	“Digital Development” Public Union
140.	“Regional Gender Centre” Public Union
141.	“Zanghilan” Public Union
142.	“Water Producers” Public Union
143.	“Ecological Balance” Public Union
144.	Karabakh Warriors Union
145.	Road Construction Monitoring Centre
146.	Regional Human Rights and Education Centre

147.	“Civilization and Education” Public Union
148.	“Gene engineering education” Public Union
149.	“Mughan Human Rights Protection” Public Union
150.	Human Rights, Election and Press Monitoring in Democratic Development
151.	Democratic Initiatives and Social Development Public Union
152.	Helping Social and Cultural Development Public Union
153.	Modern Woman and Society Public Union
154.	Azerbaijan Committee on Human Rights and Freedom
155.	Promotion of Cultures and Support for Folk Art Public Union
156.	Support for Citizen Initiatives Public Union
157.	“Mashal” Public Union
158.	“Economic and Social Education Centre” Public Union

Individuals	
1.	Arzu Soltan
2.	Shebnem Bekirzade
3.	Dunya Sakit
4.	Elmidar Aliyev
5.	Hijran Hamidova
6.	Fikrat Huseynli
7.	Zaur Ibrahimov
8.	Samir Isayev
9.	Shamil Movsumov
10.	Jeyhun Musayev
11.	Sedaget Pashayeva
12.	Afiq Safarov
13.	Suheyle Seyidova
14.	Ruslan Khalilov

**STATEMENT BY THE EITI
COALITION OF CIVIL SOCIETY
INSTITUTIONS ON THE
(17TH) REPORT OF THE
COMMITTEE ON EITI
IN AZERBAIJAN REPUBLIC AND
INDEPENDENT ACCOUNTANTS'
REPORT FOR THE ONE-YEAR
PERIOD ENDING ON
31 DECEMBER 2012**

(Approved at the Council of the EITI Coalition of civil society institutions meeting on 02.08.2013)

The Report of the Committee on EITI for 2012 was disclosed in the Multi-Stakeholder Group's meeting on June 10 2013. According to this report, as a result of oil, gas, gold and silver production by the extractive companies in kind and in cash benefits received by Azerbaijan in 2012 were as shown in the following table:

	Type of income	Unit	Volume
1.	Crude oil in kind	Million barrels	160.755
2.	Crude oil in cash	Mln USD	73.025
3.	Natural gas in kind	Thous. cubic metres	6489.251
4.	Associated gas in kind	Thous. cubic metres	3513137.678
5.	In cash gas	Mln USD	365.458
6.	In kind gold	Thousand ounces	6.560
7.	In kind silver	Thousand ounces	6.369
8.	Profit tax from foreign companies	Mln AZN	1437.854
9.	Signing bonuses	Mln USD	2.000
10.	Acreage fees	Mln USD	3.829
11.	Transit fee	Mln USD	10.044
12.	Mining tax (Royalty)	Mln AZN	122.770
13.	Profit tax from local companies	Mln AZN	90.299
14.	Value Added Tax	Mln AZN	75.299
15.	Land tax	Mln AZN	10.900
16.	Property tax	Mln AZN	24.967
17.	Price changes	Mln AZN	345.828
18.	Other taxes	Mln AZ	1.291

18 sources of income in this table reflect the material sources of income specified by the Multi-Stakeholder Group in 2012.

Thus, benefits received by the Republic of Azerbaijan from Extractive Industries in 2012 have been in the following kinds and volumes:

1) Total crude oil in kind	- 160.755 million barrels;
2) Total gas in kind	- 3519626.929 thousand cubic metres;
3) Total gold in kind	- 6560 ounces;
4) Total silver in kind	- 6369 ounces;
5) Total USD	- 454.356 million;
6) Total AZN	- 2109.208 million.

Government's report was signed on March 15, 2013.

As in previous years, information reflected in the table above has been reconciled by the audit company "Moore Stephens" compared against reports submitted by the companies. Findings of this reconciliation were disclosed in the form of report at the Multi-Stakeholder Group's meeting held on June 10, 2013.

The cash basis of accounting was used both for government and companies' reports.

According to the submitted auditor's report the reconciliation process was consist of 4 stages: 1) collection of governments and companies reports; 2) reconciliation of reports; 3) increasing the level of assurance; 4) preparation of opinion. It should be noted that, compared to previous years, for the first time, operation of increasing assurance level was also conducted by the auditor. The decision was made on this by Multi-Stakeholder Group in 2012.

In order to increase assurance level the auditor examined all the information submitted by 4 of 26 companies presenting an EITI Report for 2012 on the basis of relevant bank accounting documents and monthly acceptance acts for natural and associated gas. Selection method of these 4 companies was based on determination of the companies which had made more errors in the reports for previous years. In the Multi-Stakeholder Group's meeting of June 10, 2013 the audit company "Moore Stephens" refused to disclose names of 4 companies whose reports was examined for increasing assurance. This refusal was justified by the fact that non-disclosure of the companies is tailored to their requirements and meets the relevant provisions of the Memorandum on EITI. This situation was widely discussed at the Multi-Stakeholder Group meeting held on June 10, 2013, and it was agreed that in order to increase assurance in the future the Coalition representatives would participate in the selection of companies whose reports would be thoroughly inspected.

Reconciling the government and company reports, as in previous years, the auditor has detected a number of differences and by examining the reasons has determined proper explanations. Errors were both in the government and companies initial reports and, unfortunately, they were not few, differences were observed on 11 of 18 indicators. More errors were made by companies (errors on 9 indicators were made in the initial reports of the companies, on 1 indicator – in the initial report of the government and on one more indicator errors were made by either both parties). Such a large number of errors (61 % of indicators) inexplicable, especially taking into account that last year the audit company "Moore Stephens" conducted special training for developers of reports. Reasons for errors may be classified as follows:

- Rounding errors of the performer;
- Inclusion of payments not related to indicators by performer;
- Use of different measurement units and conversion errors;
- Recording of payments in unrelated fields by performer.

One more issue is that accuracy of the figures in the government's report (3 figures after point) is higher than those in the auditor's report (1 figure after point). The reason for this is not clear.

All indicators other than VAT have been rounded up in the auditor's report. There is a difference between companies and the government's report on the VAT.

In general, even though there is a review in the auditor report on all indicators of the section 4 of the government's report (Other government receipts from local companies) the structure of its presentation is a bit different. In our opinion, the same style should be maintained in the report.

Auditor's report is complemented by recommendations and notes. All of these are noteworthy and should be taken into account.

Recommendations of the Coalition

1. New Memorandum on EITI Azerbaijan to be signed by Government, Coalition and Group of Companies must be adapted to the new EITI standards approved at the Sydney Global Conference;
2. Development process of the New Memorandum should be accelerated and its signing should be realized by the end of 2013;
3. Errors in the reports must be analyzed in more depth and regular trainings should be conducted for report developers;
4. Names of the companies making the same mistakes year after year should be disclosed;
5. Accuracy of indicators in the auditor report (number of figures after point) should be the same with those in the Government's report;
6. The list of companies whose report will be thoroughly examined should be prepared with the participation of Coalition members in the process of increasing assurance level;
7. Language of the auditor's report is difficult and in some cases it is not unequivocally understandable. The reason is probably that the original text of the report was prepared in English. This is understandable, but it is important to have a more perfect translation;
8. Draft law of the EITI NGO Coalition on "EITI" and "Oil Fund" should be re-discussed at MSG. Adoption of these laws would provide stability of EITI process at a higher level;
9. Appropriate measures should be taken for improving Revenue Watch Institute Index of Transparency on Azerbaijan. Special working group should be established by MSG for preparation of proposals for this purpose;
10. A simple explanation of the EITI Report should be published in the form of popular publications (pamphlets, booklets, etc.) for educational purposes with clear language.

