

## MEMORANDUM

### **of Understanding on Implementation of the Extractive Industries Transparency Initiative in the Republic of Azerbaijan**

In order to ensure that Government of the Republic of Azerbaijan (the 'Government') meets the commitment it made upon joining the Extractive Industries Transparency Initiative ('EITI') at the International Conference held in London on June 17, 2003:

- The Commission on EITI ('the Commission'), established by the Ordinance of the Cabinet of Ministers of the Republic of Azerbaijan of November 13, 2003;
- The local and foreign companies operating in the extractive industries of the Republic of Azerbaijan ('the Company Group', as detailed in Annex 1);
- The non-governmental organizations (NGOs) holding membership in the Coalition for "Increasing Transparency in Extractive Industries of the Republic of Azerbaijan" (the 'NGO Coalition', as detailed in Annex 2),

Referred to separately as a 'Party', and, collectively, as the 'Parties':

- a) Welcoming the success of the Government in increasing transparency of revenues earned through industries extracting oil, gas, gold and silver,
- b) Greatly valuing the activities of the Parties under the Memorandum of Understanding on EITI Implementation in Azerbaijan, signed on November 24, 2004 in Baku and the Agreement on the Establishment of Multi-stakeholder Group ('the MSG') and its Activity on Implementation of EITI in Azerbaijan ('the MSG Agreement'), signed in October 2009 in Baku,
- c) Considering the significance of drafting a new edition of the Memorandum as a single document reflecting the provisions of the Memorandum dated November 24, 2004 and the MSG Agreement with the aim to improve the implementation mechanism of the EITI in Azerbaijan and to ensure the implementation in Azerbaijan of the EITI Standard<sup>1</sup> adopted by the 6<sup>th</sup> Global Conference on EITI, held in May 2013 in Sydney,

In order to ensure continuous implementation of the EITI in Azerbaijan and to maintain the country's compliant status in line with the EITI Standard, agreed as follows:

#### **1. Multi-Stakeholder Group**

Within the framework of this Memorandum, the MSG consisting of Parties' representatives is established with an intention to improve the EITI process

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<sup>1</sup> <http://eiti.org/document/standard>

implemented in the Republic of Azerbaijan and to ensure efficient multilateral oversight and management of the development of the process.

### **1.1 Rights and Responsibilities of the MSG**

1.1.1 MSG functions in accordance with the EITI Standard and its rights and responsibilities include the following:

- a) To develop and approve an annual EITI Workplan;
- b) To determine material revenue sources and the level of material amounts/volumes for these sources within the EITI framework;
- c) To approve the reporting forms for the Government and local and foreign companies comprising the Company Group ('Company Group Members'), if necessary to make corresponding additions and changes to these forms;
- d) To define selection criteria and scope of work of an Independent Administrator ('the Administrator') for reconciliation of the reports provided by the Government and the Company Group Members, to select and appoint the Administrator;
- e) To hear the Administrator's Opinion, approve or return back for revision;
- f) To hear the NGO Coalition's Opinion, propose and consider amendments;
- g) To prepare, approve, publish and distribute the country's EITI Report (in accordance with clause 2 of this Memorandum) and the Annual Activity Report (in accordance with clause 1.7 of this Memorandum);
- h) To initiate proposals regarding the development and improvement of the EITI;
- i) To participate in the Validation process conducted by the EITI International Secretariat with an intention to evaluate the status of EITI in the country;
- j) To make applications and prepare recommendations to the Parties and international institutions;
- k) To engage experts or set up working groups to investigate and make recommendations on issues related to EITI.

### **1.2 Structure of the MSG**

1.2.1 Each Party shall appoint with equal rights 3 (three) principal members and up to 3 (three) alternate members to the MSG.

1.2.2 By March 1 of each year, the Parties shall officially submit to the EITI Secretariat the list of principal and alternate members appointed to the MSG.

1.2.3 Alternate members have the right to attend the MSG meetings as observers. An alternate member exercises the authorities of the principal member in the case of non-attendance of the latter at any MSG meeting.

1.2.4 The Parties can change their appointed principal and alternate members during the year by sending a written notification to the EITI Secretariat.

1.2.5 If a member of the MSG has to withdraw from the MSG before the end of his/her appointment period for any reason, the Party represented by that member

shall send notice to the MSG members to this effect no later than 5 (five) working days prior to withdrawal.

### **1.3 Meetings of MSG**

1.3.1 Meetings of the MSG are held at least 4 (four) times a year.

1.3.2 Meetings of the MSG are held and considered valid if at least 2 (two) members of MSG appointed by each Party (six (6) members in total) attend the meetings.

1.3.3 Only principal and alternate members of the MSG and observers invited with the consent of the MSG may attend the meetings of the MSG.

1.3.4 At least 10 (ten) working days before each regular or extraordinary MSG meeting, the EITI Secretariat shall prepare and submit to the MSG members the agenda of such meeting based on the suggestions made by the Parties.

1.3.5 An extraordinary meeting of the MSG shall be held at the request of any of the Parties. The date of such extraordinary meeting shall be set within 10 (ten) working days of the date of the request.

1.3.6 The chairman of the Commission shall be a member of the MSG on behalf of the Government and shall chair its meetings. In the event of non-attendance of the chairman of the Commission at a MSG meeting, the chairmanship is exercised by members of MSG representing Parties in turn.

1.3.7 The EITI Secretariat shall organize the MSG meetings, develop the minutes, agree the minutes with MSG and archive the documents.

### **1.4 Decisions of MSG**

1.4.1 Decisions of the MSG are made at meetings of the MSG (in accordance with clause 1.3 of this Memorandum).

1.4.2 The decisions of the MSG are made on the basis of consensus of the members of MSG attending the MSG meeting.

1.4.3 Any position expressed by a member of the MSG is considered to be the position of the relevant Party. Therefore, prior to the meeting, the members of MSG should seek to reach an agreement on the issue with the Party that they represent.

### **1.5 EITI Secretariat**

1.5.1. The EITI Secretariat is in charge of organizational-technical arrangement of the EITI process, including the MSG activities. The State Oil Fund of the Republic of Azerbaijan ('SOFAZ') provides material-technical support to the EITI Secretariat. Each Party may on a pro-bono basis delegate a representative to the EITI Secretariat.

1.5.2. The EITI Secretariat cannot make any statement on behalf of the MSG without the permission of the MSG. The EITI Secretariat shall be neutral in its activities and shall equally represent the interests of all Parties.

## **1.6 Disclosure of Information**

Information pertaining to the activities of the MSG, including those related to MSG meetings, shall be published and/or placed on the official EITI website of the Republic of Azerbaijan and on the official website of the NGO Coalition, by decision of the MSG.

## **1.7 Annual Activity Report**

No later than July 1 of each year, the MSG shall prepare an Annual Activity Report on its activity for the previous year, and publish it in accordance with clause 1.6 of this Memorandum.

## **2 EITI Report**

An EITI Report on all material state revenues and material payments made to the state in the previous calendar year by Company Group Members shall be prepared and published by December 31 of the current year in accordance with the EITI Standard.

### **2.1 Contents of Reports**

In addition to the abovementioned revenues and material payments, any EITI Report shall include Contextual Information, Administrator's Opinion on reconciliation of the revenues of the state institutions against the payments by the Company Group Members and the NGO Coalition's Opinion.

### **2.2 Reports of the Government and Company Group Members**

Information on the revenues and payments mentioned in the EITI Report shall be based on the reports of the Government and the Company Group Members. The reports of the Government and the Company Group Members shall be prepared as per the forms set out in Annex 3.

### **2.3 Contextual Information**

According to the EITI Standard, Contextual Information covers the following:

- a) Legal framework on the activity of the extractive industries and fiscal regime;
- b) Overview of the extractive industries;
- c) Contribution of the extractive industries to the economy of the country;
- d) Information on production and sales;
- e) State participation in the extractive industries;
- f) Types of revenues obtained, revenue management and expenses;
- g) Register of licenses and licensing procedures.

## **2.4 Administrator's Opinion and NGO Coalition's Opinion**

2.4.1 The Administrator shall be selected by the MSG through a tender in accordance with the Administrator's selection criteria, provided in Annex 4.

2.4.2 The Commission shall conclude a relevant service agreement (the 'Agreement') with the Administrator, based on the range of activities listed in Annex 4. The duration and terms of the Agreement shall be approved by the MSG.

2.4.3 Copies of the Agreement shall be made available to all members of the MSG.

2.4.4 The Commission shall send a notification letter to the Company Group Members for submission of the reporting forms. The letter reminds the Company Group Members to submit their printed and electronic reports directly to the Administrator before the reporting date specified in the Agreement.

2.4.5 The report of the Government shall be submitted by the Commission and the Company Group Members shall submit their reports directly to the Administrator, not later than the reporting date set out in the Agreement.

2.4.6 In accordance with the Agreement, the Administrator shall analyze and collate the report of the Government with the reports of the Company Group Members, shall investigate inconsistencies and shall prepare the Administrator's Opinion thereupon.

2.4.7 The Administrator's Opinion shall be presented to the MSG within 60 (sixty) calendar days from the submission deadline for the reports of the Government and all companies. This period may be extended by decision of the MSG, if required.

2.4.8 The Administrator's Opinion may not be presented until all inconsistencies in the reports have been either resolved or clarified. Relevant information on all detected inconsistencies and their resolution shall be reflected in the Administrator's Opinion.

2.4.9 The NGO Coalition's Opinion shall be prepared within 1 (one) month after the disclosure of the Administrator's Opinion and presented at a MSG meeting.

## **2.5 Settlement of Delays**

The Parties acknowledge the possibility of delays, shortcomings or technical faults during preparation of the EITI Report and accept the importance of settling them amicably and in cooperation with the Administrator.

## **2.6 Publication of EITI Reports**

The MSG shall prepare information for the media on the EITI Report and shall publish it in accordance with clause 1.6 of this Memorandum. The EITI Report shall be published and distributed by decision of the MSG.

## **3. Confidentiality**

Within the framework of the EITI process, the Parties shall not disclose any information which is confidential in accordance with the laws of the Republic of

Azerbaijan and shall take into account the provisions on confidentiality in relevant agreements on exploitation of mineral resources, including production sharing agreements.

Each member of the Parties shall be liable for full confidentiality of any information it obtains verbally, in written form or electronically with regards to this Memorandum, as well as in connection with the activities of the MSG, except information disclosed by decision of the MSG. The responsibilities listed in this clause shall continue to apply to any member of Parties that withdraws from this Memorandum or the MSG.

#### **4. Other provisions**

##### **4.1 Power of this Memorandum**

As a statement of intent, this Memorandum (excluding this clause 4.1 and clause 3 which are binding on the Parties) does not create a binding contract between the Parties and accordingly shall not create any legal liability for any Party upon non-performance, save in the case of this clause 4.1 and clause 3. However, the Parties shall aim in good faith to fulfil the provisions of this Memorandum. Any disputes between the Parties in connection with this clause 4.1 and clause 3 shall be settled in accordance with the laws of the Republic of Azerbaijan.

##### **4.2 Enactment of Memorandum**

This Memorandum shall come into force from the date of signature by duly authorized representatives acting on behalf of all the Parties. Accordingly, the Memorandum of Understanding on EITI Implementation in Azerbaijan dated November 24, 2004 and the MSG Agreement dated 2009 are no longer in effect.

##### **4.3 Accession to Memorandum**

Any local or foreign company operating in the extractives industries in the Republic of Azerbaijan desiring to join the EITI after the enactment of this Memorandum may join the initiative by signing the Act of Accession to this Memorandum (Annex 5).

##### **4.4 Withdrawal from this Memorandum**

4.4.1 Any member of Parties may withdraw from this Memorandum after sending a prior written notification to all Parties, which shall include the date of withdrawal.

4.4.2 When any member of Parties withdraws from this Memorandum, he/she shall also withdraw from the MSG. In this case, the provisions of clause 1.2.5 shall apply to that member of Parties.

4.4.3 The responsibilities listed in clauses 3 and 4.1 of this Memorandum shall continue to apply to any member of Parties, who has withdrawn from this Memorandum.

#### **4.5 Making amendments to Memorandum**

To improve the implementation of the EITI or to align it with subsequent revisions to the EITI Standard, relevant amendments to this Memorandum may be made by the MSG decision.

#### **4.6 Miscellaneous**

4.6.1 This Memorandum is signed in two originals, in English and Azerbaijani on June "10", 2014 in Baku and both versions have equal legal force and effect.

4.6.2 The signed original of this Memorandum shall be kept by the EITI Secretariat. Copies of this Memorandum shall be circulated to all Parties.

4.6.3 Any official notice, acknowledgment or any other exchange of information in connection with this Memorandum shall be in writing.

#### **For and on behalf of the Commission:**

Signature: \_\_\_\_\_

Name: Shahmar Movsumov

Title: Executive Director of the State Oil Fund of the Republic of Azerbaijan

#### **For and on behalf of the NGO Coalition:**

Signature: \_\_\_\_\_

Name: Gubad İbadoghlu

Title: Coordinator of NGO Coalition Council

**For and on behalf of the Company Group:**



## **ANNEX 1 (List of companies)**

### **List of local and foreign companies engaged in extractive industries and legal entities involved in the EITI in the Republic of Azerbaijan:**

State Oil Company in Azerbaijan Republic (SOCAR)

1. Azerbaijan (ACG) Limited
2. Azerbaijan (Shah Deniz) Limited
3. Ali-Bairamli Oil Ltd
4. Salyan Oil Ltd
5. Gobustan Oil Ltd

BP

6. BP Exploration (Caspian Sea) Limited
7. BP Exploration (Azerbaijan) Limited
8. BP Shafag-Asiman Limited

Inpex

9. Inpex Southwest Caspian Sea, Ltd.
10. ONGC Videsh Limited

Statoil

11. Statoil Apsheron A.S
12. Statoil Shah Deniz A.S

Türkiye Petrolleri A.O. (TPAO)

13. Türkiye Petrolleri Anonim Ortaklığı
14. Turkish Petroleum Overseas Company Ltd

Total

15. Total E & P Azerbaijan B.V
16. Total E & P Absheron B.V
  
17. Chevron Khazar, Ltd.,
18. Exxon Azerbaijan Limited
19. Itochu Oil Exploration (Azerbaijan) Inc.
20. Naftiran Intertrade Co (NICO) Limited
21. Lukoil Overseas Shah-Deniz Ltd
22. Novatis Oil F.Z.E.
23. Commonwealth Gobustan Limited
24. Fortunamate Assets Limited
25. CNPC
26. Kura Valley Development Company LTD

27. Karasu Development Company
28. Azen Oil Company B.V.
29. Apsheron Investments Limited
30. Neftechala Investments Limited
31. Shirvan Investment Limited
32. GDF SUEZ E&P Absheron B.V
33. Bahar Energy Limited
34. UGE-LANCER PTE.LTD
35. R.V. Investment Group Services
36. AzGerneft LLC
37. Salyan Oil

## ANNEX 2 (list of NGOs)

### List of non-governmental organizations holding membership in the Coalition for “Improving Transparency in Extractive Industries”

1. "Aran" Environmental Enlightenment Public Union
2. "Aran" Human Rights Resource centre (Shirvan)
3. "Assistance to Social and Cultural Development of the Youth" Public Union
4. "Care for the Elderly Intellectuals" Public Union
5. "Caspian Barrel" Research Center
6. "Constitution" Researches Fund
7. "Democratic Society, Election and Monitoring of Media
8. "Development Society and Civil Relations" Public Union
9. "ELS" Independent Research Center
10. "Guzaran" Social Investigation Center
11. "Legal Aid Center to Oilmen"
12. "Region" International Analytical Center
13. "Rescuer" Public Union
14. "Return to Native Place" Public Union
15. "Social Assistance for People with Disabilities and Families with Martyrs
16. "The Western Regional Representative of
17. "Trust for Future" Care for the Vulnerable People Public Union
18. "Ulduz" Electron Organization
19. "World of Law" Legal Propaganda Public Union
20. "Zengilan" Public Union
21. "Dalga" Environment and Protection of Nature Public Union
22. "Development of Knowledge and Enlightenment" Public Union
23. "Ecolife" Public Union
24. "Progress" Social Development Public Union
25. "Progress" Social Research Public Union
26. "Solidarity Among Women" Public Union
27. "Youth Club" Public Union
28. "Human Right - 2003" Public Union
29. Agro-Industrial Engineers Public Union
30. Azerbaijan Committee for Human Rights and Defense of Freedoms
31. Azerbaijan Independent Teachers Union  
Azerbaijan National Committee Of Helsinki Citizen's Assembly"

32. Caucasus International Relations and Strategic Studies Center
33. Caucasus Media Investigations Center
34. Center for Citizen Initiatives and Legislation Improvement
35. Center for Democratic Reforms
36. Center for Economic and Legal Enlightenment of Journalists
37. Center for Economic and Social Development
38. Center for Legal Initiatives
39. Center for Research on Against Torture
40. Center for Studing of Economic Resources
41. Center for Support to Civic Initiatives
42. Center of Political Culture for Azerbaijani Women
43. Center of Women's Problems Research
44. Centre of Equal Opportunities
45. Centre on Legal Initiative for Civil Society
46. Citizens` Labor Rights Protection League
47. Democracy and NGO's development Resource Center
48. Democracy and Women Initiative Public Union
49. Democratic Development and Economic Cooperation Public Union
50. Democratic Development Platform
51. Democratic Initiatives and Social Development Public Union
52. Democratic Institutions and Human Rights Social Union
53. Development Watch Research Center
54. Digital Development Public Union
55. Ecological Renaissance Public Union
56. Ecologist Support to Protection of Environment Public Union
57. Economic and Environment Research Center
58. Economic and Political Research Center
59. Economic and Social Education Center
60. Economic Innovation Center
61. Economic Research Centre
62. Eco-World Public Union
63. Education of the Young Generation" Public Union
64. Education Research Center
65. Election Researches Centre
66. Electron Election Public Union
67. Enlightenment on Genetic engineering Public Union

68. Foundation for Defense of Democratic Values
69. Ganja Children Foundation
70. Human Rights and Enlightenment Social Union
71. Human Rights in the Extractive Industry Public Union
72. Humanitarian Research Society
73. Islam, Democracy and Human Rights Center
74. Journalist Initiative Center
75. Karabakh Fighters Association
76. Legal Aid Public Union (Lankaran)
77. Modern Woman and Society Public Union
78. Modern Development and Legal Aid Center
79. Monitor of Democracy Public Union
80. Mughan Human Rights Protection Public Union
81. Multimedia Center
82. Oil Workers' Rights Protection Organization
83. Promotion Human Rights and Law
84. Public Association for Assistance to Free Economy
85. Public Finance Monitoring Center
86. Public Union Civil Society Institute
87. Public Union for Democracy and Ecological Balance
88. Public Union for Solving Social-Economic Problems of Mortar Victims  
Public Union"
89. Regional Development and Human Rights Public Union
90. Regional Enlightenment Public Union
91. Regional Garabagh Agriculture Association
92. Regional Gender Centre of
93. Regional Human Rights and Media Center (Bərdə)
94. Regional Human Rights and Social Research Centre
95. Regional Human Rights and Enlightenment Center
96. Regional Woman Initiatives Public Union
97. Road Construction Monitoring Center
98. Robust Development and Enlightenment Public Unity
99. Social Initiatives and Human Rights Public Union
100. Social Strategic Studies and Analytically Investigations Public Union
101. Society for "Care for disabled People of Garabagh War"

- 102.Society for Democratic Reforms
- 103.Support for Economic Initiatives Public Union
- 104.Support for Young Poets Public Union
- 105.Support to Cultural Education and Folklore Activities Public Union
- 106.Support to Youth Scientific Development Public Union
- 107.Woman World Public Union
- 108.Xalça Dünyası Assosiasiyası (Quba)
- 109.Young Democratic Reformers Public Union

**Individuals:**

Hijran Hamidova

Arzu Soltan

Shamil Movsumov

Elmidar Aliyev

Dunya Sakit

Fuad Rasulov

Sadagat Pashayeva

Suheyla Jafarova

### ANNEX 3 (Reporting forms)

#### Report on payments made by an extractive industry company to the government of the Republic of Azerbaijan

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





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

Ownership: Foreign  Local

Extractive industry: \_\_\_\_\_

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

Reporting period: 1 Jan– 31 December 20\_\_

Type of payment		Volume and value of payments	
<b>1. Company transfers to the government (in kind)</b>		<b>Volume</b>	<b>Unit of measure</b>
1.1.	Oil		million barrels
1.2.	Natural gas		thousand cubic metres
1.3.	Associated gas		thousand cubic metres
1.4.	Gold		ounce
1.5.	Silver		ounce
1.6.	Parent metals:		tonnes
	a)		
	b)		
1.7.	Other allocations:		
	a)		
	b)		
<b>2. Company payments to the government (in cash) *</b>		<b>million US dollars</b>	<b>million Azerbaijani manats</b>
2.1.	Oil		
2.2.	Natural gas		
2.3.	Associated gas		
2.4.	Gold		
2.5.	Silver		
2.6.	Parent metals:		
	a)		
	b)		
2.7.	Bonuses		
2.8.	Acreage fee		
2.9.	Transit fee		
2.10.	Other payments:		
	a)		
	b)		

<b>2.Total</b>			
<b>3.Taxes</b>			
3.1.	Royalty		
3.2.	Profit tax		
3.3.	Value Added Tax		
3.4.	Property tax		
3.5.	Land tax		
3.7.	Other taxes (except for income tax for physical persons, allocations into the State Social Protection Fund and withholding tax)		
<b>3.Total:</b>			
<b>4.Other</b>			
4.1.			

**Company representative:** \_\_\_\_\_ Stamp  
(signature, first and last names)

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

\* Only one of the value columns (dollar or manat) shall be filled. There shall be three digits after the point.

\* Use the space below to indicate parameters for measuring gas.

Other notes



## INSTRUCTIONS

### **On completing the report on payments made by local and foreign extractive industry companies to the government of the Republic of Azerbaijan**

1. The present Instructions set out the procedure for companies (local and foreign) engaged in extractive industries in the Republic of Azerbaijan to fill out the reporting forms adopted by the MSG on the EITI.
2. The reporting forms are intended to collect information regarding the payments of local and foreign companies engaged in extractive industries to the government of the Republic of Azerbaijan and ensure transparency of the payments.
3. The present Instructions apply to companies engaged in the production of oil and gas, parent metals and precious metals.
4. Before filling out the reporting form, we recommend that you review the Instructions, as well as the reports for previous years (see: [www.eiti.az](http://www.eiti.az)). The reporting forms shall be completed in block capital letters. There shall be no drafts or corrections. Any rounding-off of figures shall be precise (there shall be three digits after the point, for example, 125.450, or one hundred twenty five point four hundred fifty; or 65.000, or sixty five).
5. Local and foreign companies engaged in extractive industries in the Republic of Azerbaijan shall fill out annual reporting forms (covering a period from 1 January to 31 December) and submit them directly to the Administrator selected by the MSG before a specified deadline. Information regarding all payments shall be supported by official documents considering possible requests from the Administrator.
6. The following rules shall be observed when filling out reporting forms:
  - 6.1. The “Company” line shall state the full legal name of the company. If the legal status of the company has changed in the course of the calendar year, this shall be indicated in the “Other notes” section.
  - 6.2. The “TIN” line shall state the taxpayer’s identification number (“TIN”) as registered with the tax authorities. A separate reporting form shall be filled out for each TIN.
  - 6.3. The company shall select an appropriate box in the “Ownership type” line.
  - 6.4. In the “Extractive industry” line, the company shall indicate the extractive industry it is engaged in (example: oil, gas, gold, etc.)
  - 6.5. In the “Activity type” line, the company shall indicate the legal framework for its extractive industry engagement (example, Production Sharing Agreement, concession agreement, agreement on joint activities with the local government, local state company etc.)

- 6.6. If a company is a party to several Production Sharing Agreements or if it indicates several payments under the agreement, it shall indicate the total amount of payments made under each line of the reporting form.
- 6.7. Indicators pertaining to value shall be stated only in the currency in which the payment was made (million US dollars or million Azerbaijani manats).
- 6.8. If there have been no payments of a particular kind, "0" shall be indicated in the appropriate line.
- 6.9. State entitlement in the volumes produced by the company transferred to the government in kind shall be indicated in clauses 1.1-1.7 of Section 1 titled "Company transfers to the government (in kind)". Relevant lines of this section are to show production figures in the internationally adopted units of measure.
- 6.10. State entitlements in the volumes produced by the company and paid to the government in value terms shall be indicated in clauses 2.1-2.10 of Section 2 titled "Company payments to the government (in cash)". Relevant lines of this section are to show the value of the revenues obtained from the sale of products produced.
- 6.11. Taxes paid by companies are shown in Section 3 (clauses 3.1-3.7) (except for withholding tax, income tax for physical persons and payments to the State Social Protection Fund).
- 6.12. Any payments not stipulated under this reporting form and agreed for reporting within the EITI framework shall be shown in the line "Other payments".
- 6.13. If it is deemed necessary to clarify any line or column of the reporting form, relevant notes shall be made in the "Other notes" line.
- 6.14. Companies shall not incorporate the following and similar information into the EITI reports:
  - Payments associated with commercial activities. For example, the transit fees pertaining to the Northern Route (apart from the information stipulated under line 2.9) shall not be incorporated in the report because they are registered as commercial payments to SOCAR;
  - Amounts transferred by companies to SOCAR as compensation oil;
  - Financial sanctions paid by companies.
7. Each report shall be signed and stamped by an executive representative of the company submitting it.

## Report on total proceeds obtained by the Government of the Republic of Azerbaijan from extractive industries

Reporting period: 1 January – 31 December 20\_\_

		VALUE *		VOLUME (in kind)				
		million US dollars	million Azerbaijani manats	Oil (million barrels)	Gas (thousand cubic meters)	Gold (thousand ounces)	Silver (thousand ounces)	Parent metals (thousand tons)
1		2	3	4	5	6	7	8
<b>1. Host government proceeds from foreign companies</b>								
1.1.	Oil							
1.2.	Natural gas							
1.3.	Associated gas							
1.4.	Parent metals							
1.5.	Gold							
1.6.	Silver							
<b>2. Government proceeds from local companies. State share in production by local companies</b>								
2.1.	Oil							
2.2.	Natural gas							
2.3.	Associated gas							
2.4.	Parent metals							
2.5.	Gold							
2.6.	Silver							
<b>3. Other government proceeds from foreign companies (including cumulative payments made through local state company)</b>								
3.1.	Royalty							
3.2.	Profit tax							
3.3.	Other taxes (except for income tax for physical persons, social and withholding taxes)							
3.4.	Signing and other bonuses							
3.5.	License and concession fees							
3.6.	Other payments to the government, total, including :							
	3.6.1. acreage fee							
	3.6.2. transit fee							
	3.6.3. proceeds resulting from price change in the gas sale agreement							

4. Government proceeds from local companies								
4.1	<b>Taxes:</b>							
	4.1.1. Royalty							
	4.1.2. Profit tax							
	4.1.3. Value Added Tax							
	4.1.4. Land tax							
	4.1.5. Property tax							
	4.1.6. Price difference							
	4.1.7. Other taxes (except for income tax for physical persons, allocations into the State Social Protection Fund and withholding tax)							
4.2.	Signing and other bonuses							
4.3.	License and concession fees							
4.4.	Other payments to the government, including							
		million US dollars	million Azerbaijani manats	Oil (million barrels)	Gas (thousand cubic meters)	Gold (thousand ounces)	Silver (thousand ounces)	Parent metals (thousand tons)
<b>Total:</b>								

Company representative:

\_\_\_\_\_

(signature, first and last names)

stamp

Date:

\_\_\_\_\_

Note:

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## **ANNEX 4 (Administrator's selection criteria and scope of work)**

This document describes the scope of work and sets out the main principles for the selection of an audit company for the verification of the reports prepared by the Commission and the Company Group Members ('the Administrator'). The document has been prepared in compliance with the Memorandum of Understanding on the implementation of the Extractive Industries Transparency Initiative in the Republic of Azerbaijan and uses the definitions referred to in that Memorandum. In accordance with the Memorandum, the MSG evaluates the proposals submitted by audit companies and selects as the Administrator only one company based on the criteria described in clause 1.8 of this Annex 4.

To ensure complete transparency, independence, objectiveness and international recognition of the audit, it is acknowledged that the work shall be undertaken by a large, internationally recognized and reputable audit company. To facilitate this, the MSG shall encourage the participation of as many international audit companies in the tendering process as possible.

### **1. Selection of the Administrator**

Only internationally recognized audit companies are eligible for selection as an Administrator to verify EITI reports.

The evaluation of proposals submitted by audit companies shall be conducted in the following sequence:

- 1.1. Potential auditors shall send their technical and commercial proposals to SOFAZ in separate envelopes (commercial proposals shall be submitted in sealed and stamped envelopes). At the same time, potential auditors shall send their proposals electronically to the EITI Secretariat. The EITI Secretariat, for its part, shall forward the proposals to members of the MSG. Technical proposals shall introduce the audit company and its capacity. The technical proposals shall not contain any commercial proposals. If this is not the case, the technical proposal shall be considered null and void. MSG members shall be allowed 10 days to examine the technical proposals.
- 1.2. The envelopes with commercial proposals shall remain sealed and be held by SOFAZ until the proposals are examined at a MSG meeting.
- 1.3. SOFAZ shall submit the sealed and stamped envelopes (containing commercial proposals) sent by audit companies to a MSG meeting. The envelopes shall be opened during the meeting and the chairman of the MSG meeting shall organize the evaluation of proposals.
- 1.4. Representatives of audit companies duly authorized by a relevant document may only witness the opening of the sealed and stamped envelopes submitted by their respective companies. Representatives of audit companies have the right to provide detailed information about their companies.
- 1.5. The evaluation of proposals shall be completed during a one-day MSG meeting.

- 1.6. The MSG has the right to reject all the proposals.
- 1.7. The evaluation of proposals shall be carried out on the basis of individual evaluation bulletins. The evaluation bulletins signed by MSG members shall be submitted to the chairman of the MSG meeting. The chairman shall collect the evaluation bulletins and announce the results of evaluation.
- 1.8. The evaluation of proposals shall be based on the following criteria:
  - a) Quality of the proposal submitted by an audit company – neatness, design and completeness of information describing the audit company’s experience (maximum 20 points)
  - b) Level and experience of the specialists to be involved in the analysis of reports (maximum 20 points)
  - c) Experience of the audit company (maximum 20 points)
  - d) Proposed deadline for completing the job (maximum 10 points)
  - e) Financial value of the proposal (maximum 30 points).

The score envisaged for assessing the financial value shall be calculated by the following formula:  $X = Z / Y * 30$

Where

X stands for the points given to a reviewed proposal;

Y stands for the value of a reviewed proposal;

Z stands for the value of the cheapest proposal.

The points given under each criterion are summed up and the audit company that scores the most points shall (subject to the MSG’s right to reject all proposals) be declared the winner and appointed as the Administrator.

## **2. Scope of work of the Administrator**

- 2.1. As outlined in the Memorandum, the Commission and the Company Group Members shall submit to the Administrator, at an agreed date (the reporting date) the reports on proceeds received by the Government of the Republic of Azerbaijan from local and foreign companies operating in the extractive industries and payments made by local and foreign companies to the Government of the Republic of Azerbaijan.
- 2.2. A report on proceeds received by the Government of the Republic of Azerbaijan from foreign and local companies operating in the extractive industries shall be submitted by the Commission directly to the Administrator.
- 2.3. Individual reports on payments by foreign and local companies operating in the extractive industries to the Government of the Republic of Azerbaijan shall also be submitted by companies directly to the Administrator.

- 2.4. The Administrator shall verify the reports submitted by the Commission against those submitted by companies operating in the extractive industries to identify any inconsistencies (in the amount of funds and the volume of production).
- 2.5. The provision of the service shall be based on EITI Standard, the requirements of the Agreement and the proposal survey.
- 2.6. If there are any inconsistencies in the Reports, the Commission shall additionally supply the Administrator with a detailed analysis of the total amount and the breakdown of volumes by individual companies.
- 2.7. If this does not resolve the identified inconsistencies, the inconsistencies shall be communicated to relevant persons who will then be requested to submit supporting documentation for the reported figures (copies of payment orders) to the Administrator.
- 2.8. Upon completion of the work the Administrator shall prepare the Administrator's Opinion expressing the affirmative opinion of the Commission and its own view.
- 2.9. The final Administrator's Opinion shall be submitted to all the parties within 60 (sixty) calendar days after the deadline for the submission of all reports to the Administrator provided that all inconsistencies have been either resolved or agreed to be insignificant, or have been completely eliminated. All the inconsistencies discovered in the reports and the reasons behind them shall be incorporated into the "Independent Accountants' Report".
- 2.10. The Government's report and the Administrator's Opinion shall be presented at the MSG meeting.
- 2.11. A MSG meeting shall be convened within 1 (one) month from the disclosure of the Government report and the Administrator's Opinion. During the meeting, the NGO Coalition's Opinion regarding the Government's report and the Administrator's Opinion shall be submitted to the MSG.
- 2.12. The Administrator shall undertake to keep the information belonging to all parties confidential.

ANNEX 5 (Act of accession)

## **ACT of ACCESSION**

### **to the Memorandum of Understanding on Implementation of the Extractive Industries Transparency Initiative in the Republic of Azerbaijan**

Whereas:

The Government of the Republic of Azerbaijan, as a country rich in mineral resources has joined the Extractive Industries Transparency Initiative (EITI);

The Government of Azerbaijan by the Ordinance of the Cabinet of Ministers of the Republic of Azerbaijan of November 13, 2003 established a Commission on the Extractive Industries Transparency Initiative ('Commission') to ensure the EITI implementation in the Republic of Azerbaijan in collaboration with companies operating in extractive industries of the Republic of Azerbaijan and the NGOs;

The Memorandum of Understanding on Implementation of the EITI in the Republic of Azerbaijan ('Memorandum') has been signed by the Commission, foreign and local companies operating in the extractive industries (Annex 1 to the Memorandum) and the NGOs holding membership in the Coalition for "Increasing Transparency in Extractive Industries" (Annex 2 to the Memorandum);

..... is engaged in the extractive industries of the Republic of Azerbaijan and therefore, as with other extractive industry companies operating in the Republic of Azerbaijan, has been invited by the Commission to join the Memorandum for the purpose of implementing the EITI:

1. By executing this Act of Accession, ..... hereby accedes to the Memorandum with the intention of cooperation with all other parties to the Memorandum.
2. This Act of Accession is executed in two Azerbaijani and English originals and both the Azerbaijani and English versions shall have equal force and effect.
3. A signed copy of the Act of Accession is held at the EITI Secretariat. Copies of the Act of Accession shall be submitted to the Parties to the Memorandum.

**on behalf of .....**

Signed on \_\_\_\_\_ 20\_\_.