THE COMMITTEE ON
THE EXTRACTIVE INDUSTRIES
TRANSPARENCY INITIATIVE
OF THE
REPUBLIC OF AZERBAIJAN
Independent Accountants' Report
for the six months ended
30 June 2009
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<td>List of Non-Governmental Organisations and Individuals Party to the Memorandum of Understanding</td>
<td>12-14</td>
</tr>
</tbody>
</table>
INDEPENDENT ACCOUNTANTS’ REPORT

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

We have examined the accompanying Assertion of the Committee on the EITI of the Republic of Azerbaijan (the “Committee”) shown in Appendix 1, that the schedule of payments/allocations received during the six months ended 30 June 2009 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 dated 24 November 2004 signed between the National Committee on EITI, 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 on the EITI of the Republic of Azerbaijan is responsible for this assertion. Our responsibility is to express an opinion on the assertion based on our examination.

Except as described in the following paragraph, our examination was conducted in accordance with the International Standard on Assurance Engagements and, accordingly, included examining, on a test basis, evidence supporting the assertion of the Committee on the EITI of the Republic of Azerbaijan 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 Assertion 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 Assertion of the Committee on the EITI of the Republic of Azerbaijan (Appendix 1) we have compared the schedule of payments/allocations received during the six months ended 30 June 2009 by the Government (the “Government’s schedule”) and the schedules prepared by the Companies (parties to the MOU) (the “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. Our findings are presented in the notes set out on pages 5-8.
OPINION

In our opinion, based on our work described in this report, 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, the accompanying Assertion of the Committee on the EITI of the Republic of Azerbaijan that the schedule of payments/allocations received during the six months ended 30 June 2009 is prepared in accordance with the aforementioned requirements, is fairly stated in all material respects.

This report is intended for the use of the signatory parties to the MOU and should not be used by other parties or for uses other than as prescribed by the MOU.

Moore Stephens Azerbaijan

10 December 2009
NOTES

Government’s interest in the foreign Companies’ extractive output

Note 1 Monetary inflow as Government’s entitlement in foreign Companies’ oil production stream

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

<table>
<thead>
<tr>
<th>million USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government's schedule</td>
</tr>
<tr>
<td>Companies’ schedule</td>
</tr>
<tr>
<td><strong>Net difference over reported by companies</strong></td>
</tr>
</tbody>
</table>

This represents errors made by one company explained as follows:

This difference represents the payment for acreage fees which were wrongly reported as monetary inflow (see Note 6).

<table>
<thead>
<tr>
<th>million USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>(0.2)</td>
</tr>
</tbody>
</table>

This amount was included into the report by the same company in error as it relates to a payment made to another oil company and does not pertain to the Government’s entitlement.

| (0.3) |

Note 2 Monetary inflow as Government’s entitlement in foreign Companies’ gas production stream

This represents the Government’s entitlement in the 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.

<table>
<thead>
<tr>
<th>million USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government's schedule</td>
</tr>
<tr>
<td>Companies’ schedule</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
</tr>
</tbody>
</table>

No difference found.

Note 3 Crude oil

This represents the Government’s oil production entitlement in the foreign Companies’ oil production stream, transferred in kind.

<table>
<thead>
<tr>
<th>million barrels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government's schedule</td>
</tr>
<tr>
<td>Companies’ schedule</td>
</tr>
<tr>
<td><strong>Difference</strong></td>
</tr>
</tbody>
</table>

No difference found
Note 4  Gas

This represents both natural and associated gas. The latter is transferred free of charge according to the agreements with the Government. Natural gas is the Government’s entitlement in the foreign companies’ production stream, transferred to the Government in kind.

<table>
<thead>
<tr>
<th></th>
<th>cubic metres (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government’s schedule</td>
<td>2,086,148.3</td>
</tr>
<tr>
<td>Companies’ schedule</td>
<td>1,952,347.7</td>
</tr>
<tr>
<td>Difference under reported by companies</td>
<td>133,800.6</td>
</tr>
</tbody>
</table>

This difference is the result of the parties using different measuring units: 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 meters. The resulting difference shown above should accordingly be added to the foreign Companies’ schedule.

Other inflows to the Government from the foreign extractive industry Companies

Note 5  Transportation tariff

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

<table>
<thead>
<tr>
<th></th>
<th>million USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government’s schedule</td>
<td>6.2</td>
</tr>
<tr>
<td>Companies’ schedule</td>
<td>2.2</td>
</tr>
<tr>
<td>Difference under reported by companies</td>
<td>4.0</td>
</tr>
</tbody>
</table>

The difference of 4.0 million USD is a result of errors made by reporting companies and is explained as follows:

The amount of 3.6 million USD 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. Because of the nature of the transaction this is a permanent difference. We confirmed the overall amount allocated to the Government by receiving confirmations from the Azerbaijan International Operating Company (“AIOC”) and SOFAZ.

This amount represents the transportation tariff due to SOFAZ for November 2008 which was paid in January 2009 by one foreign extractive company, but was mistakenly omitted from its schedule. A detailed explanation of this difference was obtained from AIOC and SOFAZ and confirmed by reviewing the payment documents for this amount.

This difference consists of a combination of errors in reporting by three companies. We confirmed these amounts by reviewing the supporting payment documents.

<table>
<thead>
<tr>
<th></th>
<th>million USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>This amount</td>
<td>0.7</td>
</tr>
<tr>
<td>(0.3)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4.0</td>
</tr>
</tbody>
</table>
THE COMMITTEE ON THE EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE
OF THE REPUBLIC OF AZERBAIJAN
SIX MONTHS ENDED 30 JUNE 2009

Note 6 Acreage fees

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

<table>
<thead>
<tr>
<th></th>
<th>million USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government's schedule</td>
<td>1.3</td>
</tr>
<tr>
<td>Companies' schedule</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>Difference under reported by companies</strong></td>
<td><strong>0.2</strong></td>
</tr>
</tbody>
</table>

The difference of 0.2 million USD was paid by one company and was reported in error as monetary inflow (see Note 1). We confirmed this amount by inspecting the payment documents.

Taxes paid to the Government by the foreign extractive companies

Note 7 Profit tax

Profit tax is levied on the difference between a taxpayer’s income (except for the income which is exempt from tax) and expenses (deductions) allowed for in the Tax Code of the Azerbaijan Republic.

<table>
<thead>
<tr>
<th></th>
<th>million USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government's schedule</td>
<td>165.4</td>
</tr>
<tr>
<td>Companies' schedule</td>
<td>176.7</td>
</tr>
<tr>
<td><strong>Net difference over reported by companies</strong></td>
<td><strong>(11.3)</strong></td>
</tr>
</tbody>
</table>

This difference arose because one extractive company reported profit tax accrued instead of profit tax paid and should be excluded from the Company’s schedule. We confirmed this difference by inspecting payment documents obtained from this foreign extractive company and information from the Ministry of Taxes.

Government’s interest in the local Companies’ extractive output

Note 8 Gas

This represents both natural and associated gas. The latter is transferred free of charge according to the agreements with the Government. Natural gas is the Government’s entitlement in the local companies’ production stream, transferred to the Government in kind.

<table>
<thead>
<tr>
<th></th>
<th>cubic metres (thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government's schedule</td>
<td>4,633.7</td>
</tr>
<tr>
<td>Companies' schedule</td>
<td>4,539.2</td>
</tr>
<tr>
<td><strong>Net difference under reported by companies</strong></td>
<td><strong>94.5</strong></td>
</tr>
</tbody>
</table>

The difference was reported by one local oil company in error. This was confirmed by receiving additional confirmation from SOCAR and this local company. The difference should be added to the Company’s schedule.
Taxes paid to the Government by the local Companies

Note 9  Royalty

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

<table>
<thead>
<tr>
<th></th>
<th>Government's schedule</th>
<th>Companies’ schedule</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royalty</td>
<td>40.6</td>
<td>40.6</td>
<td>0.0</td>
</tr>
</tbody>
</table>

No differences found.

Note 10  Profit tax

Profit tax is levied on the difference between a taxpayer’s income (except for the income which is exempt from tax) and expenses (deductions) allowed for in the Tax Code of the Azerbaijan Republic.

<table>
<thead>
<tr>
<th></th>
<th>Government's schedule</th>
<th>Companies’ schedule</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit tax</td>
<td>136.0</td>
<td>136.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

No differences found.

Note 11  Other taxes

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

<table>
<thead>
<tr>
<th></th>
<th>Government's schedule</th>
<th>Companies’ schedule</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other taxes</td>
<td>46.3</td>
<td>46.3</td>
<td>0.0</td>
</tr>
</tbody>
</table>

No differences found.
## SUMMARY OF REPORTS BY THE GOVERNMENT AND THE EXTRACTIVE COMPANIES

### Foreign Extractive Companies

<table>
<thead>
<tr>
<th></th>
<th>Reported by Government</th>
<th>Reported by foreign extractive Companies</th>
<th>Difference</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>Volume</td>
<td>Value</td>
<td>Volume</td>
</tr>
<tr>
<td></td>
<td>million</td>
<td>million</td>
<td>oil (mboe)</td>
<td>gas (thousand m³)</td>
</tr>
<tr>
<td>Monetary inflow for oil production</td>
<td>3.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Monetary inflow for gas production</td>
<td>50.8</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Crude oil</td>
<td>-</td>
<td>-</td>
<td>92.9</td>
<td>-</td>
</tr>
<tr>
<td>Gas</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2,086,148.3</td>
</tr>
<tr>
<td>Transportation tariff</td>
<td>6.2</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Acreage fees</td>
<td>1.3</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit tax</td>
<td>165.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

### Local Extractive Companies

<table>
<thead>
<tr>
<th></th>
<th>Reported by Government</th>
<th>Reported by local extractive Companies</th>
<th>Difference</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>Volume</td>
<td>Value</td>
<td>Volume</td>
</tr>
<tr>
<td></td>
<td>million</td>
<td>million</td>
<td>oil (mboe)</td>
<td>gas (thousand m³)</td>
</tr>
<tr>
<td>Gas</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,633.7</td>
</tr>
<tr>
<td>Royalty</td>
<td>-</td>
<td>40.6</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit tax</td>
<td>-</td>
<td>136.0</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other taxes</td>
<td>-</td>
<td>46.3</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

**Acronyms and abbreviations used in this table**

- USD - dollars of the United States of America
- AZN - Azerbaijani new manats
- mboe - millions of barrels of oil equivalent
- m³ - cubic metres
Appendix 1
Assertion of the Committee on the Extractive Industries Transparency Initiative ("EITI") of the Republic of Azerbaijan

The schedule of payments/allocations received during the six months ended 30 June 2009 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 on EITI, the local and foreign Companies operating in the Extractive Industries of Republic of Azerbaijan and the non-governmental organizations detailed in Appendix 3.

The Chairman of the EITI Committee
### List of Extractive Industries Companies Party to the Memorandum of Understanding

1. BP Exploration (Caspian Sea) Limited  
2. State Oil Company of the Republic of Azerbaijan  
3. Total E&P Azerbaijan B.V  
4. ITOCHU Oil Exploration (Azerbaijan) Inc.  
5. Statoil  
6. Turkish Petroleum A.O.  
7. Commonwealth Oil and Gas  
8. Exxon Azerbaijan Limited  
9. ConocoPhillips  
10. Amerada Hess (ACG) Limited  
11. Devon Energy Caspian Corporation  
12. Lukoil Overseas  
13. Chevron  
14. Petro-HongKong-Pirsaat Oil Limited  
15. Salyan Oil Limited  
16. Karasu Operating Company  
17. Shell Azerbaijan Exploration and Production  
18. Middle East Petroleum  
19. Anshad Petrol JV  
20. Shirvan Oil JV  
21. Azgerneft JV  
22. Inpex  
23. Binagadi Oil Company  
24. Royal Association of Finance Investors (RAFI OIL F.Z.E)  
25. Naftiran Intergrade Co Ltd (NICO)  
26. Apsheron Investments LTD  
27. GDF Suez  

### Not Parties to the MOU

1. Azerbaijan International Operating Company ("AIOC")

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1 AIOC is the operating company of the ACG oilfield. The partners of AIOC are BP Exploration (Caspian Sea) Limited, Exxon Azerbaijan Limited, Statoil, Inpex, SOCAR, Devon Energy Caspian Corporation, ITOCHU Oil Exploration (Azerbaijan) Inc., Amerada Hess (ACG) Limited, Turkish Petroleum A.O., Unocal Khazar (Chevron Overseas Petroleum Azerbaijan Limited).
Appendix 3
List of Non-Governmental Organisations ("NGO"s) and Individuals Party to the Memorandum of Understanding

NGOs

1. Development of Society and Civic Relations
2. Institute of Democracy and Human Rights
3. Eurasia Lawyers Association
4. "World of Carpet" Association (district of Guba)
5. Research Centre of Women's Problems
6. Centre for Economic and Political Researches
7. Centre of Economic and Social Development (CESD)
8. National Group of International Human Rights Society
9. Association for the Protection of Women's Rights after D. Aliyeva
10. "Centre of Support to Democratic Elections" Public Union
11. Association of Social Economic Researches
12. Foundation of Scientific-and-Technical Progress and Education
13. International Ecoenergy Academy
14. Foundation for Protection of Democratic Values
15. Public Finance Monitoring Center
16. "Progress" Social Research Centre Public Union
17. Society for Democratic Reforms
18. Multimedia Information Systems and Technology Centre
19. Institute of Political Pluralism
20. Humanitarian Research Society
21. Organization of Mine Victims
22. For Healthy Life
23. Dalga Youth Movement
24. Democracy and Women's Initiatives
25. Democratic Progress and Economical Cooperation
26. Socio-Strategic Researches and Analytical Investigations
27. Centre for Development of Democracy and Legal Assistance
28. Institution of Complex Problems of Transportation (transport)
29. Union of Independent Consumers
30. Agroeco Consulting Center
31. Public Union of "Progress", Ganja
32. Azerbaijan Construction Association
33. Greens' movement
34. Solidarity Among Women
35. Democratic Reformist Young People PU
36. Azerbaijan Public Union for Healthy Evolution
37. Educational Monitoring Centre on Socio- Economical Rights
38. Economic Research Center
39. «Buta» Humanitarian Children Fond
40. Centre of Islam, Democracy and Human Rights
41. "Ecolex" environmental law center
42. Friends of the Earth/ Azerbaijan
43. "Umid" (Hope) Humanitarian and Social Support Centre
44. Azerbaijan Young Lawyers Union
45. Centre for Development of Youth
46. "Liberator" Public Union
47. "Finance" Transparent Budget Public Union (district of Imishli)
48. Media Development Center
49. Free Economy Center
50. Centre of Pluralism "Inam"
51. Institute of Economical Technologies
52. "Free Person" Organization for Human Rights Protection
53. Committee for Oil Industry Workers Rights’ Protection
54. Centre for Support to Democratic Initiatives
55. HQMB
56. Centre for Assistance to Democratic Elections
57. Centre for the Development of Azerbaijan Football PU
58. Center of Democratic Reforms
59. "Echo" International Journalist Investigations Centre
60. “Expert” Economic Journal
61. "Bilik" Ganja
62. "Progress" Public Union for Legal Assistance to Youth
63. Citizens’ Labour Rights Protection League
64. Democracy and Women Rights Protection Centre
65. Yevlakh district Regional Development Centre PU
66. "Ruzgar" Ecological Public Union
68. “Women's World” Public Union
69. Ganja Children Fond
70. Fund of Constitution
71. Association of Democratic Reforms and Development
72. Caucasus Media Investigations Center
73. Association of Traders and Producers
74. Foundation of Legal Initiatives
75. Centre for Economic and Business Research and Education, Khazar University
76. Crude Accountability
77. "Saniye" Humanitarian Information Analytical Agency
78. Center of Oil Researches
79. Foundation of Citizens’ Rights Protection in Media
80. XXI Century Education Centre PU
81. "Electronic Elections" Public Union
82. Economic Innovations Center
83. Center for Equal Opportunities
84. HVA Regional Branch (Ganja)
85. Centre of Support to Civil Society Building (Regional NGO, Agstafa district)
86. Political Cultural Centre of Azerbaijan Women
87. Azerbaijan Fund of Monitoring of Ecological Standards
88. Institution of Peace and Democracy
89. Society for Caring of Garabag War-Disabled Persons
90. Eco-World Public Union
91. Human Rights XXI century-Azerbaijan Fond
92. Eco-Renaissance
Individuals

1. Bakirzade Shabnam
2. Dunya Sakit
3. Aliyev Elmidar
4. Hamidova Hijran
5. Huseynli Fikret
6. Khalilov Ruslan
7. Isayev Samir
8. Ibrahimov Zaur
9. Gahramanov Niyazi
10. Movsumov Shamil
11. Musayev Jeyhun
12. Seyidova Suheyla
13. Safarov Afig