

**EITI
REPORT
2011**

AZERBAIJAN

TABLE OF CONTENTS

3	Abbreviations and acronyms
6	Analysis of macroeconomic situation in the Republic of Azerbaijan in 2011
14	Report of the Government of the Republic of Azerbaijan (host government) about aggregated receipts from the extractive industries
18	The Committee on the Extractive Industries Transparency Initiative of the Republic of Azerbaijan Independent Accountants' Report 2011
20	Opinion
21	Executive Summary
22	Objective of the report and scope of work
24	Description of the Methodology
28	Summary of Reports by the Government and the Extractive Companies
30	Notes
40	Summary of adjusted schedules by the Government and the Extractive Companies
42	Comparison of adjusted data of 2010 and 2011
45	Comments and recommendations on improving the reconciliation process
46	Appendix 1 Assertion of the Committee on the Extractive Industries Transparency Initiative of the Republic of Azerbaijan
47	Appendix 2 List of Extractive Industries Companies Party to the Memorandum of Understanding
48	Appendix 3 List of Non-Governmental Organisations and Individuals Party to the Memorandum of Understanding
54	Statement by the EITI Coalition of civil society institutions on the (16th) Report of the Committee on the Extractive Industries Transparency Initiative in the Republic of Azerbaijan and Independent Accountant's Report for the one-year period ending on 31 December, 2011

ABBREVIATIONS AND ACRONYMS

ACG	Azeri-Chirag-Gunashli
AIOC	Azerbaijan International Operating Company
AZN	Azerbaijani manats
bln.	Billion
CBAR	Central Bank of Azerbaijan Republic
Committee	Committee on EITI of the Republic of Azerbaijan
Companies	Extractive industry companies
EITI	Extractive Industries Transparency Initiative
EITI Secretariat	Azerbaijan EITI Secretariat
Government	Government of Azerbaijan
MOU	Memorandum of Understanding
Mboe	Millions of barrels of oil equivalent
mln.	Million
m ³	Cubic metres
Nm ³	Normal cubic metres
PSA	Production sharing agreement
SOFAZ	State Oil Fund of the Republic of Azerbaijan
SOCAR	State Oil Company of the Republic of Azerbaijan
SSCRA	State Statistical Committee of the Republic of Azerbaijan
Sm ³	Standard cubic metres
TOR	Terms of Reference
thous.	Thousand
tcm	Thousand cubic metres
USD	Dollars of the United States of America
VAT	Value added tax
WREP	Western Route Export Pipeline

REPUBLIC OF AZERBAIJAN

Area: 86,6 thousand sq. km

Population: 9235,1 thousand persons

Capital: Baku

Official language: Azerbaijani

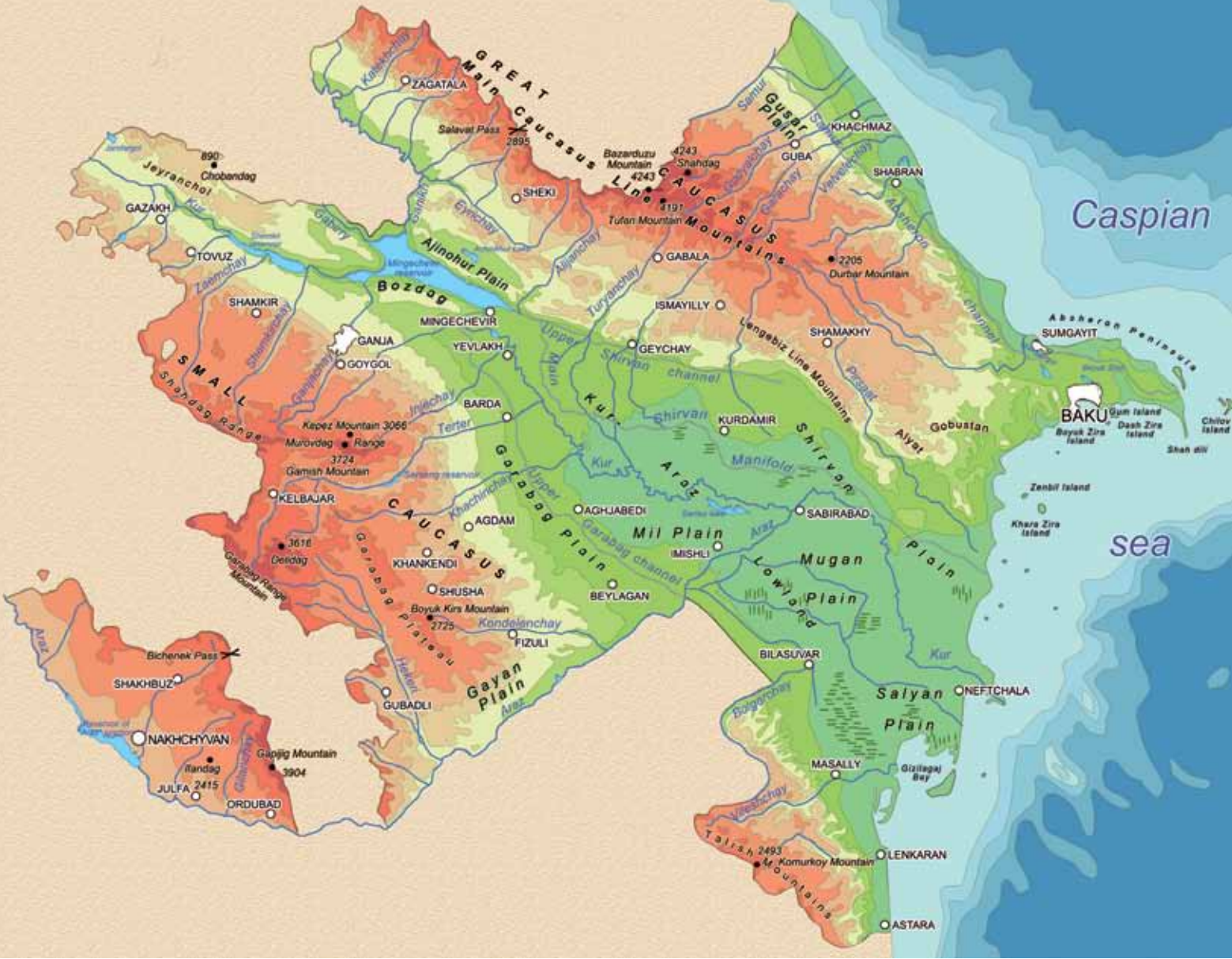
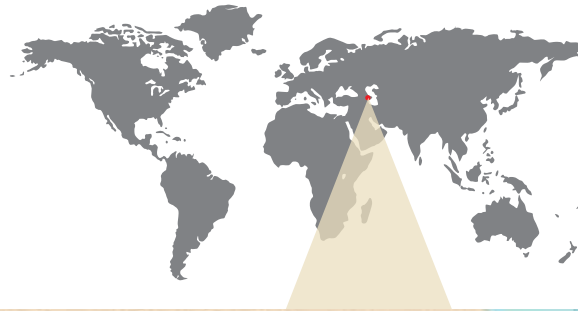
Currency: Manat

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 2011

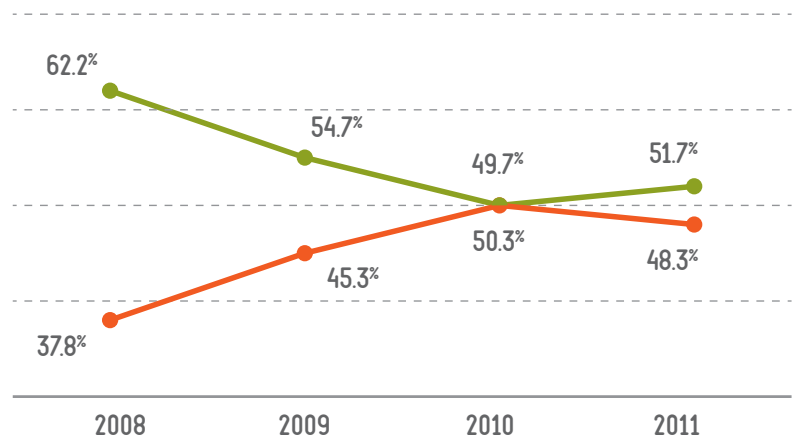
While non-stable conditions reigned in the financial and commodity markets of the world, several developed countries faced sovereign debt problems and capital inflows decreased, the economic growth was observed in all sectors of the national economy of Azerbaijan. It was a result of the economic policy connected with rapid modernization and diversification of the economy implemented in 2011 by the President of the Republic of Azerbaijan Ilham Aliyev. Increase of crude oil price in the world markets during the year has given its positive contribution to the growth of export potential and state revenues of the country. Furthermore, development of non-oil sector, increase of local and foreign investments and other factors positively affected the economic growth.

Real sector. Due to the decrease of oil production in 2011, the real growth rate has decreased by 9.3% in the oil sector, an increase in non-oil sector, especially in agriculture, construction and service sectors was observed. The volume of GDP has been in the volume of 50.1 bln. manats increasing by 17.9 % in absolute terms compared to the last year. 48.3 % of it was formulated by non-oil GDP.

Share of oil and non-oil sectors in GDP

Source: Ministry of Economic Development

- Non-oil GDP (share in GDP)
- Oil GDP (share in GDP)



Oil and gas industry occupied main position in structure of GDP and made up 50.2% of the total figure. Break-down of GDP per production spheres is as follows:

Sector structure of GDP (2011)

Source: Ministry of Economic Development

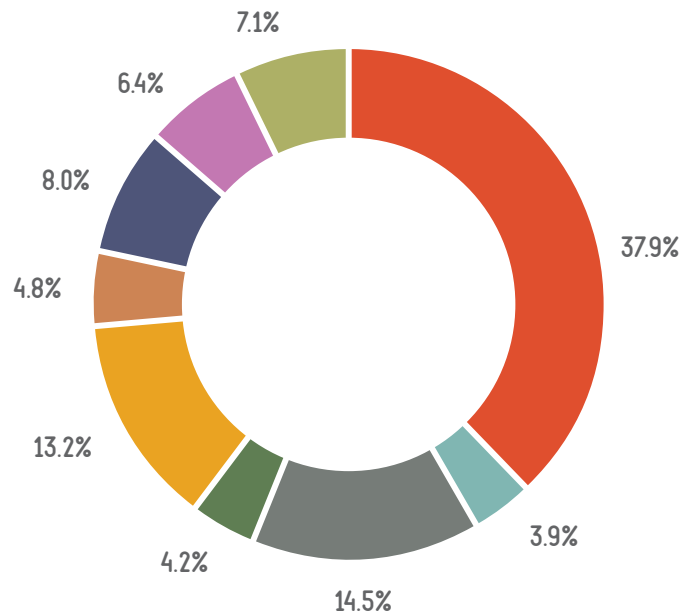


In connection with the growth of competitiveness of agriculture, forestry and fishery in the foreign markets, this particular sector's share in export revenues has increased. Indicators of this sphere in GDP has reached 5.5 %. In comparison with the previous year, real growth was observed in agriculture, forestry and fishery (5.8%), construction sector (20.0%) and service sectors (6.5%). GDP per capita has exceeded USD 7 000.

Incomes of population. In 2011 population incomes increased by approximately 19.6 %, amounting to 30633.5 mln. manats, average nominal salary increased by 9.5 % amounting to 363 manats. As a result of actions aimed at reduction of poverty, its rate decreased to 7.6 %, unemployment rate decreased to 5.4 %, number of employed reached 4375.2 thousand persons compared to the previous year (increase by 1.1 %). According to UN estimation, Azerbaijan held 91st position in "High human development" group out of 187 countries.

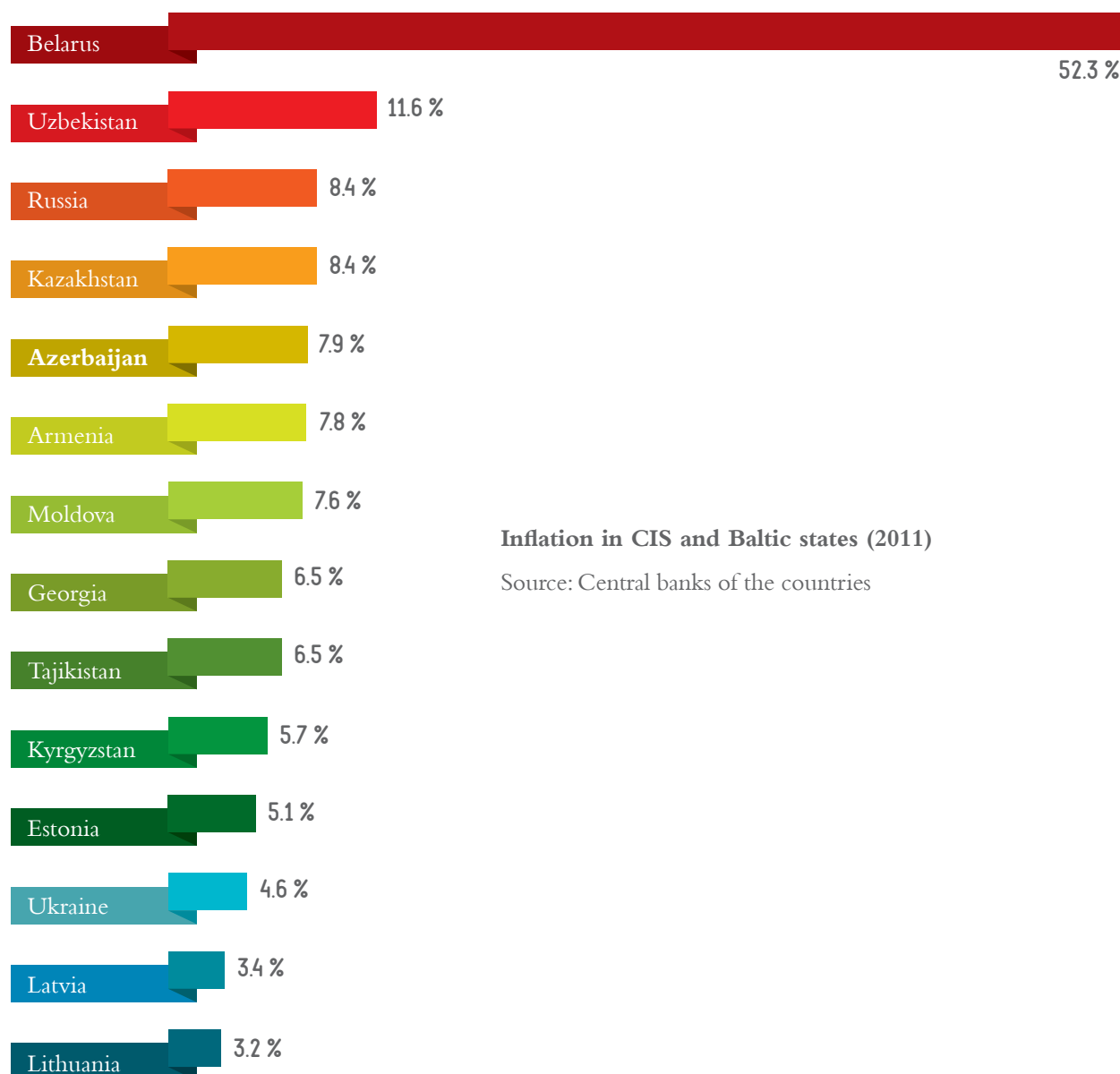
Overall employment structure (2011)

Source: Ministry of Economic Development



- Rendering of public services
- Transport and stock
- Processing industry
- Public administration and protection; social security
- Construction
- Education
- Rendering of services in other areas
- Trade, repair of vehicles
- Agriculture, forestry and fishery

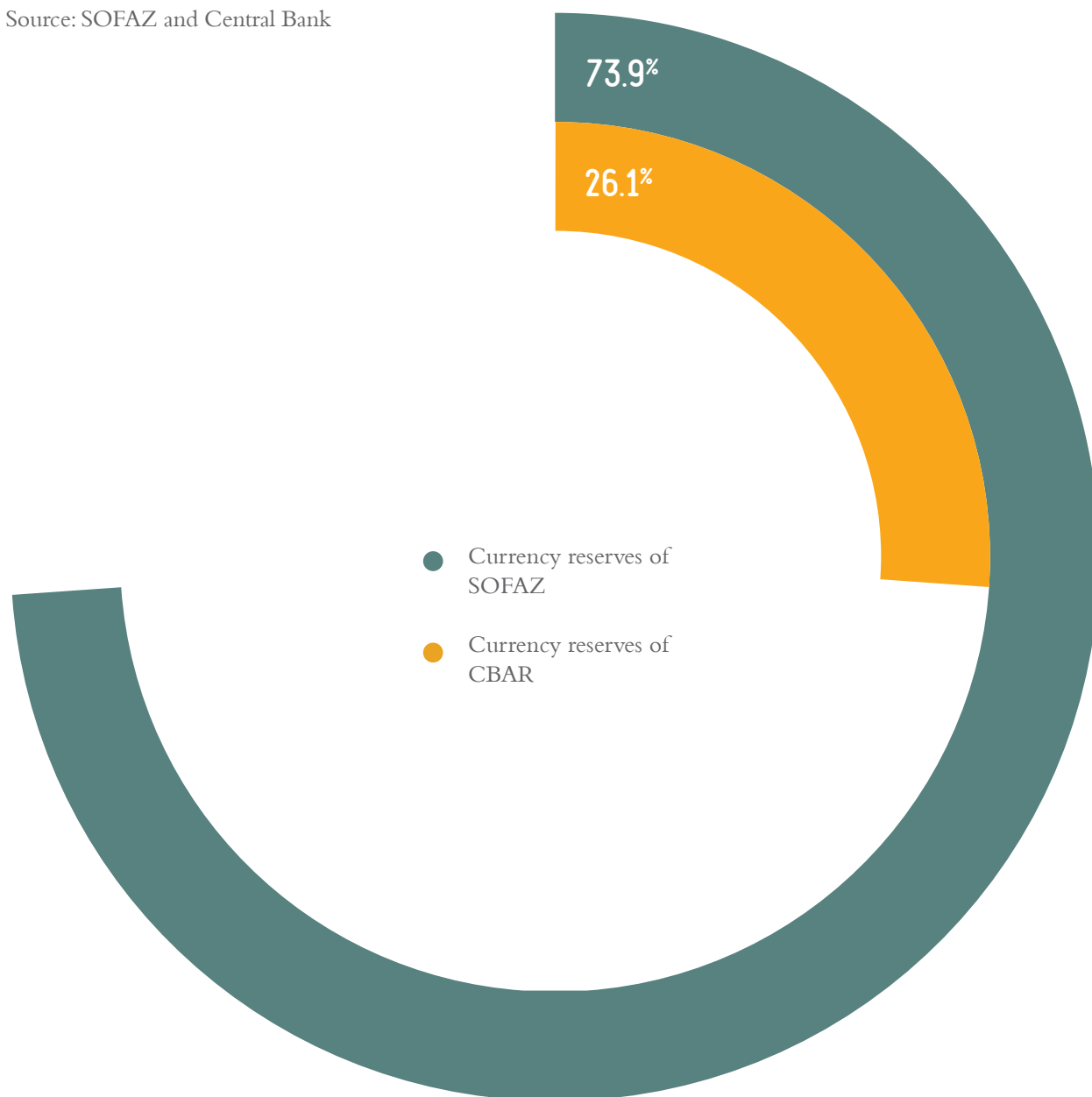
Financial sector: Stability in financial sector remained, inflation was kept at one-figure level (average 7.9% by the end of the year). Average annual inflation rate in Azerbaijan was lower than the one forecasted by International Monetary Fund for 2011. Alongside with it, rate of national currency remained stable against foreign currency. According to Central Bank of Azerbaijan, mainly external factors entailed price increases during the year.



Strategic currency reserves increased by 38.1 % comparing to previous year and amounted to 40.3 bln. dollars, the most part of which formed from SOFAZ assets. Thus, for December 31, 2011 overall structure of strategic currency reserves comprised SOFAZ currency reserves for amount of USD 29.8 bln. and Central Bank currency reserves for amount of USD 10.5 bln.

Strategic currency reserves (2011)

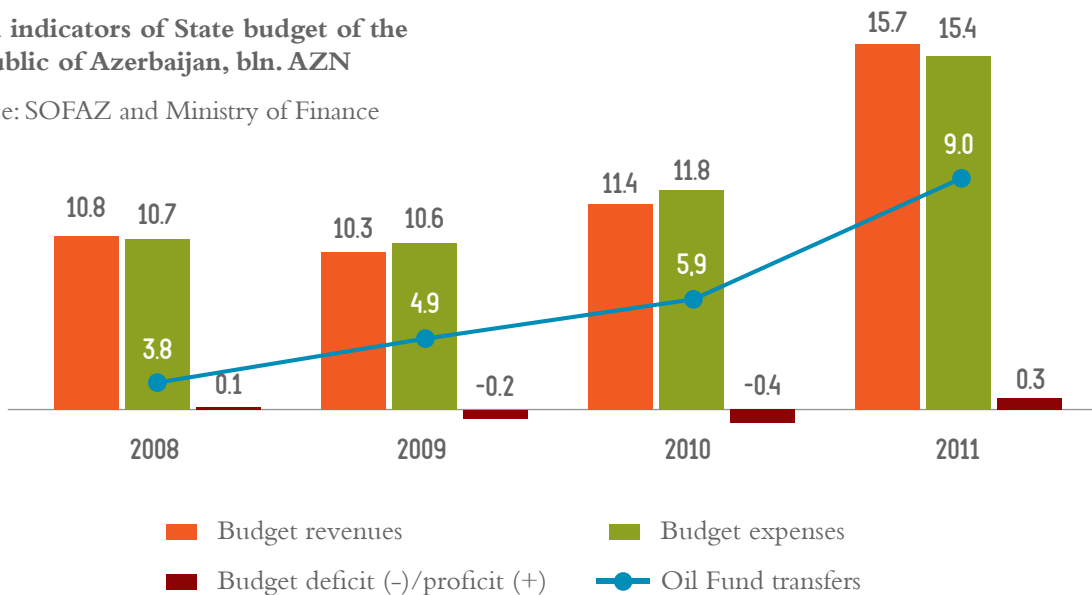
Source: SOFAZ and Central Bank



Fiscal sector. As prices for crude oil exceeded the budget indicators during the year (USD 80) and budget expenses were lower than the forecasted volume, state budget was accomplished with profit, while the budget deficit in GDP equated to 0.6%. 58.5% of the budget expenses were financed by transfers from SOFAZ.

Main indicators of State budget of the Republic of Azerbaijan, bln. AZN

Source: SOFAZ and Ministry of Finance

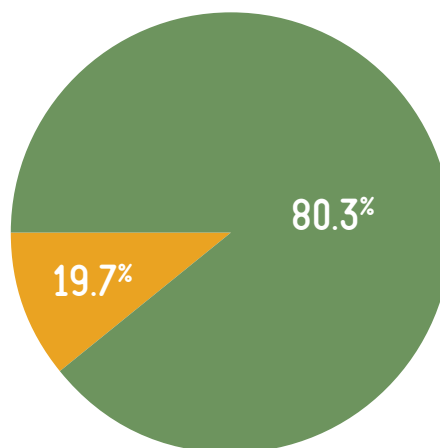


Investments. In 2011 the volume of investments significantly increased compared to the previous year on account of foreign sources, as well as domestic investments. Total investments directed to the main capital increased by 27.3% and made up AZN 12776.4 mln., the major part of which was constituted by domestic investments. In 2011 the volume of domestic investments reached AZN 10260.4 mln. (real growth reached 35.0%), while the volume of foreign investments reached AZN 2516.0 mln. (real growth reached 3.2%).

Total investments into main capital (2011)

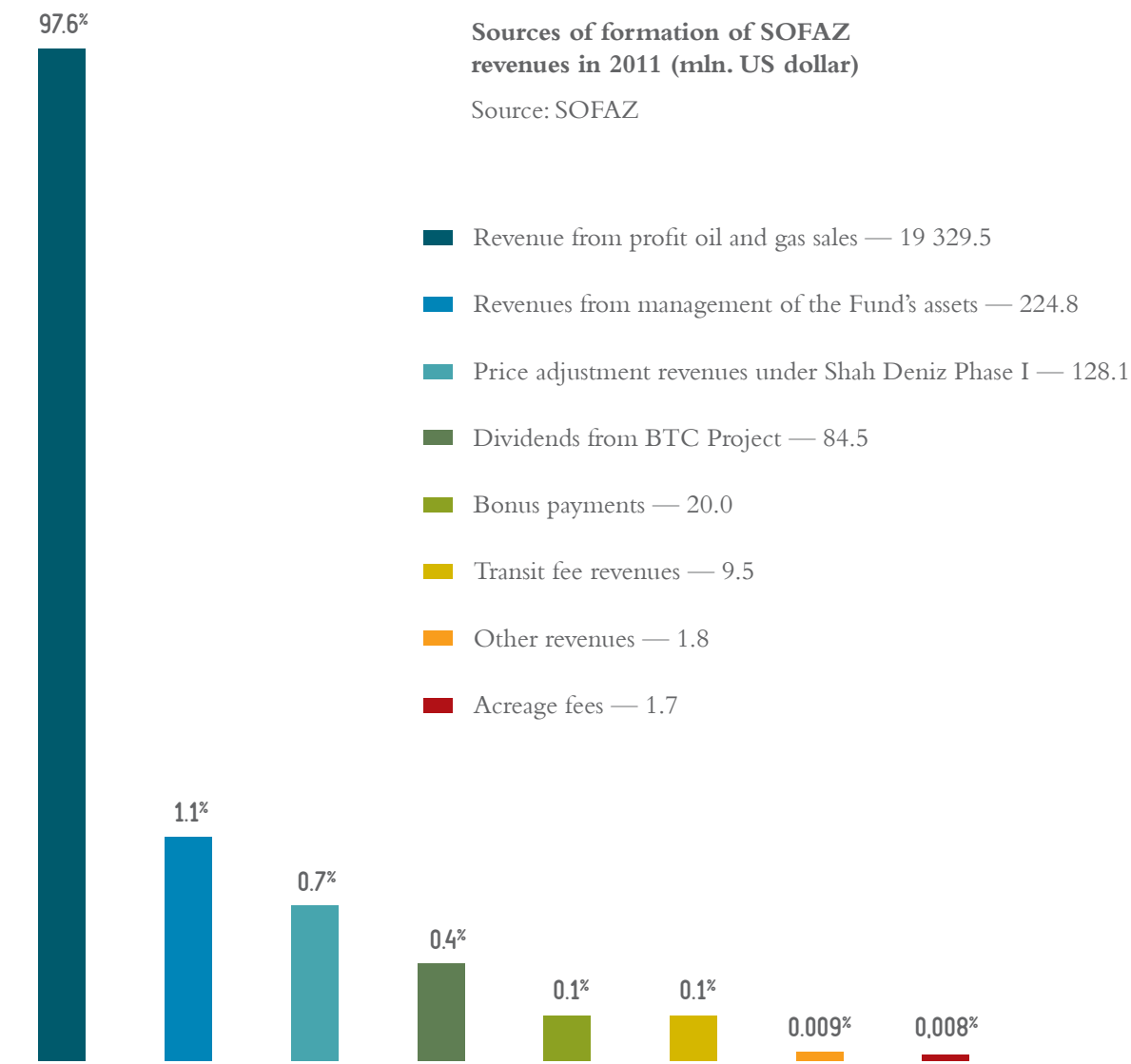
Source: Ministry of Economic Development

- Domestic investments
- Foreign investments



In addition, investments into non-oil sector significantly increased, exceeding growth rate in oil sector and reached 41.2 %. For oil sector this indicator was 0.2 %. Though non-state investments formed 40 % of overall investments, their volume scaled up comparing to state investments (35.6 % in comparison with the previous year) and made up AZN 5294.1 mln.

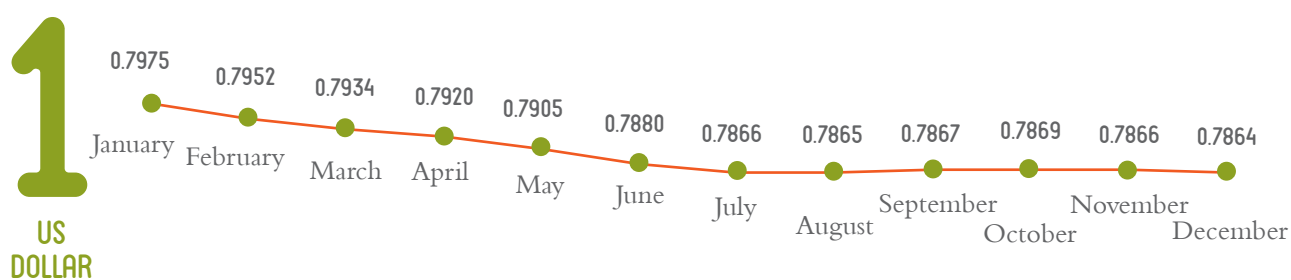
Foreign trade. Due to increase of oil prices in the global market in 2011, share of oil export in foreign trade substantially increased. Nevertheless, growth was observed in non-oil sector export (particularly, fruit and vegetables, products of chemical industry). Foreign trade turnover exceeded USD 36 bln. and foreign trade balance accomplished with profit at rate of USD 16.8 bln. (Source: SSCRA).



SOFAZ's revenues came to a total of AZN 15628.3 million (USD 19799.9 million) in 2011. They consisted of the proceeds from sales of the Republic of Azerbaijan's share of hydrocarbons, Republic of Azerbaijan's share in dividends from oil and gas projects, transit fees, bonus payments, acreage fees, revenues from management of the Fund's assets, revenues originating from price adjustments under the Phase I of the Shah-Deniz project and other revenues.

Exchange rate for AZN in 2011

Source: Central Bank



Average exchange rate for the year: 1 US dollar=0.7897 AZN

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

Reporting period: Annual, 2011 (Jan-Dec)

	Value		Volume			
	mln. USD	mln. AZN	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)			181.122			
in cash	65.905					
1.2. Gas Production Stream						
in kind (thousand cubic metres)						
natural				6805.462		
associated				3406420.807		
in cash	237.085					
1.3. Base metals Production Stream						
in kind (thousand tons)						
in cash						
1.4 Precious metals Production Stream						
in kind (thousand ounces)						
gold					7.429	
silver						4.986
in cash						

Reporting period: Annual, 2011 (Jan-Dec)

	Value		Volume			
	mln. USD	mln. AZN	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		1369.955				

Reporting period: Annual, 2011 (Jan-Dec)

	Value		Volume			
	mln. USD	mln. AZN	Oil	Gas	Gold	Silver
Other tax (excluding employee income tax, social tax and withholding tax)						
Dividends						
Signing bonuses and other bonuses	20.000					
License fees, entry fees and other considerations for licenses						
Other receipts, in total, including:						
a) Acreage fees	1.711					
b) Transit fees	9.504					
c) Price adjustment revenues after amendments in the gas sales agreement	128.064					
4. Other host government receipts from local companies						
Royalties		127.248				
Profit tax		177.791				
Value added tax		127.569				
Land tax		13.471				
Property tax		24.913				
Price change		197.158				
Other tax (excluding employee income tax, contributions to the State Social Protection Fund and withholding tax)		0.270				
Dividends						
Signing bonuses and other bonuses						
License fees, entry fees and other considerations for licenses						
Other receipts, in total, including:						
Total	461.269	2038.375	181.122	3413226.269	7.429	4.986

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

INDEPENDENT
ACCOUNTANTS' REPORT 2011

MAY 2012

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 year ended 31 December 2011 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 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 Standards on Assurance Engagements and, accordingly, included examining, on a test basis, evidence supporting the assertion 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 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 (Appendix 1) we have compared the schedule of payments/allocations received during the year ended 31 December 2011 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 12-19.

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MOORE STEPHENS

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 year ended 31 December 2011 is prepared in accordance with the aforementioned requirements and is fairly stated in all material respects.

Moore Stephens Azerbaijan

31 May 2012

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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 EITI Report covering the period of year ended 31 December 2011 is the 16th.

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

OBJECTIVE OF THE REPORT AND SCOPE OF 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 2011.

Objective: The objective of the Independent Accountant was to collect, review and reconcile the payments made to the Government by the Companies and revenues received by the Government from those Companies to ensure that the payments made by the Companies are fully received by the Government.

Accounting policy: The cash basis of accounting was used for the reconciliation of the actual amounts paid by the Companies and received by the Government for the year 2011.

Currency: The reporting currency is dollars of the United States of America (USD) for foreign Companies and Azerbaijani manats (AZN) for the local Companies.

Materiality Thresholds: The assessment of materiality threshold of revenues (in kind and in cash) received by the Government of the Republic of Azerbaijan from foreign and local extractive industry companies operating in Azerbaijan is conducted in two levels:

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

Material revenue sources defined by the EITI Multi-Stakeholder Group are as follows:

- Oil production stream in kind and in cash,
- Natural and associated gas production stream in kind and in cash,
- Base and precious metals production stream in kind and in cash,
- Profit tax,
- Dividends,
- Signing bonuses and other bonuses,
- Acreage and transit fees,
- License fees, entry fees and other considerations for licenses,
- Royalty, Value Added Tax, land tax, property tax, price change and other taxes (excluding employee income 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. The materiality threshold of sum/volume considered for each revenue source.

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

The Stages of Reconciliation process of Azerbaijan EITI

There were several stages during the Reconciliation process divided into separate parts:

1. Inception stage

This is the initial stage of collecting information:

- Gain a clear understanding of the operations;
- Conduct an analysis to put the assignment into the right perspective;
- Collect data on payments made by the Companies, and the revenues received by the Government within the operational areas of the mineral resources.

2. Reconciliation stage

This stage is the main thrust 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. Feedback Stage

The activities under this stage will be the following:

- Presentation of report to the general public;
- Recommendations made in the final report;
- Comments and questions at the validation seminar which have been incorporated in the report.

DESCRIPTION OF THE METHODOLOGY

Our approach was to ensure that there would be continuous communication and interaction with the Companies and 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 take 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 has entailed ensuring all the Companies and the Government 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 accompanies the distribution of the Reporting Templates.

Follow up tasks with companies and government involved: This task entailed communicating with the Companies and the Government ensuring any queries are clarified and the deadlines are 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 ensured that the Reporting Templates had been received. If not, we highlighted this to EITI Secretariat to ensure the Reporting Template is and distributed to the Companies who had not received it.

Collection of data: This task involved collecting completed Reporting Templates and supporting documentation.

- Prior to the set deadline, we agreed the dates with the Companies and the Government to request for the Reporting Template. In addition, we asked the EITI Secretariat to update them of the status, to assist us to remind the Companies about 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.

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

Receipt of Government. We received the Reports from different Government agencies:

- State Oil Fund of the Republic of Azerbaijan;
- State Oil Company of the Republic of Azerbaijan;
- 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 have been added into the database for our 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: As the discrepancies have been identified, we contacted the Companies and the Government agencies involved for additional information/clarification to enable us reconcile these discrepancies.

- Using the database, we highlighted what additional information we require in order to reconcile any identified discrepancies.
- We gave an explanation to all Companies and Government agencies that provided us with the necessary supporting documentation and requested them to submit this additional information to us so that the discrepancies identified can be reconciled.
- If additional supporting documents are irrelevant or no initial/further supporting documentation could be provided, we conclude that the reconciliation and the discrepancies are highlighted as “undetermined/unexplained discrepancies”.

We also would like to highlight some additional stages which we have used during the assignment:

Our strategy and planning

At the planning stage we have discussed the extent of our authority, responsibility, deadlines, deliverables, costs and coordination and liaised with the body responsible for dealing with us.

Control and coordination

Our control procedures were based on using reliable procedures and document templates, coordination of aims, tasks, deadlines and responsibilities combined with thorough planning.

Problem solving

Any problems or issues, arising during the course of the engagement have been carefully dealt with. The engagement involved efficient interaction between every member of the Moore Stephens team and regular reporting of the examination results.



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SUMMARY OF REPORTS BY THE GOVERNMENT AND THE EXTRACTIVE COMPANIES

Foreign Extractive Companies							
	Reported by Government					Reported by foreign	
	Value		Volume			Value	
	mln. USD	mln. AZN	mboe	thous. m ³	thous. ounces	mln. USD	mln. AZN
Monetary inflow for oil production	64.9					46.3	
Monetary inflow for gas production	365.1					365.1	
Crude oil			181.1				
Associated Gas				3,406,420.8			
Natural Gas				6,805.5			
Gold					7.4		
Silver					5.0		
Bonuses	20.0					21.0	
Transportation tariff to SOFAZ	9.5					3.2	
Acreage fees	1.7					0.7	
Profit tax	1,734.0					1,681.9	

Local Extractive Companies							
	Reported by Government					Reported by local	
	Value		Volume			Value	
	mln. USD	mln. AZN	mboe	thous. m ³	thous. ounces	mln. USD	mln. AZN
Royalty		127.2					127.2
Profit tax		177.8					177.8
Other taxes		166.3					165.7
Price changes		197.2					197.2

Foreign Extractive Companies

extractive Companies			Difference					Notes
Volume			Value		Volume			
mboe	thous. m ³	thous. ounces	mln. USD	mln. AZN	mboe	thousand m ³	thous. ounces	
			18.6					1
			—					2
181.6					(0.5)			3
	3,188,576.2					217,844.6		4
	6,805.5					—		5
		7.4					—	6
		5.0					—	7
			(1.0)					8
			6.3					9
			1.0					10
			52.1					11

Local Extractive Companies

extractive Companies			Difference					Notes
Volume			Value		Volume			
mboe	thous. m ³	thous. ounces	mln. USD	mln. AZN	mboe	thousand m ³	thous. ounces	
				—				12
				—				13
				0.6				14
				—				15

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").

	million USD		
	confirmed	adjustment	final
Government's schedule	64.9	—	64.9
Companies' schedule	46.3	18.6	64.9
Difference	18.6	18.6	—

The difference of 18.6 million USD represents the errors made by two Companies (USD 17.6 million and USD 1.0 million). The figures were omitted from their reports. The figures were checked to the relevant supporting documents and should be added to the companies' schedule.

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.

	million USD		
	confirmed	adjustment	final
Government's schedule	365.1	—	365.1
Companies' schedule	365.1	—	365.1
Difference	—	—	—

No differences found

The monetary inflow from gas production amounting 365.1 million USD, and confirmed by the Government as 365.1 million USD, consists of 237.1 million USD and inflow from changes made in contract price during gas production equalling to 128.0 million USD.

Note 3: Crude oil

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

	million barrels		
	confirmed	adjustment	final
Government's schedule	181.1	—	181.1
Companies' schedule	181.6	(0.5)	181.1
Difference	(0.5)	(0.5)	—

The differences of 0.4 and 0.1 million barrels were incorrectly included in the Companies' schedule by two different foreign extractive companies. These payments are related 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.

	thousand cubic metres		
	confirmed	adjustment	final
Government's schedule	3,406,420.8	—	3,406,420.8
Companies' schedule	3,188,576.2	217,844.6	3,406,420.8
Difference	217,844.6	217,844.6	—

This difference is explained as follows:

- 1) The Government reported the volume of gas received from one foreign extractive company as 3,331,410.0 thousand cubic metres (tcm) whilst the foreign extractive company reported only 3,114,485.5 tcm. According to the information received from that foreign extractive company this difference is the result of following reasons:

cubic metres (thousands)

Gas volumes delivered to 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 — 3,025,101.4 Sm ³	206,385.9
Company — 2,818,715.5 Nm ³	
Difference — 206,385.9 tcm	

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 Company's and Government's report, equalling to 3,025,101.4 tcm.

Gas volumes delivered to Oil rocks

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

Government — 306,308.6 Sm ³	10,538.6
Company — 295,770.0 Nm ³	
Difference — 10,538.6 tcm	

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 time.

216,924.5

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

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

	cubic metres (thousands)
The company concerned confirmed the associated gas volume delivered from SOCAR to Government instead of confirming the gas volume delivered to SOCAR. The difference was confirmed by receiving additional explanation from SOCAR and should be added to the Companies' schedule.	963.4
The difference arose as a result of an error made by one foreign extractive company. We confirmed the amount by reviewing the gas delivery statements to SOCAR.	65.8
The difference occurred as a result of a rounding error made by one company and was confirmed by reviewing monthly breakdown of gas delivered to SOCAR by the company concerned.	3.1
The difference formulated as a result of an error made by one foreign extractive company. We confirmed the amount by reviewing the gas delivery statements to SOCAR. The amount should be excluded from the companies' schedule.	106.0
	920.1

Note 5: Natural Gas

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

	cubic metres (thousands)		
	confirmed	adjustment	final
Government's schedule	6,805.5	—	6,805.5
Companies' schedule	6,805.5	—	6,805.5
Difference	—	—	—

No differences found

Note 6: Gold

This represents the Government's gold production entitlement in the foreign company's gold production stream, transferred in kind.

	thousand ounces		
	confirmed	adjustment	final
Government's schedule	7.4	—	7.4
Companies' schedule	7.4	—	7.4
Difference	—	—	—

No differences found

Note 7: Silver

This represents the Government's silver production entitlement in the foreign Company's silver production stream, transferred in kind.

	thousand ounces		
	confirmed	adjustment	final
Government's schedule	5.0	—	5.0
Companies' schedule	5.0	—	5.0
Difference	—	—	—

No differences found

Other inflows to the Government from the foreign extractive industry 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.

million USD

	confirmed	adjustment	final
Government's schedule	20.0	—	20.0
Companies' schedule	21.0	(1.0)	20.0
Difference	(1.0)	(1.0)	—

This difference represents the payment for an acreage fee (see Note 10) paid by one foreign extractive company and mistakenly reported as bonuses.

Note 9: Transportation tariff

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

million USD

	confirmed	adjustment	final
Government's schedule	9.5	—	9.5
Companies' schedule	3.2	—	3.2
Difference	6.3	—	6.3

The amount of USD 6.3 million included in the Government's schedule is related to transit fees that were paid by the Government to itself for the transit of its own oil entitlement. Each month SOFAZ and contractors are paying to the Azerbaijan International Operating Company ("AIOC"—operating company of the ACG oilfield) tariffs determined by the Republic of Azerbaijan and Georgia for the transportation of oil (Government's entitlement of the profit oil) through Western Route Pipeline and operating costs (operational and capital expenditures). AIOC pays Georgia's share from the total tariffs 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 receiving 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.

	million USD		
	confirmed	adjustment	final
Government's schedule	1.7	—	1.7
Companies' schedule	0.7	1.0	1.7
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.

	million USD		
	confirmed	adjustment	final
Government's schedule	1,734.0	—	1,734.0
Companies' schedule	1,681.9	52.1	1,734.0
Difference	52.1	52.1	—

million USD

The profit tax payment of USD 24.1 million is related to one foreign extractive company, and represents the payment of its subsidiary legal entity, which is not operating in extractive industry and therefore is not reportable. The explanation was provided in the report by the foreign company and should be excluded from the Companies schedule.	24.1
The payment of USD 7.6 million and USD 8.6 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.	16.2
The difference of USD 1.4 million represents accrued profit tax for the fourth quarter of 2010 for a company's internal use only and therefore is not reportable. The difference was confirmed by reviewing relevant payment documents and the acceptance payments by the Ministry of Taxes of the Republic of Azerbaijan.	1.4
This difference represents a typing error in the report by a foreign company. The correct profit tax payment amount was reviewed by examining supporting payment documents to the Ministry of Taxes of the Republic of Azerbaijan.	60.0
The profit tax amount was confirmed in million AZN and the difference occurred as a result of the foreign exchange conversion and should be added to the Companies' schedule.	1.4
Total	52.1

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).

million AZN

	confirmed	adjustment	final
Government's schedule	127.2	—	127.2
Companies' schedule	127.2	—	127.2
Difference	—	—	—

No differences found

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.

million AZN

	confirmed	adjustment	final
Government's schedule	177.8	—	177.8
Companies' schedule	177.8	—	177.8
Difference	—	—	—

No differences found

Note 14: Other taxes

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

million AZN

	confirmed	adjustment	final
Government's schedule	166.3	—	166.3
Companies' schedule	165.7	0.6	166.3
Difference	0.6	0.6	—

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

	Government's schedule	Companies' schedule	Difference
VAT	127.6	127.0	0.6
Property tax	24.9	24.9	—
Land tax	13.5	13.5	—
Other taxes	0.3	0.3	—
Total	166.3	165.7	0.6

The VAT payment relates to one local extractive company, which has changed its legal status, and represents an overdue tax payment. The amount was confirmed by reviewing supporting payment documents obtained from the company and the breakdown provided by the Ministry of Taxes of the Republic of Azerbaijan.

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	final
Government's schedule	197.2	—	197.2
Companies' schedule	197.2	—	197.2
Difference	—	—	—

million AZN

No differences found

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	thous. m ³	thous. ounces	mln. USD	mln. AZN
Monetary inflow for oil production	64.9					64.9	
Monetary inflow for gas production	365.1					365.1	
Crude oil			181.1				
Associated Gas				3,406,420.8			
Natural Gas				6,805.5			
Gold					7.4		
Silver					5.0		
Bonuses	20.0					20.0	
Transportation tariff to SOFAZ	9.5					3.2	
Acreage fees	1.7					1.7	
Profit tax	1,734.0					1,734.0	

Local Extractive Companies							
	Government's schedule					Local extractive	
	Value		Volume			Value	
	mln. USD	mln. AZN	mboe	thous. m ³	thous. ounces	mln. USD	mln. AZN
Royalty		127.2					127.2
Profit tax		177.8					177.8
Other taxes		166.3					166.3
Price changes		197.2					197.2

Foreign Extractive Companies

Companies' Schedule			Difference					Notes
Volume			Value		Volume			
mboe	thous. m ³	thous. ounces	mln. USD	mln. AZN	mboe	thousand m ³	thous. ounces	
			—					1
			—					2
181.1					—			3
	3,406,420.8					—		4
	6,805.5					—		5
		7.4					—	6
		5.0					—	7
			—					8
			6.3					9
			—					10
			—					11

Local Extractive Companies

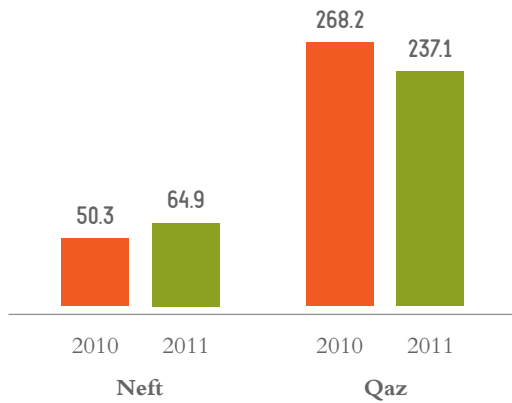
Companies' Schedule			Difference					Notes
Volume			Value		Volume			
mboe	thous. m ³	thous. ounces	mln. USD	mln. AZN	mboe	thousand m ³	thous. ounces	
				—				12
				—				13
				—				14
				—				15

COMPARISON OF ADJUSTED DATA OF 2010 WITH 2011

Government's interest in the foreign Companies' extractive output

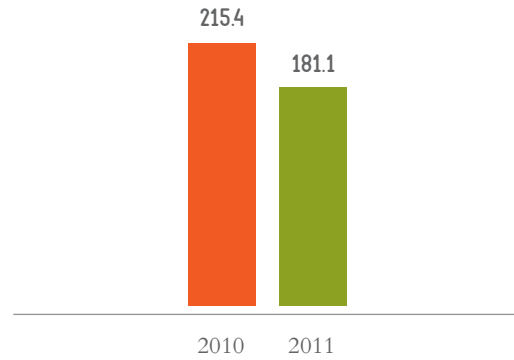
Monetary Inflow from Oil and Gas

mln. USD



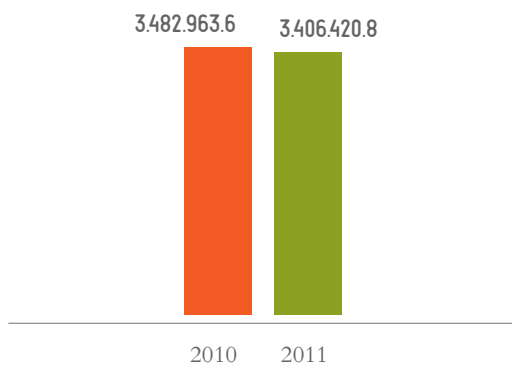
Crude oil

mboe



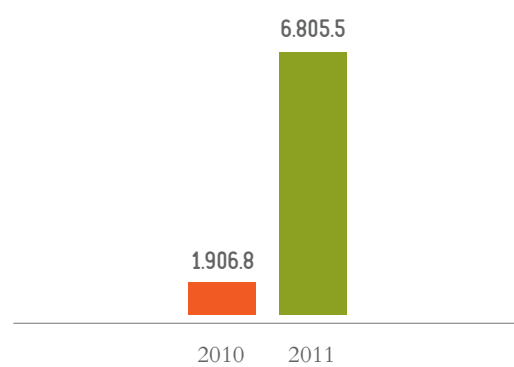
Associated Gas

thous. cubic metres



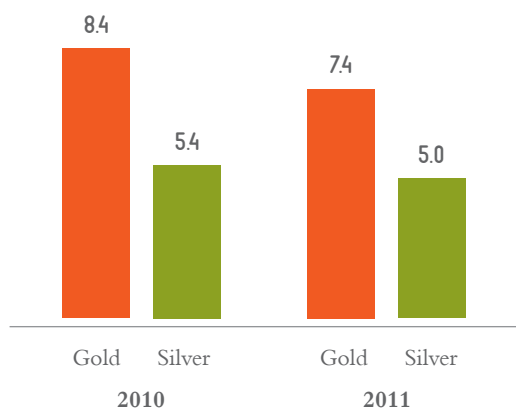
Natural Gas

thous. cubic metres

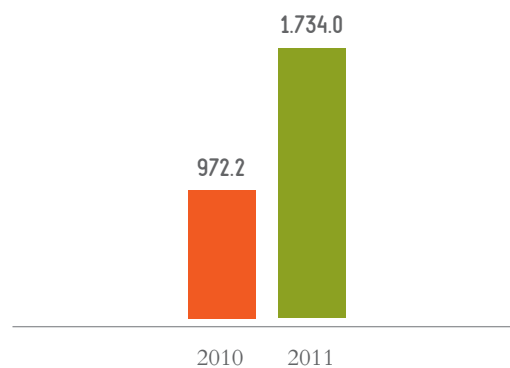


Gold and Silver

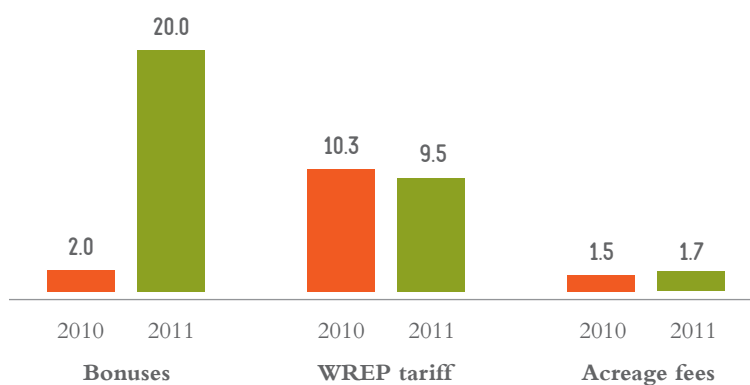
thous. ounces

**Profit tax**

mln. USD

**Other Payments**

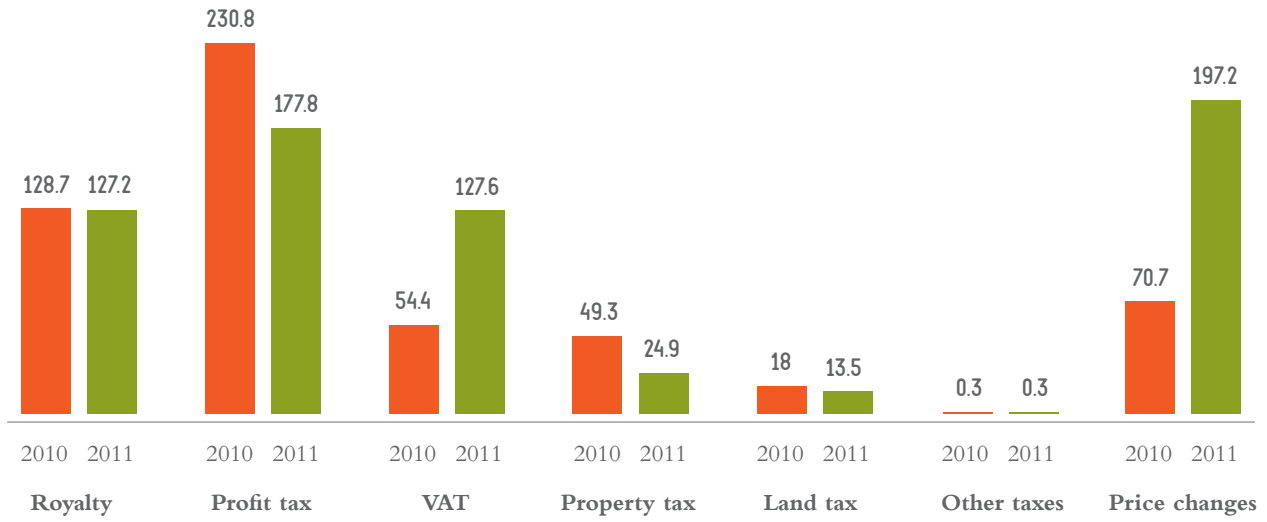
mln. USD



Government's interest in the local Companies' extractive output

Taxes

mln. AZN



COMMENTS AND RECOMMENDATIONS ON IMPROVING THE RECONCILIATION PROCESS:

1. Update the Manual for the Technical Guideline of the Reporting Forms.
2. Notify and inform those Companies that repeat same mistakes every reporting period.
3. To improve the Reporting Forms:
 - Production entitlement from each mineral resource (oil, associated and natural gas, gold, silver and metals) should be separately shown in different rows.
 - Taxes should be separately reported, including the royalties as well.
 - Other taxes should be split as VAT, Property, Land, Road tax and others and additional lines should be added to the form.
 - Irrelevant lines (such as dividends) should be removed from the Forms.
 - In kind and in-cash payments to the Government should be clearly marked in different lines.

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 year ended 31 December 2011 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 the Republic of Azerbaijan and the non-governmental organisations detailed in Appendix 3.



The Chairman of the Committee on EITI

APPENDIX 2

List of Extractive Industries Companies Party to the Memorandum of Understanding

- | | |
|--|---|
| 1. BP Exploration (Caspian Sea) Limited | 18. GDF SUEZ Exploration Caspian B.V. |
| 2. State Oil Company of the Republic of Azerbaijan | 19. Middle East Petroleum |
| 3. Total E&P Azerbaijan B.V | 20. Anshad Petrol JV ¹ |
| 4. ITOCHU Oil Exploration (Azerbaijan) Inc. | 21. Shirvan Oil JV ¹ |
| 5. Statoil | 22. Azgerneft JV |
| 6. Turkish Petroleum A.O. | 23. Inpex |
| 7. Commonwealth Oil and Gas | 24. Binagadi Oil Company |
| 8. Exxon Azerbaijan Limited | 25. Royal Association of Finance Investors (RAFI OIL F.Z.E) |
| 9. ConocoPhillips | 26. Naftiran Intergrade Co Ltd (NICO) |
| 10. Hess (ACG) Limited | 27. Apsheron Investments LTD |
| 11. Devon Energy Caspian Corporation | 28. Shirvan Operating Company Limited |
| 12. Lukoil Overseas | 29. Neftchala Operating Company Limited |
| 13. Chevron Khazar LTD | 30. Azerbaijan International Mining Company Azerbaijan (AIMC) |
| 14. Petro-HongKong-Pirsaat Oil Limited | 31. Bahar Energy |
| 15. Salyan Oil Limited | |
| 16. Karasu Operating Company | |
| 17. Shell Azerbaijan Exploration and Production | |

1. Anshad Petrol and Shirvan Oil JV have been replaced by Neftchala Operating Company Limited and Shirvan Operating Company Limited, respectively due to the change in the legal status. These companies are temporarily kept on the list as there are still ongoing payments and settlements with the governmental authorities.

All extractive companies (oil, gas and mining) have reported.

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. Eco-Renaissance
3. Institute of Democracy and Human Rights
4. Eurasia Lawyers Association
5. “World of Carpet” Association (district of Guba)
6. Azeri-Ellada Intellectual Center
7. Research Centre of Women’s Problems
8. Centre for Economic and Political Researches
9. Centre for Caucasus International Strategic Researches
10. Centre of Economic and Social Development (CESD)
11. Human Rights and Enlightenment Public Union
12. “Tereqqi” Social Development Public Union
13. “Centre of Support to Democratic Elections” Public Union
14. Foundation for Protection of Democratic Values
15. Public Finance Monitoring Center
16. Foundation of Scientific-and- Technical Progress and Education
17. Association of Social Economic Researches
18. International Ecoenergy Academy
19. “Tereqqi” Social Research Centre Public Union
20. “Journalists in Extreme Situation” Public Union

21. Society for Democratic Reforms
22. Multimedia Information Systems and Technology Centre
23. Institute of Political Pluralism
24. Region Voice Newspaper
25. Humanitarian Research Society
26. Democracy Monitor
27. Organization of Mine Victims
28. For Healthy Life Public Union
29. Dalga Youth Movement
30. Development of IDP Women
31. Dalga Ecology and Protection of Nature Public Union
32. “Back to the Motherland” Public Union
33. Democracy and Women’s Initiatives
34. Democratic Progress and Economical Cooperation
35. Socio- Strategic Researches and Analytical Investigations
36. Centre for Modern Development and Legal Assistance
37. Regional Development and Human Rights Public Union
38. Institution of Complex Problems of Transportation (transport)
39. Union of Independent Consumers
40. Azerbaijan Construction Association
41. Public Union of “Progress”, Ganja
42. Solidarity Among Women
43. Democratic Reformist Young People PU
44. Greens’ movement
45. Economic Research Center
46. «Buta» Humanitarian Children Fond
47. Regional Enlighten
48. “Guzeran” Social Researches Center

49. Centre of Islam, Democracy and Human Rights
50. “Ecolex” environmental law center
51. Friends of the Earth/ Azerbaijan
52. “Umid” (Hope) Humanitarian and Social Support Centre
53. Azerbaijan Young Lawyers Union
54. Centre for Development of Youth
55. “Liberator” Public Union
56. “Finance” Transparent Budget Public Union (district of Imishli)
57. Media Development Center
58. Center of Democratic Reforms
59. Club of Intellectual Economists
60. “Echo” International Journalist Investigations Centre
61. Civilization Monitoring and Research Public Union
62. Center for Azerbaijan Women’s Political Culture
63. “Expert” Economic Journal
64. “Bilik” Ganja
65. Help to Democracy Public Union
66. Citizen’s Enlighten Public Union
67. Young generation’s Enlighten Public Union
68. Citizens’ Labour Rights Protection League
69. Democracy and Women Rights Protection Centre
70. Yevlakh district Regional Development Centre PU
71. Independent Teachers Union
72. “Ruzgar” Ecological Public Union
73. Youth enlighten in Regions PU
74. Support to the Young Journalists PU
75. “Human Rights – 2003” Public Union
76. Economy and Law Enlighten Center for the Journalists

77. “Women’s World” Public Union
78. Ganja Children Fond
79. Fund of Constitution
80. Care for the aged intellectuals PU
81. Association of Democratic Reforms and Development
82. XXI Century Education Centre PU
83. Caucasus Media Investigations Center
84. “Free Person” Organization for Human Rights Protection
85. Institute of Economical Technologies
86. Centre for Support to Democratic Initiatives
87. Committee for Oil Industry Workers Rights` Protection
88. Centre for Assistance to Democratic Elections
89. Centre for the Development of Azerbaijan Football PU
90. Democratic and Ecological Balance
91. Elections Investigation Center Public Union
92. Research of the International Relations
93. Association of Traders and Producers
94. Association of Aged People
95. Centre for Economic and Business Research and Education, Khazar University
96. Center of Oil Researches
97. Union of displaced people of Garabag
98. “Saniye” Humanitarian Information Analytical Agency
99. Electronic Elections” Public Union
100. Economic Innovations Center
101. Equal Opportunities Center
102. “Inam” Pluralism Center
103. Centre of Support to Civil Society Building (Regional NGO, Agstafa district)
104. HVA Regional Branch (Ganja)

105. Azerbaijan Healthy Development Public Union
106. Research and Monitoring Center On Social-Economy Law
107. “ELS” Independent Research Center
108. “View of the Independency” Research Center PU
109. “Care for the Disabled people of Garabag” Society
110. Eco- World Public Union
111. Human Rights XXI century-Azerbaijan Fond
112. “Youth Club” Public Union
113. National Ecological Prognosing Center
114. Free Economy Center
115. “Human Rights and Law Propogande” PU
116. “Ulduz” Digital Organization
117. Support to the Young Poets
118. Citizen Society Institute PU
119. Economic Journalism Center
120. “Ag yol” Youth Enlighten Center PU
121. PU for research of Tortures
122. Our mutual house
123. Young Entrepreneurs Club
124. Regional Women Initiative PU
125. Regional Human Rights and Media Center PU
126. Digital Development PU
127. Center of Regional Gender Public Union
128. “Zengilan” PU
129. Water Suppliers PU
130. Ecological Balance PU
131. Association of Garabag Soldiers
132. Road Construction Monitoring Center

133. Regional Human Rights and Enlighten Center
134. Civilization and Enlightenment PU
135. Genengineering Enlighten PU
136. Social Initiatives and Human Rights P.A
137. Support to Youth Educational Development P.A
138. Economic and Ecological Research Center
139. Gender equality P.A
140. Ecologist Aid to Protection of Environment P.A
141. Economic and Ecological Research Center
142. Gender equality P.A
143. Ecologist Aid to Protection of Environment P.A
144. Regional Human Rights and Social Research Center
145. Regional 'Karabakh' Agricultural Association P.A
146. Aran Ecological Education P.A
147. 'Belief in the future' care to indigent people P.A
148. Civil Initiatives and Perfection of Laws Center P.A
149. Democracy and Development of NGO Resource Center (Nakh. City)
150. Youth National Democrats Union (Nakh. City)
151. Law Initiatives Center P.A
152. Agrarian Industry Engineers P.A

Individuals

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

**STATEMENT BY THE EITI
COALITION OF CIVIL SOCIETY
INSTITUTIONS ON THE (16TH)
REPORT OF THE COMMITTEE ON
THE EXTRACTIVE INDUSTRIES
TRANSPARENCY INITIATIVE IN
THE AZERBAIJAN REPUBLIC AND
INDEPENDENT ACCOUNTANT'S
REPORT FOR THE ONE-YEAR
PERIOD ENDING
ON 31 DECEMBER, 2011**

(Approved at the Council of the EITI Coalition of civil society institutions meeting on June 29, 2012)

The Coalition reviewing the Independent Accountants' Report presented by "Moore Stephens" audit company at the EITI Multi-stakeholder group meeting held on June 4, 2012 states the following:

1. Release of audit results on the following 16th Report of the Government Committee is an important event in social life of the country and can be evaluated as the next step taken forward to increase transparency in the extractive industries;
2. The Report allows each Azerbaijani citizen to access the detailed information on types of revenues received in the extractive industries in 2011. Thus, this report provides information on volumes of profit oil, natural and associated gas, gold and silver that Azerbaijan obtained, as well as revenues from bonuses, acreage fees, transit fees, taxes etc;
3. Also, in comparison with the 2010 report, the 2011 report reflects the information on one additional indicator. This is "price adjustment revenues after the amendments in the gas sales agreement". Though the inclusion of this indicator is little, it can be determined as a new step in the direction of deepening the context of the reports;
4. Like in previous reports differences between the Government Committee's and companies' reports are still observed. Reasons of these differences were clarified by the auditor and relevant amendments were made. Alongside with the mistakes of an objective character, the negligence and carelessness of some executors were noted among the reasons of differences. With regard to the last ones, the auditor, in his recommendations, notes that the companies making the same mistakes in every reporting period should be contacted and informed. Additionally, in opinions on the previous reports the Coalition repeatedly proposed that the executors in the companies responsible for the reporting should be seriously trained;
5. The addition of information related to Shah-Deniz field, gold and silver in the report templates of the recent years, clearly shows the need for further improvement of reporting templates. Aggregated illustration of the same essence incomes coming from several sources in the reporting templates restricts the possibilities to evaluate the relevant fields and performance of the companies exploiting them. Disclosure of individual reports by the companies would lead to more profound analysis of the reports;
6. Improvement works on the Memorandum dated November 24, 2004 (as well as on the reporting templates) are carried out too slowly in the Working group of the Multi-stakeholder Group and this situation seriously worries the NGO Coalition. In fact, EITI process in Azerbaijan is regulated by an old legal document;

7. New Rules adopted by the EITI International Board in 2011 require the data of both, government and companies stated in the reports, to be based on the appropriate audit results. Taking into account that the next Validation period for Azerbaijan approaches (2014), the current situation creates grounds for serious anxiety.

Taking into consideration all aforementioned, the Coalition concludes that the works on improvement of the Memorandum and reporting templates should be completed in a short period of time. The improvement should resolve at least the most important two problems: 1) disclosure of individual reports of the companies; 2) the data included in the reporting templates should be based on the audit of relevant government authorities and companies.