IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE NON-U.S. PERSONS (AS DEFINED BELOW) LOCATED OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the Prospectus following this page and you are therefore advised to read this page carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Issuer or the Joint Lead Managers (each as defined in the Prospectus).

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON OR U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE NOTES DESCRIBED IN THE ATTACHED DOCUMENT.

Confirmation of your representation: In order to be eligible to view the attached Prospectus or make an investment decision with respect to the securities being offered, prospective investors must be non-U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) located outside the United States. The Prospectus is being sent to you at your request, and by accessing the Prospectus you shall be deemed to have represented to the Issuer and the Joint Lead Managers that (1) you are purchasing the securities being offered in an offshore transaction (within the meaning of Regulation S) and the electronic mail address that you gave us and to which this email has been delivered is not located in the United States, its territories and possessions, any State of the United States or the District of Columbia and (2) you consent to delivery of such Prospectus by electronic transmission.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.

The materials relating to this offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer, and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in the relevant jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

The Prospectus may only be distributed to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (b) high net worth entities falling within article 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Order (all such persons together being referred to as "**relevant persons**"). Any person who is not a relevant person should not act or rely on this document or any of its contents.

The Prospectus has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Joint Lead Managers, any person who controls them or any director, officer, employee or agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

STATE OIL COMPANY OF THE AZERBAIJAN REPUBLIC

(a company organised and existing under the laws of the Republic of Azerbaijan)

U.S.$500,000,000 5.45% Senior Unsecured Notes due 2017

Issue Price: 100%

Application has been made (i) to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for the U.S.$500,000,000 5.45% Senior Unsecured Notes due 2017 (the "**Notes**") of State Oil Company of the Azerbaijan Republic ("**SOCAR**", the "**Company**" or the "**Issuer**") to be admitted to the official list of the UK Listing Authority (the "**Official List**") and (ii) to the London Stock Exchange plc (the "**London Stock Exchange**") for the Notes to be admitted to trading on the London Stock Exchange's regulated market (the "**Market**"). References in this Prospectus to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

Interest on the Notes is payable semi-annually in arrear on 9 February and 9 August in each year. Payments on the Notes will be made without deduction for, or on account of taxes of, the Republic of Azerbaijan ("**Azerbaijan**" or the "**Republic**") to the extent described under "*Terms and Conditions of the Notes—Condition 10. Taxation*".

The Notes are subject to redemption in whole, at their principal amount, together with accrued interest, at the option of the Issuer at any time on any Interest Payment Date in the event of certain changes affecting taxes of Azerbaijan. See "*Terms and Conditions of the Notes—Condition 9. Redemption and Purchase*".

Investing in the Notes involves a high degree of risk. See "*Risk Factors*".

The Notes will be offered and sold in offshore transactions outside the United States in reliance on Regulation S ("**Regulation S**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**").

THE NOTES HAVE NOT BEEN NOR WILL BE REGISTERED UNDER THE SECURITIES ACT, OR ANY STATE SECURITIES LAW, AND THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON (AS SUCH TERMS ARE DEFINED IN REGULATION S), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

The Notes will be issued in registered form in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes will be represented by a global registered note certificate (the "**Global Certificate**"), which will be registered in the name of BT Globenet Nominees Limited, as nominee for, and deposited with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") on or about 9 February 2012 (the "**Closing Date**"). Definitive note certificates (the "**Definitive Note Certificates**") evidencing holdings of Notes will be available only in certain limited circumstances. See "*Summary of Provisions Relating to the Notes in Global Form*".

The Notes are expected to be rated BBB- by Fitch Ratings Limited ("**Fitch**") and Bal by Moody's Investors Service Ltd. ("**Moody's**"). The Issuer's current long-term rating by Fitch is BBB- (outlook stable), by Standard & Poor's Credit Market Services Europe Limited ("**S&P**") is BB+ (outlook stable) and by Moody's is Ba1 (outlook stable). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. The credit ratings included or referred to in this Prospectus will be treated for the purposes of Regulation (EC) № 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**") as having been issued by Fitch, S&P and Moody's, respectively. Each of Fitch, S&P and Moody's is established in the European Union and was registered in accordance with the CRA Regulation with an effective date of 31 October 2011.

JOINT LEAD MANAGERS

Citigroup **Deutsche Bank** **The Royal Bank of Scotland**

CO-MANAGERS

Nomura **Société Générale Corporate & Investment Banking**

The date of this Prospectus is 7 February 2012.

This prospectus (this "**Prospectus**") constitutes a prospectus for the purpose of Article 5.4 of Directive 2003/71/EC (the "**Prospectus Directive**") and for the purpose of giving information with regard to the Company and its subsidiaries from time to time (taken as a whole, the "**Group**"), and the Notes which, according to the particular nature of the Company and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Company and the rights attaching to the Notes. The Company having taken all reasonable care to ensure that such is the case, accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Company, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

None of Citigroup Global Markets Limited, Deutsche Bank AG, London Branch or The Royal Bank of Scotland plc (together, the "**Joint Lead Managers**") or any of their directors, affiliates, advisers or agents has made an independent verification of the information contained in this Prospectus in connection with the issue or offering of the Notes, and no representation or warranty, express or implied, is made by the Joint Lead Managers or any of their directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained in this Prospectus is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether to the past or the future, by the Joint Lead Managers or any of their respective directors, affiliates, advisers or agents in any respect. The contents of this Prospectus are not, are not to be construed as, and should not be relied on as, legal, business or tax advice, and each prospective investor should consult its own legal and other advisers for any such advice relevant to it.

No person is authorised to give any information or make any representation not contained in this Prospectus in connection with the issue and offering of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any of the Company, Deutsche Trustee Company Limited (the "**Trustee**") or the Joint Lead Managers or any of their directors, affiliates, advisers or agents. The delivery of this Prospectus does not imply that there has been no change in the business and affairs of the Company since the date hereof or that the information herein is correct as of any time subsequent to its date.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy the Notes by any person in any jurisdiction where it is unlawful to make such an offer or solicitation. The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions is restricted by law. This Prospectus may not be used for, or in connection with, and does not constitute, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstance in which such offer or solicitation is not authorised or is unlawful. In particular, this Prospectus does not constitute an offer of securities to the public in the United Kingdom. Consequently this document is being distributed only to, and is directed at (a) persons who have professional experience in matters relating to investments falling within article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**") or (b) high net worth entities falling within article 49(2)(a) to (d) of the Order, and other persons to whom it may be lawfully communicated, falling within article 49(1) of the Order (all such persons together being referred to as "**relevant persons**"). Any person who is not a relevant person should not act or rely on this document or any of its contents. Persons into whose possession this Prospectus may come are required by the Company and the Joint Lead Managers to inform themselves about and to observe such restrictions. Further information with regard to restrictions on offers, sales and deliveries of the Notes and the distribution of this Prospectus and other offering material relating to the Notes is set out under "*Subscription and Sale*" and "*Summary of Provisions Relating to the Notes in Global Form*".

Unless otherwise specified or the context so requires, references to "**U.S. Dollars**" and "**U.S.$**" are to the lawful currency of the United States; references to "**Euros**", "**EUR**" and "**€**" are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended; references to "**Manat**" and "**AZN**" are to the lawful currency of Azerbaijan; references to "**Turkish Lira**" and "**YTL**" are to the lawful currency of the Republic of Turkey; and references to "**Lari**" and "**GEL**" are to the lawful currency of Georgia. References to "**billions**" are to thousands of millions.

In connection with the issue of the Notes, Deutsche Bank AG, London Branch (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager) may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over allotment must be conducted by the Stabilising Manager (or person(s) acting on behalf of Stabilising Manager) in accordance with all applicable laws and rules.

FORWARD-LOOKING STATEMENTS

Certain statements included herein may constitute "forward-looking statements". Such statements, certain of which can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "are expected to", "intends", "will", "will continue", "should", "could", "would be", "seeks", "approximately", "estimates", "predicts", "projects", "aims" or "anticipates", or similar expressions or the negative thereof or other variations thereof or comparable terminology, or by discussions of strategy, goals, objectives, future events, plans or intentions, involve a number of risks and uncertainties. Such forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realised. These forward-looking statements include matters that are not historical facts. They appear in a number of places throughout this Prospectus and include statements regarding the Company's current intentions, plans, estimates, assumptions, programmes, beliefs and expectations.

Factors that could cause actual results to differ materially from the Company's expectations are contained in cautionary statements in this Prospectus and include, among other things, the following:

- price fluctuations in crude oil, gas and refined products markets and related fluctuations in demand for such products;
- operational limitations, including equipment failures, labour disputes and processing limitations;
- the continuing effects of the global financial crisis, whose duration and magnitude cannot be ascertained;
- the availability or cost of transportation routes and fees charged for arranging transportation of hydrocarbons;
- overall economic and business conditions, including commodity prices;
- changes in the regulations and policy of the Azerbaijan Government (the "**Government**"), including with respect to the Company's social obligations;
- unplanned events or accidents affecting the Company's operations or facilities;
- changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations;
- the Company's ability to increase market share for its products and control expenses;
- economic and political conditions in Azerbaijan and international markets, including governmental changes;
- incidents or conditions affecting the export of oil, gas and refined products;
- reservoir performance, drilling results and the implementation of the Company's oil and gas strategy;
- an inability to implement any potential acquisition or an inability to acquire such interests on terms proposed by the Company; and
- the timing, impact and other uncertainties of future actions.

The sections of this Prospectus entitled "*Risk Factors*" and "*Management's Discussion and Analysis of Results of Operations and Financial Performance*" contain a more complete discussion of the factors that could affect the Company's future performance and the industry in which it operates. In light of these risks, uncertainties and assumptions, the forward-looking events described in this Prospectus may not occur.

The Company is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Prospectus whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to the Company, or persons acting on its behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Prospectus. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

ENFORCEMENT OF FOREIGN JUDGMENTS

The Company is a company organised and existing under the laws of Azerbaijan and its principal officers are residents of Azerbaijan. All or a substantial portion of the assets of the Company and of each such person are located in Azerbaijan. As a result, it may not be possible to effect service of process upon the Company or any such person outside Azerbaijan, to enforce against any of them in courts of jurisdictions other than Azerbaijan judgments obtained in such courts that are predicated upon the laws of such other jurisdictions or to enforce against any of them in Azerbaijani courts judgments obtained in jurisdictions other than Azerbaijan, including, *inter alia*, judgments obtained on the Trust Deed (as defined below) in the courts of England. Although Azerbaijan is a signatory to certain conventions on the recognition and enforcement of foreign arbitral awards, the enforcement of such awards in local courts remains largely untested. See "*Risk Factors—Risk Factors Relating to the Republic of Azerbaijan—Foreign judgments and arbitral awards may not be enforceable in Azerbaijan*".

The Notes and the Trust Deed are governed by English law and the Company has agreed in the Notes and the Trust Deed that disputes arising thereunder are subject to arbitration in England or, at the election of the Trustee or, in certain circumstances, a Noteholder, to the jurisdiction of the English courts. See "*Terms and Conditions of the Notes—Condition 19. Governing Law; Jurisdiction and Arbitration*". Furthermore the Supreme Court of Azerbaijan will not (other than at its own discretion) enforce any judgment obtained in a court established in a country other than Azerbaijan unless such country allows for reciprocal enforcement of Azerbaijani court judgments and then only in accordance with the terms of a treaty providing for reciprocal enforcement and the Code of Civil Procedure of the Republic of Azerbaijan (the "**Civil Procedure Code**"). There is no such treaty in effect between Azerbaijan and the United Kingdom, and provisions of the Civil Procedure Code described below will apply. However, Azerbaijan and the United Kingdom are parties to the 1958 New York Convention on Recognition and Enforcement of Arbitral Awards (the "**Convention**"), and, accordingly, an arbitral award under the Convention should generally be recognised and enforceable in Azerbaijan provided the conditions of enforcement set out in the Convention are met.

The recognition and enforcement of a foreign judgment is made by the Supreme Court of Azerbaijan and can be denied if such foreign judgment or award is contrary to the laws of Azerbaijan and in the circumstances set out in Article 465 of the Civil Procedure Code, whereby recognition and enforcement of foreign court judgments may be denied on further grounds including, *inter alia*, where:

(a) the subject of dispute is within the exclusive jurisdiction of the courts of Azerbaijan (in accordance with Article 444 of the Civil Procedure Code, disputes raised in respect of the validity and liquidation of an Azerbaijan legal entity and the cancellation of decisions adopted by an Azerbaijan legal entity shall be exclusively resolved by the courts of Azerbaijan);

(b) a party to the dispute was not given proper and timely notice of the proceedings;

(c) there is a valid judgment of a court of Azerbaijan in respect of a dispute between the same parties, involving the same subject matter and grounds or, prior to the institution of civil proceedings in a foreign court, a court of Azerbaijan began to review a case between the same parties, in respect of the same subject matter and grounds;

(d) such foreign court judgment did not enter into force according to the law of the jurisdiction where it was made;

(e) the enforcement of any such judgment contradicts the general principles of the laws or the sovereignty of Azerbaijan; or

(f) there is an absence of reciprocity with a foreign state.

PRESENTATION OF FINANCIAL, RESERVES AND CERTAIN OTHER INFORMATION

The Company is required to maintain its books of account in Manat in accordance with Azerbaijan accounting and tax regulations. The financial information of the Company set forth herein, has, unless otherwise indicated, been derived from its unaudited consolidated financial statements, which are comprised of its consolidated statement of financial position, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows as at, and for the six months ended, 30 June 2011 (the "**Interim Financial Statements**") and its audited consolidated statement of financial position, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows as at, and for each of the years ended, 31 December 2010 and 2009 (the "**2010 Financial Statements**" and the "**2009 Financial Statements**", respectively, and, together, the "**Audited Financial Statements**" and the Audited Financial Statements, together with the Interim Financial Statements, the "**Financial Statements**"). The Financial Statements were prepared in accordance with International Financial Reporting Standards ("**IFRS**").

The Audited Financial Statements were audited by Ernst & Young Holdings (CIS) B.V. ("**Ernst & Young**") in accordance with International Standards on Auditing. The Interim Financial Statements were reviewed by Ernst & Young in accordance with International Standards on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

The Company's estimates have been based on information obtained from Petkim, the Company's subsidiaries, joint ventures, associates, customers, suppliers, trade and business organisations and other contacts in the markets in which the Company operates. The Company believes these estimates to be accurate in all material respects as at the dates indicated. However, this information may prove to be inaccurate because of the method by which the Company obtained some of the data for these estimates or because this information cannot always be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other inherent limitations and uncertainties.

This Prospectus contains illustrations and charts, extracted from the Company's internal information and the internal information of the Company's subsidiaries, joint ventures and associates, which have not been independently verified unless specifically indicated.

Certain amounts which appear in this Prospectus have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Reclassifications

The Company made certain reclassifications to its 2009 consolidated statement of financial position, consolidated statement of comprehensive income and corresponding notes, in order to conform the presentation of the 2009 figures to the presentation of the 2010 figures. The Company believes that these reclassifications had no material impact on the financial position, results of operation or equity of the Company. See Note 2 to the 2010 Financial Statements.

The following table sets forth the reclassifications referred to above and the effects of the relevant line items:

	Prior to reclassification	Reclassification	After reclassification
		(*AZN millions*)	
CONSOLIDATED STATEMENT OF FINANCIAL POSITION			
Reclassification of cash and cash equivalents from restricted cash			
Cash and cash equivalents	699	75	774
Restricted cash	129	(75)	54
Reclassifications of trade receivables, other long-term assets, other short-term assets and other long-term financial assets			
Trade and other receivables	2,130	(19)	2,111
Other long-term assets	316	(62)	254
Other long-term financial assets	—	74	74
Other current financial asset	—	7	7
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME			
Reclassification of release of provision for doubtful debts from other operating income			
Cost of sales	(2,899)	821	(2,078)
Other operating income	1,025	(821)	205

Certain reclassifications were also made to the consolidated statement of financial position for the first six months of 2010 and the corresponding notes to conform to the presentation for the first six months of 2011. The Company believes that these reclassifications had no material impact on the financial position, results of operation or equity of the Company. See Note 2 to the Interim Financial Statements.

Investors should be aware that the financial data for the Company set out in this Prospectus as at and for the year ended 31 December 2009 are taken from the 2010 Financial Statements.

Certain Reserves Information

The Company calculates its reserves in conformity with the standards of the Petroleum Resources Management System ("**PRMS**"), which was prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers. Reserves figures contained in this Prospectus, unless otherwise stated, are taken from reserves analyses prepared by the Company's professional engineering staff. The Company's reserves were also calculated by Miller and Lents Ltd. ("**M&L**"), independent petroleum engineering consultants, in accordance with PRMS. A report prepared by M&L dated 7 September 2011, containing a summary of the Company's reserves as of 1 January 2011, is included as Annex 1 to this Prospectus. This summary reserves report (the "**M&L Report**") is included on a voluntary basis and does not meet the content requirements of, and does not constitute a competent person's report for the purposes of, the ESMA update of the CESR recommendations on the consistent implementation of the Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive.

M&L, whose registered address is Two Houston Centre, 909 Fannin Street, Suite 1300, Houston, Texas 77010, U.S.A., accepts responsibility for the report included as Annex 1 to this Prospectus. To the best of the knowledge of M&L (which has taken all reasonable care to ensure that such is the case), the information contained in the M&L Report is in accordance with the facts and contains no omission likely to affect the import of such information. The M&L Report is included, in the form and context in which it is included, with the consent of M&L, who has authorised the contents of the report. The M&L Report states that M&L is an independent oil and gas consulting firm and that no director, officer or key employee of M&L has any ownership in the Company or any related company. M&L's compensation for the required investigations and preparation of the M&L Report is not contingent on the results obtained and reported and M&L has not performed other work that would affect their objectivity.

Hydrocarbon Data

References in this Prospectus to "**tonnes**" are to metric tonnes. One metric tonne equals 1,000 kilograms.

For informational purposes only, certain estimates in this Prospectus are presented as follows:

- oil and condensate in barrels and barrels per annum. Barrel figures are converted from the Company's internal records presented in tonnes at a rate of 7.4 barrels ("**barrels**" or "**bbl**") per tonne. Barrel per day figures have been obtained by dividing annual figures by 365; and

- plant products, which include butane, propane, liquefied petroleum gas and liquid hydrocarbons, in barrels. Barrel figures are converted from the Company's internal records presented in tonnes at a rate of 7.4 barrels per tonne. Barrel per day figures have been obtained by dividing annual figures by 365.

For internal record keeping purposes, the Company's information relating to production, transportation and sales of crude oil and gas condensate is recorded in tonnes, a unit of measure that reflects the mass of the relevant hydrocarbon. For convenience, certain information is presented in this Prospectus as both tonnes and in standard 42 U.S.-standard gallon barrels, converted from tonnes as described above. The actual number of barrels of crude oil produced, shipped or sold may vary from the barrel equivalents of crude oil presented herein, as a tonne of heavier crude oil will yield fewer barrels than a tonne of lighter crude oil. The conversion rates for other companies for converting tonnes into barrels and for converting cubic feet into cubic metres ("**m^3**") may be at different rates. Volumes of natural gas are measured in billions of cubic metres ("**bcm**").

The Company uses "**consolidated production**" to refer to production of the Company and its majority-owned subsidiaries (in other words, production from Azneft (as defined below)), and "**total production**" to refer to consolidated production plus production attributable to the Company through joint ventures.

Certain Definitions and Terminology

Certain defined terms are used in this Prospectus. See Appendix I for a glossary of frequently used defined terms. Additionally, see Appendix II for a glossary of measurement and technical terms used in this Prospectus.

Certain Third Party Information

Statistical data and other information appearing in this Prospectus relating to the oil and gas industry in Azerbaijan have, unless otherwise stated, been based on information obtained from the Company's subsidiaries, joint ventures and associates. However, certain information has been extracted from documents and other publications released by third parties, such as the Central Bank of the Republic of Azerbaijan (the "**Central Bank**") and the annual report published by Petkim Petrokimya Holding A.Ş. ("**Petkim**") for the year ended 31 December 2010 (the "**Petkim Annual Report**"). The Petkim Annual Report is not incorporated by reference into this Prospectus. In the case of the presented statistical information, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Any discussion of matters relating to Azerbaijan in this Prospectus is, therefore, subject to uncertainty due to concerns about the completeness or reliability of available official and public information. See "*Risk Factors—Risk Factors Relating to the Republic of Azerbaijan—Official data may be unreliable*".

Although every effort has been made to include in this Prospectus the most reliable and the most consistently presented data, no assurance can be given that such data has been compiled or prepared on a basis consistent with international standards.

The information in this Prospectus obtained from third party sources has been accurately reproduced and, as far as the Company is aware and is able to ascertain from the information published by such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where third-party information has been used in this Prospectus, the source of such information has been identified.

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OVERVIEW OF THE COMPANY

This overview must be read as an introduction to this Prospectus, and any decision to invest in Notes should be based on a consideration of this Prospectus as a whole.

General Description of the Company

The Company is the State Oil Company of Azerbaijan and its capital is wholly-owned by the Republic. It was established by a Presidential Decree in September 1992 and its charter capital is AZN 600 million. As at 31 December 2011 the charter capital of the Group was AZN 1,059 million.

The Company is the national oil and gas company of Azerbaijan with vertically-integrated upstream, midstream and downstream operations located principally in Azerbaijan. The Company also has significant interests in the Azeri-Chirag-Gunashli ("**ACG**") and Shah Deniz production sharing agreements ("**PSAs**") and in several international pipelines, including the Baku-Tblisi-Ceyhan Pipeline (the "**BTC Pipeline**"), the primary export route for oil produced in the ACG fields, and the South Caucasus Pipeline (the "**SCP**"), the primary export route for natural gas produced in the ACG and Shah Deniz fields. In addition, the Company has a controlling interest in Petkim, which is Turkey's sole petrochemical producer. In October 2011, the Company, through its wholly-owned subsidiary STEAS (as defined below), commenced site preparation work for a major new refinery to be located adjacent to Petkim's facilities.

Crude oil has been produced in Azerbaijan since 1847, and the Company controls nearly 20% of Azerbaijan's crude oil production. In addition to its own production, the Company is party to many PSAs with international oil companies, including the ACG PSA and Shah Deniz PSA, each of which relates to fields operated by BP plc ("**BP**") and is further described below. The Company has an 11.65% share in the ACG PSA and a 10% share in the Shah Deniz PSA.

In the six-month periods ended 30 June 2010 and 2011, the Company's total production of crude oil was 4.2 million tonnes; consolidated production (excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) was 3.6 million tonnes. In the year ended 31 December 2010, the Company's total production of crude oil was 8.4 million tonnes; consolidated production was 7.2 million tonnes. The Company's total production of crude oil represented 18.9% of the total crude oil production in Azerbaijan for the six months ended 30 June 2011 and 17.6% of the total crude oil production in Azerbaijan and for the year ended 31 December 2010, based on the Company's estimates. The Company's total historic production of crude oil is over 1.4 billion tonnes.

In the six months ended 30 June 2011, the Company's total production of gas was 3.5 bcm; consolidated production was 3.4 bcm. The Company also received 1.9 bcm of associated gas from the ACG fields at no cost pursuant to the ACG PSA in the six months ended 30 June 2011. In the year ended 31 December 2010, the Company's total production of gas was 7.0 bcm; consolidated production was 6.9 bcm. The Company also received 3.4 bcm of associated gas from ACG in 2010. The Company's total historic production of gas is over 511.5 bcm.

According to estimates prepared by M&L, as at 1 January 2011, the Company's total proved developed producing ("**PDP**") reserves of crude oil were 78.7 million tonnes and its total probable and possible reserves were an additional 29.1 million tonnes. According to estimates prepared by M&L, as at 1 January 2011, the Company's total PDP gas reserves were 31,158 mcm, and its total probable and possible reserves were an additional 4,688 mcm. As a result, according to M&L, the Company's wholly-owned PDP oil reserves represented 9.3 times production levels in 2010 and 4.4 times gas production levels in 2010.

As at 31 December 2010, the ACG fields had estimated recoverable reserves of crude oil of 824 million tonnes and were considered to be the largest oil fields under development in the Azerbaijani sector of the Caspian Sea. In the six months ended 30 June 2011, the ACG fields produced 18.9 million tonnes of crude oil (of which 625,000 tonnes were transferred to the Company under the ACG PSA). The ACG fields produced 40.5 million tonnes in 2010 (of which 1.4 million tonnes was transferred to the Company under the ACG PSA). In the six months ended 30 June 2011, the ACG fields produced 7.3 bcm of associated gas (of which 1.9 bcm was transferred to the Company under the ACG PSA). The ACG fields produced 12.3 bcm of gas in 2010 (of which 3.4 bcm, was transferred to the Company under the ACG PSA).

The Shah Deniz field was discovered in 1999 and is considered one of the world's largest gas condensate fields, with over 1,000 bcm of gas. In the six months ended 30 June 2011, the Shah Deniz field produced 0.8 million tonnes of crude oil (of which 0.1 million tonnes was transferred to the Company under the Shah Deniz PSA). The Shah Deniz field produced 1.8 million tonnes of crude oil in 2010 (of which 0.2 million tonnes was transferred to the Company under the Shah Deniz PSA). In the six months ended 30 June 2011, the Shah Deniz field produced 3.1 bcm of gas (of which 0.2 bcm was transferred to the Company under the Shah Deniz PSA). The Shah Deniz field produced 6.8 bcm of gas in 2010 (of which 0.6 bcm was transferred to the Company under the Shah Deniz PSA).

Most of the oil fields in Azerbaijani territory are in a stage of declining production, although the Company is taking steps to rehabilitate and modernise its fields. As a result, since 2007 the Company has been increasing its focus on natural gas exploration and production. The Company's internal estimates indicate that it has proven reserves of natural gas to supply Azerbaijan at current levels for as much as 150 years, although this estimate has not been independently verified.

Two major gas discoveries were made in the past year. In November 2010 a large gas field in the Umid structure in the Caspian Sea was discovered. Initial estimates suggest that it has reserves of 200 bcm of natural gas and 40 million tonnes of condensate. In August 2011, a large gas field was discovered in the Absheron field in the Caspian Sea. Initial estimates suggest the Absheron field contains reserves of 350 bcm of gas and 45 million tonnes of condensate. Drilling has commenced in both of these fields. The Company also has several other exploration projects at various stages of development.

The Company exported 32.4 million tonnes of crude oil in 2010. Oil exported by the Company is sold at two ports in Georgia and one port in each of Turkey and Russia via tenders and long-term contracts. The Company also conducts sales activities through SOCAR Trading S.A. ("**SOCAR Trading**"), which is 50% owned by the Company.

The Company owns two crude oil refineries in Baku, which are in need of modernisation. The refineries, as well as Azerikimya, the Company's petrochemical producer in Azerbaijan, primarily serve the domestic market. As part of the Company's strategy to consolidate its petrochemical activities and as a result of the fact that these facilities are located in dense urban areas and in need of modernisation, the Company, at the direction of the Government, established an internal working group in 2009 to prepare a feasibility study for a proposed refinery, gas processing and petrochemical complex to be located outside of Baku. A draft feasibility study was completed in July 2011 and the Company submitted it to the Government, along with its recommendations. The estimated cost of the project, as currently contemplated, is up to U.S.$15 billion. If the project is agreed by the Company and the Government substantially as contemplated in the feasibility study, construction is expected to commence in 2013 or 2014, with the first facilities beginning operations by 2018, and completion in 2020, following which the existing facilities, being replaced by the new complex, will be decommissioned. The Company does not yet have an estimate for the costs of decommissioning the existing facilities, but it is expected that the Company will be responsible for financing the decommissioning costs.

The Company owns and operates the domestic oil and gas pipeline networks in Azerbaijan. As at 30 June 2011, the total length of the Company's oil pipeline system was 771 km and the total length of its natural gas pipeline system was 40,800 km. The Company accounted for approximately 72% of Azerbaijan's crude oil exports in 2010, as compared to 67% in 2009 and 62% in 2008. The Company also has interests in other international pipelines, through which it exports oil and gas to several neighbouring countries.

The Company owns and operates an expanding network of gasoline stations in Azerbaijan, Georgia, Romania and Ukraine, and has recently acquired a network of gasoline stations in Switzerland.

The Company's total revenue increased from AZN 2,721 million in the six months ended 30 June 2010 to AZN 3,434 million in the six months ended 30 June 2011, an increase of AZN 713 million, or 26.2%. The Company's profit for these periods increased from AZN 127 million to AZN 671 million, an increase of 428.3%.

The Company's total revenue increased from AZN 4,196 million in the year ended 31 December 2009 to AZN 5,527 million in the year ended 31 December 2010, an increase of AZN 1,331 million, or 31.7%. The Company's profit for the year decreased from AZN 894 million in the year ended 31 December 2009 to AZN 656 million in the year ended 31 December 2010, a decrease of AZN 238 million, or 26.6%.

The Company's total assets were AZN 16,972 million, as at 30 June 2011, AZN 15,727 million, as at 31 December 2010, and AZN 14,834 million, as at 31 December 2009. The Company's total equity was AZN 8,483 million, as at 30 June 2011, AZN 8,160 million, as at 31 December 2010, and AZN 8,041 million, as at 31 December 2009.

Relationship with the Government

Since it is wholly-owned by the state, the Company has a strong relationship with the Government, as a result of which the Government has historically provided significant financial and strategic support. The Government has played an important role in helping the Company expand its operations, reserves, production levels and transportation and refining networks. The Company was the largest contributor to Azerbaijan's government revenue and in the year ended 31 December 2010, paid AZN 1.3 billion in income and other taxes (or 13% of total Government revenue), as well as AZN

200 million in social expenses. In 2009, its revenues amounted to 12.1% of Azerbaijan's gross domestic product and in 2010 its revenues amounted to 12.6% of Azerbaijan's gross domestic product. In addition, the Company is the largest employer in the country, with over 80,000 employees as at 31 December 2010.

Subsidiaries and Divisions

The following table sets forth the Company's principal subsidiaries and divisions, as well as certain joint ventures, their principal lines of operations and certain information related thereto.

Name and Line of Operation	Interest	Description of Operations
	(%)	
Upstream Assets		
Azneft Production Union ("**Azneft**")	100.00	Azneft is engaged in the research, exploration, development and equipping of both offshore and onshore oil and gas fields, the production of oil and gas and maintenance and overhaul repairs of the Company's wells. Azneft comprises 20 enterprises, including the Company's oil and gas production departments. Azneft extracts oil and gas principally from 11 oil and gas fields located in Azerbaijan. As at 31 December 2010, Azneft's reserves constituted 58% of the Company's reserves of crude oil. In the six months ended 30 June 2011, Azneft produced 3,572.7 million tonnes of crude oil (or 85.0% of the total crude oil produced by the Company) and 3,401.1 bcm of gas (or 96.1% of the total gas produced by the Company) and, in the year ended 31 December 2010, Azneft produced 7,279.7 million tonnes of crude oil (or 86% of the total crude oil produced by the Company) and 7,041.1 bcm of gas (or 98% of the total gas produced by the Company). See "*Business—Exploration and Production*".
Azerbaijan (ACG) Limited ("**AzACG**")	100.00	AzACG holds the Company's 11.65% share in the ACG PSA. The ACG fields are operated by BP, which holds a 35.78% share in the ACG PSA. Chevron, Statoil, Inpex, Exxon, TPAO, Itochu and Delta Hess hold the balance of the participating interests in the ACG PSA. See "*Business—Exploration and Production—Significant Production Fields of the Company's Joint Ventures and Associates—Azeri-Chirag-Gunashli fields*".
Azeri-Shah Deniz ("**AzSD**")	100.00	AzSD holds the Company's 10% share in the Shah Deniz PSA. The Shah Deniz field is operated by BP, which holds a 25.5% share, and Statoil, which holds a 25.5% share. Lukoil, NICO, Total and TPAO also hold participating interests in the Shah Deniz PSA. See "*Business—Exploration and Production—Significant Production Fields of the Company's Joint Ventures and Associates—Shah Deniz*".
Geophysics and Geology Department	100.00	The Geophysics and Geology Department's principal operations involve the exploration of oil and gas fields, well logging and engineering geological research works in Azerbaijan. The Department has four units, a scientific-research institute "Azergeophysics" and an *ad hoc* construction bureau for geophysical equipment.
Complex Drilling Works Trust	100.00	The Complex Drilling Works Trust is responsible for drilling in the Company's offshore and onshore oil and gas fields.
Midstream Assets		
Oil Pipelines Department	100.00	The Oil Pipelines Department is responsible for the pipeline transmission of oil to the Company's oil refinery plants. The department operates a network of oil pipelines, of various diameters (from 200 to 700 mm), with an aggregate length of 771 km. It transports oil to the Dubendi Oil Terminal, 14 oil injection stations and oil tank yards with total capacity of 417 mcm. In the six months ended 30 June 2011, the Oil Pipelines Department's pipeline network transported 4.2 million tonnes of crude oil and in the year ended 31 December 2010, the Oil Pipelines Department's pipeline network transported 8.4 million tonnes of crude oil. See "*Business—Transportation—Transportation of Crude Oil*".
AzBTC	100.00	AzBTC holds a 25% share in the Baku-Tbilisi-Ceyhan Pipeline Company, which owns the BTC Pipeline. The remaining 75% of BTC is owned by BP, Chevron, Statoil, Inpex, TPAO, Itochu, Conoco-Philips, Total and ENI. See "*Business—Transportation—Transportation of Crude Oil—BTC Pipeline*".
AzSCP	100.00	AzSCP holds the Company's 10% share in the SCP, which was built mainly to transport gas produced from the Shah Deniz field. See "*Business—Transportation—Transportation and Storage of Gas—South Caucasus Pipeline*".

Name and Line of Operation	Interest	Description of Operations
	(%)	
Downstream Assets		
SOCAR Turkey Enerji A.Ş. ("**STEAS**")	100.00	STEAS owns a petrochemical production facility in Turkey, which is controlled by the Company. STEAS holds a 51% share in Petkim, the only petrochemical producer in Turkey, through its 99.99% subsidiary SOCAR-Turcas Petrokimya A.Ş. ("**SOCAR-Turcas Petro**"). STEAS holds an additional 2.35% share in Petkim directly, and the Company also holds a 4.93% share in Petkim directly. See "*Business—Petkim*". In October 2011, STEAS commenced site preparation work for a major new refinery that is expected to be built at the Petkim site. See "*Business—Petkim—STAR Project*". Prior to December 2011, STEAS was called SOCAR Turcas A.Ş. and was a joint venture between SOCAR and Turcas Energy A.Ş. In December 2011 SOCAR's beneficial holding in STEAS increased from 74.98% to 100% and the subsidiary was renamed to reflect Turcas Energy A.Ş. no longer being involved.
Heydar Aliyev Baku Oil Refinery	100.00	The Heydar Aliyev Baku Oil Refinery is located in Baku. As at 31 December 2010, the refinery had a design capacity of 6.0 million tonnes of crude oil per annum and its actual processing capacity was 4.4 million tonnes of crude oil per annum, or 120,000 bopd. In the six months ended 30 June 2011, it refined 2.2 million tonnes of crude oil and produced 2.1 million tonnes of refined oil products, and, in the year ended 31 December 2010, it refined 4.4 million tonnes of crude oil and produced 4.3 million tonnes of refined oil products "*Business—Refining, Marketing and Trading—Refining Facilities—Heydar Aliyev Baku Oil Refinery*".
Azerneftyag Oil Refinery	100.00	The Azerneftyag Oil Refinery is located in Baku. As at 31 December 2010, the refinery had a design capacity of 10 million tonnes of crude oil per annum and its actual refining capacity was 1.8 million tonnes of crude oil per annum. In the six months ended 30 June 2011, it refined 0.8 million tonnes of crude oil and produced 0.2 million tonnes of refined oil products and in the year ended 31 December 2010, it refined 1.8 million tonnes of crude oil and produced 0.4 million tonnes of refined oil products. See "*Business—Refining, Marketing and Trading—Refining Facilities—Azerneftyag Oil Refinery*".
Azerikimya Production Union ("**Azerikimya**")	100.00	Azerikimya was previously directly owned by the state. In April 2010, the Company acquired 100% of the share capital of Azerikimya from the Government for no consideration. Azerikimya is involved in the production of petrochemicals in Azerbaijan and has three production units, namely Surface-Active Substances, Ethylene-Polythylene and Organic Synthesis. Azerikimya's production activities include the production of high-density polyethylene, purified isopropyl, propylene, heavy tar, propylene oxide and caustic sodium and chloride acids. In the six months ended 30 June 2011, Azerikimya produced 108,600 tonnes of primary refinery petroleum and 12,900 tonnes of gas petroleum mainly for export, and, in the year ended 31 December 2010, Azerikimya produced 203,100 tonnes of crude oil and 16,600 tonnes of gas petroleum mainly for export. See "*Business—Refining, Marketing and Trading—Azerikimya*".
Marketing and Economic Operations Department	100.00	The Marketing and Economic Operations Department's principal operations include the sale of oil, gas, oil products and other products (including industrial services) relating to the oil industry, both in Azerbaijan and abroad. The department manages the sale of hydrocarbons produced by the Company's joint ventures and operating companies. The Marketing and Economic Operations Department exports crude oil for its own account, as well as for that of the State Oil Fund of the Republic of Azerbaijan ("**SOFAZ**") and others. See "*Business—Refining, Marketing and Trading—Sales of Crude Oil*".
Supra Holding	50.00	The Company owns 50% of Supra Holding, which is incorporated in Malta and in turn owns 100% of SOCAR Trading, which is incorporated in Switzerland. SOCAR Trading purchases approximately 60% of the volume of crude oil sold by the Marketing and Economic Operations Department and is able to enter into arrangements common in the industry, including, *inter alia*, hedging, storage and shipping arrangements, that the Marketing and Economic Operations Department does not enter into as a matter of practice. See "*Business—Refining, Marketing and Trading—Sales of Crude Oil*".

Name and Line of Operation	Interest	Description of Operations
	(%)	
Carlina Overseas Corporation ("**Carlina**")	75.50	Carlina is the holding company through which SOCAR acquired the Kulevi Oil Terminal in Georgia, which exports oil principally from Kazakhstan. SOCAR's share in Carlina is held by AzACG. See "*Business—Transportation—Transportation of Crude Oil—Kulevi Oil Terminal*".
Gas Export Department	100.00	The Gas Export Department's principal responsibility is the export of natural gas extracted by the Company's operating companies and joint ventures to foreign markets. It also manages the export of gas from the Company's interests in the ACG fields and Shah Deniz field. The Gas Export Department exported 1.5 bcm of natural gas in each of the six months ended 30 June 2011 and the year ended 31 December 2010. See "*Business—Refining, Marketing and Trading—Sales of Natural Gas*".

Overview of Financial Information and Operating Data

The financial information of the Company set forth below as at and for the years ended 31 December 2010, 31 December 2009 and 31 December 2008 and as at and for the six months ended 30 June 2011 and 30 June 2010 has been extracted from, should be read in conjunction with, and is qualified in its entirety by, the Financial Statements, including the notes thereto, contained elsewhere in this Prospectus.

Certain financial data as at and for the year ended 31 December 2009 have been restated in the 2010 Financial Statements. Accordingly, these comparative data differ in certain respects from the corresponding data set out in the 2009 Financial Statements. Investors should be aware that the financial data for the Company set out in this Prospectus as at and for the year ended 31 December 2009 are taken from the 2010 Financial Statements. See "Presentation of Financial, Reserves and Certain Other Information—Reclassifications" *and Note 2 to the 2010 Financial Statements.*

Prospective investors should read the selected financial and other information in conjunction with the information contained in the "Risk Factors", "Capitalisation", "Management's Discussion and Analysis of Results of Operations and Financial Performance", "Business" *and the Financial Statements, including the notes thereto, and other financial data appearing elsewhere in this Prospectus.*

Consolidated Balance Sheet Data

	As at 30 June			As at 31 December			Change between 30 June 2011 and 31 December 2010	Change between 31 December 2010 and 2009
	2011[1] (unaudited)	2011 (unaudited)	2010[2] (unaudited)	2010	2009	2008		
	(U.S.$ millions)	*(AZN millions)*	*(U.S.$ millions)*		*(AZN millions)*		*(%)*	
ASSETS								
Current assets								
Cash and cash equivalents	1,738	1,367	1,253	1,000	774	520	36.7	29.3
Restricted cash	76	60	775	618	54	98	(90.5)	1,044.4
Trade and other receivables	3,682	2,897	3,015	2,406	2,111	1,667	20.4	14.0
Corporate income tax prepayments	28	22	34	27	29	12	(18.5)	(6.9)
Inventories	1,080	850	1,014	809	707	601	5.1	14.3
Other current financial assets	14	11	15	12	7	—	(8.3)	71.5
Total current assets	6,619	5,207	6,105	4,871	3,682	2,897	6.9	32.3
Non-current assets								
Property, plant and equipment	10,906	8,580	10,333	8,245	7,947	6,974	4.1	3.8
Goodwill	150	118	154	123	107	83	(4.1)	15.0
Intangible assets other than goodwill	595	468	627	500	521	511	(6.3)	(4.1)
Investments in jointly-controlled entities	491	386	333	266	103	114	45.1	158.3
Investments in associates	493	388	440	351	315	293	10.5	11.3
Loans receivable from jointly-controlled entities	189	149	330	263	312	302	(43.3)	(15.7)
Deposits	1,215	956	500	399	873	534	139.0	(54.3)
VAT receivable	—	—	—	—	—	26.8	—	—
Deferred tax asset	613	482	513	409	646	659	17.8	(36.7)
Other long-term financial assets	93	73	99	79	74	—	(7.6)	6.9
Other long-term assets	209	164	277	221	254	128	(25.8)	(13.0)
Total non-current assets	14,955	11,765	13,606	10,856	11,152	9,624	8.3	(2.7)
TOTAL ASSETS	**21,574**	**16,972**	**19,710**	**15,727**	**14,834**	**12,521**	**7.9**	**6.0**

	As at 30 June		As at 31 December				Change between 30 June 2011 and 31 December 2010	Change between 31 December 2010 and 2009
	2011[(1)] (unaudited)	2011 (unaudited)	2010[(2)] (unaudited)	2010	2009	2008		
	(U.S.$ millions)	*(AZN millions)*	*(U.S.$ millions)*		*(AZN millions)*		*(%)*	
EQUITY								
Charter capital	1,105	869	793	633	623	423	37.3	1.6
Additional paid-in capital	—	—	297	237	—	—	(100)	—
Retained earnings	9,021	7,097	8,387	6,692	6,779	6,432	6.1	(1.3)
Cumulative currency translation differences	(172)	(135)	(132)	(105)	(143)	(116)	28.6	(26.6)
Equity attributable to equity holders of the Company	**9,954**	**7,831**	**9,345**	**7,456**	**7,258**	**6,739**	**5.0**	**2.7**
Non-controlling interest	829	652	882	704	783	747	(7.4)	(10.0)
TOTAL EQUITY	**10,783**	**8,483**	**10,227**	**8,160**	**8,041**	**7,486**	**4.0**	**1.5**
LIABILITIES								
Current liabilities								
Trade and other payables	3,546	2,790	3,066	2,446	2,088	1,145	14.1	17.2
Short-term and current portion of long-term borrowings	639	503	1,250	997	388	408	(49.5)	157.0
Corporate income tax payable	290	228	114	91	103	153	150.5	(11.7)
Other taxes payable	336	264	238	190	187	213	38.9	1.6
Other provisions for liabilities and charges	248	195	249	199	102	156	(2.0)	95.1
Deferred acquisition consideration payable	—	—	342	273	37	—	(100.0)	637.8
Total current liabilities	5,059	3,980	5,259	4,196	2,905	2,075	(5.1)	(44.4)
Non-current liabilities								
Long-term borrowings	3,942	3,101	2,586	2,063	2,464	1,703	50.3	(16.3)
Deferred acquisition consideration payable	—	—	—	—	272	308	—	(100)
Asset retirement obligations	526	414	407	325	171	86	27.4	90.1
Other provisions for liabilities and charges	402	316	353	282	357	347	12.0	(21.0)
Deferred income	126	99	127	101	106	—	(2.0)	(4.7)
Deferred tax liability	630	496	638	509	478	479	(2.6)	6.5
Other non-current liabilities	106	83	114	91	41	37	(8.8)	122.0
Total non-current liabilities	5,730	4,508	4,225	3,371	3,888	2,960	33.7	(13.3)
TOTAL LIABILITIES	**10,789**	**8,488**	**9,484**	**7,567**	**6,793**	**5,035**	**12.2**	**11.4**
TOTAL EQUITY AND LIABILITIES	**21,574**	**16,972**	**19,710**	**15,727**	**14,834**	**12,521**	**7.9**	**6.0**

Notes:

(1) For convenience, these figures have been translated into U.S.$ at the AZN/U.S.$ exchange rate published by the Central Bank as at 30 June 2011, which was AZN 0.7867 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the AZN amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) For convenience, these figures have been translated into U.S.$ at the AZN/U.S.$ exchange rate published by the Central Bank as at 30 December 2010, which was AZN 0.7979 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the AZN amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

Consolidated Statement of Comprehensive Income

	As at 30 June			As at 31 December				Change between the six months ended 30 June 2011 and 2010	Change between 31 December 2010 and 2009
	2011[1] (unaudited)	2011 (unaudited)	2010 (unaudited)	2010[2] (unaudited)	2010	2009	2008		
	(U.S.$ millions)	*(AZN millions)*		*(U.S.$ millions)*	*(AZN millions)*			*(%)*	
Revenue	4,332	3,434	2,721	6,886	5,527	4,196	4,711	26.2	31.7
Cost of Sales	(2,667)	(2,114)	(1,899)	(4,103)	(3,293)	(2,078)	(2,907)	11.3	58.5
Gross Profit	**1,665**	**1,320**	**822**	**2,783**	**2,234**	**2,118**	**1,804**	**60.6**	**5.5**
Distribution expenses	(145)	(115)	(96)	(247)	(198)	(155)	(135)	20.0	27.6
General and administrative expenses	(182)	(144)	(162)	(378)	(303)	(230)	(185)	(11.4)	31.7
Losses on disposal of property, plant and expenses	(11)	(9)	(23)	(30)	(24)	(9)	(72)	(60.9)	166.7
Social expenses	(83)	(66)	(60)	(249)	(200)	(159)	(273)	10.0	25.8
Exploration and evaluation expenses	(14)	(11)	(18)	(9)	(7)	(11)	(7)	(38.9)	(36.4)
Research and development	(5)	(4)	(7)	(27)	(22)	(15)	(4)	(42.9)	46.7
Other operating expenses	(143)	(113)	(77)	(406)	(326)	(314)	(108)	46.9	3.9
Other operating income	95	76	143	223	179	205	222	(46.9)	(12.8)
Operating Profit	**1,178**	**934**	**523**	**1,661**	**1,333**	**1,429**	**1,242**	**78.7**	**6.7**
Finance income	43	34	30	83	67	68	56	13.0	(1.5)
Finance costs	(111)	(88)	(104)	(218)	(175)	(163)	(148)	(15.6)	7.3
Foreign exchange losses, net	(119)	(94)	(104)	(115)	(92)	(1)	(408)	(9.6)	9,100.0
Share of result of jointly-controlled entities	8	6	(1)	7	6	(13)	2	(700.0)	(146.2)
Share of result of associates	78	62	63	123	99	90	71	(1.9)	10.0
Loss on disposal of joint ventures and associates	—	—	—	(1)	(1)	(40)	0	0	(97.5)
Profit before income tax	**1,076**	**853**	**407**	**1,542**	**1,238**	**1,369**	**815**	**109.3**	**(9.6)**
Income tax expense	(230)	(182)	(280)	(725)	(582)	(476)	(328)	(35.0)	22.4
Profit for the period	**846**	**671**	**127**	**817**	**656**	**894**	**487**	428.3	**(26.6)**
Currency translation differences	(78)	(62)	(25)	(20)	(16)	(18)	(334)	148.0	(11.1)
Total comprehensive income for the year	**767**	**608**	**102**	**796**	**639**	**876**	**153**	**496.1**	**(27.1)**
Profit attributable to:									
Equity holder of the Company	888	704	154	836	671	890	734	357.1	(24.6)
Non-controlling interest	(42)	(33)	(27)	(19)	(15)	3	(247)	22.2	(600.0)
Total comprehensive income attributable to:									
Equity holder of the Company	849	673	168	883	709	863	653	300.6	(17.8)
Non-controlling interest	(82)	(65)	(66)	(87)	(70)	13	(500)	(1.5)	(638.5)

Notes:

(1) For convenience, these figures have been translated into U.S.$ at the average AZN/U.S.$ exchange rate published by the Central Bank for the first six months of 2011, which was AZN 0.7927 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the AZN amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) For convenience, these figures have been translated into U.S.$ at the average AZN/U.S.$ exchange rate published by the Central Bank for 2010, which was AZN 0.8026 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the AZN amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

Key Financial Ratios

The following table sets forth key financial ratios used by the Company's management in assessing the Company's performance. The financial ratios set forth in this table reflect the operations of the Company.

	As at and for the six months 30 June		As at end for the year ended 31 December	
	2011 (unaudited)	2010 (unaudited)	2010	2009
		AZN millions		
EBIT[(1)]	1,001	586	1,438	1,466
EBITDA[(2)]	1,498	1,124	2,175	1,788
Debt (including current portion) [(3)]	3,604	2,965	3,060	2,852
Equity[(4)]	8,483	7,707	8,160	8,041
Capitalisation[(5)]	12,088	10,672	11,220	10,893
Net capitalisation[(6)]	10,720	9,836	10,220	10,120
Net debt[(7)]	2,237	2,129	2,060	2,078
Debt/EBITDA	2.41	2.64	1.41	1.59
Net debt/Net capitalisation	0.21	0.22	0.20	0.21
Debt/Equity	0.42	0.38	0.37	0.35
Current liquidity[(8)]	1.31	1.17	1.16	1.27
EBIT/Interest expenses	15.18	7.19	11.71	12.48

Notes:

(1) The Company calculates EBIT for any relevant period as profit before income tax for such period plus finance cost, net for such period.

(2) EBITDA, for any relevant period, is EBIT for such period plus depreciation, depletion and amortisation and impairment for property, plant and equipment and accounts receivable for such period.

(3) Debt is current portion of the borrowings plus non-current portion of the borrowings as at 30 June or 31 December of the relevant period.

(4) Equity is the total equity as at 30 June or 31 December of the relevant period.

(5) Capitalisation is debt plus equity as at 30 June or 31 December of the relevant period.

(6) Net capitalisation is net debt plus equity as at 30 June or 31 December of the relevant period.

(7) Net debt is debt minus cash and cash equivalents as at 30 June or 31 December of the relevant period.

(8) Current liquidity is current assets as at 30 June or 31 December of the relevant period divided by current liabilities as at 30 June or 31 December of the relevant period.

THE NOTES

Issuer	State Oil Company of the Azerbaijan Republic
Joint Lead Managers	Citigroup Global Markets Limited, Deutsche Bank AG, London Branch and The Royal Bank of Scotland plc
Co-Managers	Nomura International plc and Société Générale
Trustee	Deutsche Trustee Company Limited
Principal Paying and Transfer Agent	Deutsche Bank AG, London Branch
Registrar	Deutsche Bank Luxembourg S.A.
The Issue	U.S.$500,000,000 5.45% Senior Unsecured Notes due 2017.
Issue Price	100% of the principal amount of the Notes.
Issue Date	9 February 2012.
Maturity Date	9 February 2017.
Interest Rate	The Notes will bear interest at the rate of 5.45% per annum from and including 9 February 2012 to but excluding the Maturity Date. See "*Terms and Conditions of the Notes—Condition 7. Interest*".
Yield	5.45%. The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.
Interest Payment Dates	Interest will be payable semi-annually in arrear on 9 February and 9 August in each year, commencing on 9 August 2012.
Ranking	The Notes constitute direct, general, unconditional, unsubordinated and (subject to Condition 6) unsecured obligations of the Issuer. The Notes will at all times rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsecured obligations of the Issuer. See "*Terms and Conditions of the Notes—Condition 5. Status*".
Cross-Default	The Notes will have the benefit of a cross-default clause. See "*Terms and Conditions of the Notes—Condition 12(c). Cross-default*".
Negative Pledge	The Notes will have the benefit of a negative pledge. See "*Terms and Conditions of the Notes—Condition 6(c). Limitations on Indebtedness; Negative Pledge*".

Covenants	The Notes will have the benefit of the following covenants: (i) limitation on distributions of net income; (ii) limitation on disposals of Core Assets; (iii) negative pledge; (iv) minimum tangible net worth; (v) financial information; (vi) maintenance of authorisations; (vii) mergers and consolidations; and (viii) officers' certificates. See "*Terms and Conditions of the Notes—Condition 6. Covenants*".
Put Option upon a Change of Status	Notes may also be redeemed at the option of the Noteholders upon the occurrence of a Change of Status. See "*Terms and Conditions of the Notes—Condition 9(c). Redemption Upon a Change of Status*".
Tax Redemption	The Issuer may at its option redeem the Notes, in whole but not in part, at their principal amount plus accrued interest in the event of certain changes affecting taxation in Azerbaijan. See "*Terms and Conditions of the Notes—Condition 9(b). Redemption for Taxation Reasons*".
Use of Proceeds	The net proceeds of the offering of the Notes will be used to partially fund the Company's upstream and downstream activities. See "*Use of Proceeds*".
Form of the Notes	The Notes will be issued in registered form in minimum denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. The Notes will be represented by the Global Certificate which will be registered in the name of BT Globenet Nominees Limited, as nominee for, and deposited with, a common depositary for Euroclear and Clearstream, Luxembourg on or around the Closing Date. Definitive Note Certificates evidencing holdings of Notes will be available only in certain limited circumstances. See "*Summary of Provisions Relating to the Notes in Global Form*".
Listing and Clearing	Application has been made to list the Notes on the London Stock Exchange. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg with the following ISIN and Common Code: ISIN: XS0744126961 Common Code: 074412696
Governing Law	The Notes, including any non-contractual obligations arising out of or in connection with the Notes, will be governed by, and shall be construed in accordance with, English law. See "*Terms and Conditions of the Notes—Condition 19. Governing Law; Jurisdiction and Arbitration*".
Selling Restrictions	The offering and sale of Notes is subject to applicable laws and regulations including, without limitation, those of the United States, the United Kingdom and Azerbaijan. See "*Subscription and Sale*".

Ratings... The Notes are expected to be rated BBB- by Fitch and Ba1 by Moody's. The Issuer's current long term rating by Fitch is BBB- (outlook stable), by S&P is BB+ (outlook stable) and by Moody's is Ba1 (outlook stable).

A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Risk Factors... Investing in the Notes involves a high degree of risk.

See "*Risk Factors*".

RISK FACTORS

The Company believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies, which may or may not occur, and the Company is not in a position to express a view on the likelihood of any such contingency occurring. In addition, factors that the Company believes are material for the purpose of assessing the market risks associated with the Notes are also described below.

The Company believes that the factors described below represent the principal risks inherent in investing in the Notes, but the inability of the Company to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and the Company does not represent that the statements below regarding the risks of holding the Notes are exhaustive. Additional risks and uncertainties not presently known to the Company or those that the Company currently considers to be immaterial may also have an adverse effect on the Company. Prospective investors should make such inquiries as they deem appropriate in connection with the Notes, read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Risk Factors Relating to the Company's Business

The Company's revenue and net profits fluctuate significantly with changes in crude oil prices, which are historically volatile and are affected by a variety of factors beyond the Company's control.

Crude oil sales are a significant source of the Company's revenue, and the price of crude oil is affected by a variety of factors beyond the Company's control. World prices for crude oil are characterised by significant fluctuations that are determined by the global balance of supply and demand, which is entirely outside of the Company's control. The Company's revenue and net income fluctuate significantly with changes in crude oil prices. Crude oil prices have been particularly volatile in recent years, reaching a peak in July 2008 and then sharply falling in the second half of 2008, and remaining low during the first half of 2009, before beginning to recover in the second half of 2009. Crude oil prices also declined in mid-2010 before recovering later in the year and into 2011. According to the U.S. Energy Information Agency (the "**EIA**"), the average monthly price for Brent crude oil in December 2008 was U.S.$40/bbl, a decrease of about 70% from U.S.$133/bbl in July 2008. While oil prices have increased overall in 2011 to a maximum of U.S.$122/bbl in April 2011, a 31.1% increase from prices in December 2010, as at the date of this Prospectus, the price of crude oil remains below the record high prices. As at 26 January 2012, the price for Brent crude oil was U.S.$110/bbl. There can be no assurance as to the level of oil prices that will be maintained in the future.

The Company's profitability derived from crude oil sales is determined in large part by the difference between the income received for the crude oil the Company produces and receives under PSAs and its operating costs, as well as costs incurred in transporting and selling its crude oil. Therefore, lower crude oil prices may reduce the amount of crude oil that the Company is able to produce economically or may reduce the economic viability of the production levels of specific wells or of projects planned or in development because production costs would exceed anticipated income from such production. For example, the sharp decline in oil prices in the second half of 2008 and continued depressed oil prices in the first half of 2009 had an adverse impact on the Company's revenue for 2008 and 2009. While oil prices have recovered to an extent as compared to price levels in 2008, there can be no assurance that the Company will continue to receive (or better) the improved prices per barrel for crude oil it currently receives. Any further declines (even relatively modest declines) in oil prices or any resulting curtailment in the Company's overall production volumes may result in a reduction in net income, impair the Company's ability to make planned capital expenditures or to incur costs necessary for the development of the Company's fields and may materially adversely affect the Company's business, prospects, financial condition, cash flows or results of operations.

Prices for crude oil are subject to large fluctuations in response to a variety of factors beyond the Company's control, including:

- global and regional supply and demand, and expectations regarding future supply and demand, for crude oil and petroleum products;
- the impact of recessionary economic conditions on the Company's customers, including reductions in demand for gas and oil products;
- global and regional socioeconomic and political conditions and military developments, particularly in the Middle East and other oil-producing regions;
- weather conditions and natural disasters;

- access to pipelines, railways and other means of transporting crude oil, gas and petroleum products;
- prices and availability of alternative fuels;
- the ability of the members of the Organisation of Petroleum Exporting Countries ("**OPEC**"), and other crude oil producing nations, to set and maintain specified levels of production and prices;
- Azerbaijan and foreign governmental regulations and actions, including export restrictions and taxes; and
- market uncertainty and speculative activities.

As a result of the foregoing, and other factors, lower oil prices would have a material adverse effect on the Company's business prospects, financial condition, cash flows or results of operations.

The Government, which directly controls the Company, may cause the Company to engage in business practices that may not be in the interests of the Noteholders and may cause the appointment or removal of members of the Company's management team.

The Company was established as the state oil and gas company of Azerbaijan. The Company is wholly-owned by the state and is controlled by the Government. There can be no assurance that the Government will not cause the Company to engage in business practices that may materially affect the Company's ability to operate on a commercial basis or in a way that is consistent with the best interests of the Noteholders. As has been the case in the past with the Company and other state-owned companies, the Government has caused and may continue to cause the Company to sell oil, gas and other products at below market prices by regulation or otherwise, engage in activities outside of its core activities or acquire assets other than on an arm's length basis. Furthermore, the Government could claim title to the Company's interests in future projects, acquisitions or discoveries. The Government has also imposed and may continue to impose social duties on the Company, such as constructing social and recreational infrastructure, engaging in charitable activities and implementing community development programmes, which could be a significant drain on the Company's profits.

Further, the President of the Republic has the power to appoint and remove the President and vice-presidents of the Company. The president of SOCAR and one other member of the Group's senior management team are members of the Parliament of the Republic. There can be no assurance that the President of the Republic will not make material management changes at the Company, which could be disruptive to the Company's operations.

The Government has, and may in the future, cause the Company to acquire unprofitable businesses.

In order to consolidate its oil and gas holdings and improve efficiencies, the Government has in the past, and may in the future, cause the Company to acquire unprofitable businesses. For example, pursuant to a Presidential Decree, the Company acquired Azerikimya from the Government in 2010. At the time of acquisition, Azerikimya was not profitable and had a negative net asset value. Future similar acquisitions may have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

The Government has imposed regulations and other requirements requiring the Company to sell oil, oil products and gas in the domestic market at below market prices.

The Tariff Council of the Republic of Azerbaijan (the "**Tariff Council**") has the authority to regulate many of the Company's products and services, including, *inter alia*, the domestic wholesale and retail prices of oil, oil products and gas, and tariffs for services on transportation of oil through main trunk pipelines, transportation of gas through pipelines and storage and distribution of natural gas. The prices and tariffs for these goods and services have been imposed by the Tariff Council. See "*Regulation of the Oil and Gas Sector in Azerbaijan—Other regulatory requirements—Price regulation*". Furthermore, as a company with a dominant position in certain commodity markets, the Company is precluded from reducing or suspending production of minimum volumes of some of its products and services in order to ensure that domestic demand is met. As a result, the Company is not permitted either to raise or otherwise alter its prices, which are below international market prices, or reduce the supplies of certain products that it makes available on the domestic market. As a result of these requirements, the Company is effectively subsidising the domestic energy market, which, in turn, reduces its profitability. If these requirements are increased (or not altered as the domestic inflationary and economic environments change), it would have a material, adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

Oil and gas transportation tariff levels are outside of the Company's control.

In addition to being subject to regulation by the Tariff Council, the Company's tariffs for oil and natural gas transportation are subject to international treaty and other inter-governmental agreements and, as a result, may be set at levels other than market rates. For example, a treaty signed on 18 January 1996 with Russia sets the tariff for delivery of crude oil to Novorossiysk at U.S.$15.67 per tonne. No assurance can be given that any actions of the Government or other governments and parties in setting oil and gas transportation tariffs at other than market rates will not have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

The Company relies heavily on oil and gas transportation systems operated by third parties to transport its products and its customers' products to markets outside Azerbaijan.

Azerbaijan's crude oil and gas for export is transported primarily through pipelines, and also by rail and sea, using routes through other countries. The Company currently primarily exports its crude oil through the BTC Pipeline and, to a lesser extent, through the WRE Pipeline and NRE Pipeline (all as defined below). It also exports oil by rail to Black Sea ports in Georgia for shipment to Europe. In addition, refined oil products shipped for consumption in the domestic Georgian market are shipped exclusively by railway to Georgia pursuant to a contract with Azerbaijan Railways. The Company currently transports gas produced domestically to Turkey, Russia and Georgia via the SCP and other pipelines. Consequently, the Company is largely dependent upon the intergovernmental agreements between Azerbaijan and Georgia, Turkey and other countries to transport its oil and gas abroad.

Although failures and shutdowns of the pipeline systems (such as the brief shutdown of pipelines in Georgia during Georgia's 2008 conflict with Russia) to date have not resulted in the Company suffering significant losses, any reduction or cessation in the availability of these pipelines, whether due to maintenance breakdowns, security issues, political developments or natural disasters, among other things, would materially adversely affect exports, which, in turn, would have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

Many of the Company's transportation and refining facilities were constructed many years ago and may require significant further investment.

The Company's transportation and refining facilities largely rely on relatively old infrastructure, and any breakdown or failure of such infrastructure could materially adversely affect the Company's activities.

The natural gas transportation systems operated by the Company, including the pipelines and compressor stations, were initially constructed over 50 years ago. Most of the pipelines in current use are over ten years old, with some parts of the pipeline more than 30 years old. Considerable sums of money have been invested by the Company to overhaul and improve the pipeline network and compressor stations to bring them into compliance with internationally-accepted standards. While recently there have been no significant delays or curtailments in the supply of natural gas to the Company's customers, there can be no assurance that such delays or curtailments will not occur in the future due to stress or corrosion of pipelines, defective construction of compressor stations, problems associated with the climate, or insufficient maintenance or refurbishment of the network. The Company has, on a small number of occasions, experienced power outages at its fields. Any problem or adverse change affecting the power supply for the Company's operations or other operational infrastructure provided by third parties could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

The Heydar Aliyev Baku Oil Refinery and Azerneftyag Oil Refinery in Azerbaijan were constructed in 1953 and 1881, respectively. The Heydar Aliyev Baku Oil Refinery and Azerneftyag Oil Refinery only operate at slightly above the break-even point, and the low utilisation rates primarily result from plant and equipment constraints. See "*Business—Refining, Marketing and Trading—Refining Facilities*". The Government has stated its intention to build a new refinery to replace the existing refineries, both of which are located in central Baku. There can be no assurance, however, that a new refinery will be built and, if built, what the economic effect of such refinery will be on the Company. In addition, it is not yet known who would own or operate the refinery.

The Company's transportation operations may also be adversely affected by, among other things, the breakdown or failure of equipment or processes leading to performance below expected levels of output or efficiency. A large number of the Company's facilities and large segments of its networks are located in areas that occasionally experience severe weather conditions, which can accelerate wear and tear on pipelines and related equipment. Weather conditions and the remoteness of certain of the Company's facilities can make it difficult to gain access to conduct repair or maintenance quickly.

A significant portion of the Company's production operations are offshore in the Caspian Sea.

Because of the remote location of many of the Company's operations, in particular those offshore in the Caspian Sea, the Company generally does not have ready access to equipment or facilities to address problems such as, *inter alia*, equipment breakdown or failures and delays may occur in accessing required materials or supplies in order to carry out necessary repairs or maintenance. In addition, equipment breakdown or failures affecting certain key parts of the Company's facilities, such as the Company's transportation operations and the interface between the field gathering systems and its processing facilities, might affect the Company's ability to use its facilities and substantially curtail or stop production.

The remote location of many of the Company's offshore operations also makes its assets and infrastructure susceptible to natural disasters. In addition, political unrest or military actions may limit the Company's ability to use certain of its assets. Because of the remote location of many of the Company's offshore operations, the Company may not be able to immediately respond to or repair damage resulting from such acts. Should any of these events occur, it could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

The vast majority of the Company's oil reserves are located in the Caspian Sea, which is divided amongst five littoral states and negotiations on the division of the Caspian Sea may cause tensions with Azerbaijan's neighbouring countries.

A significant portion of the Company's oil reserves are located offshore in the Caspian Sea. The Caspian Sea was divided, under the Russo-Persian Treaty of Friendship in 1921, into Iranian and Soviet zones by drawing a boundary line across the sea between Astara and Husseingholi. The Soviet sector was further divided utilising the median line principle, which extended an equal distance from the coasts of the former socialist republics (now Azerbaijan, Kazakhstan, Russia, and Turkmenistan) to the centre of the sea until the boundaries met. Since the dissolution of the Soviet Union, the international legal status of the Caspian Sea has remained uncertain and is currently the subject of international negotiations amongst the five littoral states, including the Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan.

Although Azerbaijan has signed bilateral agreements on the division of the Caspian Sea with both Kazakhstan and Russia, tensions amongst neighbouring states have not been resolved by any multilateral regime for the seabed as a whole. The third summit of the Caspian heads of states was held in Baku in November 2010. However no treaty was drafted and negotiations continued. The latest meeting of the working group, in April 2011, failed to produce a draft convention. It is expected that an agreement will be signed in the future dividing the Caspian Sea along national lines. Any agreement that results in an unfavourable division of the Caspian Sea for Azerbaijan may cause the country's oil reserves to be reduced and result in additional tensions in the region. The occurrence of either of the aforementioned events could have a material adverse effect on the Azerbaijani economy and on the Company's business, prospects, financial condition, cash flows or results of operations.

The Company conducts several of its significant operations through jointly-controlled entities in which it has a non-controlling interest.

The Company directly or through its subsidiaries is party to several jointly-controlled entities and agreements, some of which contribute a significant part of the Company's current and prospective cash flows, in particular ACG and Shah Deniz. The Company may in the future enter into additional jointly-controlled entities and agreements as a means of conducting its business. Although it has a considerable degree of influence, the Company does not and cannot control the operations or the assets of these entities, nor can it unilaterally make major decisions with respect to such entities. This lack of control constrains the Company's ability to cause such entities to take action that would be in the best interests of the Company or refrain from taking actions that would be adverse to the interests of the Company.

The Company's business requires significant capital expenditures, and the Company may be unable to finance some or all of its planned capital expenditures.

The Company's business requires significant capital expenditures related to exploration and development, production, transportation, refining and trading and compliance with environmental laws and regulations. Although in 2009 the Company reduced its overall capital expenditures programme in response to the global financial crisis and lower crude oil prices on the international markets, the Company returned to higher historical levels of capital spending and investment in 2010 and 2011. The Company funds, and expects to fund in the future, a substantial part of its capital expenditures out of net cash provided by its operating activities.

The Company has plans for a number of significant projects, including new refineries, fertiliser plants and petrochemical facilities, as well as modernisation works for its existing facilities. The source of funding for these projects has not yet been determined. Although the Company expects significant contributions from the Government, there is no assurance that such Government support will be forthcoming or on terms favourable to the Company. If such support does not materialise, the Company could have difficult financing, completing or operating any or all of its projects. In addition, while the Company has estimates for the costs of each project, these estimates are preliminary and subject to substantial revision due to potential inadequate provisions and contingencies, as well as errors in the Company's estimation of the costs or to factors outside of the Company's control, such as, *inter alia,* requirements of the Government, availability of construction materials and contractors, changes in oil prices and foreign currency exchange rates and delays. If costs are greater than expected or budgeted for, it is not known who will fund such costs, but the Company may be responsible for some or all of such costs.

In addition, if international oil prices decrease, the Company may have to finance more of its planned capital expenditures from outside sources, including bank borrowings and offerings of debt securities in the domestic and international capital markets. The Company may be unable to raise or may be prevented from raising the financing required for its future capital expenditures, on a secured basis or otherwise, on acceptable terms or at all. Lack of sufficient funds in the future may require the Company to delay or terminate some of its anticipated projects. Although the Company may also seek financing from the Government, through capital increases or otherwise, the Company can give no assurance that it will be able to receive additional financing from the Government on acceptable terms or at all.

If the Company is unable to raise necessary financing either from the Government, banks or the capital markets, it will have to reduce planned capital expenditures and downsize, curtail or abandon certain projects, which could have a material adverse effect on its business, prospects, financial condition, cash flows or results of operations. In such circumstances, any such reduction in capital expenditures could adversely affect the Company's ability to expand its business, and if the reductions are severe enough, could adversely affect its ability to maintain its operations at current levels.

Sustained periods of high inflation could adversely affect the Company's business.

The Company's operations are located principally in Azerbaijan and the majority of the Company's costs are incurred in Azerbaijan. Since the majority of the Company's expenses are denominated in Manat, inflationary pressures in Azerbaijan are a significant factor affecting the Company's expenses. For example, employee and contractor wages, consumable prices and energy costs have been, and are likely to continue to be, particularly sensitive to monetary inflation in Azerbaijan. In a low oil price environment, the Company may not be able to sufficiently increase the prices that it receives from the sale of crude oil, gas and oil products in order to preserve existing operating margins, particularly in the case of the Company's domestic sales, which could have a material adverse effect on its business, prospects, financial condition, cash flows or results of operations.

Weaknesses in the Company's accounting systems and internal controls may adversely affect its ability to comply with financial reporting under IFRS.

The Company's growth in recent years and its strategy for continued growth, together with its transition to IFRS, which was completed in 2008, has placed a strain on accounting personnel and may make it more difficult for the Company to remedy any material weaknesses in the internal controls over the Company's preparation of its future financial statements in accordance with IFRS, prevent future material weaknesses or prepare financial statements on a timely basis. In particular, the Company has experienced issues with its IT system, inventory, valuations of material assets and accounting of internal transactions between units within the Company. If the Company is unable to remedy any material weaknesses or prevent future material weaknesses, it may not be able to prevent or detect a material misstatement in its annual or interim IFRS consolidated financial statements in the future. This could delay the Company's preparation of timely and reliable interim and annual consolidated financial statements, distort its operating results and cause investors to lose confidence in its reported financial information. Notwithstanding these deficiencies, the Company believes that its financial systems are sufficient to ensure compliance with the requirements of the UKLA's Disclosure and Transparency Rules as a listed entity. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Issuer or the Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

Legal provisions currently believed to be inapplicable to the Company may, in the future, be deemed applicable to the Company.

The Company was established by a Presidential Decree, and its activities are currently conducted under the authority of various Presidential Decrees. It is currently believed that a variety of other laws and regulations that may, on their face, appear to apply to the Company do not, in fact, apply to the Company as a result of its special status and authorities granted by Presidential Decree and in the absence of implementing legislation for certain laws. See "*Regulation of the Oil and Gas Sector in Azerbaijan—Applicability of licensing and permit requirements to SOCAR—Provisions not currently applicable to SOCAR*". There can be no assurance, however, that this position will not change, and the

Company cannot predict what, if any, impact such change would have on it. Any additional regulatory and compliance obligations on the Company may have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

The regulatory regime in Azerbaijan is underdeveloped.

Government regulation of the oil and gas industry is underdeveloped and not consistently applied. For example, Law № 439-IQ of the Republic of Azerbaijan on Subsoil (the "**Subsoil Law**"), which was enacted in 1998, has not been implemented in relation to the oil and gas sector. In addition, the Company has a privileged position under Azerbaijani law and is thus currently exempt from certain licensing, regulatory and other requirements. See "*Regulation of the Oil and Gas Sector in Azerbaijan*". If the regulatory regime is further developed or if requirements currently not applicable to the Company are made applicable to the Company, the Company could face higher compliance and other costs, which could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

The Company's operations subject it to developing and uncertain environmental and operational health and safety regulations, non-compliance with which could result in severe fines and suspension or permanent shut down of activities.

The Company's operations are subject to the environmental risks inherent in oil and gas exploration, production, transportation and refining. There are environmental issues with current and past sites of operations caused by the Company and its predecessors. The Company's primary environmental liabilities currently result from land contamination, gas flaring, the disposal of waste water and oil spills. The Company is not able to quantify these liabilities.

Although the level of pollution and potential clean up is difficult to assess, the Company, like most other oil and gas companies operating in the Commonwealth of Independent States ("**CIS**"), is burdened with a Soviet-era legacy of environmental mismanagement. There are problems relating to the maturity of fields at past production sites, some of which have been exploited for more than 150 years. Poor environmental awareness in the past allowed a number of incidents of oil leaks due to pipeline failures. Temporary reservoirs for the storage of drilling mud, liquid waste and oil were not repaired or disposed of properly causing severe pollution of several regions, including in Baku, Absheron, Salyan, Shirvan, Muradkhanli and Neftchala. In total, an area of 100 km^2 is polluted by hydrocarbon waste products in these six regions. The potential cost of the clean up has not yet been assessed.

The legal framework in Azerbaijan for environmental protection and operational health and safety is underdeveloped and not consistently applied. In addition, certain environmental regulations adopted by the Government have not been published or made publicly available, so the applicability of such regulations to the Company is unclear. Stricter environmental requirements or stricter application of existing requirements could be imposed, such as those governing discharges into air and water, the handling and disposal of solid and hazardous waste, land use and reclamation, and remediation of contamination, and environmental authorities could be moving towards a stricter interpretation of environmental legislation. Compliance with environmental requirements may make it necessary for the Company, at costs which are as yet unknown but may be substantial, to undertake new measures in connection with the storage, handling, transport, treatment or disposal of hazardous materials and waste and the remediation of contamination.

On 28 September 2000, the Government ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change (the "**Kyoto Protocol**"). Ratification of the Kyoto Protocol, which is intended to limit or discourage emissions of greenhouse gases such as carbon dioxide, has had, and will continue to have, an impact on environmental regulation in Azerbaijan. The effect of such ratification in other countries is still unclear; accordingly, potential compliance costs associated with the Kyoto Protocol are unknown. Nonetheless, the likely effect will be to increase costs for electricity and transportation, restrict emissions levels, impose additional costs for emissions in excess of permitted levels and increase costs for monitoring, reporting and financial accounting. Increases in such costs could have a material adverse effect on the Company's business, prospects, financial condition, cash flows and results of operations.

The costs of environmental compliance in the future and potential liability due to any environmental damage that may be caused by the Company could be material. In addition, the Company has no contingency or disaster plans. Moreover, the Company could be adversely affected by future actions and fines imposed on the Company by the environmental authorities. To the extent that any provision in the Company's accounts relating to remediation costs for environmental liabilities proves to be insufficient, this could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

Although the Company is obliged to comply with all applicable environmental laws and regulations, it cannot, given the changing nature of environmental regulations, guarantee that it will be in compliance at all times. Any failure to comply with these environmental requirements could subject the Company to, among other things, civil liabilities and penalty fees and possibly temporary or permanent shutdown of the Company's operations. Moreover, the Company cannot be certain that its environmental liabilities will not increase due to recent and future acquisitions. Any imposition of environmental fines, increases in the costs associated with compliance or suspension or revocation of licences or contracts could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

The Company faces drilling, exploration and production risks and hazards that may affect the Company's ability to produce crude oil and gas at expected levels and costs.

The Company's future success will depend, in significant part, on its ability to develop, either independently or pursuant to PSAs, crude oil and gas reserves in a timely and cost effective manner. Drilling activities may be unsuccessful, and the actual costs incurred to drill and operate wells and to complete well workovers may have an impact on the Company's profits. Due to the geological complexity of the Caspian Sea shelf, there are few service providers in the region that have suitable offshore drilling equipment. A lack of availability of suitable service equipment, including drilling platforms, could slow exploration work.

Drilling activities may be curtailed, delayed or cancelled because of a variety of factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, premature declines in reservoirs, blowouts, uncontrollable flows of crude oil, natural gas or well fluids, pollution and other environmental risks, adverse weather conditions, compliance with governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment.

In addition, crude oil and gas exploration activities may result in unproductive wells or wells that are not economically feasible to produce. The Company cannot be certain that there will not be delays. Completion of a well does not guarantee a profit on the investment or recovery of drilling, completion and operating costs. Also, drilling hazards or environmental damage could greatly increase the cost of operations and various field operating conditions may adversely affect the production from successful wells. The occurrence of any of these events could have a material adverse effect on the Company's business, prospects, financial condition cash flows or results of operations.

The Company's production operations are also subject to risks associated with natural disaster, fire, explosion, blowouts, encountering formations with abnormal pressure, the level of water cut, cratering and crude oil spills, each of which could result in substantial damage to the crude oil wells, production facilities, other property, the environment or result in personal injury or death. Any of these risks could result in loss of crude oil and gas or could lead to environmental pollution and other damage to the Company's properties or surrounding areas, and increased costs or claims against the Company.

Any of these drilling, production and exploration risks and hazards could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

The Company's insurance coverage may not be adequate to cover losses arising from potential operational hazards and unforeseen interruptions.

The Company has a unified insurance programme for itself and substantially all of its subsidiaries, joint ventures and associates. This insurance programme covers third party environmental liability, property and business interruption risks relating to production assets, out of control wells, third party liability coverage (including employer's liability insurance and hazardous object insurance) and directors' and officers' liability insurance. However, the amount of such insurance coverage is more limited than that which would normally be acquired by similar companies in more developed economies. For example, the Company does not carry insurance against environmental damage caused by its own operations, sabotage or terrorist attacks. The Company can give no assurance that the proceeds of insurance are adequate to cover increased costs and expenses relating to these losses or liabilities. Accordingly, the Company may suffer material losses from uninsurable or uninsured risks or insufficient insurance coverage.

Failure to integrate recent or future acquisitions successfully may lead to increased costs or losses for the Company.

The Company has recently expanded its operations significantly through acquisitions and expects to continue to do so in the future. The Company's most recent significant acquisitions were the Kulevi Oil Terminal in Georgia in 2006, Petkim in Turkey in 2008, Azerigas in 2009 and Azerikimya in 2010.

In November 2011, the Company signed an agreement with Exxon whereby the Company agreed to purchase Esso Schweiz GmbH ("**Esso Switzerland**") for a total consideration of CHF 330 million. The Company expects the transaction to close in July 2012. Esso Switzerland operates, *inter alia*, a retail network with more than 170 service stations, of which 63 are company-owned. The petrol stations, which are currently branded as Esso stations, are expected to be rebranded under the SOCAR name by 2013.

The integration of acquired businesses requires significant time and effort on the part of the Company's senior management and may require additional capital expenditures. Integration of new businesses can be difficult because the Company's operational and business culture may differ from the cultures of the businesses it acquires, cost cutting measures may be required and internal controls may be more difficult to maintain, including control over cash flows and expenditures. Any failure to successfully integrate past or future acquisitions could adversely affect the Company's business, prospects, financial condition, cash flows or results of operations. Moreover, even if the Company is successful in integrating newly acquired businesses, expected synergies and cost savings may not materialise, resulting in lower than expected profit margins.

The Company may not be able to manage its growth and expansion effectively if it cannot hire a sufficient number of experienced managers and accounting personnel.

The Company has experienced rapid growth and development in a relatively short period of time, and the Company expects to continue to expand its business through internal growth in the future. The Company currently has several significant projects at various stages of development. The Company's management of such growth and projects will require, among other things, stringent control of financial systems and operations, the continued development of the Company's management and financial control, the ability to attract and retain sufficient numbers of qualified management and accounting and other personnel, the continued training of such personnel, the presence of adequate supervision and the continued consistency in the quality of its services. Failure to manage growth, development and these major projects effectively, including through the retention of qualified and experienced managers, could have a material adverse effect on the overall growth of the Company's business, prospects, financial condition, cash flows or results of operations.

The Company may be required to record a significant charge to earnings if it must reassess goodwill or other intangible assets as a result of changes in assumptions underlying the recorded value in use of certain assets.

As at 31 December 2010, the Company had AZN 123 million of goodwill. Goodwill and other intangible assets with indefinite useful lives are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount of such goodwill may be impaired. Intangible assets with definite useful lives are tested for impairment if impairment indicators exist. The Company performed impairment tests on the carrying value of goodwill as at 31 December 2010 and identified no impairment.

In performing goodwill impairment tests, the Company is required to estimate the value in use of the related cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows of the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Accordingly, actual cash flows and values could vary significantly from the forecasted future cash flows and related values derived using discounted cash flow techniques. Although the Company believes its estimates and projections are appropriate based on currently available information, the actual operating performance of an asset or group of assets, which has been tested for impairment, may differ significantly from current expectations. Moreover, the Company may make changes in the assumptions used in estimating value in use of its cash generating units. In such an event, the carrying value of goodwill may be required to be reduced from amounts currently recorded. Any such reductions may materially affect asset values and the Company's financial condition and results of operations. No assurance can be given as to the absence of significant impairment charges in future periods.

The reported quantities or classifications of the Company's crude oil and gas reserves may be lower than estimated because of inherent uncertainties in the calculation of reserves.

There are numerous uncertainties inherent in estimating the quantity of reserves and in projecting future rates of production, including many factors beyond the Company's control. Estimating the quantity of reserves is a subjective process, and estimates made by different experts often vary significantly. In addition, the results of drilling, testing and production subsequent to the date of an estimate may result in revisions to that estimate. Accordingly, reserves estimates may be different from the quantity of crude oil and natural gas that is ultimately recovered and, consequently, the revenue therefrom could be less than that currently expected. The significance of such estimates is highly dependent upon the accuracy of the assumptions on which they are based, the quality of the information available and the ability to verify such information against industry standards.

The Company calculates its reserves in conformity with the standards of the PRMS, as prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers. Reserves figures contained in this Prospectus, unless otherwise stated, are taken from reserves analyses prepared by the Company's professional engineering staff. The Company's reserves were also calculated by M&L, independent petroleum engineering consultants, in accordance with PRMS. See "*Presentation of Financial, Reserves and Certain Other Information—Certain Reserves Information*".

If the assumptions upon which the Company's estimates of reserves of crude oil or gas have been based are incorrect, the Company may be unable to produce the estimated levels of crude oil or gas set out in this Prospectus and the Company's business, prospects, financial condition or results of operations could be materially and adversely affected.

The Turkish government holds a "golden share" in Petkim.

The Turkish government holds a "golden share" in Petkim that carries special rights, including, *inter alia*, pre-emptive and blocking rights on sales of a controlling interest in Petkim and the right to require Petkim to maintain certain production levels. If the Turkish government were to exercise its pre-emptive or blocking rights on a prospective sale of the Company's indirect controlling interest in Petkim, the Company may not be able to sell its interest at a market price or at any price. In addition, as Petkim is the sole domestic supplier of refined oil products in Turkey, the Turkish government can require Petkim to maintain certain production levels, whether or not such production is economical or profitable. See "*Business—Petkim*". If the Turkish government were to exercise any of the rights conferred to it as a result of its holding of the golden share in Petkim, it could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

Two senior members of the Group's management team do not receive salaries from SOCAR.

The president of SOCAR and Mr. Babayev, the chairman of Azerikimya's supervisory board, are members of the Parliament of the Republic. Under applicable Azerbaijani law, members of Parliament are prohibited from receiving salaries or other remuneration tied to employment with a commercial entity, such as SOCAR. Accordingly, the president and Mr. Babayev are prohibited from receiving or accruing salaries from SOCAR. These individuals are paid in connection with their official responsibilities as Members of Parliament out of the state budget. As a result, the performance of these individuals as employees of the Group is not tied to their salaries.

There is a risk that demand for, and prices of, petrochemical products will continue to decline as a result of the continuing sovereign debt crisis in Europe.

The global demand for, and prices of, petrochemical products has declined throughout 2011, in large part due to the sovereign debt crisis in Europe as well as the slowdown of economic growth in China which has adversely affected the Company's revenue from the sales of such products. In particular, this has led to a deterioration in the profit margins of Petkim from the second quarter of 2011 onwards. As a result of this, SOCAR-Turcas Petro was not in compliance with certain financial ratios under the facility agreements entered into with Credit Suisse as facility agent to finance the acquisition of Petkim. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Debt Obligations—Principal Debt Obligations of the Company and its Material Subsidiaries*". Although waivers were obtained in respect of this, there can be no assurance that such waivers would be granted if SOCAR-Turcas Petro were to breach any of its financial covenants in the future. If SOCAR-Turcas Petro, or any other member of the Group, defaults under any of its financial indebtedness, such default could trigger cross-default provisions under other facility agreements entered into by members of the Group, as well as under the Notes, which would have a material, adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

Risk Factors Relating to the Republic of Azerbaijan

Investors in emerging markets such as Azerbaijan should be aware that these markets are subject to greater risk than more developed markets, including in some cases significant legal, economic and political risks. Investors should also note that emerging economies, such as Azerbaijan's, are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Accordingly, prospective investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, investment in emerging markets is suitable only for sophisticated investors who fully appreciate the significance of the risks involved. Prospective investors are urged to consult with their own legal and financial advisers before making an investment in the Notes.

The disruptions recently experienced in the international capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in countries in the emerging markets may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs, which could result in them experiencing financial difficulty.

In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and so any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in one market) could affect the price or availability of funding for entities within any of these markets.

Most of the Company's operations are conducted in Azerbaijan. Accordingly, the Company's overall financial position and the results of its operations are substantially dependent on the economic, legal and political conditions prevailing in Azerbaijan.

Most of the Company's operations are conducted, and a substantial part of its assets are located, in Azerbaijan; therefore the Company is largely dependent on the economic and political conditions prevailing in Azerbaijan.

Azerbaijan became an independent, sovereign state in 1991, as a result of the dissolution of the Soviet Union. Since then, Azerbaijan has experienced significant change. At the time of its independence, Azerbaijan was in the midst of a military conflict with Armenia, which began in 1988, over the western Azerbaijan region of Nagorno-Karabakh, as well as considerable civil unrest among various political factions in a struggle for power. A cease-fire was signed between Azerbaijan and Armenia in 1994, although a large percentage of Azerbaijani territory remains under occupation and tensions remain high. Talks to end the conflict within an international peace process known as the Minsk Group are continuing.

In 1993, following a succession of weak governments, Heydar Aliyev, a popular, long-time political leader and former member of the Politburo of the Soviet Union became President of Azerbaijan. President Aliyev succeeded in creating a period of political and economic stability in Azerbaijan, overseeing a privatisation drive and various economic reforms geared to the transition to a market economy and closer integration with the international financial system. During his tenure the ACG PSA was concluded with a BP-led consortium in 1994. A separate PSA soon followed over the Shah Deniz deposit, also located offshore, which led to a discovery of natural gas in 1999. The opening of the BTC Pipeline in 2006 and the opening of the SCP in 2007 provide the means for the export of large quantities of hydrocarbons to international markets. President Aliyev was succeeded by his son, Ilham Aliyev, the current President of Azerbaijan, who was first elected in 2003 and elected to a second term in 2008. The next presidential elections are scheduled to take place before October 2013.

Countries in the Caspian region, such as Azerbaijan, whose economies and state budgets rely in significant part on the export of oil and gas and other commodities, the import of capital equipment and significant foreign investments in infrastructure projects, could be adversely affected by any resulting volatility in oil and gas and other commodity prices and by any sustained fall in them or by the frustration or delay of any infrastructure projects caused by political or economic instability in countries engaged in such projects, such as Turkey which is a major infrastructure project contributor in the region.

The ability of Azerbaijan to export its own hydrocarbon wealth, and potentially that of other countries, to international markets will continue to be largely dependent on the BTC Pipeline and the SCP. Any disruption in the operation of these pipelines or alternative export routes due to technical reasons, accidents, armed conflict or terrorism could have a significant adverse effect on Azerbaijan's economy.

Azerbaijan could be affected by regional unrest.

Like other countries in the region, Azerbaijan, which is bordered by Russia, Georgia, Armenia, Turkey and Iran, could be affected by political unrest both within its borders and in surrounding countries, and any resulting military action may have an effect on the world economy and political stability of other countries. Recent tensions between the United States and Iran, Russia and Georgia and the potential for unrest among regional militant groups could likewise lead to instability in the region. Furthermore, Azerbaijan and other countries in the region could be affected by terrorism and by military or other action taken against sponsors of terrorism in the region, which could, in turn, have a significant adverse effect on Azerbaijan's economy.

Macroeconomic considerations concerning Azerbaijan impose risks.

Since Azerbaijan is heavily dependent upon export trade and commodity, particularly hydrocarbon, prices, it has been affected by price swings in hydrocarbon prices due to external events. Azerbaijan's economy would be negatively affected by low oil prices and economic instability elsewhere in the world. Low oil prices and weak demand in its export markets may adversely affect Azerbaijan's economy in the future and which might in turn adversely affect the Company's financial performance. An oversupply of oil or other commodities in world markets or a general downturn in the economies of any significant markets for oil or other commodities might have a material adverse effect on the Company's business, financial condition and results of operations.

According to figures compiled by the Central Bank, Azerbaijan's GDP has continued to grow in real terms, increasing by 10.8% in 2008, 9.3% in 2009 and 5.0% in 2010. However, there can be no assurance that GDP will continue to grow and any decrease in GDP or in the rate of GDP growth in subsequent years could adversely affect Azerbaijan's development. At the same time, the recent surge in state revenues following the opening of the BTC Pipeline in 2006 has led to relatively high levels of GDP growth, together with higher inflation, which may continue or accelerate in the near future. According to figures compiled by the Central Bank, Azerbaijan's inflation rate was 20.8% in 2008, 1.5% in 2009 and 5.7% in 2010. High rates of inflation and any appreciation of the Manat, which could reduce the competitiveness of domestic concerns, could have a significant adverse effect on the economy of Azerbaijan.

The implementation of further market-based economic reforms involves risks.

The need for substantial investment in many enterprises has driven the Government's privatisation programme, although the Company is not aware of any plans to privatise SOCAR or any of its subsidiaries, joint ventures or associates. The programme has excluded certain enterprises deemed strategically significant by the Government, although major privatisations in key sectors have taken place, such as full or partial sales of certain industrial producers, financial institutions and service companies.

However, there remains a need for substantial investment in many sectors of Azerbaijan's economy and there are areas in which economic performance in the private sector is still constrained by an inadequate business infrastructure. Further, the considerable amount of non-cash transactions in the economy and the significant size of the shadow economy (including underreporting of income) adversely affect the implementation of reforms and hamper the efficient collection of taxes.

Official data may be unreliable.

Official statistics and other data published by the Government, the Central Bank, and its agencies may be substantially less complete or researched and, as a result of this and other factors, be less reliable than those published by comparable bodies in other jurisdictions. Accordingly, the Company cannot assure prospective investors that the official sources from which the Company has drawn some of the information set out herein are reliable or that the information is complete. In addition, the Company, to an extent, relies on such official sources in conducting and planning its business. Any discussion of matters relating to Azerbaijan herein may, therefore, be subject to uncertainty due to concerns about the reliability or completeness of available official and public information.

Change in the political, economic and legal climate could disrupt the Company's ability to conduct business and could adversely affect its business, prospects, financial condition, cash flows or results of operations.

The political and economic changes in Azerbaijan following the fall of the Soviet Union have resulted in reduced policing of society and increased crime. Although Azerbaijan was a pioneer in joining the Extractive Industries Transparency Initiative, a coalition of governments, companies, civil society groups, investors and international organisations established to strengthen governance by improving transparency and accountability in resource-rich countries and has organised SOFAZ in a manner that increases transparency in the accumulation and use of state oil revenues, Azerbaijan continues to be regarded by some independent observers as having problems with corruption.

The international press has reported levels of organised criminal activity and corruption of officials in the countries of the former Soviet Union. Press reports have also described instances in which state officials have engaged in selective investigations and prosecutions to further commercial interests of select constituencies. Any future allegations of corruption in Azerbaijan could have a negative effect on the ability of Azerbaijan to attract foreign investment and thus have a negative effect on the economy of Azerbaijan and on the Company's business, prospects, financial condition, cash flows or results of operations.

Azerbaijan's physical infrastructure is in poor condition, which could disrupt normal business activity.

Azerbaijan's physical infrastructure largely dates back to the Soviet era and has not been adequately funded and maintained over the past decade. Therefore, some of Azerbaijan's physical infrastructure is in poor condition, which could disrupt normal business activity. Particularly affected are pipeline, rail networks, and power transmission systems. The condition and continued deterioration of Azerbaijan's physical infrastructure could harm the national economy, disrupt the transportation of goods and supplies, add costs to doing business in Azerbaijan and may interrupt business operations, all of which could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

There are regional tensions.

Azerbaijan is bordered by Russia to the north, Georgia to the north-west, Armenia to the west and Iran to the south. Each of these countries has been involved in political and military disputes in recent years. For example, in August 2008, the conflict in the Tskhinvali Region/South Ossetia of Georgia escalated as Georgian troops engaged with local militias and Russian forces that crossed the international border. In the days that followed the initial outbreak of hostilities, Georgia declared a state of war as Russian forces launched bombing raids deep into Georgia, targeted and destroyed Georgian infrastructure, blockaded part of the Georgian coast, took control of Tskhinvali and the Abkhazia region and landed marines on the Abkhaz coast. After five days of heavy fighting, the Georgian forces were defeated, enabling the Russians to enter Georgia uncontested and occupy the cities of Poti, Gori, Senaki and Zugdidi. During this period, transit through the pipelines crossing Georgia was temporarily stopped, which cut off one of the Company's principal export routes. Future such occurrences whether in Georgia, in one of the Republic's other neighbours or in the region generally could have a material adverse effect on the Company's business, prospects, financial condition, cash flows or results of operations.

There are risks associated with the underdevelopment and evolution of the legislative, tax and regulatory framework in Azerbaijan.

Since the break-up of the Soviet Union, the Government has rapidly introduced laws, regulations and legal structures to foster the development of a market system and integration with the world economy. The speed with which legislation has been drafted has resulted in legislation that in many instances has left key issues unresolved, is frequently contradictory, inadequate or incomplete, and is susceptible to conflicting interpretations and overlapping jurisdictions between government bodies and has substantive gaps. In certain cases, legislation or implementing regulations may be unpublished or unavailable. Moreover, the absence of definitive interpretations of many of the provisions of these new laws, and the absence of a tradition in Azerbaijan of a judiciary that is insulated from current political or other considerations, can make the application of laws uncertain.

The commitment of Government officials and agencies to comply with legal obligations and negotiated agreements has not always been reliable, and there is a tendency for the authorities to take arbitrary action. Legal redress for breach or unlawful action may not be readily available, or may be subject to significant delays. These factors, which are not uncommon to transitional legal systems, make an investment subject to higher risks and greater uncertainties than would be the case in more developed legal systems.

Foreign judgments and arbitral awards may not be enforceable in Azerbaijan.

In the absence of reciprocity of enforcement of court judgments with foreign countries (including by virtue of bilateral treaties, of which very few are in force), Azerbaijani courts are unlikely to enforce a judgment of a court established in a country other than Azerbaijan, invoking statutory grounds for setting aside foreign judgments by asserting, for example, that the matter is subject to the exclusive jurisdiction of Azerbaijani courts or the courts of the country where the foreign or non-Azerbaijani judicial decision was adopted do not enforce the judicial decisions of Azerbaijani courts on a reciprocal basis. Although Azerbaijan is a signatory to certain conventions on the recognition and enforcement of foreign arbitral awards, the enforcement of such awards in local courts remains largely untested. Azerbaijani courts can be arbitrary in their decisions and the possibility cannot be excluded that judges may misapply Azerbaijani laws (including, *inter alia*, those concerning grounds for declining enforcement).

It may be difficult to effect service of legal process and enforce judgments obtained outside of Azerbaijan against the Company and its management.

The Company is a company organised and existing under the laws of Azerbaijan and most of its businesses, assets and operations are located in Azerbaijan. In addition, its executive officers reside in Azerbaijan and substantially all of their assets are located in Azerbaijan. As a result, it may not be possible to effect service of process within the United Kingdom or elsewhere outside Azerbaijan upon the Company or such directors or executive officers. Moreover, Azerbaijan does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United Kingdom or many other countries. As a result, recognition and enforcement in Azerbaijan of judgments of a court in the United Kingdom or other jurisdictions in relation to any matter may be difficult.

Risk Factors Relating to the Notes

The Notes may be subject to optional redemption by the Company prior to their maturity date for tax reasons.

In the event that the Company would be obliged to increase the amounts payable in respect of the Notes due to any change in or amendment to the laws or regulations of Azerbaijan or any political sub division thereof or of any authority therein or thereof having the power to tax or in the interpretation or administration thereof, the Company may redeem all outstanding Notes in accordance with the Terms and Conditions of the Notes (the "**Conditions**"). It may not be possible to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes and this may only be possible at a significantly lower rate.

Provisions of the Notes permit defined majorities to bind all Noteholders and permit the Trustee to take certain action without Noteholder consent.

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Conditions also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or (ii) determine without the consent of the Noteholders that any Event of Default or Potential Event of Default (each as defined in the Trust Deed) shall not be treated as such in the circumstances described in Condition 14 (Meetings of Noteholders; Modification and Waiver) of the Notes.

The EU Savings Directive may impose withholding tax.

The EU has adopted a Directive (2003/48/EC) regarding the taxation of savings income pursuant to which Member States are required to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State. However, for a transitional period, Austria and Luxembourg are instead required (unless during such period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent on the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories have adopted similar measures. Similarly, Azerbaijan applies a withholding system which in certain instances is subject to the double taxation treaties to which Azerbaijan is a party and where information on any tax withheld on interest may be disclosed to the tax authority in the country having jurisdiction over the recipient of such interest.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Company nor any Paying and Transfer Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Company is required to maintain a Paying and Transfer Agent in a Member State that is not be obliged to withhold or deduct tax pursuant to the Directive.

Payments made in respect of the Notes will be subject to withholding tax and have other tax consequences for investors.

Payments made in respect of Notes will be subject to withholding tax and may have other tax consequences for investors. Generally, payments of interest on borrowed funds made by an Azerbaijan entity to a non-resident are subject to Azerbaijan withholding tax at the rate of 10% for legal entities, unless such withholding tax is reduced or eliminated pursuant to the terms of an applicable double tax treaty.

Payments in respect of the Notes are subject to withholding of Azerbaijan tax, and the Company is obliged to increase payments as may be necessary so that the net payments received by holders of the Notes will not be less than the amounts they would have received in the absence of such withholding. It should be noted, however, that gross-up provisions are untested and may not be enforceable under Azerbaijan law where such provisions may be viewed by the Azerbaijan tax authorities as constituting payments of taxes on behalf of third parties. Although the existing practice is that the Azerbaijan authorities do not challenge debt agreements containing gross-up provisions, there is no precedent for the judicial enforcement of such gross-up provisions.

An active trading market for the Notes may not develop.

The Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Notes.

Application has been made for the listing of the Notes on the Official List and for trading on the Regulated Market of the London Stock Exchange. There can be no assurance that either such listing or declaration will be obtained or, if such listing or declaration is obtained, that an active trading market will develop or be sustained. In addition, the liquidity of any market for the Notes will depend on the number of holders of the Notes, the interest of securities dealers in making a market in the Notes and other factors. Accordingly, there can be no assurance as to the development or liquidity of any market for the Notes.

The market price of the Notes may be volatile.

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Company's operating results and those of its competitors, adverse business developments, changes to the regulatory environment in which the Company operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of the Notes, as well as other factors. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations, which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Company's results of operations, prospects or financial condition. Factors including increased competition, fluctuations in commodity prices or the Company's operating results, the regulatory environment, availability of reserves, general market conditions, natural disasters, terrorist attacks and war may have an adverse effect on the market price of the Notes.

Financial turmoil in capital markets may lead to unstable pricing of the Notes and may reduce the availability of financing.

The market price of the Notes is influenced by economic and market conditions in Azerbaijan and, to a varying degree, economic and market conditions in other CIS countries and the international capital markets generally. Financial turmoil in the international capital markets in the past has adversely affected market prices for companies that operate in those and other developing economies. Even if Azerbaijan's economy remains stable, financial turmoil in the international capital markets could materially adversely affect the market price of the Notes.

The disruptions recently experienced in the international capital markets have led to reduced liquidity and increased credit risk for certain market participants and have resulted in a reduction of available financing. Companies located in countries in emerging markets such as Azerbaijan may be particularly susceptible to these disruptions and reductions in the availability of credit or increased financing costs, which could result in financial difficulties. In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in these markets, and, as such, any factors that impact market confidence, for example, a decrease in credit ratings or state or central bank intervention in one market could affect the price or availability of funding for entities within any of these markets.

Exchange rate risks and exchange controls exist to the extent payments in respect of the Notes are made in a currency other than the currency in which an investor's activities are denominated.

The Company will pay principal and interest on the Notes in U.S. Dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. Dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. Dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. In addition, such risks generally depend on economic and political events over which the Company has no control. An appreciation in the value of the Investor's Currency relative to U.S. Dollars would decrease: (i) the Investor's Currency equivalent yield on the Notes; (ii) the Investor's Currency equivalent value of the principal payable on the Notes; and (iii) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Changes in market interest rates may adversely affect the value of the Notes.

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes, since the Notes have a fixed rate of interest and prevailing interest rates in the future may be higher than that fixed rate of interest.

Credit ratings may not reflect all risks associated with the Notes.

The Company's credit ratings are an assessment by the relevant rating agencies of its ability to pay its debts when due. Consequently, real or anticipated changes in its credit ratings will generally affect the market value of the Notes. One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to the structure and marketing of the Notes and additional factors discussed in this Prospectus or any other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Insolvency laws in Azerbaijan may not be as favourable to holders of Notes as English or United States insolvency laws or those of another jurisdiction with which the Noteholders may be familiar.

The Company is organised in Azerbaijan and is subject to the insolvency laws of Azerbaijan. Since Azerbaijan's courts are not experienced with complex commercial issues and the insolvency laws of Azerbaijan are largely untested, there is no way to predict the outcome of insolvency proceedings.

Return on an investment in Notes will be affected by charges incurred by investors.

An investor's total return on an investment in any Notes will be affected by the level of fees charged by any agent, nominee service provider or clearing system used by the investor. Such a person or institution may charge fees for the opening and operation of an investment account, transfers of Notes, custody services and on payments of interest and principal. Potential investors are, therefore, advised to investigate the basis on which any such fees will be charged on the relevant Notes.

There is a risk that the choice of English law as the governing law of the Notes might not be applied by the courts of Azerbaijan.

The Notes are expressed in the Terms and Conditions of the Notes to be governed by English law. Whilst the choice of English law to govern the Notes is explicitly allowed under Azerbaijani law, the Law on International Private Law of the Republic of Azerbaijan provides for certain restrictions in the application of foreign law, namely:

- Article 4 prohibits the application of foreign law where it contradicts the Constitution of Azerbaijan or laws of Azerbaijan adopted by referendum;
- Article 5.1 provides for "imperative" rules of Azerbaijani law to be applied irrespective of the applicable governing law; and
- Article 24.4 invalidates choices of law designed to avoid, *inter alia*, the application of Azerbaijan's "imperative" rules.

Whilst neither the Terms and Conditions of the Notes nor the Trust Deed or Paying Agency Agreement contain any provisions which contradict the Constitution of Azerbaijan or its laws adopted by referendum as currently in force, there can be no assurance that this will continue to be the case in the event of future amendments to the Constitution of Azerbaijan or its laws adopted by referendum. As regards "imperative" rules, the most likely general meaning of the term is the "mandatory rules of Azerbaijan laws and regulations" as used in Article 390.2 of the Civil Code of the Republic of Azerbaijan. However, due to the lack of clear guidance as to the application and interpretation of "imperative" rules there can be no assurance that any applicable provisions of English law or the provisions of the Terms and Conditions of the Notes, the Trust Deed and the Paying Agency Agreement will not be overridden by relevant provisions of the laws of the Republic of Azerbaijan which could be deemed to be "imperative" rules. By way of example, certain provisions of the Terms and Conditions of the Notes dealing with waivers and the binding nature of determinations by a single party might not be enforceable in Azerbaijan. However, the Company is of the view that its obligation to pay principal and interest, and its covenants and the Events of Default and Noteholder put contained in the Terms and Conditions of the Notes do not contravene the "imperative" rules of Azerbaijani law.

Furthermore, although the Terms and Conditions of the Notes, the Trust Deed and the Paying Agency Agreement also provide that any non-contractual obligations arising out of or in connection with them shall be governed by English law, the Law on International Private Law would require a court in Azerbaijan to apply Azerbaijani law to certain non-contractual obligations, such as claims for compensation for damage caused in Azerbaijan or unjust enrichment that occurred in Azerbaijan.

USE OF PROCEEDS

The net proceeds of the offering will be used to partially fund the Company’s upstream and downstream activities.

CAPITALISATION

The following table sets forth the Company's capitalisation as at 30 June 2011, as extracted from the Interim Financial Statements, and on an adjusted basis, to illustrate the effects of the offering on the Company's capitalisation had the offering taken place on 30 June 2011. The capitalisation information presented, as adjusted, has been prepared in a manner consistent with the accounting policies adopted by the Company in the Financial Statements. The capitalisation information presented as adjusted has been prepared for illustrative purposes only and, by its nature, addresses a hypothetical situation and , therefore, does not reflect the Company's actual financial position or results of operations.

This table should be read in conjunction with the sections entitled *"Use of Proceeds"*, "*Selected Financial Information and Operating Data*" and "*Management's Discussion and Analysis of Results of Operations and Financial Performance*" and the Interim Financial Statements and the related notes thereto included elsewhere in this Prospectus.

	As at 30 June 2011 (unaudited)			**As at 30 June 2011[1] (unaudited)**		
	Actual[2]	**Adjustment[3]**	**As adjusted[4]**	**Actual[5]**	**Adjustment[3]**	**As adjusted[4]**
		(AZN millions)			*(U.S.$ millions)*	
Current portion of borrowings[6]	503	—	503	639	—	639
Notes	0	393[7]	393[7]	0	500	500
Long-term borrowings, net of current portion[6]	3,101	—	3,101	3,942	—	3,942
Total borrowings	**3,604**	**393**	**3,997**	**4,581**	**500**	**5,081**
Charter capital	869	—	869	1,105	—	1,105
Additional paid-in capital	—	—	—	—	—	—
Other equity	—	—	—	—	—	—
Currency translation reserve	(135)	—	(135)	(172)	—	(172)
Retained earnings	7,097	—	7,097	9,021	—	9,021
Minority interest	652	—	652	829	—	829
Total Shareholders' equity	**8,483**	**—**	**8,483**	**10,783**	**—**	**10,783**
Total capitalisation (total borrowings plus total shareholders' equity)	**12,087**	**393**	**12,480**	**15,364**	**500**	**15,864**

Notes:

(1) For convenience, these figures have been translated into U.S.$ at the AZN/U.S.$ exchange rate as at 30 June 2011, which was AZN 0.7867 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the AZN amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) These figures are extracted from the Interim Financial Statements.

(3) The adjustment column reflects the proceeds of the issuance of the Notes to the Company before deducting commissions, fees and expenses.

(4) The as adjusted column reflects the Company's capitalisation adjusted to include the proceeds of the issuance of the Notes to the Company before deducting commissions, fees and expenses. It should be noted that the as adjusted column does not reflect the adjustments described below that have been incurred or repaid since 30 June 2011.

(5) These figures have been extracted from the Interim Financial Statements and translated into U.S.$ as described in Note 1 above.

(6) Does not include the Notes.

(7) For convenience, these figures have been translated from U.S.$ at the AZN/U.S.$ exchange rate as at 30 June 2011, which was AZN 0.7867 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the AZN amounts have been or could be converted from U.S. Dollars at this rate or any other rate.

Since 30 June 2011, the Company has incurred or repaid and retired the following debt:

- SOCAR-Turcas Petro repaid a U.S.$35 million loan granted by Akbank T.A.Ş. in full on 1 August 2011.
- SOCAR-Turcas Petro repaid a U.S.$15.5 million loan granted by Akbank T.A.Ş. in full on 4 August 2011.
- SOCAR-Turcas Petro refinanced a U.S.$625 million loan with Credit Suisse in August 2011. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Debt Obligations—Principal Debt Obligations of the Company and its Material Subsidiaries*".
- The Company repaid a U.S.$100 million loan granted by Deutsche Bank in full on 25 October 2011.

- In September 2011, the Company's charter capital increased from AZN 869 million to AZN 1,059 million, following the Government's charter capital contribution of AZN 40 million to Azerikimya and AZN 150 million to Azerigas.

- In December 2011, the Company applied a restricted deposit in the amount of U.S.$1.3 billion to the prepayment of a loan of the same amount from IBA to STEAS, in connection with a capital increase of STEAS by the Company.

- No other loans have been entered into or repaid in full since 30 June 2011.

Except as described above, there has been no material change in the Company's total capitalisation since 30 June 2011. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Debt Obligations—Principal Debt Obligations of the Company and its Material Subsidiaries*".

SELECTED FINANCIAL INFORMATION AND OPERATING DATA

The financial information of the Company set forth below as at and for the years ended 31 December 2010, 31 December 2009 and 31 December 2008 and as at and for the six months ended 30 June 2011 and 30 June 2010 has been extracted from and should be read in conjunction with and is qualified in its entirety by the Financial Statements, including the notes thereto, contained elsewhere in this Prospectus.

Certain financial data as at and for the year ended 31 December 2009 have been restated in the 2010 Financial Statements. Accordingly, these comparative data differ in certain respects from the corresponding data set out in the 2009 Financial Statements. Investors should be aware that the financial data for the Company set out in this Prospectus as at and for the year ended 31 December 2009 are taken from the 2010 Financial Statements. See "Presentation of Financial, Reserves and Certain Other Information—Reclassifications" *and Note 2 to the 2010 Financial Statements.*

Prospective investors should read the selected financial and other information in conjunction with the information contained in the "Risk Factors", "Capitalisation", "Management's Discussion and Analysis of Results of Operations and Financial Performance", "Business" *and the Financial Statements, including the notes thereto, and other financial data appearing elsewhere in this Prospectus.*

Consolidated Balance Sheet Data

	As at 30 June			As at 31 December			Change between 30 June 2011 and 31 December 2010	Change between 31 December 2010 and 2009
	2011[(1)] (unaudited)	**2011 (unaudited)**	**2010[(2)] (unaudited)**	**2010**	**2009**	**2008**		
	(U.S.$ millions)	*(AZN millions)*	*(U.S.$ millions)*		*(AZN millions)*			*(%)*
ASSETS								
Current assets								
Cash and cash equivalents	1,738	1,367	1,253	1,000	774	520	36.7	29.3
Restricted cash	76	60	775	618	54	98	(90.5)	1,044.4
Trade and other receivables	3,682	2,897	3,015	2,406	2,111	1,667	20.4	14.0
Corporate income tax prepayments	28	22	34	27	29	12	(18.5)	(6.9)
Inventories	1,080	850	1,014	809	707	601	5.1	14.3
Other current financial assets	14	11	15	12	7	—	(8.3)	71.5
Total current assets	6,619	5,207	6,105	4,871	3,682	2,897	6.9	32.3
Non-current assets								
Property, plant and equipment	10,906	8,580	10,333	8,245	7,947	6,974	4.1	3.8
Goodwill	150	118	154	123	107	83	(4.1)	15.0
Intangible assets other than goodwill	595	468	627	500	521	511	(6.3)	(4.1)
Investments in jointly-controlled entities	491	386	333	266	103	114	45.1	158.3
Investments in associates	493	388	440	351	315	293	10.5	11.3
Loans receivable from jointly-controlled entities	189	149	330	263	312	302	(43.3)	(15.7)
Deposits	1,215	956	500	399	873	534	139.0	(54.3)
VAT receivable	—	—	—	—	—	26.8	—	—
Deferred tax asset	613	482	513	409	646	659	17.8	(36.7)
Other long-term financial assets	93	73	99	79	74	—	(7.6)	6.9
Other long-term assets	209	164	277	221	254	128	(25.8)	(13.0)
Total non-current assets	14,955	11,765	13,606	10,856	11,152	9,624	8.3	(2.7)
TOTAL ASSETS	**21,574**	**16,972**	**19,710**	**15,727**	**14,834**	**12,521**	**7.9**	**6.0**

	As at 30 June			As at 31 December			Change between 30 June 2011 and 31 December 2010	Change between 31 December 2010 and 2009
	2011[(1)] (unaudited)	2011 (unaudited)	2010[(2)] (unaudited)	2010	2009	2008		
	(U.S.$ millions)	*(AZN millions)*	*(U.S.$ millions)*		*(AZN millions)*		*(%)*	
EQUITY								
Charter capital	1,105	869	793	633	623	423	37.3	1.6
Additional paid-in capital	—	—	297	237	—	—	(100.0)	—
Retained earnings	9,021	7,097	8,387	6,692	6,779	6,432	6.1	(1.3)
Cumulative currency translation differences	(172)	(135)	(132)	(105)	(143)	(116)	28.6	(26.6)
Equity attributable to equity holders of the Company	**9,954**	**7,831**	**9,345**	**7,456**	**7,258**	**6,739**	**5.0**	**2.7**
Non-controlling interest	829	652	882	704	783	747	(7.4)	(10.0)
TOTAL EQUITY	**10,783**	**8,483**	**10,227**	**8,160**	**8,041**	**7,486**	**4.0**	**1.5**
LIABILITIES								
Current liabilities								
Trade and other payables	3,546	2,790	3,066	2,446	2,088	1,145	14.1	17.2
Short-term and current portion of long-term borrowings	639	503	1,250	997	388	408	(49.5)	157.0
Corporate income tax payable	290	228	114	91	103	153	150.5	(11.7)
Other taxes payable	336	264	238	190	187	213	38.9	1.6
Other provisions for liabilities and charges	248	195	249	199	102	156	(2.0)	95.1
Deferred acquisition consideration payable	—	—	342	273	37	—	(100.0)	637.8
Total current liabilities	5,059	3,980	5,259	4,196	2,905	2,075	(5.1)	(44.4)
Non-current liabilities								
Long-term borrowings	3,942	3,101	2,586	2,063	2,464	1,703	50.3	(16.3)
Deferred acquisition consideration payable	—	—	—	—	272	308	—	(100)
Asset retirement obligations	526	414	407	325	171	86	27.4	90.1
Other provisions for liabilities and charges	402	316	353	282	357	347	12.0	(21.0)
Deferred income	126	99	127	101	106	—	(2.0)	(4.7)
Deferred tax liability	630	496	638	509	478	479	(2.6)	6.5
Other non-current liabilities	106	83	114	91	41	37	(8.8)	122.0
Total non-current liabilities	5,730	4,508	4,225	3,371	3,888	2,960	33.7	(13.3)
TOTAL LIABILITIES	**10,789**	**8,488**	**9,484**	**7,567**	**6,793**	**5,035**	**12.2**	**11.4**
TOTAL EQUITY AND LIABILITIES	**21,574**	**16,972**	**19,710**	**15,727**	**14,834**	**12,521**	**7.9**	**6.0**

Notes:

(1) For convenience, these figures have been translated into U.S.$ at the AZN/U.S.$ exchange rate published by the Central Bank as at 30 June 2011, which was AZN 0.7867 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the AZN amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) For convenience, these figures have been translated into U.S.$ at the AZN/U.S.$ exchange rate published by the Central Bank as at 30 December 2010, which was AZN 0.7979 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the AZN amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

Consolidated Statement of Comprehensive Income

	As at 30 June			As at 31 December				Change between the six months ended 30 June 2011 and 2010	Change between 31 December 2010 and 2009
	2011[(1)] (unaudited)	2011 (unaudited)	2010 (unaudited)	2010[(2)] (unaudited)	2010	2009	2008		
	(U.S.$ millions)	*(AZN millions)*		*(U.S.$ millions)*	*(AZN millions)*			*(%)*	
Revenue	4,332	3,434	2,721	6,886	5,527	4,196	4,711	26.2	31.7
Cost of Sales	(2,667)	(2,114)	(1,899)	(4,103)	(3,293)	(2,078)	(2,907)	11.3	58.5
Gross Profit	**1,665**	**1,320**	**822**	**2,783**	**2,234**	**2,118**	**1,804**	**60.6**	**5.5**
Distribution expenses	(145)	(115)	(96)	(247)	(198)	(155)	(135)	20.0	27.6
General and administrative expenses	(182)	(144)	(162)	(378)	(303)	(230)	(185)	(11.4)	31.7
Losses on disposal of property, plant and expenses	(11)	(9)	(23)	(30)	(24)	(9)	(72)	(60.9)	166.7
Social expenses	(83)	(66)	(60)	(249)	(200)	(159)	(273)	10.0	25.8
Exploration and evaluation expenses	(14)	(11)	(18)	(9)	(7)	(11)	(7)	(38.9)	(36.4)
Research and development	(5)	(4)	(7)	(27)	(22)	(15)	(4)	(42.9)	46.7
Other operating expenses	(143)	(113)	(77)	(406)	(326)	(314)	(108)	46.9	3.9
Other operating income	95	76	143	223	179	205	222	(46.9)	(12.8)
Operating Profit	**1,178**	**934**	**523**	**1,661**	**1,333**	**1,429**	**1,242**	**78.7**	**6.7**
Finance income	43	34	30	83	67	68	56	13.0	(1.5)
Finance costs	(111)	(88)	(104)	(218)	(175)	(163)	(148)	(15.6)	7.3
Foreign exchange losses, net	(119)	(94)	(104)	(115)	(92)	(1)	(408)	(9.6)	9,100.0
Share of result of jointly-controlled entities	8	6	(1)	7	6	(13)	2	(700.0)	(146.2)
Share of result of associates	78	62	63	123	99	90	71	(1.9)	10.0
Loss on disposal of joint ventures and associates	—	—	—	(1)	(1)	(40)	0	0	(97.5)
Profit before income tax	**1,076**	**853**	**407**	**1,542**	**1,238**	**1,369**	**815**	**109.3**	**(9.6)**
Income tax expense	(230)	(182)	(280)	(725)	(582)	(476)	(328)	(35.0)	22.4
Profit for the period	**846**	**671**	**127**	**817**	**656**	**894**	**487**	428.3	**(26.6)**
Currency translation differences	(78)	(62)	(25)	(20)	(16)	(18)	(334)	148	(11.1)
Total comprehensive income for the year	**767**	**608**	**102**	**796**	**639**	**876**	**153**	**496.1**	**(27.1)**
Profit attributable to:									
Equity holder of the Company	888	704	154	836	671	890	734	357.1	(24.6)
Non-controlling interest	(42)	(33)	(27)	(19)	(15)	3	(247)	22.2	(600.0)
Total comprehensive income attributable to:									
Equity holder of the Company	849	673	168	883	709	863	653	300.6	(17.8)
Non-controlling interest	(82)	(65)	(66)	(87)	(70)	13	(500)	(1.5)	(638.5)

Notes:

(1) For convenience, these figures have been translated into U.S.$ at the average AZN/U.S.$ exchange rate published by the Central Bank for the first six months of 2011, which was AZN 0.7927 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the AZN amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

(2) For convenience, these figures have been translated into U.S.$ at the average AZN/U.S.$ exchange rate published by the Central Bank for 2010, which was AZN 0.8026 per U.S.$1.00. Such translation is not reflective of a translation in accordance with IFRS and it should not be construed as a representation that the AZN amounts have been or could be converted into U.S. Dollars at this rate or any other rate.

Key Financial Ratios

The following table sets forth key financial ratios used by the Company's management in assessing the Company's performance. The financial ratios set forth in this table reflect the operations of the Company.

	As at and for the six months 30 June		As at end for the year ended 31 December	
	2011 (unaudited)	2010 (unaudited)	2010	2009
		AZN millions		
EBIT[(1)]	1,001	586	1,438	1,466
EBITDA[(2)]	1,498	1,124	2,175	1,788
Debt (including current portion) [(3)]	3,604	2,965	3,060	2,852
Equity[(4)]	8,483	7,707	8,160	8,041
Capitalisation[(5)]	12,088	10,672	11,220	10,893
Net capitalisation[(6)]	10,720	9,836	10,220	10,120
Net debt[(7)]	2,237	2,129	2,060	2,078
Debt/EBITDA	2.41	2.64	1.41	1.59
Net debt/Net capitalisation	0.21	0.22	0.20	0.21
Debt/Equity	0.42	0.38	0.37	0.35
Current liquidity[(8)]	1.31	1.17	1.16	1.27
EBIT/Interest expenses	15.18	7.19	11.71	12.48

Notes:

(1) The Company calculates EBIT for any relevant period as profit before income tax for such period plus finance cost, net for such period.

(2) EBITDA, for any relevant period, is EBIT for such period plus depreciation, depletion and amortisation and impairment for property, plant and equipment and accounts receivable for such period.

(3) Debt is current portion of the borrowings plus non-current portion of the borrowings as at 30 June or 31 December of the relevant period.

(4) Equity is the total equity as at 30 June or 31 December of the relevant period.

(5) Capitalisation is debt plus equity as at 30 June or 31 December of the relevant period.

(6) Net capitalisation is net debt plus equity as at 30 June or 31 December of the relevant period.

(7) Net debt is debt minus cash and cash equivalents as at 30 June or 31 December of the relevant period.

(8) Current liquidity is current assets as at 30 June or 31 December of the relevant period divided by current liabilities as at 30 June or 31 December of the relevant period.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL PERFORMANCE

The following management’s discussion and analysis of the Company’s results of operations and financial performance should be read in conjunction with the Financial Statements and the related notes thereto included elsewhere in this Prospectus. The Financial Statements have been prepared in accordance with IFRS. This management’s discussion and analysis contains forward-looking statements, which involve risks and uncertainties. See “Forward-Looking Statements*”. The Company’s actual results could differ materially from those anticipated in the forward-looking statements contained herein for several reasons, including those set forth under “*Risk Factors*” and elsewhere in this Prospectus.*

Certain financial data as at and for the year ended 31 December 2009 have been restated in the 2010 Financial Statements. Accordingly, these comparative data differ in certain respects from the corresponding data set out in the 2009 Financial Statements. Investors should be aware that the financial data for the Company set out in this Prospectus as at and for the year ended 31 December 2009 are taken from the 2010 Financial Statements. See “Presentation of Financial, Reserves and Certain Other Information—Reclassifications” *and Note 2 to the 2010 Financial Statements.*

Critical Accounting Policies and Estimates

The Financial Statements have been prepared in accordance with IFRS. The preparation of consolidated financial statements in accordance with IFRS requires the Company’s management to select appropriate accounting policies and to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities. For a full description of the Company’s significant accounting policies, see Note 2 of the 2010 Financial Statements. Management’s selection of appropriate accounting policies and the making of such estimates and assumptions involve judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts would have been reported under different conditions, or if different assumptions had been used, and actual amounts may differ from these estimates. Set forth below are summaries of certain of the most critical accounting estimates and judgments required of the Company’s management. See Note 3 of the 2010 Financial Statements.

Estimation of oil and gas reserves

Oil and gas reserves are key elements in the Company’s investment decision-making process. They are also an important element of testing for impairment. Changes in proven oil and gas reserves, particularly proven developed reserves, will affect unit-of-production depreciation charges in the income statement. Proven oil and gas reserves are the estimated quantities of crude oil and natural gas, which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proven developed reserves are reserves that can be expected to be recorded through existing wells with existing equipment and operating methods. Estimates of oil and gas reserves are inherently imprecise, require the application of judgment and are subject to future revision. Accordingly, financial and accounting measures (such as depletion and amortisation charges and provision for asset retirement obligations) that are based on proven developed or proven reserves are also subject to change.

Proven reserves are estimated by reference to available reservoir and well information. All proven reserves estimates are subject to revision, either upward or downward, based on new information, such as from drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, changes in the technical maturity of hydrocarbon reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions. In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are developed and being depleted. As a field goes into production, the amount of proven reserves will be subject to future revision once additional information becomes available through, for example, the drilling of additional wells or the observation of long-term reservoir performance under producing conditions. As those fields are further developed, new information may lead to revisions.

The Company’s proven reserves are based on a summary report prepared by independent reservoir engineers in accordance with the Society of Petroleum Engineers rules. See Annex 1 for the M&L Report.

Asset retirement obligations

Management makes provision for the future costs of decommissioning oil and gas production and storage facilities, pipelines and related support equipment and site restoration based on the estimates of future cost and economic lives of those assets. Estimating future asset retirement obligations is complex and requires management to make estimates and judgements with respect to removal obligations that will occur many years in the future. Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The Company assesses its asset retirement obligation liabilities in accordance with the guidelines of IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities. The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the statement of financial position date based on current applicable legislation and regulations and is also subject to changes because of modifications, revisions and changes in laws and regulations and respective interpretations thereof. Governmental authorities are continually considering applicable regulations and their enforcement. Consequently, the Company's ultimate asset retirement liabilities may differ from the recorded amounts. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of incurring such costs. Changes in any of these conditions may result in adjustments to provisions recorded by the Company. See Note 22 to the 2010 Financial Statements.

Environmental obligations

The Company records a provision in respect of estimated costs of remediation of the damage historically caused to the natural environment, primarily in the Absheron area, both by the activities of the Company and its legacy operations in periods preceding the formation of the Company. The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the statement of financial position date based on current applicable legislation and regulations and is also subject to changes due to modifications, revisions and changes in laws and regulations and respective interpretations thereof. Governmental authorities are continually considering applicable regulations and their enforcement. Consequently, the Company's ultimate liability for environmental remediation may differ from the recorded amounts. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of incurring such costs. Changes in any of these conditions may result in adjustments to provisions recorded by the Company. Management determines the discount rate used for discounting environmental remediation costs as a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability as of the reporting date. See Note 23 to the 2010 Financial Statements.

Impairment of non-financial assets

Management assesses whether there are any indicators of possible impairment of all non-financial assets at each reporting date based on events or circumstances that indicate that the carrying value of assets may not be recoverable. Such indicators include changes in the Company's business plans, changes in commodity prices leading to unprofitable performances, changes in product mixes, and for oil and gas properties, significant downward revisions of estimated proven reserves. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when impairment indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

Impairment provision for trade receivables

The impairment provision for trade receivables is based on management's assessment of the probability of collection of individual customer accounts receivable in accordance with IFRS. Significant financial difficulties of the customer, probability that the customer will suffer bankruptcy or financial reorganisation, and default or delinquency in payments by the customer are considered indicators that the receivable is potentially impaired. Actual results could differ from these estimates if there is any deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates. When there is no expectation of recovering additional cash for an amount receivable, such amount receivable is written off against associated provision. Future cash flows of trade receivables that are evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Main Factors Affecting Results of Operations and Liquidity

The main factors that have affected the Company's results of operations during 2011 and 2010, as compared to previous periods, and that can be expected to affect the Company's results of operations in the future, are: (i) the current economic environment; (ii) changes in crude oil prices; (iii) acquisitions; (iv) the impact of changes in exchange rates on export sales and operating margins; (v) changes in the share of income of joint ventures and associates recognised by the Company and its subsidiaries; and (vi) taxation.

The current economic environment

The Azerbaijan economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. See "*Risk Factors—Risk Factors Relating to the Republic of Azerbaijan—Macroeconomic considerations concerning Azerbaijan impose risks*". The continuing effects of the global economic crisis has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and tighter credit conditions within the region and weakened global demand for, and decline in prices, of crude oil and other commodities. The uncertainties in the global financial markets have also contributed to bank failures globally and in the region and put downward pressure on emerging markets currencies, although the Manat has remained fairly stable. Azerbaijan is continuing to pursue economic reforms and development of its legal, tax and regulatory frameworks and the Government has introduced a range of measures aimed at managing domestic liquidity in the context of high oil prices. The future stability of the Azerbaijan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government. Global economic circumstances and related developments in Azerbaijan have had a material adverse effect on the Company's financial position and results of operations in 2008 and 2009 (despite some recovery in the second half of 2009) and may continue to do so in the future.

While the Company is unable to estimate reliably the effects on its consolidated financial position and its results of operations of any further deterioration in the financial markets or of any increased volatility in currencies in which the Company has significant dealings, commodities and equity markets for any periods subsequent to 30 June 2011, the Company's business activities may continue to be negatively impacted by the economic conditions resulting from the general economic downturn and the decline in prices of, and demand for, crude oil and other commodities. Such market conditions could have an impact on, among other things, the Company's production and volumes of crude oil and natural gas, the Company's cash balances at Azerbaijan banks, the cost of the Company's funding, the U.S. Dollar/Manat and U.S. Dollar/Turkish Lira exchange rates and, accordingly, could have a material adverse effect on the Company's business, prospects, financial condition, cash flows and results of operations. The Company intends to continue to evaluate the potential impact of these conditions, which could result in future reductions in its consolidated cash flows and results of operations.

Changes in crude oil and refined oil product prices

The prices of crude oil and refined oil products internationally and in Azerbaijan have a significant impact on the Company's results of operations. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Company's revenue and net profits fluctuate significantly with changes in crude oil prices, which are historically volatile and are affected by a variety of factors beyond the Company's control*". World prices for crude oil are characterised by significant fluctuations that are determined by the global balance of supply and demand, which is entirely outside of the Company's control. The Company's revenue and net income fluctuate significantly with changes in crude oil prices. Crude oil prices have been particularly volatile in recent years, reaching a peak in July 2008 and then sharply falling in the second half of 2008, and remaining low during the first half of 2009, before beginning to recover in the second half of 2009. Crude oil prices also declined in mid-2010 before recovering later in the year and into 2011. According to the EIA, the average monthly price for Brent crude oil in December 2008 was U.S.$40/bbl, a decrease of about 70% from U.S.$133/bbl in July 2008. While oil prices have increased overall in 2011 to a maximum of U.S.$122/bbl in April 2011, a 31.1% increase from prices in December 2010, as at the date of this Prospectus, the price of crude oil remains below the record high prices, which historically has had a considerable positive impact on the Company's business, prospects, financial condition, cash flows and results of operations. As at 26 January 2012, the price for Brent crude oil was U.S.$110/bbl.

The decline in oil prices from mid-2008 to mid-2009 was largely associated with a weakening in global economic conditions and a reduction in the demand for crude oil. In its April 2010 report, the EIA reiterated its projections that world oil consumption will grow by 1.5 million bbl per day in 2010 and by 1.6 million bbl per day in 2011. The EIA noted that this growth prediction is driven by the expected recovery in the global economy, with world gross domestic product expected to rise by more than 3% per annum. Oil and gas commodity prices are one of the key factors affecting the Company's results of operations, and a decline in prices for crude oil has had and may continue to have a negative effect on the Company's results of operations. Generally, commodities prices fluctuate based on a number of factors beyond the Company's control and the Company's management cannot predict if or when the recent significant volatility in oil prices will be repeated; accordingly, the actual prices the Company realises may vary substantially from its current estimates.

A substantial proportion of the Company's sales of refined oil products are sold in the domestic market at prices regulated by the Government and generally below international market prices. A disparity between high crude oil costs and lower prices of refined oil products can have an adverse impact on the financial results of the Company's refining segment.

The mix of exported crude oil and crude oil used by the Company domestically has affected, and is expected to continue to affect, the Company's results of operations. Historically, sales prices for exported oil products have been significantly higher than domestic prices, as the Government sets the domestic price of oil products at below market rates. From time to time, the Government may issue such recommendations or mandates to prevent domestic price increases, particularly when there is not enough supply due to high demand, which would cause domestic prices to increase. The Company expects export sales prices to continue to remain at a higher level compared to domestic sales prices and thus seeks to maximise the percentage of its total crude oil sales that are export sales. Should the percentage of export sales increase, this may have a positive effect on the results of operations of the Company while, correspondingly, if the percentage of domestic sales increases, the Company's result of operations could be adversely affected.

The Company does not use commodity price hedging arrangements.

Changes in production of crude oil, gas and petrochemicals

The Company's ability to generate revenue depends primarily on its production of crude oil, gas and petrochemicals. The Company produces crude oil, refined oil products and gas through its production subsidiaries, which it fully consolidates, as well as through its jointly-controlled entities and associates. However, because the Company accounts for its jointly-controlled entities and associates under the equity method, the Company does not directly derive revenue or incur costs of sales from the production of crude oil, refined oil products or gas by its jointly-controlled entities. Accordingly, in the context of the discussion of the Company's revenue and cost of sales, production data is provided only for the Company and its subsidiaries (excluding the production of jointly-controlled entities). The Company uses "consolidated production" to refer to production of the Company and its majority-owned subsidiaries (in other words, production from Azneft), and "total production" to refer to consolidated production plus production attributable to the Company through joint ventures and PSAs (*e.g.*, from ACG).

Production of Crude Oil

Azneft accounted for 100% of the Company's consolidated production of crude oil in 2010 but 73.2% of the Company's total oil production. A portion of the Company's total oil production of crude oil, accounting for 13.4% of the production in 2010, is attributable to the Company through AzACG, its wholly-owned subsidiary that in turn holds an 11.65% share in the ACG PSA. The Company's interests in the Shah Deniz PSA and jointly-controlled entities accounted for 1.5% and 11.9% of its total oil production in 2010. In 2010, the Company's consolidated production of crude oil decreased by 0.1% from 7.2 million tonnes in 2009 to 7.2 million tonnes in 2010 while the Company's total production of crude oil decreased by 1.1% from 8.5 million tonnes in 2009 to 8.4 million tonnes in 2010. In the six months ended 30 June 2011, the Company's consolidated production and total production of crude oil were 3.6 million tonnes and 4.2 million tonnes, respectively.

Production of Gas

Azneft accounted for 100% of the Company's consolidated gas production in 2010 but 63.7% of the Company's total gas production. The Company's interests in the ACG PSA and the Shah Deniz PSA accounted for 31.2% and 5.1%, respectively, of the Company's total gas production in 2010. In 2010, the Company's consolidated gas production increased by 4.6% from 6.7 bcm in 2009 to 7.0 bcm in 2010, primarily due to an increase in production by jointly-controlled entities. The Company's total gas production increased by 6.9% from 11.6 bcm in 2009 to 12.4 bcm in 2010, principally due to increased volumes transferred to the Company from Shah Deniz, partially offset by decreased volumes transferred to the Company from AzACG. In the six months ended 30 June 2011, the Company's consolidated production and total production of gas were 3.4 bcm and 6.1 bcm, respectively.

Production of Petrochemicals

The Company consolidates production from Azerikimya and Petkim. In 2010, Azerikimya and Petkim produced 0.1 million tonnes and 3.2 million tonnes of saleable petrochemical products (of which 1.8 million tonnes was attributable to the Company), respectively, accounting for 8% and 92%, respectively, of the Company's production of petrochemicals. In 2010, the Company's consolidated production of petrochemicals increased from zero in 2009 to 138,388 tonnes in 2010, while the Company's total production of petrochemicals increased by 23.6% from 1.4 million tonnes in 2009 to 1.8 million tonnes in 2010. In the six months ended 30 June 2011, the Company's consolidated production and total production of petrochemicals were 0.1 million tonnes and 1.0 million tonnes, respectively.

Impact of changes in exchange rates on export sales and operating margins

The Manat/U.S. Dollar exchange rate and inflation trends in Azerbaijan affect the Company's results of operations principally because: (i) a majority of the Company's consolidated revenue from sales of crude oil and refined oil products are denominated in U.S. Dollars, while a substantial portion of the Company's expenses are denominated in Manat; and (ii) a significant majority of its borrowings and accounts payable are denominated in U.S. Dollars. Accordingly, fluctuations in the Manat/U.S. Dollar exchange rate may significantly affect the Company's consolidated results of operations. Although the Manat/U.S. Dollar exchange rate has been fairly stable in recent years, the exchange rate has fluctuated significantly in the past.

A depreciation of the Manat would positively affect the Company's consolidated sales revenue in light of the breakdown of its transactional currency exposures. On the other hand, the Company has significant U.S. Dollar denominated liabilities and any depreciation of the Manat relative to the U.S. Dollar would result in foreign currency translation losses that are recognised in the Company's consolidated statement of comprehensive income. While certain of the Company's subsidiaries, such as Azneft and AzACG, which have significant U.S. Dollar revenues and have relatively minor amounts of U.S. Dollar denominated liabilities, may benefit from a devaluation of the Manat against the U.S. Dollar, because a significant majority of the Company's consolidated total borrowings are denominated in U.S. Dollars, a devaluation of the Manat would have a net negative impact on the Company's financial condition and results of operations.

The Company does not use currency hedging arrangements.

The following table sets forth the year average and year-end Manat/U.S. Dollar exchange rates reported by the Central Bank (after rounding adjustment) for the years indicated:

Period	**Year Average[(1)]**	**End of period**
	(AZN per U.S.$1.00)	
Year ended 31 December 2009	0.8039	0.8031
Year ended 31 December 2010	0.8029	0.7979
Year ended 31 December 2011	0.7895	0.7865
Six months ended 30 June 2011	0.7869	0.7867

Note:

(1) The average of the rate reported by the Central Bank for each month during the relevant year.

The Manat/U.S. Dollar exchange rate reported by the Central Bank on 26 January 2012 was AZN 0.7863 per U.S.$1.00.

Acquisitions

The Company has made several acquisitions in recent years, which have had and are expected to have, an effect on the Company's results of operations, including the acquisitions listed below. See "*Risk Factors—Risk Factors Relating to the Company's Business—Failure to integrate recent or future acquisitions successfully may lead to increased costs or losses for the Company*".

In November 2011, the Company signed an agreement with Exxon whereby the Company agreed to purchase Esso Switzerland for a total consideration of CHF 330 million. The Company expects the transaction to close in July 2012. Esso Switzerland operates, *inter alia*, a retail network with more than 170 service stations, of which 63 are company-owned. The petrol stations, which are currently branded as Esso stations, are expected to be rebranded under the SOCAR name by 2013.

On 22 July 2011, the Company acquired the 77.4% interest in Azerbaijan BTC Limited ("**AzBTC**") that previously was held by the Ministry of Economic Development of the Republic for no consideration. As a result, the Company now owns 100% of the shares of AzBTC.

On 6 July 2011, AzACG acquired a further 1.6461% participating interest in the ACG PSA from BP, which was financed by a local bond in July 2011 in an aggregate principal amount of U.S.$485 million maturing in 2024 purchased by SOFAZ. As a result, AzACG interest in the ACG PSA was increased to 11.6461%.

On 2 April 2010, the Company acquired 100% of the share capital of Azerikimya, which was previously 100% state-owned. Pursuant to a Presidential Decree № 829 of 2 April 2010 "On Improvement of Management Framework in the Petrochemicals Industry", Azerikimya, which is involved in the production of petrochemicals in Azerbaijan, was transferred to the Company for no cash consideration. The Company's management concluded that, as at the date of transfer, the fair value of Azerikimya was negative as a result of, *inter alia*, the facts that: (i) Azerikimya's key production equipment was outdated, highly amortised, characterised by low productivity, high energy consumption and potential ecological problems; (ii) some of its products either had low market prices or low added value resulting in low margins; and (iii) the location of Azerikimya's production facilities in the regional transportation network was unfavourable as compared to its competitors.

On 1 July 2009, the Company acquired 100% of the share capital of Azerigas, which was previously 100% state-owned. Pursuant to a Presidential Decree dated 1 July 2009, Azerigas, which is involved in the transportation of gas via pipelines between manufacturers, customers and storage units in Azerbaijan, as well as the transit of gas for export to Russia, Georgia and Iran, was transferred to the Company for no cash consideration. The Company's management concluded that, as at the date of transfer, the fair value of Azerigas was negative as a result of, *inter alia*, the facts that: (i) Azerigas was obligated to maintain and expand its pipeline network which required significant capital expenditures; (ii) transportation tariffs were regulated and expected to be regulated for the foreseeable future; and (iii) Azerigas's management did not expect a quick improvement in the collectability of revenue owed to it. Pursuant to an Order of the Cabinet of Ministers dated 16 June 2011, Azerigas's charter capital was increased by AZN 150 million by cash transfer from the Government.

On 30 May 2008, the Company acquired a controlling interest in Petkim, the sole petrochemical producer in Turkey, as a result of a privatisation tender held by the Turkish government in 2007. Petkim produces and markets a variety of petrochemical products in the Turkish and international markets. The Company participated in the tender through SOCAR-Turcas Petro, acting in consortium with a Saudi-based investment company. Subsequent to the purchase of 51% of the share capital of Petkim in May 2008 through SOCAR-Turcas Petro, STEAS directly purchased an additional 2.35% of Petkim's share capital in the open market during the 2008 and 2009. The Company has itself acquired a 4.93% stake in Petkim in open market transactions. As a result of the foregoing, the Company has an effective 58.28% interest in Petkim. SOCAR-Turcas Petro spent U.S.$2.04 billion purchasing the 51% stake, whilst STEAS has spent YTL 19.4 million and the Company has spent U.S.$60.6 million on their direct acquisitions of Petkim shares. See "*Business—Refining, Marketing and Trading—Petkim*".

Changes in the share of income from jointly-controlled entities and associates

The Company holds significant interests, both directly and through its subsidiaries, in a number of jointly-controlled projects, including, *inter alia*, the ACG PSA, the Shah Deniz PSA, Surakhani PSA, Gobustan PSA, Mishovdag and Kelameddin PSA, Kursengi and Garabagli PSA, Binagadi PSA, Padar PSA, Pirsaat PSA, Zigh and Hovsan PSA, Kurovdag PSA, Neftchala PSA and Bahar PSA.

The results, assets and liabilities of jointly-controlled entities are incorporated into the Financial Statements using the equity method of accounting. Under the equity method, the investment in a jointly-controlled entity is carried in the statement of financial position at cost plus post-acquisition changes in the Company's share of net assets of the jointly-controlled entity, less distributions received and less any impairment in value of the investment. The Company's statement of comprehensive income reflects the Company's share of the profit or loss of the jointly-controlled entity and any income and expense recognised by the jointly-controlled entity in other comprehensive income or loss.

Financial statements of jointly-controlled entities are prepared for the same reporting period as the Company. Where necessary, adjustments are made to those financial statements to bring the accounting policies used into line with those of the Company. The Company ceases to use the equity method of accounting as of the date from which it no longer has joint control over the joint venture or significant influence in the associated entity, or when the interest is held for sale.

Certain of the Company's upstream activities, which are governed by PSAs, are conducted through joint ventures where the venture parties have direct ownership interests in and jointly control the assets of the venture. Such activities are accounted for as jointly-controlled assets through proportional consolidation. Accordingly, the Company recognises its share of the jointly-controlled assets and its share in the liabilities, income and expenses related to jointly-controlled assets in proportion to the Company's interest.

Associates are entities over which the Company directly or indirectly has significant influence, but not control. Investments in associates is carried in the statement of financial position at cost plus post-acquisition changes in the group's share of net assets of the associate less accumulated impairment of investments. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The Company's share of its associates' post-acquisition profits or losses is recognised in its profit or loss; the Company's share of changes in net assets is recognised in other comprehensive income or loss. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any receivables, regarded to be in substance an extension of the Company's investment in the associate, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Company and its associates related to transfer of assets are eliminated to the extent of the Company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Financial statements of jointly-controlled entities and associates are prepared for the same reporting period as the Company. Where necessary, adjustments are made to those financial statements to bring the accounting policies used into line with those of the Company.

The Company's profitability is materially affected by the results of operations of its jointly-controlled entities over which it does not exercise full control. In 2008, 2009 and 2010, total income after tax attributable to the Company's interests in jointly-controlled entities and associates was AZN 72 million, AZN 77 million and AZN 105 million, respectively.

Taxation

Corporate income taxes have been provided for in the Financial Statements in accordance with the applicable legislation enacted or substantively enacted by the statement of financial position date. The income tax charge comprises current tax and deferred tax and is recognised in the statement of comprehensive income unless it relates to transactions that are recognised, in the same or a different period, directly in equity. Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income taxes are provided in full on temporary differences arising on recognition and subsequent measurement of provision for asset retirement obligation and related adjustments to cost of property, plant and equipment.

Descriptions of Principal Income Statement Items

Descriptions of certain principal income statement items are set forth below.

Revenue

The Company principally derives revenue from the sale of goods and services in the ordinary course of business. The products include crude oil, natural gas and related products; the services include refining oil, agency services related to the wholesale of oil and petroleum products, transportation services and construction services.

Net Sales of Oil Products

Revenue from sales of oil products, stated net of excise tax.

Petrochemicals

Revenue from sales of petrochemical products.

Net Sales of Crude Oil

Revenue from sales of crude oil, stated net of the price margin tax levied on the margins between the international market price and the internal, state regulated price of crude oil. Revenue from sales produced under PSAs is not subject to excise and price margin taxes mentioned above.

Natural Gas

Revenue from all domestic gas and related products, sold directly to customers. The Company sells gas and related products on the domestic market, and the Government fixes the prices. The Group also sells gas to Russia, Georgia and Turkey.

Other revenues

Other sources of revenue include interest, dividends, royalties and Government grants. Finance lease income is also included in other revenues.

Cost of Sales

Cost of sales are the costs of purchase, production, manufacturing and transportation incurred bringing the goods and services to a saleable condition and location, adjusted for opening and closing inventories.

Operating Expenses

All operating expenses incurred by the Company are classified by function and fall within one of the following areas: production costs, distribution or selling costs, exploration costs, research and development costs, general and administrative expenses and other expenses.

Distribution Expenses

Distribution expenses include selling and marketing costs and expenses incurred in relation to the handling, storage and transportation of finished products up to the point of sale, but not including primary distribution.

General and Administrative Expenses

General and administrative expenses are the costs of administration management and of secretarial, accounting and administrative costs. They include administration payroll costs and the cost of central functions (such as audit, legal and consulting), which are not directly involved in the production of goods or the provision of services.

Social Expenses

Social expenses are based on *ad hoc* decisions of the Government, pursuant to which the Company is required to make direct cash contributions to various Government departments and contractors via the Government's social department, to sponsor Government entities or agencies and to finance Government-administered projects of construction or repair.

Exploration and Evaluation Expenses

Exploration and evaluation expenses are the costs that are incurred during exploration and evaluation activities, *i.e.*, the identification and assessment of new or specific areas that are considered to have prospects of containing oil and gas reserves.

Research and Development Expenses

Research and development expenses include all expenses relating to activities that may result in the development of a new product or service, or a new process or technique, or in bringing about a significant improvement to an existing product or process.

Other Operating Income

Other operating income is income derived from sales of goods and services rendered other than in relation to the Company's core oil and gas business, for example rent. Proceeds of the Company's insurance business joint venture also fall under this category.

Financing

Finance Income

Finance income includes interest income, both from deposits and bank accounts, and from loans to related parties.

Finance Costs

Finance costs include interest expense and provisions for asset retirement obligations, environmental obligations and disability payments.

Profit before Income Tax

This figure represents total revenue less total expenses and consequently the total profit assessable to income tax.

Income Tax Expense

This includes both current tax expenses and a deferred tax charge (see above).

Results of Operations for the Six Months Ended 30 June 2011, as compared to the Six Months Ended 30 June 2010

The Interim Financial Statements are unaudited.

Revenue

Total revenue increased from AZN 2,721 million in the six months ended 30 June 2010 to AZN 3,434 million in the six months ended 30 June 2011, an increase of AZN 713 million, or 26.2%, primarily as a result of a significant increase in the average prices of oil products to AZN 566 per tonne in the six months ended 30 June 2011, as compared to AZN 368 per tonne in the six months ended 30 June 2010, and also due to higher local demand for diesel and other refined products in the context of a strengthening domestic economy. In addition, crude oil export sales increased by 42% in the six months ended 30 June 2011, as compared to the six months ended 30 June 2010, as a result of higher international prices and a 4% increase in sales volume.

The following table sets forth the Company's revenue for the periods indicated:

	For the six months ended 30 June		
	2011	**2010**	**Change**
	(AZN millions)		*(%)*
Oil products, net[1]	1,058	953	11.0
Petrochemicals	1,073	765	40.3
Crude oil, net[2][3]	629	500	25.8
Natural gas	563	389	44.7
Other revenue	111	114	(2.6)
Total	**3,434**	**2,721**	**26.2**

Notes:

(1) Revenue from net oil product sales is stated net of excise tax.

(2) Revenue from net crude oil sales is stated net of the price margin tax, which is levied on the difference between the international market price for crude oil and the state-regulated price of crude oil. This difference is taxed at the rate of 30%, which is transferred to the state budget.

(3) Revenue from sales of crude oil produced under the AGC PSA and condensate produced under the Shah Deniz PSA is not subject to the taxes referred to in Note 2 above. See "*Business—Exploration and Production—Significant Production Fields of the Company's Joint Ventures and Associates—Azeri-Chirag-Gunashli fields*".

Net Sales of Oil Products

Total revenue from net sales of oil products increased from AZN 953 million in the six months ended 30 June 2010 to AZN 1,058 million in the six months ended 30 June 2011, an increase of AZN 308 million, or 40.3%, primarily as a result of a 54% increase in average export sales prices, which was partially offset by a 27% decrease in the quantity of export sales. There was also an increase in domestic sales of oil products, in line with an increase in demand and overall economic growth in Azerbaijan following the economic slowdown in 2009.

The following table sets forth certain information regarding the Company's net sales revenue and volumes of oil products for the periods indicated:

	For the six months ended 30 June	
	2011	**2010**
Oil products, net revenue (*AZN millions*)(1)	1,058	953
Oil products, net volumes (*millions of tonnes*)(2)	2.9	2.9
Average price per tonne of oil products (*AZN*)(3)	364.83	328.62

Notes:

(1) After elimination of intra-group sales.

(2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.

(3) Average price per tonne is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes).

Petrochemicals

Total revenue from petrochemical sales increased from AZN 765 million in the six months ended 30 June 2010 to AZN 1,073 million in the six months ended 30 June 2011, an increase of AZN 308 million, or 40.3%, primarily as a result of the acquisition of Azerikimya in April 2010 and production from Petkim, both of which contributed significantly to the volume of the Company's petrochemical production.

The following table sets forth certain information regarding the Company's petrochemical sales revenue and volumes for the periods indicated:

	For the six months ended 30 June	
	2011	**2010**
Petrochemicals revenue (*AZN millions*)(1)	1,073	765
Petrochemicals, net volumes (*millions of tonnes*)(2)	1.01	0.82
Average price per tonne (*AZN*)(3)	1,062	930

Notes:

(1) After elimination of intra-group sales.

(2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.

(3) Average price per tonne is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes).

Net Sales of Crude Oil

Total revenue from net sales of crude oil increased from AZN 500 million in the six months ended 30 June 2010 to AZN 629 million in the six months ended 30 June 2011, an increase of AZN 129 million, or 25.8%, primarily as a result of an increase in international crude oil prices.

The following table sets forth certain information regarding the Company's net sales revenue and volumes of crude oil for the periods indicated:

	For the six months ended 30 June	
	2011	**2010**
Crude oil, net revenue (*AZN millions*)(1)	629	500
Crude oil, net volumes (*millions of tonnes*)(2)	1.8	1.8
Average price per tonne of crude oil (*AZN*)(3)	349.44	277.78

Notes:

(1) After elimination of intra-group sales.

(2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.

(3) Average price per tonne is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes).

Net Sales of Natural Gas

Total revenue from net sales of natural gas increased from AZN 389 million in the six months ended 30 June 2010 to AZN 563 million in the six months ended 30 June 2011, an increase of AZN 174 million, or 44.7%, primarily as a result of increases in contractual prices and in volume of gas exported to Russia, partially offset by a 14% decrease in gas delivered to AzSD under the Shah Deniz PSA.

The following table sets forth certain information regarding the Company's net sales revenue and volumes of natural gas for the periods indicated:

	For the six months ended 30 June	
	2011	**2010**
Natural gas revenue (*AZN millions*)[1]	563	389
Natural gas volumes (*bcm*)[2]	6.8	5.2
Average price per m^3 of natural gas (*AZN*)[3]	0.09	0.11

Notes:
(1) After elimination of intra-group sales.
(2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.
(3) Average price per m^3 is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes).

Cost of Sales

Cost of sales increased from AZN 1,899 million in the six months ended 30 June 2010 to AZN 2,114 million in the six months ended 30 June 2011, an increase of AZN 215 million, or 11.3%, primarily as a result of the effect of increased crude oil prices on the Company's downstream operations, including refining and marketing, the recognition of the recovery of an AZN 39 million accounts receivable impairment loss in the six months ended 30 June 2010 and an additional AZN 31 million attributable to Azerikimya, which was not part of the Company's group in the six months ended 30 June 2010.

Gross Profit

As a result of the foregoing, gross profit increased from AZN 822 million in the six months ended 30 June 2010 to AZN 1,320 million in the six months ended 30 June 2011, an increase of AZN 498 million, or 60.6%.

Operating Expenses

Operating expenses increased from AZN 442 million in the six months ended 30 June 2010 to AZN 462 million in the six months ended 30 June 2011, an increase of AZN 20 million, or 0.5%, primarily as a result of a 20.0% increase in distribution expenses and a 48.0% increase in other operating expenses, partially offset by a 60.1% decrease in losses on transfers of property, plant and equipment and an 11.4% decrease in general and administrative expenses.

Distribution Expenses

Distribution expenses increased from AZN 96 million in the six months ended 30 June 2010 to AZN 115 million in the six months ended 30 June 2011, an increase of AZN 19 million, or 20.0%. This increase was primarily due to higher costs of consumables used in the production of oil, gas and refined oil products.

General and Administrative Expenses

General and administrative expenses decreased from AZN 162 million in the six months ended 30 June 2010 to AZN 144 million in the six months ended 30 June 2011, a decrease of AZN 19 million, or 11.4%, due to various immaterial reductions in costs.

Disposal of Property, Plant and Equipment

The amount of losses on disposals of property, plant and equipment recognised by the Company decreased from AZN 23 million in the six months ended 30 June 2010 to AZN 9 million in the six months ended 30 June 2011, a decrease of AZN 14 million, or 60.0%. This decrease was primarily due to the transfer of a building for the Company's employees in the Salyan district for no consideration in 2010, with no similar transfers in the six months ended 30 June 2011.

Social Expenses

Social expenses increased from AZN 60 million in the six months ended 30 June 2010 to AZN 66 million in the six months ended 30 June 2011, an increase of AZN 6 million, or 9.8%. This increase was primarily due to increased expenditure on social projects, such as the construction of medical centres and schools and other urban improvements.

Exploration and Evaluation Expenses

Exploration and evaluation expenses decreased from AZN 18 million in the six months ended 30 June 2010 to AZN 11 million in the six months ended 30 June 2011, a decrease of AZN 7 million, or 38.9%. This decrease was primarily due to the Company carrying out less exploration activity and concentrating on increasing production from established fields.

Research and Development

Expenses in respect of the Company's research and development activities decreased from AZN 7 million in the six months ended 30 June 2010 to AZN 4 million in the six months ended 30 June 2011, a decrease of AZN 3 million, or 42.4%.

Other Operating Expenses

Other operating expenses increased from AZN 77 million in the six months ended 30 June 2010 to AZN 113 million in the six months ended 30 June 2011, an increase of AZN 36 million, or 46.8%, primarily due to increases in operating expenses across the Company's group, none of which were in themselves material. These increases were partially offset by changes to normal production losses at Azerigas agreed with the tax authorities, which reduced the amount of abnormal production losses, which are accounted for as other operating expenses, by AZN 40 million.

Other Operating Income

Other operating income decreased from AZN 143 million in the six months ended 30 June 2010 to AZN 76 million in the six months ended 30 June 2011, a decrease of AZN 67 million, or 46.8%. This decrease was primarily due to an Azerikimiya entity paying a historic debt owed to the Azerneftyag Oil Refinery in 2010 (prior to the Company's acquisition of Azerikimiya) in an amount of AZN 73 million that had been previously written off in prior periods.

Operating Profit

As a result of the foregoing, operating profit increased from AZN 523 million in the six months ended 30 June 2010 to AZN 934 million in the six months ended 30 June 2011, an increase of AZN 411 million, or 78.7%.

Financing

Finance Income

Finance income increased from AZN 30 million in the six months ended 30 June 2010 to AZN 34 million in the six months ended 30 June 2011, an increase of AZN 4 million, or 13.3%, primarily as a result of increased interest income from deposit accounts opened with the International Bank of Azerbaijan (the "**IBA**"). Since these accounts were opened in May 2010, the income was greater in the six months ended 30 June 2011 than in the six months ended 30 June 2010.

Finance Costs

Finance costs decreased from AZN 104 million in the six months ended 30 June 2010 to AZN 88 million in the six months ended 30 June 2011, a decrease of AZN 16 million, or 15.6%. This increase was primarily due to a decrease in average LIBOR rates. See "—*Debt Obligations*".

The following table sets forth the Company's finance costs for the periods indicated:

	For the six months ended 30 June		
	2011	2010	Change
	(AZN millions)		*(%)*
Interest expense	66	82	(19.5)
Provisions for asset retirement obligations[(1)]	7	3	133.3
Environmental provision[(1)]	13	17	(23.5)
Provisions for disability payments[(1)]	2	2	0.0
Total	**88**	**104**	**(15.4)**

Note:
(1) Unwinding the present value discount. See Note 13 to the Interim Financial Statements.

Foreign Exchange Losses

The Company's foreign exchange losses decreased from AZN 104 million in the six months ended 30 June 2010, to AZN 94 million in the six months ended 30 June 2011, a decrease of AZN 10 million, or 9.6%. The increase in the Company's foreign exchange losses is primarily due to an appreciate of the Turkish Lira against the U.S. Dollar.

Share of Results of Jointly-Controlled Entities

In the six months ended 30 June 2011, the Company's share of the after-tax results of jointly-controlled entities was AZN 1 million, as compared to AZN 6 million in the six months ended 30 June 2010, an increase of AZN 5 million, or 500.0%.

Share of Results of Associates

The Company's income from its share of the after-tax results of associates decreased from AZN 63 million in the six months ended 30 June 2010, to AZN 62 million in the six months ended 30 June 2011, a decrease of AZN 1 million, or 1.6%.

Profit before Income Tax

As a result of the foregoing, profit before income tax increased from AZN 407 million in the six months ended 30 June 2010 to AZN 853 million in the six months ended 30 June 2011, an increase of AZN 446 million, or 109.3%.

Income Tax Expense

Income tax expense decreased from AZN 280 million in the six months ended 30 June 2010 to AZN 182 million in the six months ended 30 June 2011, a decrease of AZN 98 million, or 35.0%. In 2010, the Company identified certain asset retirement obligations and environmental provisions as non-deductible expenses, which gave rise to a deferred tax liability of AZN 72 million. In 2011, the Company changed its approach for the recognition of such expenses and identified them as deductible expenses. See "*—Main Factors Affecting Results of Operations and Liquidity—Taxation*" and "*—Quantitative and Qualitative Disclosures about Market Risk—Taxation*".

Profit for the Period

As a result of the foregoing, profit for the period increased from AZN 127 million in the six months ended 30 June 2010 to AZN 671 million in the six months ended 30 June 2011, an increase of AZN 544 million, or 428.3%.

Results of Operations for the Year Ended 31 December 2010, as compared to the Year Ended 31 December 2009

Revenue

Revenue increased from AZN 4,196 million in the year ended 31 December 2009 to AZN 5,527 million in the year ended 31 December 2010, an increase of AZN 1,331 million, or 31.7%. This increase was primarily due to a 54.4% increase in sales of petrochemicals, a 14.7% increase in net oil products sales and a 23.6% increase in net crude oil sales. These increases were due, in part, to higher international commodities prices for oil and oil products, as well as increased revenues due to the Company's growth in its downstream activities, including the opening of new petrol stations. See "*—Main Factors Affecting Results of Operations and Liquidity—Changes in crude oil and refined oil* *product prices*" and "*Business—Refining, Marketing and Trading—Refined Oil Products Sales and Distribution—Retail Station Network*".

The following table sets forth the Company's revenue for the years indicated:

	For the year ended 31 December		
	2010	**2009**	**Change**
	(AZN millions)		*(%)*
Oil products, net[1]	1,749	1,525	14.7
Petrochemicals	1,651	1,069	54.4
Crude oil, net[2][3]	1,161	939	23.6
Natural gas	767	550	39.5
Other revenue	200	114	75.4
Total	**5,527**	**4,196**	**31.7**

Notes:

(1) Revenue from net oil product sales is stated net of excise tax of AZN 390 million in 2010 and AZN 362 million in 2009.

(2) Revenue from net crude oil sales is stated net of the price margin tax, which is levied on the difference between the international market price for crude oil and the state-regulated price of crude oil. This difference is taxed at the rate of 30%, which is transferred to the state budget.

(3) Revenue from sales of crude oil produced under the AGC PSA and condensate produced under the Shah Deniz PSA is not subject to the taxes referred to in Note 2 above. See "*Business—Exploration and Production—Mining Taxes*".

Net Sales of Oil Products

Total revenue from net sales of oil products increased from AZN 1,525 million in the year ended 31 December 2009 to AZN 1,749 million in the year ended 31 December 2010, an increase of AZN 224 million, or 14.7%, primarily as a result of capacity-increasing projects at Petkim, which led to a 42% increase in sales. See "*Business—Refining, Marketing and Trading—Petkim*".

The following table sets forth certain information regarding the Company's net sales revenue and volumes of oil products for the years indicated:

	For the year ended 31 December	
	2010	**2009**
Oil products, net revenue (*AZN millions*)[1]	1,749	1,525
Oil products, net volumes (*millions of tonnes*)[2]	6.2	5.8
Average price per tonne of oil products (*AZN*)[3]	282.10	262.93

Notes:

(1) After elimination of intra-group sales.

(2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.

(3) Average price per tonne is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes).

In the year ended 31 December 2010, domestic sales of oil products accounted for AZN 753 million, or 43.1% of total revenue from oil products. External sales accounted for AZN 996 million, or 56.9% of total revenue from oil products. In the year ended 31 December 2009, domestic sales of oil products accounted for AZN 695 million, or 45.6% of total revenue from oil products. External sales accounted for AZN 830 million, or 54.4% of total revenue from oil products.

Petrochemicals

Total revenue from petrochemical sales increased from AZN 1,069 million in the year ended 31 December 2009 to AZN 1,651 million in the year ended 31 December 2010, an increase of AZN 582 million, or 54.4%, primarily as a result of price increases in the petrochemical industry corresponding to increases in international crude oil prices.

The following table sets forth certain information regarding the Company's petrochemical sales revenue and volumes for the years indicated:

	For the year ended 31 December	
	2010	**2009**
Petrochemicals revenue (*AZN millions*)[1]	1,651	1,069
Petrochemicals, net volumes (*millions of tonnes*)[2]	1.78	1.44
Average price per tonne (*AZN*)[3]	928	741

Notes:
(1) After elimination of intra-group sales.
(2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.
(3) Average price per tonne is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes).

Pursuant to a Presidential Decree of 2 April 2010, the Company acquired 100% of the charter capital of Azerikimya, which is involved in the production of petrochemicals in Azerbaijan in a transaction with the Government without the transfer of any consideration by the Company. Although the Company has determined that the net asset value of Azerikimya was negative on acquisition, Azerikimya contributed AZN 89 million to revenues in 2010. If the acquisition had taken place on 1 January 2010, Azerikimya would have contributed a further AZN 115 million to 2010 revenues. See "*Business—Refining, Marketing and Trading—Azerikimya*" and Note 36 to the 2010 Financial Statements.

Net Sales of Crude Oil

Total revenue from net sales of crude oil increased from AZN 939 million in the year ended 31 December 2009 to AZN 1,161 million in the year ended 31 December 2010, an increase of AZN 222 million, or 23.6%, primarily as a result of an increase in average oil prices from U.S.$62/bbl in 2009 to U.S.$92/bbl in 2010. See "*—Main Factors Affecting Results of Operations and Liquidity—Changes in crude oil and refined oil product prices*".

The following table sets forth certain information regarding the Company's net sales revenue and volumes of crude oil for the years indicated:

	For the year ended 31 December	
	2010	**2009**
Crude oil, net revenue (*AZN millions*)[1]	1,161	939
Crude oil, net volumes (*millions of tonnes*)[2]	3.8	4.1
Average price per tonne of crude oil (*AZN*)[3]	305.53	229.02

Notes:
(1) After elimination of intra-group sales.
(2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.
(3) Average price per tonne is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes).

All of the Company's revenue in respect of crude oil sales is derived from external sales. No revenue in respect of crude oil is derived from domestic sales.

Natural Gas

Total revenue from natural gas sales increased from AZN 550 million in the year ended 31 December 2009 to AZN 767 million in the year ended 31 December 2010, an increase of AZN 217 million, or 39.5%, primarily as a result of the contribution of Azerigas (acquired in 2009) and increased revenue following price revision negotiations with BOTAS, the Turkish state-owned gas distribution company and the principal customer for gas produced at Shah Deniz, and an increase in average prices of natural gas. See "*Business—Significant Production Fields of the Company's Joint Ventures and Associates—Shah Deniz*".

The following table sets forth certain information regarding the Company's net sales revenue and volumes of natural gas for the years indicated:

	For the year ended 31 December	
	2010	2009
Natural gas revenue (*AZN millions*)(1)	767	550
Natural gas volumes (*bcm*)(2)	9.7	11.1
Average price per m^3 of natural gas (*AZN*)(3)	0.09	0.08

Notes:

(1) After elimination of intra-group sales.

(2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.

(3) Average price per m^3 is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes).

In the year ended 31 December 2010, domestic sales of natural gas accounted for AZN 374 million, or 48.8% of total revenue from natural gas. External sales accounted for AZN 393 million, or 51.2% of total revenue from natural gas. In the year ended 31 December 2009, domestic sales of natural gas accounted for AZN 383 million, or 69.6% of total revenue from natural gas. External sales accounted for AZN 167 million, or 30.4% of total revenue from natural gas.

Other revenues

Other revenues include revenues from providing services to joint ventures and third parties. Other revenues increased from AZN 114 million in 2009 to AZN 200 million in 2010, an increase of AZN 86 million, or 75.4%, primarily as a result of the Company providing drilling services to joint ventures and third parties throughout 2010; in 2009 these services were only provided for three months as the Company's joint venture only started carrying out drilling activities in September 2009. See "*Business—Construction*".

Cost of Sales

Cost of sales increased from AZN 2,078 million in the year ended 31 December 2009 to AZN 3,293 million in the year ended 31 December 2010, an increase of AZN 1,215 million, or 58.5%, primarily as a result of a 32.4% increase in raw materials and consumables expenses, and a 317.1% increase in utilities expenses. The significant increase in utilities expenses was primarily a result of the increased production of Petkim, as a result of new customer orders, and the acquisition of Azerikimya in April 2010, which involved increased expenses of AZN 133 million and AZN 21 million, respectively.

Gross Profit

As a result of the foregoing, gross profit increased from AZN 2,118 million in the year ended 31 December 2009 to AZN 2,234 million in the year ended 31 December 2010, an increase of AZN 116 million, or 5.5%.

Operating Expenses

Operating expenses increased from AZN 894 million in the year ended 31 December 2009 to AZN 1,079 million in the year ended 31 December 2010, an increase of AZN 185 million, or 20.7%, primarily as a result of a 27.8% increase in distribution expenses, a 31.3% increase in general and administrative expenses and a 25.8% increase in social expenses.

Distribution Expenses

Distribution expenses increased from AZN 155 million in the year ended 31 December 2009 to AZN 198 million in the year ended 31 December 2010, an increase of AZN 43 million, or 27.7%. This increase was primarily due to increased depreciation and impairment of property, plant and equipment, transportation and vehicle maintenance and higher costs of consumables used in the production of oil, gas and refined oil products.

General and Administrative Expenses

General and administrative expenses increased from AZN 230 million in the year ended 31 December 2009 to AZN 303 million in the year ended 31 December 2010, an increase of AZN 73 million, or 31.7%. This increase was primarily due to increased personnel costs through wages, salaries and social security. These increases were, in turn, primarily a result of acquisitions and increased capacity, both of which increased the total number of employees.

Disposal of Property, Plant and Equipment

The company recognised losses on disposals of property, plant and equipment of AZN 9 million in the year ended 31 December 2009, as compared to AZN 24 million in the year ended 31 December 2010, an increase of AZN 15 million, or 166.7%. This increase was primarily due to disposals of equipment by the Company's drilling subsidiary, Complex Drilling Work Trust, and the transfer of a building for the Company's employees in the Salyan district for no consideration.

Social Expenses

Social expenses increased from AZN 159 million in the year ended 31 December 2009 to AZN 200 million in the year ended 31 December 2010, an increase of AZN 41 million, or 25.8%. This increase was primarily due to a higher number of social projects undertaken by the Company in 2010, as compared to 2009, such as the construction of medical centres, schools and certain other urban improvements. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Government, which directly controls the Company, may cause the Company to engage in business practices that may not be in the interests of the Noteholders and may cause the appointment or removal of members of the Company's management team*".

Exploration and Evaluation Expenses

Exploration and evaluation expenses decreased from AZN 11 million in the year ended 31 December 2009 to AZN 7 million in the year ended 31 December 2010, a decrease of AZN 4 million, or 36.4%. This decrease was primarily due to the Company carrying out less exploration activity and concentrating on increasing production from established fields.

Research and Development

Expenses in respect of the Company's research and development activities increased from AZN 15 million in the year ended 31 December 2009 to AZN 22 million in the year ended 31 December 2010, an increase of AZN 7 million, or 46.7%. This increase reflected a return to higher levels of research and development activity, following restrictions on such expenses during recent years due to the economic climate.

Other Operating Expenses

Other operating expenses increased from AZN 314 million in the year ended 31 December 2009 to AZN 326 million in the year ended 31 December 2010, an increase of AZN 12 million, or 3.8%. This increase was primarily due to higher repair and maintenance expenses on piers, pipelines and other plant, in turn a result of increasing production capacity.

Other Operating Income

Other operating income decreased from AZN 205 million in the year ended 31 December 2009 to AZN 179 million in the year ended 31 December 2010, a decrease of AZN 26 million, or 12.7%. This decrease was due to a 32.2% decrease in the sales of various goods and services that are individually insignificant, partially offset by insurance proceeds of AZN 11 million received in 2010 and AZN 29 million in other income.

The following table sets forth the Company's other operating income for the years indicated:

	For the year ended 31 December		
	2010	**2009**	**Change**
	(AZN millions)		*(%)*
Sales of other goods and services rendered	139	205	(32.2)
Insurance proceeds	11	—	—
Other	29	—	—
Total	**179**	**205**	**(12.7)**

Operating Profit

As a result of the foregoing, operating profit decreased from AZN 1,429 million in the year ended 31 December 2009 to AZN 1,333 million in the year ended 31 December 2010, a decrease of AZN 96 million, or 6.7%.

Financing

Finance Income

Finance income decreased from AZN 68 million in the year ended 31 December 2009 to AZN 67 million in the year ended 31 December 2010, a decrease of AZN 1 million, or 1.5%, primarily as a result of a 40.0% decrease in interest paid to the Company by related parties.

The following table sets forth the Company's finance income for the years indicated:

	For the year ended 31 December		
	2010	**2009**	**Change**
	(AZN millions)		*(%)*
Interest income on deposits and bank accounts	45	45	1.0
Interest on loans to related parties	12	20	(40.0)
Other	10	3	233.3
Total	**67**	**68**	**(1.5)**

Finance Costs

Finance costs increased from AZN 163 million in the year ended 31 December 2009 to AZN 175 million in the year ended 31 December 2010, an increase of AZN 12 million, or 7.4%. This increase was primarily due to a 5.1% increase in interest expense, as a result of a higher average amount of indebtedness in 2010, as compared to 2009. See "*—Debt Obligations*".

The following table sets forth the Company's finance costs for the years indicated:

	For the year ended 31 December		
	2010	**2009**	**Change**
	(AZN millions)		*(%)*
Interest expense	123	117	5.1
Provisions for asset retirement obligations(1)	14	7	100.0
Environmental provision(1)	35	36	(2.8)
Provisions for disability payments(1)	3	4	(25.0)
Less capitalised borrowing costs	—	(0.8)	(100)
Total	**175**	**163**	**7.4**

Note:
(1) Unwinding the present value discount. See Notes 22 and 23 to the 2010 Financial Statements.

Foreign Exchange Losses

The Company's foreign exchange losses increased from AZN 1 million in the year ended 31 December 2009 to AZN 92 million in the year ended 31 December 2010, an increase of AZN 91 million. The increase in the Company's foreign exchange losses is primarily due to increases in the U.S. Dollar against the Turkish Lira during the period, which had an adverse effect on income from production at Petkim.

Share of Results of Jointly-Controlled Entities

In the year ended 31 December 2009, the Company's share of the after-tax results of jointly-controlled entities resulted in an expense of AZN 13 million, as compared to income of AZN 6 million in the year ended 31 December 2010, a increase of AZN 19 million, primarily due to an AZN 17 million reduction in losses incurred by Carlina, in which the Company has a 75.5% interest, and increased profitability at other jointly-controlled entities due largely to increased exploration activities in the Caspian Sea and higher international oil prices, partially offset by an AZN 8.6 million decrease in profits at Caspian Shipyard Company, in which the Company has a 20% interest. See Note 16 to the 2010 Financial Statements.

Share of Results of Associates

The Company's income from its share of the after-tax results of associates increased from AZN 90 million in the year ended 31 December 2009 to AZN 99 million in the year ended 31 December 2010, an increase of AZN 9 million, or 10.0%, primarily due to the impact of the profit generated by Azeri Drilling Company (AZN 8 million), in which the Company has a 35% interest and which was established in 2009. See Note 17 to the 2010 Financial Statements.

Loss on Disposal of Joint Ventures and Associates

Losses on the Company's disposal of joint ventures and associates decreased from AZN 40 million in the year ended 31 December 2009 to AZN 1 million in the year ended 31 December 2010, a decrease of AZN 39 million, or 97.5%. This decrease in losses is primarily because none of the disposals in 2010 incurred significant write-offs of the carrying value of investments; in 2009 there were write-offs of AZN 39 million in relation to the disposal of Shirvan Oil and Anshad Petrol.

Profit before Income Tax

As a result of the foregoing, profit before income tax decreased from AZN 1,369 million in the year ended 31 December 2009 to AZN 1,238 million in the year ended 31 December 2010, a decrease of AZN 131 million, or 9.6%.

Income Tax Expense

Income tax expense increased from AZN 476 million in the year ended 31 December 2009 to AZN 582 million in the year ended 31 December 2010, an increase of AZN 106 million, or 22.3%, primarily a result of 144.3% increase in deferred tax charges. Deferred tax charges increased primarily as a result of a change in the Company's treatment of a deferred tax asset resulting from a provision for past prepayments. See "*—Main Factors Affecting Results of Operations and Liquidity—Taxation*" and "*—Quantitative and Qualitative Disclosures about Market Risk—Taxation*".

The increased deferred tax charges were partially offset by a decrease in current tax expenses due to a change in tax rates applicable to the Company. Effective 1 January 2010, in accordance with the Tax Code of the Azerbaijan Republic (the "**Tax Code**"), the income tax rate applicable to the company decreased from 22% to 20%. Accordingly, the Company's current tax expense for 2010 was AZN 302 million, as compared to AZN 361 million in 2009, a decrease of AZN 59 million, or 16.3%.

The following table sets forth the Company's income tax expenses for the years indicated:

	For the year ended 31 December		
	2010	**2009**	**Change**
	(AZN millions)		*(%)*
Current tax expense	302	361	(16.3)
Deferred tax charge	281	115	144.3
Total	**582**	**476**	**22.3**

Profit for the Period

As a result of the foregoing, profit for the year decreased from AZN 894 million in the year ended 31 December 2009 to AZN 656 million in the year ended 31 December 2010, a decrease of AZN 238 million, or 26.6%.

Results of Operations for the Year Ended 31 December 2009, as compared to the Year Ended 31 December 2008

The 2009 figures used in this section are taken from the 2010 Financial Statements for consistency. The 2008 figures are taken from the 2009 Financial Statements. See "Presentation of Financial, Reserves and Certain Other Information—Reclassifications*" and Note 2 to the 2010 Financial Statements.*

Revenue

Revenue decreased from AZN 4,711 million in the year ended 31 December 2008 to AZN 4,196 million in the year ended 31 December 2009, a decrease of AZN 515 million, or 10.9%. This decrease was primarily due to a 30.8% decrease in net sales of oil products and a 16.1% decrease in net sales of crude oil, partially offset by a 36.2% increase in sales of petrochemicals and a 29.5% increase in other revenue, as well as a 6.8% increase in sales of natural gas.

The following table sets forth the Company's revenue for the years indicated:

	For the year ended 31 December		
	2009	2008	Change
	(AZN millions)		(%)
Oil products, net[1]	1,525	2,204	(30.8)
Petrochemicals	1,069	785	36.2
Crude oil, net[2][3]	939	1,119	(16.1)
Natural gas	550	515	6.8
Other revenue	114	88	29.5
Total	**4,196**	**4,711**	**(10.9)**

Notes:

(1) Revenue from net oil product sales is stated net of excise tax of AZN 362 million in 2009 and AZN 367 million in 2008.

(2) Revenue from net crude oil sales is stated net of the price margin tax, which is levied on the difference between the international market price for crude oil and the state-regulated price of crude oil. This difference is taxed at the rate of 30%, which is transferred to the state budget.

(3) Revenue from sales of crude oil produced under the AGC PSA and condensate produced under the Shah Deniz PSA is not subject to the taxes referred to in Note 2 above. See "*Business—Exploration and Production—Mining Taxes*".

Net Sales of Oil Products

Total revenue from net sales of oil products decreased from AZN 2,204 million in the year ended 31 December 2008 to AZN 1,525 million in the year ended 31 December 2009, a decrease of AZN 679 million, or 30.8%, primarily as a result of a fall in the average price of oil products (outside Azerbaijan) from U.S.$806 per tonne in 2008 to U.S.$499 per tonne in 2009.

The following table sets forth certain information regarding the Company's net sales revenue and volumes of oil products for the years indicated:

	For the year ended 31 December	
	2009	2008
Oil products, net revenue (*AZN millions*)[1]	1,525	2,204
Oil products, net volumes (*millions of tonnes*)[2]	5.8	7.1
Average price per tonne of oil products (*AZN*)[3]	261.63	312.05

Notes:

(1) After elimination of intra-group sales.

(2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.

(3) Average price per tonne is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes). These mathematical averages are affected by domestic prices, which are fixed by the Government and are generally below international market prices.

In the year ended 31 December 2009, domestic sales of oil products accounted for AZN 695 million, or 45.6% of total revenue from oil products. External sales accounted for AZN 830 million, or 54.4% of total revenue from oil products. In the year ended 31 December 2008, domestic sales of oil products accounted for AZN 799 million, or 36.3% of total revenue from oil products. External sales accounted for AZN 1,405 million, or 63.7% of total revenue from oil products.

Petrochemicals

Total revenue from petrochemical sales increased from AZN 785 million in the year ended 31 December 2008 to AZN 1,069 million in the year ended 31 December 2009, an increase of AZN 284 million, or 36.2%, primarily due to 2009 being the first full year of consolidating production from Petkim following the acquisition of the Company's interest in Petkim in May 2008. See "*—Main Factors Affecting Results of Operations and Liquidity—Acquisitions*".

The following table sets forth certain information regarding the Company's petrochemical sales revenue and volumes for the years indicated:

	For the year ended 31 December	
	2009	2008
Petrochemicals revenue (*AZN millions*)(1)	1,069	785
Petrochemicals, net volumes (*millions of tonnes*)(2)	1.44	1.39
Average price per tonne (*AZN*)(3)	741	564

Notes:
(1) After elimination of intra-group sales.
(2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.
(3) Average price per tonne is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes).

Net Sales of Crude Oil

Total revenue from net sales of crude oil decreased from AZN 1,119 million in the year ended 31 December 2008 to AZN 939 million in the year ended 31 December 2009, a decrease of AZN 180 million, or 16.1%, primarily as a result of significant changes in oil prices and their monthly fluctuations during the period. It was also the result of a decrease in the Company's oil entitlement under the ACG PSA, which changed from being 50% for the Government and 50% for the other partners to the PSA (including the Company) in 2008 to being 75% for the Government and 25% for the other partners in 2009. See "*Business—Exploration and Production—Significant Production Fields of the Company's Joint Ventures and Associates—Azeri-Chirag-Gunashli fields*".

The following table sets forth certain information regarding the Company's net sales revenue and volumes of crude oil for the years indicated:

	For the year ended 31 December	
	2009	2008
Crude oil, net revenue (*AZN millions*)(1)	939	1,119
Crude oil, net volumes (*millions of tonnes*)(2)	4.1	2.8
Average price per tonne of crude oil (*AZN*)(3)	299	399.6

Notes:
(1) After elimination of intra-group sales.
(2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.
(3) Average price per tonne is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes).

All of the Company's revenue in respect of crude oil sales is derived from external sales. No revenue in respect of crude oil is derived from domestic sales.

Natural gas

Total revenue from natural gas sales increased from AZN 515 million in the year ended 31 December 2008 to AZN 550 million in the year ended 31 December 2009, an increase of AZN 35 million, or 6.8%, primarily due to increases in international natural gas prices and the effect of the Company's acquisition of Azerigas, which was completed on 1 July 2009.

The following table sets forth certain information regarding the Company's net sales revenue and volumes of natural gas for the years indicated:

	For the year ended 31 December	
	2009	2008
Natural gas revenue (*AZN millions*)(1)	550	515
Natural gas volumes (*bcm*)(2)	11.2	11.7
Average price per m^3 of natural gas (*AZN*)(3)	0.08	0.06

Notes:
(1) After elimination of intra-group sales.
(2) Includes sales volumes only for the Company and its consolidated subsidiaries, after elimination of intra-group sales volumes.
(3) Average price per m^3 is calculated by dividing net sales revenue (after elimination of intra-group sales) by sales volumes (after elimination of intra-group sales volumes).

In the year ended 31 December 2009, domestic sales of natural gas accounted for AZN 383 million, or 69.6% of total revenue from natural gas. External sales accounted for AZN 167 million, or 30.4% of total revenue from natural gas. In the year ended 31 December 2008, domestic sales of natural gas accounted for AZN 396 million, or 76.9% of total revenue from natural gas. External sales accounted for AZN 119 million, or 23.1% of total revenue from natural gas.

Other revenues

Other revenues increased from AZN 88 million in the year ended 31 December 2008 to AZN 114 million in the year ended 31 December 2009, an increase of AZN 26 million, or 29.5%, primarily as a result of various acquisitions in 2009 such as the Caspian Drilling Company, increasing revenue from the provision of services, such as drilling, to third parties and joint ventures. See "*—Main Factors Affecting Results of Operations and Liquidity—Acquisitions*", "*Business—Construction*" and Note 32 to the 2009 Financial Statements.

Cost of Sales

Cost of sales decreased from AZN 2,907 million in the year ended 31 December 2008 to AZN 2,078 million in the year ended 31 December 2009, a decrease of AZN 829 million, or 28.5%, primarily due to a 48.9% decrease in transportation and vehicle maintenance expenses and a 31.8% decrease in impairment of property, plant and equipment expenses, partially offset by an increase in raw materials and consumables expenses of AZN 290 million, or 29.7%.

Gross Profit

As a result of the foregoing, gross profit increased from AZN 1,804 million in 2008 to AZN 2,118 million in the year ended 31 December 2009, an increase of AZN 314 million, or 17.4%.

Operating Expenses

Operating expenses increased from AZN 784 million in the year ended 31 December 2008 to AZN 894 million in the year ended 31 December 2009, an increase of AZN 110 million, or 14.0%, as a result of a 14.8% increase in distribution expenses and a 24.3% increase in general and administrative expenses, partially offset by an 87.5% decrease in losses from the disposal of property, plant and equipment and a 41.8% decrease in social expenses.

Distribution Expenses

Distribution expenses increased from AZN 135 million in the year ended 31 December 2008 to AZN 155 million in the year ended 31 December 2009, an increase of AZN 20 million, or 14.8%. This increase was primarily due to various acquisitions, in particular the acquisition of Azerigas, requiring a corresponding growth in distribution activity.

General and Administrative Expenses

General and administrative expenses increased from AZN 185 million in the year ended 31 December 2008 to AZN 230 million in the year ended 31 December 2009, an increase of AZN 45 million, or 24.3%. This increase was primarily due to the consolidation of Azerigas's expenses following its acquisition by the Company in July 2009, partially offset by the Company's business-wide cost-cutting initiatives, put in place to mitigate the effect of the global financial crisis.

Disposal of Property, Plant and Equipment

The Company recognised losses on disposals of property, plant and equipment of AZN 72 million in the year ended 31 December 2008, as compared to AZN 9 million in the year ended 31 December 2009, a decrease of AZN 63 million, or 87.5%. The decrease in losses was primarily a result of cost-cutting procedures with equipment being used more efficiently and fewer transfers of property, plant and equipment to third parties.

Social Expenses

Social expenses decreased from AZN 273 million in the year ended 31 December 2008 to AZN 159 million in the year ended 31 December 2009, a decrease of AZN 114 million, or 41.8%. This decrease was primarily due to lower expenditure on construction and materials for new health centres, following the expiration of the "State Program on Social-Economic development of regions of Azerbaijan and Baku Settlements" at the end of 2008. The decrease was also the result of the Company's business-wide cost-cutting initiatives.

Exploration and Evaluation Expenses

Exploration and evaluation expenses increased from AZN 7 million in the year ended 31 December 2008 to AZN 11 million in the year ended 31 December 2009, an increase of AZN 4 million, or 57.1%. This increase was primarily a result of the Company's business-wide cost-cutting initiatives.

Research and Development

Expenses in respect of the Company's research and development activities increased from AZN 4 million in the year ended 31 December 2008 to AZN 15 million in the year ended 31 December 2009, an increase of AZN 11 million, or 275.0%. This increase was primarily a result of the Company's business-wide cost-cutting initiatives.

Other Operating Expenses

Other operating expenses increased from AZN 108 million in the year ended 31 December 2008 to AZN 314 million in the year ended 31 December 2009, an increase of AZN 206 million, or 190.7%. This increase was primarily due to changes in other operating expenses for various entities within the Group. Other operating expenses for the period included an AZN 28 million upward revision of an impairment on receivables and penalties payable to the tax authorities for late tax payments.

Other Operating Income

Other operating income decreased from AZN 222 million in the year ended 31 December 2008 to AZN 205 million in the year ended 31 December 2009, a decrease of AZN 17 million, or 7.7%. This decrease was primarily due to changes in accounting treatment of certain entities within the Group, partially offset by reversals of bad debt provisions and new business arising out of various acquisitions. See "*—Main Factors Affecting Results of Operations and Liquidity—Acquisitions*".

The following table sets forth the Company's other operating income for the years indicated:

	For the year ended 31 December		
	2009	**2008**	**Change**
	(AZN millions)		*(%)*
Sales of other goods and services rendered	205	74	177.0
Other	—	148	(100.0)
Total	**205**	**222**	**(7.7)**

Operating Profit

As a result of the foregoing, operating profit increased from AZN 1,242 million in the year ended 31 December 2008 to AZN 1,429 million in the year ended 31 December 2009, an increase of AZN 187 million, or 15.1%.

Financing

Finance Income

Finance income increased from AZN 56 million in the year ended 31 December 2008 to AZN 68 million in the year ended 31 December 2009, an increase of AZN 12 million, or 21.4%, primarily as a result of higher interest income from deposits and bank accounts in 2009.

The following table sets forth the Company's finance income for the years indicated:

	For the year ended 31 December		
	2009	2008	Change
	(AZN millions)		(%)
Interest income on deposits and bank accounts	45	18	150.0
Interest on loans to related parties	20	21	(4.8)
Other	3	16	(81.3)
Total	**68**	**56**	**21.4**

Finance Costs

Finance costs increased from AZN 148 million in 2008 to AZN 163 million in 2009, an increase of AZN 15 million, or 10.1%. This increase was primarily due to a 7.3% increase in interest expense, as a result of a higher average amount of indebtedness in 2009, as compared to 2008. See "*—Debt Obligations*".

The following table sets forth the Company's finance costs for the years indicated:

	For the year ended 31 December		
	2009	2008	Change
	(AZN millions)		(%)
Interest expense	117	109	7.3
Provisions for asset retirement obligations(1)	7	12	(41.7)
Environmental provision(1)	36	36	—
Provisions for disability payments(1)	4	2	100.0
Less capitalised borrowing costs	(0.8)	(12)	(93.3)
Total	**163**	**148**	**10.1**

Note:
(1) Unwinding the present value discount. See Note 21 to the 2009 Financial Statements.

Foreign Exchange Losses

The Company's foreign exchange losses decreased from AZN 408 million in 2008 to AZN 1 million in 2009, a decrease of AZN 407 million, or 99.8%. The decrease in the Company's foreign exchange losses was primarily due to depreciation of the U.S. Dollar against the Turkish Lira during 2009.

Share of Results of Jointly-Controlled Entities

In 2008, the Company's share of the after-tax results of jointly-controlled entities resulted in income of AZN 2 million, as compared to an expense of AZN 13 million in 2009. See Note 14 to the 2009 Financial Statements.

Share of Results of Associates

The Company's income from its share of the after-tax results of associates increased from AZN 71 million in 2008 to AZN 90 million in 2009, an increase of AZN 19 million, or 26.8%. See Note 15 to the 2009 Financial Statements.

Profit Before Income Tax

As a result of the foregoing, profit before income tax increased from AZN 815 million in 2008 to AZN 1,369 million in 2009, an increase of AZN 554 million, or 68.0%.

Income Tax Expense

Income tax expense increased from AZN 328 million in 2008 to AZN 476 million in 2009, an increase of AZN 148 million, or 45.1%, primarily as a result of a 147.3% increase in deferred tax charges. Deferred tax charges increased due to the reversal of an impairment provision in respect of trade receivables due to Azneft from Azerigas. See "*—Main*

Factors Affecting Results of Operations and Liquidity—Taxation" and "*—Quantitative and Qualitative Disclosures about Market Risk—Taxation*".

The following table sets forth the Company's income tax expenses for the years indicated:

	For the year ended 31 December		
	2009	**2008**	**Change**
	(AZN millions)		*(%)*
Current tax expense	361	571	(36.8)
Deferred tax charge	115	(243)	(147.3)
Total	**476**	**328**	**45.1**

Profit for the Period

As a result of the foregoing, profit for the year increased from AZN 487 million in the year ended 31 December 2008 to AZN 894 million in the year ended 31 December 2009, an increase of AZN 407 million, or 83.6%.

Operating Segments

Overview

For financial reporting purposes, the activities of the Company are divided into four operating segments: oil and gas; refining; construction; and sales and distribution. The remaining activities of the Company are aggregated and presented as the "other" operating segment due to their relative insignificance. The operating segments of the Company comprise the following activities:

- ***Oil and Gas***. The Company is engaged in oil and gas exploration and production activities at locations in Azerbaijan, primarily offshore in the Caspian Sea. The Company's oil and gas segment is the largest and most profitable segment. See "*Business—Exploration and Production*". The results of operations of these activities are recorded as part of the oil and gas operating segment.

- ***Refining***. The Company is active in refining oil products, including gasoline, jet fuel, diesel, fuel oil and others at two refineries in Baku, as well as at its Azerikimya facilities and through its controlling interest in Petkim. See "*Business—Refining, Marketing and Trading*". The results of operations of these activities are recorded as part of the refining segment.

- ***Construction***. The Company provides construction services primarily for group companies in Azerbaijan and Georgia and, to a lesser extent, international oil and related industry companies in Azerbaijan. See "*Business—Construction*". The results of operations of these activities are recorded as part of the construction segment.

- ***Sales and Distribution***. The Company is active in the sales and distribution of both the crude oil and natural gas it produces, as well as refined products. The Company also owns and operates an expanding network of gasoline stations in Azerbaijan, Georgia, Romania, Switzerland and Ukraine. It also sells crude oil internationally both directly and through its SOCAR Trading. It sells natural gas directly. See "*Business—Refining, Marketing and Trading*". The Company also owns and operates the domestic oil and gas pipeline network and has interests in several international pipelines. See "*Business—Transportation*". The results of operations of these activities are recorded as part of the sales and distribution operating segment.

The Company's segments are strategic business units that focus on different customers. Management monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment. Transfer prices between operating segments are agreed on an arm's-length basis, similarly to transactions with third parties.

The Company's management evaluates the performance of each segment based on the results of that segment.

__Segment Information for the Six Months Ended 30 June 2011 and 30 June 2010__

The following table sets forth the total revenue, segment result, reportable assets, reportable liabilities and capital expenditures of the operating segments of the Company for the six months ended 30 June 2011:

	Oil & Gas	Refining	Construction	Sales & Distribution	Unallocated(1)	Eliminations(2)	Total
				(AZN millions)			
External customers	1,448	1,072	79	811	24	—	3,434
Inter-segment	336	218	264	130	110	(1,057)	—
Total Revenue	**1,784**	**1,290**	**343**	**940**	**134**	**(1,057)**	**3,434**
Segment Result	**413**	**5**	**(7)**	**176**	**18**	**65**	**671**
Total Reportable Segment Assets	6,243	3,488	1,135	4,103	5,447	(3,445)	16,972
Total Reportable Segment Liabilities	(2,075)	(3,073)	(707)	(4,182)	(2,182)	3,730	8,488
Total Capital Expenditures(3)	588	89	26	178	108	—	989

Notes:
(1) "Unallocated" includes assets and liabilities related to research and development, IT, security and other functions that are not managed at the group level.
(2) Inter-segment balances are eliminated on consolidation. Amounts shown as eliminations include inter-company balances.
(3) "Capital expenditures" includes additions to non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets.

The following table sets forth the total revenue, segment result, reportable assets, reportable liabilities and capital expenditures of the operating segments of the Company for the six months ended 30 June 2010:

	Oil & Gas	Refining	Construction	Sales & Distribution	Unallocated(1)	Eliminations(2)	Total
				(AZN millions)			
External customers	1,256	766	74	614	11	—	2,721
Inter-segment	295	144	246	132	104	(920)	—
Total Revenue	**1,550**	**910**	**320**	**745**	**115**	**(920)**	**2,721**
Segment Result	**98**	**36**	**13**	**41**	**78**	**(139)**	**127**
Total Reportable Segment Assets	7,070	3,652	1,155	3,797	5,379	(5,326)	15,727
Total Reportable Segment Liabilities	(1,982)	(3,227)	(707)	(4,064)	(2,293)	4,706	(7,567)
Total Capital Expenditures(3)	289	85	38	171	109	—	692

Notes:
(1) "Unallocated" includes assets and liabilities related to research and development, IT, security and other functions that are not managed at the group level.
(2) Inter-segment balances are eliminated on consolidation. Amounts shown as eliminations include inter-company balances.
(3) "Capital expenditures" includes additions to non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets.

See Note 3 to the Interim Financial Statements.

Oil & Gas Segment

Of the Company's oil and gas segment's revenue, 81.2% and 81.0% were derived from external customers in the six months ended 30 June 2011 and 2010, respectively, with the remainder being derived from internal customers. The revenue attributable to this segment, before eliminations, accounted for 52.0% and 57.0% of the Company's total revenue for the six months ended 30 June 2011 and 2010, respectively, and increased by AZN 234 million, or 15.1%, in the six months ended 30 June 2011, as compared to the six months ended 30 June 2010, primarily due to higher international oil prices. The Company's profits attributable to the oil and gas segment, before elimination, accounted for 61.4% and 77.2% of the Company's total profits for the six months ended 30 June 2011 and 2010, respectively, and increased by AZN 315 million, or 321.4%, in the six months ended 30 June 2011, as compared to the six months ended 30 June 2010.

Refining Segment

Of the Company's refining segment's revenue, 83.1% and 84.2% were derived from external customers in the six months ended 30 June 2011 and 2010, respectively, with the remainder being derived from internal customers. The revenue attributable to this segment, before eliminations, accounted for 37.6% and 33.4% of the Company's total revenue for the six months ended 30 June 2011 and 2010, respectively, and increased by AZN 380 million, or 41.8%, in the six months ended 30 June 2011, as compared to the six months ended 30 June 2010, primarily due to higher international oil prices and the resulting effect on the prices of refined products, as well as the effect of the Company's acquisition of Azerikimya in April 2010. The Company's profits attributable to the refining segment, before elimination, accounted for 0.7% and 28.3% of the Company's total profits for the six months ended 30 June 2011 and 2010, respectively, and decreased by AZN 31 million, or 86.1%, in the six months ended 30 June 2011, as compared to the six months ended 30 June 2010.

Construction Segment

Of the Company's construction segment's revenue, 77.0% and 76.9% were derived from internal customers in the six months ended 30 June 2011 and 2010, respectively, with the remainder being derived from external customers. The revenue attributable to this segment, before eliminations, accounted for 10.0% and 11.8% of the Company's total revenue for the six months ended 30 June 2011 and 2010, respectively, and increased by AZN 23 million, or 7.2%, in the six months ended 30 June 2011, as compared to the six months ended 30 June 2010, primarily due to increased exploration activities. The Company's profits attributable to the construction segment, before elimination, accounted for (1.0)% and 10.2% of the Company's total profits for the six months ended 30 June 2011 and 2010, respectively, and decreased by AZN 20 million in the six months ended 30 June 2011, as compared to the six months ended 30 June 2010.

Sales & Distribution

Of the Company's sales and distribution segment's revenue, 86.3% and 82.4% were derived from external customers in the six months ended 30 June 2011 and 2010, respectively, with the remainder being derived from internal customers. The revenue attributable to this segment, before eliminations, accounted for 27.4% and 27.4% of the Company's total revenue for the six months ended 30 June 2011 and 2010, respectively, and increased by AZN 195 million, or 26.2%, in the six months ended 30 June 2011, as compared to the six months ended 30 June 2010, primarily due to higher international oil prices. The Company's profits attributable to the sales and distribution segment, before elimination, accounted for 26.2% and 32.3% of the Company's total profits for the six months ended 30 June 2011 and 2010, respectively, and increased by AZN 135 million or 334.7%, in the six months ended 30 June 2011, as compared to the six months ended 30 June 2010.

Segment information for the years ended 31 December 2010 and 31 December 2009

The following table sets forth the total revenue, segment result, reportable assets, reportable liabilities and capital expenditures of the operating segments of the Company for the year ended 31 December 2010:

	Oil & Gas	Refining	Construction	Sales & Distribution	Unallocated[(1)]	Eliminations[(2)]	Total
				(AZN millions)			
External customers	2,642	1,653	151	1,079	2	—	5,527
Inter-segment	606	21	552	263	(2)	(1,439)	—
Total Revenue	**3,248**	**1,674**	**703**	**1,343**	**(1)**	**(1,439)**	**5,527**
Segment Result	**828**	**(357)**	**93**	**703**	**(298)**	**(313)**	**656**
Total Reportable Segment Assets	7,070	776	1,155	6,640	5,411	(5,326)	15,727
Total Reportable Segment Liabilities	(1,982)	(918)	(707)	(6,373)	(2,293)	4,706	(7,567)
Total Capital Expenditures[(3)]	810	145	126	451	149	—	1,681

Notes:

(1) "Unallocated" includes assets and liabilities related to research and development, IT, security and other functions that are not managed at the group level.

(2) Inter-segment balances are eliminated on consolidation. Amounts shown as eliminations include inter-company balances.

(3) "Capital expenditures" includes additions to non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets.

The following table sets forth the total revenue, segment result, reportable assets, reportable liabilities and capital expenditures of the operating segments of the Company for the year ended 31 December 2009:

	Oil & Gas	Refining	Construction	Sales & Distribution	Unallocated[1]	Eliminations[2]	Total
				(AZN millions)			
External customers	2,440	1,071	52	515	118	—	4,196
Inter-segment	182	257	474	444	132	(1,489)	—
Total Revenue	**2,622**	**1,328**	**526**	**959**	**250**	**(1,489)**	**4,196**
Segment Result	**1,444**	**43**	**(20)**	**(220)**	**(374)**	**21**	**894**
Total Reportable Segment Assets	6,133	4,782	1,157	3,077	4,913	(5,229)	14,834
Total Reportable Segment Liabilities	(2,259)	(3,985)	(786)	(4,016)	(1,595)	5,848	(6,793)
Total Capital Expenditures[3]	745	106	125	899	125	—	2,001

Notes:

(1) "Unallocated" includes assets and liabilities related to research and development, IT, security and other functions that are not managed at the group level.

(2) Inter-segment balances are eliminated on consolidation. Amounts shown as eliminations include inter-company balances.

(3) "Capital expenditures" includes additions to non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets.

See Note 5 to the 2010 Financial Statements.

Oil & Gas Segment

Of the Company's oil and gas segment's revenue, 81.3% and 93.1% were derived from external customers in the year ended 31 December 2010 and 2009, respectively, with the remainder being derived from internal customers. The revenue attributable to this segment, before eliminations, accounted for 58.8% and 62.5% of the Company's total revenue for the year ended 31 December 2010 and 2009, respectively, and increased by AZN 626 million, or 23.9%, in the year ended 31 December 2010, as compared to the year ended 31 December 2009, primarily due to generally higher international oil prices in 2010, as compared to 2009. The Company's profits attributable to the oil and gas segment, before elimination, accounted for 126.2% and 161.5% of the Company's total profits for the year ended 31 December 2010 and 2009, respectively, and decreased by AZN 616 million, or 42.7%, in the year ended 31 December 2010, as compared to the year ended 31 December 2009, primarily as a result of higher depreciation, net impairment, repair and other costs.

Refining Segment

Of the Company's refining segment's revenue, 98.7% and 80.6% were derived from external customers in the year ended 31 December 2010 and 2009, respectively, with the remainder being derived from internal customers. The revenue attributable to this segment, before eliminations, accounted for 29.7% and 31.6% of the Company's total revenue for the year ended 31 December 2010 and 2009, respectively, and increased by AZN 346 million, or 26.1%, in the year ended 31 December 2010, as compared to the year ended 31 December 2009, primarily due to higher international oil prices and the resulting effect on the prices of refined products, as well as the effect of the Company's acquisition of Azerikimya in April 2010. The Company's profits attributable to the refining segment, before elimination, accounted for (54.4)% and 4.8% of the Company's total profits for the year ended 31 December 2010 and 2009, respectively, and decreased by AZN 400 million in the year ended 31 December 2010, as compared to the year ended 31 December 2009, primarily due to lower other operating income and higher utilities, raw materials and consumables used and other costs.

Construction Segment

Of the Company's construction segment's revenue, 78.5% and 90.1% were derived from internal customers in the year ended 31 December 2010 and 2009, respectively, with the remainder being derived from external customers. The revenue attributable to this segment, before eliminations, accounted for 12.7% and 12.5% of the Company's total revenue for the year ended 31 December 2010 and 2009, respectively, and increased by AZN 177 million, or 33.7%, in the year ended 31 December 2010, as compared to the year ended 31 December 2009, primarily due to increased exploration activities in 2010. The Company's profits attributable to the construction segment, before elimination, accounted for 14.2% and (2.2)% of the Company's total profits for the year ended 31 December 2010 and 2009, respectively, and increased by AZN 113 million in the year ended 31 December 2010, as compared to the year ended 31 December 2009, due to generally reduced costs.

Sales & Distribution

Of the Company's sales and distribution segment's revenue, 80.3% and 53.7% were derived from external customers in the year ended 31 December 2010 and 2009, respectively, with the remainder being derived from internal customers. The revenue attributable to this segment, before eliminations, accounted for 24.2% and 22.9% of the Company's total revenue for the year ended 31 December 2010 and 2009, respectively, and increased by AZN 384 million, or 40.0%, in the year ended 31 December 2010, as compared to the year ended 31 December 2009, primarily due to higher international oil prices. The Company's profits attributable to the sales and distribution segment, before elimination, accounted for 107.2% and (24.6)% of the Company's total profits for the year ended 31 December 2010 and 2009, respectively, and increased by AZN 923 million in the year ended 31 December 2010, as compared to the year ended 31 December 2009.

Liquidity and Capital Resources

Cash Flows

The following table sets forth the principal items of the statement of cash flows for the years indicated:

	For the year ended 31 December 2010	Change	For the year ended 31 December 2009	Change	For the year ended 31 December 2008
	(AZN millions)	*(%)*	*(AZN millions)*	*(%)*	*(AZN millions)*
Net cash flows from operating activities	1,791	41.7	1,264	54.1	820
Net cash flows from investing activities....................	(1,469)	(8.0)	(1,597)	(45.3)	(2,918)
Net cash flows from financing activities	(127)	(117.6)	721	65.1	2,065

Net Cash Flows from Operating Activities

In the year ended 31 December 2010, net cash flows from operating activities was AZN 1,791 million, as compared to AZN 1,264 million in the year ended 31 December 2009, an increase of AZN 527 million, or 41.7%. This increase was primarily attributable to the increase in the price of crude oil in 2010, which resulted in increased cash flows from operating activities, as well as reduced losses on provisions for trade and other receivables, lower income taxes paid and increases in trade and other payables, which were partially offset by foreign exchange differences and a decrease in trade receivables. The large decrease in trade receivables in 2010 as compared to 2009 was primarily due to the receivables written off as uncollectible during the year. The uncollected receivables written off in 2010 increased to AZN 1.2 million from AZN 0.3 million in 2009, an increase of 300.0%. The majority of receivables written off were owed by other Azerbaijani state-owned entities and municipalities, which in some cases had been on the Company's balance sheet for some years, even though they had been heavily provisioned over the previous two years.

In the year ended 31 December 2009, net cash flows from operating activities was AZN 1,264 million, as compared to AZN 820 million in the year ended 31 December 2008, an increase of AZN 444 million, or 54.1%. This increase was primarily attributable to various loans taken out by the Company and from additional charter capital received during the period.

Net Cash Flows used in Investing Activities

Net cash flows used in investing activities principally reflects acquisitions and dispositions of subsidiaries, joint ventures and associates, purchases and sales of property, plant and equipment and intangible property, distributions received from jointly-controlled entities and associates and placements of term deposits. In the year ended 31 December 2010, net cash flows used in investing activities was AZN 1,469 million, as compared to AZN 1,597 million in the year ended 31 December 2009, a decrease of AZN 128 million, or 8.0%. The decrease in net cash flows used in investing activities in 2010 as compared to 2009 reflected, primarily, reduced financing to third parties and reduced deposits, partially offset by increases in purchases of property, plant and equipment.

In the year ended 31 December 2009, net cash flows used in investing activities was AZN 1,597 million, as compared to AZN 2,918 million in the year ended 31 December 2008, a decrease of AZN 1,321 million, or 45.3%. The decrease in net cash flows used in investing activities in 2009, as compared to 2008, reflected decreases in acquisitions and deposits and increases in interest and dividend receipts, partially offset by increases in purchases of property, plant and equipment and intangible assets as well as financing provided to third parties.

Net Cash Flows from Financing Activities

In the year ended 31 December 2009, net cash flows from financing activities was AZN 721 million, whereas in the year ended 31 December 2010, net cash flow used in financing activities was AZN 127 million, a decrease in cash flows of AZN 848 million. This decrease was primarily due to decreases in proceeds from long-term borrowings and increased distributions to the Government. Based on decisions of the Government, the Company is periodically required to make direct cash contributions to the Government's social activities or finance construction and repair works for the state budget, various Government agencies and projects administered by the Government. In 2010, such cash contributions and financing amounted to AZN 191 million and AZN 225 million, respectively, as compared to AZN 144 million and AZN 142 million, respectively, in 2009. See "*Relationship with the Government*".

In the year ended 31 December 2008, net cash flows from financing activities was AZN 2,065 million, whereas in the year ended 31 December 2009, net cash flows from financing activities was AZN 721 million, a decrease in cash flows of AZN 1,344 million or 65.1%. This decrease was primarily due to decreases in proceeds from long-term borrowings, offset by a decrease in distributions made to the Government. In 2009, cash contributions and financing provided to the Government amounted to AZN 144 million and AZN 142 million, respectively, as compared to AZN 314 million and AZN 162 million, respectively, in 2008. See "*Relationship with the Government*".

Capital Expenditures

The Company's total capital expenditures by segment for the years indicated are set forth in the table below, which also reflects acquisitions through business combinations:

	For the year ended 31 December		
	2010	**2009**	**2008**
		(AZN millions)	
Oil & Gas	810	745	788
Refining	145	106	2,410
Construction	126	125	63
Sales & Distribution	451	899	97
Other	149	125	83
Total capital expenditures	**1,681**	**2,001**	**3,440**

The principal acquisitions of the Company during the past two years are described under "*—Main Factors Affecting Results of Operations and Liquidity—Acquisitions*".

Oil & Gas Segment

The oil and gas business is capital intensive and, as a result, capital expenditures in the Company's oil and gas segment generally account for a significant proportion of the Company's overall capital expenditures for any given period. Generally, the Company's capital expenditures in this segment are generally in the ordinary course of business in the exploration and production of oil and gas.

In 2010, AZN 615 million, or 78.2%, of capital expenditures in this segment were incurred by Azneft in the ordinary course of business. A further AZN 157 million was attributable to the Company's capital expenditures through ACG in respect of maintenance and drilling at the Guneshli and Central Azeri fields in the period. In 2009, Azneft incurred AZN 514 million, or 80.7%, of total capital expenditures in this segment, including AZN 170 million for the purchase of wells, AZN 146 million to maintain production in declining fields, AZN 32 million for the construction of a gas compressor station and a further AZN 166 million in the ordinary course of business. In the same period AZN 114 million was attributable to the Company's capital expenditures through ACG in respect of maintenance and drilling at the Guneshli and Central Azeri fields in the period. In 2008, AZN 592 million, or 75.1%, of capital expenditures in this segment were incurred by Azneft in the ordinary course of business. A further AZN 181 million was attributable to the Company's capital expenditures through ACG in respect of maintenance and drilling at the Guneshli and Central Azeri fields in the period.

Refinery Segment

Capital expenditures in the Company's refinery segment since 2008 have largely been related to the Company's acquisition of its controlling interest in Petkim in 2008. See "*Business— Refining, Marketing and Trading—Petkim*".

In 2010, the Company incurred AZN 53 million in capital expenditures due to an increase in the fixed asset balance of STEAS, which is due to the increased level of activity and investment at STEAS and Petkim in 2010, as compared to 2009. In addition, the Company incurred a further AZN 48 million in connection with its acquisition of Azerikimya in April 2010. In 2009, the Company incurred AZN 37 million due to the increase in the fixed asset balance of STEAS, and a further AZN 33 million in connection with repair and maintenance works carried out at the Azerneftyag Oil Refinery and the Baku Oil Refinery that were capitalised in 2009. In 2008, the Company incurred capital expenditures of AZN 2,325 million in connection with its acquisition of its controlling interest in Petkim in April 2008.

Construction Segment

Capital expenditures in the Company's construction segment relate primarily to the purchase of drilling and other equipment.

Sales & Distribution Segment

Capital expenditures in the Company's sales and distribution segment are largely due to the expansion of the Company's business.

In 2010, the Company incurred a significant increase in capital expenditures over 2008 levels due to the rural gasification project it is undertaking in the Republic. In 2009, the Company's acquisition of Azerigas resulted in capital expenditures of AZN 775 million, the fair value of Azerigas as of 1 June 2009 as determined by independent appraisers in accordance with IFRS 3 for the purpose of purchase price allocation. In 2008, the Company's capital expenditures in this segment related primarily to the opening of a number of new petrol stations in Georgia.

Commitments

At 30 June 2010, the Company and its subsidiaries and affiliated had commitments as follows:

- STEAS agreed, as part of its acquisition of its controlling interest in Petkim in April 2008, to assume responsibility for all operations, unrecorded receivables, payables and liabilities that are related to the period prior to its acquisition of Petkim.

- Pursuant to a Presidential Decree of 14 April 2009, Azerigas is required to participate in a gasification project in certain areas in Baku and the regions of the Republic. After Azerigas became part of the Group on 1 July 2009, this duty has been transferred to the Company according to the Presidential Decree of 10 November 2009. As part of this project, the Company is engaged in the restoration of pipelines, gasification of unserved areas, renewal of metres and certain other activities. The Company expects that this project will cost it approximately AZN 1,016 million, of which, as at 30 June 2011, AZN 161 million had already been incurred.

- The Company holds an 8% interest in the Azerbaijan Gas Supply Company ("**AGSC**"), which was established by the Company together with the Ministry of Fuel and Energy and the contractor parties to the Shah Deniz PSA. Pursuant to a gas sales and purchase agreement signed in February 2003 between AGSC and the Ministry of Fuel and Energy, AGSC has the obligation to purchase a certain amount of gas from the Ministry of Fuel and Energy.

- AzSD estimates that its share of the capital commitments under the Shah Deniz PSA, as at 30 June 2011, was AZN 51 million.

- AzACG estimates that its share of the capital commitments under the ACG PSA, as at 30 June 2011, was AZN 640 million in respect of capital commitments and AZN 9 million in respect of operating leases.

AGSC and ACG have certain other commitments. See Note 18 to the Interim Financial Statements.

Debt Obligations

Over the past few years, the Company has raised significant amounts through short-term and long-term borrowings to supplement the net cash generated by its operating activities in order to fund the capital expenditures required to develop its operations and to acquire new businesses and assets.

The following table sets forth the total borrowings of the Company and its subsidiaries (excluding obligations of non-consolidated jointly-controlled entities and associates except to the extent guaranteed by the Company or its subsidiaries) and certain rate and currency denomination information related thereto as at the dates indicated:

	As at 30 June	As at 31 December		
	2011	2010	2009	2008
		(AZN millions)		
Short-term borrowings	503	997	388	408
of which:				
Current portion of long-term borrowings	132	172	147	22
Accrued interest payable	3	16	17	21
Long-term borrowings	3,101	2,063	2,464	1,703
Total borrowings	**3,604**	**3,060**	**2,852**	**2,111**
U.S. Dollar-denominated borrowings	2,723	2,037	1,863	2,005
Manat-denominated borrowings	739	873	846	62
Japanese Yen-denominated borrowings	141	148	132	—
Turkish Lira-denominated borrowings	2	2	3	13
Georgian Lari-denominated borrowings	—	0	8	31

The Company's total borrowings increased to AZN 3,060 million as at 31 December 2010 from AZN 2,852 million as at 31 December 2009, an increase of AZN 208 million, or 7.3%, primarily due to several short-term loans extended by the IBA to the Company in the course of 2010. The Company's long-term borrowings (excluding the current portion of long-term debt) decreased to AZN 2,063 million as at 31 December 2010 from AZN 2,464 million as at 31 December 2009, a decrease of AZN 401 million, or 16.3%, due to the repayment of AZN 579 million due to the IBA, as well as the maturity of loans extended by ABN Amro, Citibank and Lalaben LLC. See "*—Principal Debt Obligations of the Company and its Material Subsidiaries*".

The Company's total borrowings increased to AZN 2,852 million as at 31 December 2009 from AZN 2,111 million as at 31 December 2008, an increase of AZN 741 million, or 35.1%, primarily due to a significant increase in long-term borrowings, including a notable increase in the current portion of long-term borrowings. The Company's long-term borrowings (excluding the current portion of long-term debt) increased to AZN 2,464 million as at 31 December 2009 from AZN 1,703 million as at 31 December 2008, an increase of AZN 761 million, or 44.7%, due to new loans being extended by various lenders. The proceeds of these loans were used principally for internal purposes including the financing of domestic oil and gas field projects. See "*—Principal Debt Obligations of the Company and its Material Subsidiaries*" and "*Business—Exploration and Production—Exploration Projects*".

The following table sets forth the estimated scheduled maturities of the Company's long-term debt outstanding as at 30 June:

Year Due	Amount Due
	(AZN millions)
2011	1,087
2012	707
2013	820
2014	1,558
2015	379

The weighted average interest rate on the Company's fixed interest rate borrowings increased to 4.36% as at 31 December 2010 from 3.53% as at 31 December 2009, while the weighted average interest rate on the Company's variable interest rate borrowings increased to LIBOR +3.14% as of 31 December 2010 from LIBOR +2.55% as at 31 December 2009.

Principal Debt Obligations of the Company and its Material Subsidiaries

The following describes the principal debt obligations of the Company and its material subsidiaries as at the date of this Prospectus:

- In October 2009, the Company entered into a U.S.$100 million loan facility with Deutsche Bank for a period of 12 months. In October 2010 the Company fully repaid the loan and entered into a new loan agreement with Deutsche Bank for a further 12-month period. The loan bears interest at LIBOR +1.5% per annum. As at 30 June 2011, the total amount outstanding under this facility was U.S.$100 million. The Company repaid this loan in full on 25 October 2011.

- In March 2010, the Company entered into a credit line agreement of U.S.$250 million with BNP Paribas, maturing in March 2013. The loan bears interest at LIBOR +4% per annum. As at 30 June 2011, the total amount outstanding under this agreement was U.S.$200 million.

- In May 2010, the Company entered into a U.S.$50 million loan facility with Natixis S.A. Bank for a period of three years. The loan bears interest at LIBOR +3.75% per annum. As at 30 June 2011, the total amount outstanding under this facility was U.S.$44.4 million.

- In July 2010, the Company entered into a U.S.$75 million loan facility with West LB AG for a period of three years. The loan bears interest at LIBOR +3.85% per annum. As at 30 June 2011, the total amount outstanding under this facility was U.S.$75 million.

- In April 2011, the Company entered into a U.S.$130 million loan facility with Deutsche Bank for a period of three years. The loan bears interest at LIBOR +2.6% per annum. As at 30 June 2011, the total amount outstanding under this facility was U.S.$130 million.

- In April 2011, the Company entered into a U.S.$200 million loan facility with ING Bank A.S. for a period of three years. The loan bears interest at LIBOR +2.55% per annum. As at 30 June 2011, the total amount outstanding under this facility was U.S.$200 million.

- In May 2011, the Company entered in a U.S.$75 million loan agreement with Natixis S.A Bank, for the period of three years. The loan bears an interest rate of LIBOR +2.3% per annum. As at 30 June 2011 the amount outstanding under this facility was U.S.$75 million.

- In May 2008, SOCAR-Turcas Petro obtained a syndicated loan from Turkiye Garanti Bankasi A.Ş. and Akbank T.A.Ş. acting as lead arrangers (the "**May 2008 Loan**") for a total amount of U.S.$625 million bearing interest rate of LIBOR +3% per annum from May 2008 to May 2012 and LIBOR +4% per annum from May 2012 to maturity in May 2017. This loan was granted to finance the acquisition of Petkim and was secured by a pledge of Petkim shares. As at 30 June 2011, the amount outstanding under this loan was AZN 475 million. In August 2011, this loan was fully refinanced as part of the U.S.$1 billion loan facility arranged with Credit Suisse.

- In May 2011, SOCAR-Turcas Petro entered into three loan facilities with Credit Suisse in an aggregate principal amount of U.S.$1 billion, which were subsequently amended in August 2011, consisting of an A1 Loan Facility of U.S.$500 million, an A2 Loan Facility of U.S.$300 million and a B Loan Facility of U.S.$200 million. These facilities were used primarily to finance the final instalment of the purchase price owed to the Republic of Turkey Prime Ministry Privatisation Administration for the shares in Petkim Petrokimya Holding AS and to refinance the May 2008 Loan. SOCAR-Turcas Petro has made two drawdowns from these facilities. SOCAR-Turcas Petro borrowed U.S.$375 million in May 2011 and the remaining balance of U.S.$625 million in August 2011. The A1 Loan bears interest at LIBOR +4.88% per annum and matures in August 2019, the A2 Loan bears interest at 2.30% per annum and matures in August 2018, and the B Loan bears interest at 2.50% per annum and matures in August 2016. The A1 and A2 Loans are secured by a pledge of Petkim shares and benefit from a top-up obligation of SOCAR and the B Loan benefits from a guarantee of SOCAR. As at 30 June 2011, the amount outstanding under the loans was U.S.$375 million. On 9 and 16 January 2012, Credit Suisse, as facility agent, granted SOCAR-Turcas Petro a waiver in relation to the A and B Loan Facilities, respectively, with respect primarily to the non-compliance by SOCAR-Turcas Petro with the consolidated interest cover ratio and the debt service cover ratio contained in the facility agreements and the delay in the submission of a budget and business plan for 2012. The ratios were breached primarily due to (i) the deterioration of Petkim's profit margins from the second quarter of 2011 caused by the decline in demand for petrochemical products resulting from the sovereign debt crisis in Europe and the slowdown of economic growth in China and (ii) one-off financing charges related to the execution of the facility agreements. See "*Risk Factors—Risk Factors Relating to the Company's Business—There is a risk that demand for, and prices of, petrochemical products will continue to decline as a result of the continuing sovereign debt crisis in Europe*".

- In June 2011, the Company entered into a U.S.$43 million loan facility with Deutsche Bank for period of six months. The loan bears an interest rate of LIBOR +1.65% per annum. As at 30 June 2011, the total outstanding balance under this facility was U.S.$43 million.

- In July 2011, AzACG issued a local bond in an aggregate principal amount of U.S.$485 million to finance the purchase by AzACG of a 1.6461% participating interest in ACG PSA from BP. The bond was purchased by

SOFAZ. The bond matures on 31 December 2024, and it yields interest at a rate of 6-month LIBOR +1%. The principal amount shall be repaid in 14 annual instalments.

- In December 2009, Akbank T.A.Ş. provided a loan to SOCAR-Turcas Petro with a maturity date of 6 April 2011, extended to 1 August 2011. The total amount of financing available under this facility agreement was U.S.$35 million. The loan bears an interest rate of 2.4% per annum. As at 30 June 2011, the amount outstanding under this facility was AZN 27.5 million. This loan was repaid in full on 1 August 2011.

- In April 2011, Akbank T.A.Ş provided a loan to SOCAR-Turcas Petro amounting to U.S.$15.5 million maturing on 4 August 2011. The loan bears an interest rate of 2.4%. As at 30 June 2011, the amount outstanding under this loan was U.S.$15.5 million. This loan was repaid in full on 4 August 2011.

- In July 2009, the IBA provided a loan to the Company of AZN 750 million for the period of 84 months until July 2016. The loan bears an interest rate of 3% per annum. As at 30 June 2011, the amount outstanding under this facility was AZN 625 million.

- During the period from 29 December 2008 to 30 September 2009 the Company's subsidiary Azerikimya, before its acquisition by the Company, obtained several loans from the IBA in total amount of AZN 39 million. After becoming part of the Group the terms of these loans were re-negotiated with the IBA. According to the revised terms these loans bear an interest rate of 3% per annum and mature on 16 May 2012. As at 30 June 2011, the amount outstanding under these loans was AZN 31 million.

- In April 2000, Azerigas CJSC, which became a part of the Group on 1 July 2009, entered into a loan agreement with Japan Bank for International Corporation for a total amount of ¥15.5 billion bearing an interest rate of 1.5% per annum. The loan matures on 20 September 2039. As at 30 June 2011, the amount outstanding under this facility was ¥15.5 billion.

- In July 2010, the Company entered into a loan agreement with Yapive Kredi Bankasi for the amount of U.S.$100 million maturing in July 2013. The interest rate for this loan is LIBOR +3.65% per annum. As at 30 June 2011, the amount outstanding under this facility was U.S.$100 million.

- In December 2010, the Company entered into a loan agreement with Yapive Kredi Bankasi for the amount of U.S.$35 million maturing in December 2013. The interest rate for this loan is LIBOR +4% per annum. As at 30 June 2011, the amount outstanding under this facility was U.S.$35 million.

- In December 2010, Société Générale provided a loan to the Company of U.S.$50 million for the period of 36 months until December 2013. The loan bears an interest rate of LIBOR +3.5% per annum. As at 30 June 2011, the amount outstanding under this facility was U.S.$50 million.

- In February 2003, the Ministry of Finance provided a loan facility for AZN 12.4 million to Azerikimya for a period of three years until 1 January 2008. However, it was not repaid on the due date, although no penalty was applied on it by the Ministry of Finance and the Ministry of Finance does not consider this loan in default. The loan bears an interest rate of 1% per annum. As at 30 June 2011 the amount outstanding under this facility was AZN 12.4 million.

- In November 2003, the Ministry of Finance provided a loan facility for AZN 9.4 million to Azerikimya for a period of four years until 20 November 2007. However, it was not repaid on due date, although no penalty was applied on it by the Ministry of Finance and Ministry of Finance does not consider this loan in default. The loan bears no interest. As at 30 June 2011, the amount outstanding under this facility was AZN 9.4 million.

- In March 2011, Azneft entered into a loan agreement with Xalqbank for a total amount of U.S.$100 million maturing in March 2012. The loan bears an interest rate of 5% per annum. As at 30 June 2011, the amount outstanding under this facility was U.S.$81.2 million.

- In July 2010, Azerigas entered in a loan agreement with Xalqbank for a total amount of AZN 50 million for a period of eight months until March 2011, which was extended until March 2012. The loan bears an interest rate of 3.15% per annum. As at 30 June 2011 the amount outstanding under this facility was AZN 50 million.

Principal Debt Obligations of Non-Consolidated Jointly-Controlled Entities and Associates

In addition, although these are not consolidated with the borrowings of the Company, certain jointly-controlled entities and associates of the Company and its subsidiaries have significant debt obligations, which are described below:

- In October 2006 AzACG provided U.S.$265 million to Carlina maturing in December 2014. The principal amount of this loan was gradually increased to U.S.$369.7 million in 2007 and 2008. The loan bears an interest rate of LIBOR +4.5% (LIBOR +2% until April 2010) per annum. As at 30 September 2011, the amount outstanding under this facility was U.S.$465.9 million (including principal, interest and enforcement costs), as Carlina had not at that time made any payments of interest or principal. See "—*Carlina*".

Carlina

In 2006, SOCAR established Carlina, which is incorporated in the British Virgin Islands and is 75.5% owned by SOCAR through its wholly-owned subsidiary AzACG, with the remaining 24.5% being held by Petro Trans FZCO. Carlina, in turn, acquired the Kulevi Oil Terminal in Georgia, which exports oil principally from Kazakhstan.

In order to finance Carlina's acquisition of the Kulevi Oil Terminal and to fund certain improvements to the terminal, AzACG lent U.S.$265 million to Carlina in 2006. Subsequently, the principal amount of this loan was increased to U.S.$369.7 million. However, Carlina has not had sufficient cash flow to enable it to make any payments of interest or principal under this loan, and, accordingly, in June 2011, AzACG declared Carlina to be in default under the loan. Under the loan agreement with AzACG, the three shareholders of Carlina, including SOCAR, pledged their shares in Carlina to AzACG as security for the loan. By enforcing the security obligation, AzACG expects to hold the 100% of the shares of Carlina in early 2012. See "*Business—Transportation—Transportation of Crude Oil—Kulevi Oil Terminal*" and Note 16 to the 2010 Financial Statements.

Certain Provisions and Terms of Debt Obligations

The debt arrangements of the Company contain standard market terms, including certain financial and other restrictive covenants. By way of example, under the Deutsche Bank facilities described above, the Company must comply with a number of financial covenants, including maintaining: (i) a ratio of consolidated indebtedness of the Company to EBITDA of not more than 2.5:1; (ii) a minimum tangible net worth of U.S.$3 billion; and (iii) a ratio of EBITDA to interest cover of not less than 3:1 for the previous 12-month period. The other facilities to which the Company is a party have similar financial covenants.

Off Balance Sheet Arrangements

As at 31 December 2010, the Company had no off balance sheet arrangements. The Company reports all recognised contingent liabilities and commitments as provisions, or otherwise discloses them in its consolidated financial statements. Credit risk for off balance sheet financial instruments is defined as the possibility of sustaining a loss as a result of another party to a financial instrument failing to perform in accordance with the terms of the contract.

Quantitative and Qualitative Disclosures about Market Risk

The Company operates in a highly competitive industry, and faces intense competition for new contracts, qualified staff and markets for its crude oil exports and its refined oil products.

The Company is subject to risks relating to reserves and production, evaluation of oil and gas reserves, Azerbaijan environmental legislation, prices for crude oil, gas and refined oil products, foreign currency, liquidity, credit, interest rates, taxation and other risks. The Company does not use financial instruments, such as foreign exchange forward contracts, foreign currency options, interest rate swaps and commodity agreements, to manage these market risks.

Reserves and Production

The Company's ability to acquire oil and gas reserves is one of the key factors to its success. New exploration acreage must be acquired through acquisitions or by obtaining additional contracts. The Company is actively pursuing acquisitions while adhering to its investment criteria. The Company believes it is well positioned to continue to succeed as it has a continual involvement in the oil and gas industry and the financial capacity to execute transactions.

The Company's ability to develop its reserves is another key to its success. The Company has introduced and continues to utilise Western technology in developing reserves. The Company has the financial capacity to acquire and implement this technology but it competes for properly qualified and trained staff necessary to fully utilise this technology. The Company has addressed this through offering competitive compensation packages to its employees and recruiting on a worldwide basis.

Evaluation of Oil and Gas Reserves

The process of estimating the Company's oil and gas reserves is complex and requires significant assumptions and decisions in the evaluation of engineering, geological, geophysical and financial information. The Company regularly obtains evaluations of reserves from the Company's professional engineering staff prepared in accordance with PRMS. These reserve evaluations may change substantially from year to year as a result of numerous factors, including, but not limited to, the development of economic conditions under which the Company operates its business. As a result, despite all reasonable efforts involved in the process of evaluation, the estimation of the Company's reserves may materially change from period to period.

Azerbaijan Environmental Legislation

The enforcement of environmental regulation in Azerbaijan is evolving and subject to ongoing changes. Penalties for violations of Azerbaijan's environmental laws can be severe. Although as at 30 September 2011 the Company had not had penalties imposed, potential liabilities, which may arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation, cannot be reasonably estimated. Other than those contingencies discussed here management believes that there are no probable or possible environmental liabilities, which could have a material adverse effect on the Company's financial position, statement of comprehensive income or cash flows based on the current state of the law. The Company does not have general insurance policy to cover environmental risks, but insurance may be put in place for individual projects.

Prices for Crude Oil, Gas and Refined Oil Products Risk

The Company's operating results and financial condition depend substantially upon prevailing prices of crude oil, gas and refined oil products. Historically, prices for crude oil have fluctuated widely for many reasons, including:

- global and regional supply and demand, and expectations regarding future supply and demand, for crude oil and refined oil products;
- changes in geopolitics and geopolitical uncertainty;
- weather conditions and natural disasters;
- access to pipelines, railways and other means of transporting crude oil, gas and refined oil products;
- prices and availability of alternative fuels;
- the ability of the members of OPEC, and other crude oil producing nations, to set and maintain specified levels of production and prices;
- political, economic and military developments in Azerbaijan, neighbouring countries and other oil producing regions, particularly the Middle East;
- Azerbaijan and foreign governmental regulations and actions, including export restrictions and taxes;
- market uncertainty and speculative activities; and
- global and regional economic conditions.

A substantial amount of the Company's crude oil and refined oil products are sold on the spot market or under short-term contracts at market sensitive prices. Market prices for export sales of crude oil and refined oil products are subject to volatile trading patterns in the commodity futures market. Average selling prices can differ from quoted market prices due to the effects of uneven volume distributions during the period, quality differentials, different delivery terms compared to quoted benchmarks, different conditions in local markets and other factors. Domestic prices for refined oil products are set by the Tariff Council at below market prices. The Company does not use any derivative instruments to hedge its production in order to decrease its price risk exposure. See "*—Main Factors Affecting Results of Operations and Liquidity—Changes in crude oil and refined oil product prices*" and "*Risk Factors—Risk Factors Relating to the Company's Business—The Company's revenue and net profits fluctuate significantly with changes in crude oil prices, which are historically volatile and are affected by a variety of factors beyond the Company's control*".

Foreign Currency Risk

The Company's principal exchange rate risk involves changes in the value of the U.S. Dollar relative to the Manat and, to a much lesser extent, relative to other currencies. Most of the Company's cash inflows, as well as its accounts receivable balances, are denominated in U.S. Dollars, while a significant amount of the Company's costs of sales are denominated in Manat.

On the revenue side, all of the Company's export revenue, including the exports of crude oil and refined oil products, are denominated in U.S. Dollars or are correlated with U.S. Dollar denominated prices for crude oil and refined oil products.

As at 30 June 2011, U.S.$3.4 billion (AZN 2.7 billion) of the Company's indebtedness was denominated in U.S. Dollars (representing 75.6% of the Company's total indebtedness of U.S.$4.5 billion (AZN 3.6 billion) as at that date). As at 31 December 2010, U.S.$2.5 billion (AZN 2 billion) of the Company's indebtedness was denominated in U.S. Dollars (representing 66.6% of the Company's total indebtedness of U.S.$3.8 billion (AZN 3.1 billion) as at that date). Depreciation of the U.S. Dollar relative to the Manat will reduce the value of the Company's U.S. Dollar denominated liabilities when measured in Manat, whereas appreciation of the U.S. Dollar relative to the Manat will increase the value of the Company's U.S. Dollar denominated liabilities when measured in Manat. Because the Company's reporting currency is Manat, the Company suffers foreign currency translation losses when the U.S. Dollar appreciates against the Manat. See *"—Main Factors Affecting Results of Operations and Liquidity—Impact of changes in exchange rates on export sales and operating margins*" and *"Risk Factors—Risk Factors Relating to the Notes—Exchange rate risks and exchange controls exist to the extent payments in respect of the Notes are made in a currency other than the currency in which an investor's activities are denominated"*.

The Company does not use foreign exchange or forward contracts to manage its exposure to changes in foreign exchange rates. The Company's management regularly monitors the Company's currency risk and monitors changes in foreign currency exchange rates and its effect on operations of the Company.

Liquidity Risk

Liquidity risk arises when the maturities of assets and liabilities do not match, causing the Company difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. As at 31 December 2010, the Company had positive working capital, principally due to a high amount of cash and cash equivalents and a high amount of trade and other receivables. The Company's management monitors liquidity requirements on a regular basis and believes that the Company has sufficient funds available to meet its commitments as they arise.

Credit Risk

The Company's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of accounts receivable. While the Company may be subject to losses up to the contract value of the instruments in the event of non-performance by its counterparts, it does not expect any material losses to occur. No collateral is required by the Company to support financial instruments subject to credit risk. Although collection of these receivables could be influenced by economic factors affecting these entities, the Company believes there is no significant risk of loss to it beyond allowances already recorded.

Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers included in the Company's customer base and the uses of letters of credit for most sales. Financial institutions operating in Azerbaijan do not offer insurance for deposits of legal entities. The Company's management periodically reviews the creditworthiness of the financial institutions with which it deposits cash.

In addition, the Company is also exposed to credit and liquidity risk from its investing activities, principally as regards its placing of deposits with Azerbaijan banks.

Interest Rate Risk

The Company is exposed to interest rate risk on its indebtedness that bears interest at floating rates and, to a lesser extent, on its indebtedness that bears interest at fixed rates. As at 30 June 2011, the Company had loans and borrowings outstanding in an aggregate principal amount of AZN 3.6 billion of which AZN 2 billion bears interest at fixed rates and AZN 1.6 billion bears interest at floating rates, largely determined by reference to LIBOR for U.S. Dollar deposits. As at 31 December 2010, the Company had loans and borrowings outstanding in an aggregate principal amount of AZN 3 billion, of which AZN 1.4 billion bears interest at fixed rates and AZN 1.6 billion bears interest at floating rates, largely determined by reference to LIBOR for U.S. Dollar deposits. See "*—Debt Obligations*".

The Company incurs debt for general corporate purposes including financing capital expenditures, financing acquisitions and working capital needs. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding variable rate borrowings. Fluctuations in interest rates can also lead to significant fluctuations in the fair value of the Company's debt obligations. A hypothetical, instantaneous and unfavourable change of ten basis points in the interest rate applicable to each category of floating rate financial liability held as at 30 June 2011 would have resulted in additional net interest expense of approximately U.S.$3 million per annum. An homogeneous category is defined according to the currency in which financial liabilities are denominated and assumes the same interest rate movement within each homogeneous category. However, the Company's sensitivity to decreases in interest rates and corresponding increases in the fair value of the Company's debt portfolio would negatively affect results and cash flows only to the extent that the Company elected to repurchase or otherwise retire all or a portion of the Company's fixed rate debt portfolio at prices above carrying value.

Taxation

The Company's effective tax rate as a percentage of profit before income tax was 21.4% and 68.9% for the six months ended 30 June 2011 and 2010, respectively. The decrease in the effective tax rate between the periods was primarily due to a change in tax law permitting the deduction of environmental remediation costs from tax liabilities. The Company's effective tax rate as a percentage of net income before tax was 47.0% and 34.7% for the years ended 31 December 2010 and 2009, respectively. The increase in the effective tax rate between 2009 and 2010 was due to lower profits before income tax in 2010 than in 2009, as discussed above, and increased deferred tax payments by the Company due to higher non-deductible expenses, which increased from AZN 199 million in 2009 to AZN 326 million in 2010, an increase of AZN 127 million, or 63.8%. Non-deductible expenses are mainly comprised of expenses related to the non-deductible operations of the Company, including social and employee-related expenses, as well as the provision for impaired receivables that are not expected to be deductible from taxable income in the future. See Note 33 to the 2010 Financial Statements. See also "*—Results of Operations for the Year Ended 31 December 2010, as compared to the Year Ended 31 December 2009—Income Tax Expense*" and "*—Main Factors Affecting Results of Operations and Liquidity—Taxation*".

Azerbaijan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions are not unusual. Because of the uncertainties associated with Azerbaijan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued as at 31 December 2010. As at 31 December 2010, the Company's management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Company's tax positions will be sustained.

BUSINESS

General

The Company is the State Oil Company of Azerbaijan and its capital is wholly-owned by the Republic. It was established by a Presidential Decree in September 1992 and its charter capital is AZN 600 million. As at 31 December 2011 the charter capital of the Group was AZN 1,059 million.

The Company was established to consolidate Azerbaijan's state-owned oil companies, following the merger of Azerneft and Azerneftkimya, each of which was also 100% state-owned, and to manage Azerbaijan's oil and gas exploration activities, as well as its transportation and refining activities following the fall of the Soviet Union. The Company is comprised of 22 wholly-owned entities, seven wholly-owned special purpose companies and a large number of jointly-controlled entities and associates. The Company has representative offices in Austria, Germany, Georgia, Iran, Kazakhstan, Romania, Switzerland, Turkey, Ukraine and the United Kingdom.

The business address of the Company is 73, Neftchilar Avenue, Baku, AZ1000, Republic of Azerbaijan and its telephone number is +994 12 521 03 32.

Overview

The Company is the national oil and gas company of Azerbaijan with vertically-integrated upstream, midstream and downstream operations located principally in Azerbaijan. The Company also has significant interests in the ACG and Shah Deniz PSAs and in several international pipelines, including the BTC Pipeline, the primary export route for oil produced in the ACG fields, and the SCP, the primary export route for natural gas produced in the ACG and Shah Deniz fields. In addition, the Company has a controlling interest in Petkim, which is Turkey's sole petrochemical producer. In October 2011, the Company, through STEAS (which it wholly-owns), commenced site preparation work for a major new refinery to be located adjacent to Petkim's facilities.

Crude oil has been produced in Azerbaijan since 1847, and the Company controls approximately 20% of Azerbaijan's crude oil production. In addition to its own production the Company is party to many PSAs with international oil companies, including the ACG PSA and Shah Deniz PSA, each of which relates to fields operated by BP and is further described below. The Company has an 11.65% share in the ACG PSA and a 10% share in the Shah Deniz PSA.

In the six-month periods ended 30 June 2010 and 2011, the Company's total production of crude oil was 4.2 million tonnes; consolidated production (excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) was 3.6 million tonnes. In the year ended 31 December 2010, the Company's total production of crude oil was 8.4 million tonnes; consolidated production was 7.2 million tonnes. The Company's total production of crude oil represented 18.9% of the total crude oil production in Azerbaijan for the six months ended 30 June 2011 and 17.6% of the total crude oil production in Azerbaijan and for the year ended 31 December 2010, based on the Company's estimates. The Company's total historic production of crude oil is over 1.4 billion tonnes.

In the six months ended 30 June 2011, the Company's total production of gas was 3.5 bcm; consolidated production was 3.4 bcm. The Company also received 1.9 bcm of associated gas from the ACG fields at no cost pursuant to the ACG PSA in the six months ended 30 June 2011. In the year ended 31 December 2010, the Company's total production of gas was 7.0 bcm; consolidated production was 6.9 bcm. The Company also received 3.4 bcm of associated gas from ACG in 2010. The Company's total historic production of gas is over 511.5 bcm.

According to estimates prepared by M&L, as at 1 January 2011, the Company's total PDP reserves of crude oil were 78.7 million tonnes and its total probable and possible reserves were an additional 29.1 million tonnes. According to estimates prepared by M&L, as at 1 January 2011, the Company's total PDP gas reserves were 31,158 mcm, and its total probable and possible reserves were an additional 4,688 mcm. As a result, according to M&L, the Company's wholly-owned PDP oil reserves represented 9.3 times production levels in 2010 and 4.4 times gas production levels in 2010.

As at 31 December 2010, the ACG fields had estimated recoverable reserves of crude oil of 824 million tonnes and were considered to be the largest oil fields under development in the Azerbaijani sector of the Caspian Sea. In the six months ended 30 June 2011, the ACG fields produced 18.9 million tonnes of crude oil (of which 625,000 tonnes were transferred to the Company under the ACG PSA). The ACG fields produced 40.5 million tonnes in 2010 (of which 1.4 million tonnes was transferred to the Company under the ACG PSA). In the six months ended 30 June 2011, the ACG fields produced 7.3 bcm of associated gas (of which 1.9 bcm was transferred to the Company under the ACG PSA). The

ACG fields produced 12.3 bcm of gas in 2010 (of which 3.4 bcm, was transferred to the Company under the ACG PSA).

The Shah Deniz field was discovered in 1999 and is considered one of the world's largest gas condensate fields, with over 1,000 bcm of gas. In the six months ended 30 June 2011, the Shah Deniz field produced 0.8 million tonnes of crude oil (of which 0.1 million tonnes was transferred to the Company under the Shah Deniz PSA). The Shah Deniz field produced 1.8 million tonnes of crude oil in 2010 (of which 0.2 million tonnes was transferred to the Company under the Shah Deniz PSA). In the six months ended 30 June 2011, the Shah Deniz field produced 3.1 bcm of gas (of which 0.2 bcm was transferred to the Company under the Shah Deniz PSA). The Shah Deniz field produced 6.8 bcm of gas in 2010 (of which 0.6 bcm was transferred to the Company under the Shah Deniz PSA).

Most of the oil fields in Azerbaijani territory are in a stage of declining production, although the Company is taking steps to rehabilitate and modernise its fields. As a result, since 2007 the Company has been increasing its focus on natural gas exploration and production. The Company's internal estimates indicate that it has proven reserves of natural gas to supply Azerbaijan at current levels for as much as 150 years, although this estimate has not been independently verified.

Two major gas discoveries have been made in the past year. In November 2010 a large gas field in the Umid structure in the Caspian Sea was discovered. Initial estimates suggest that it has reserves of 200 bcm of natural gas and 40 million tonnes of condensate. In August 2011, a large gas field was discovered in the Absheron field in the Caspian Sea. Initial estimates suggest the Absheron field contains reserves of 350 bcm of gas and 45 million tonnes of condensate. Drilling has commenced in both of these fields. The Company also has several other exploration projects at various stages of development.

The Company exported 32.4 million tonnes of crude oil in 2010. Oil exported by the Company is sold at two ports in Georgia and one port in each of Turkey and Russia via tenders and long-term contracts. The Company also conducts sales activities through SOCAR Trading which is 50% owned by the Company.

The Company owns two crude oil refineries in Baku, which are in need of modernisation. The refineries, as well as Azerikimya, the Company's petrochemical producer in Azerbaijan, primarily serve the domestic market. As these facilities are located in dense urban areas and are in need of modernisation, the Company, at the direction of the Government, established an internal working group in 2009 to prepare a feasibility study for a proposed refinery, gas processing and petrochemical complex to be located outside of Baku. A draft feasibility study was completed in July 2011 and the Company submitted it to the Government, along with its recommendations. The estimated cost of the project, as currently contemplated, is up to U.S.$15 billion. If the project is agreed by the Company and the Government substantially as contemplated in the feasibility study, construction is expected to commence in 2013 or 2014, with the first facilities beginning operations by 2018, and completed in 2020, following which the existing facilities, being replaced by the new complex, will be decommissioned. The Company does not yet have an estimate for the costs of decommissioning the existing facilities, but it is expected that the Company will be responsible for financing the decommissioning costs.

The Company owns and operates an expanding network of gasoline stations in Azerbaijan, Georgia, Romania and Ukraine, and has recently acquired a network of gasoline stations in Switzerland.

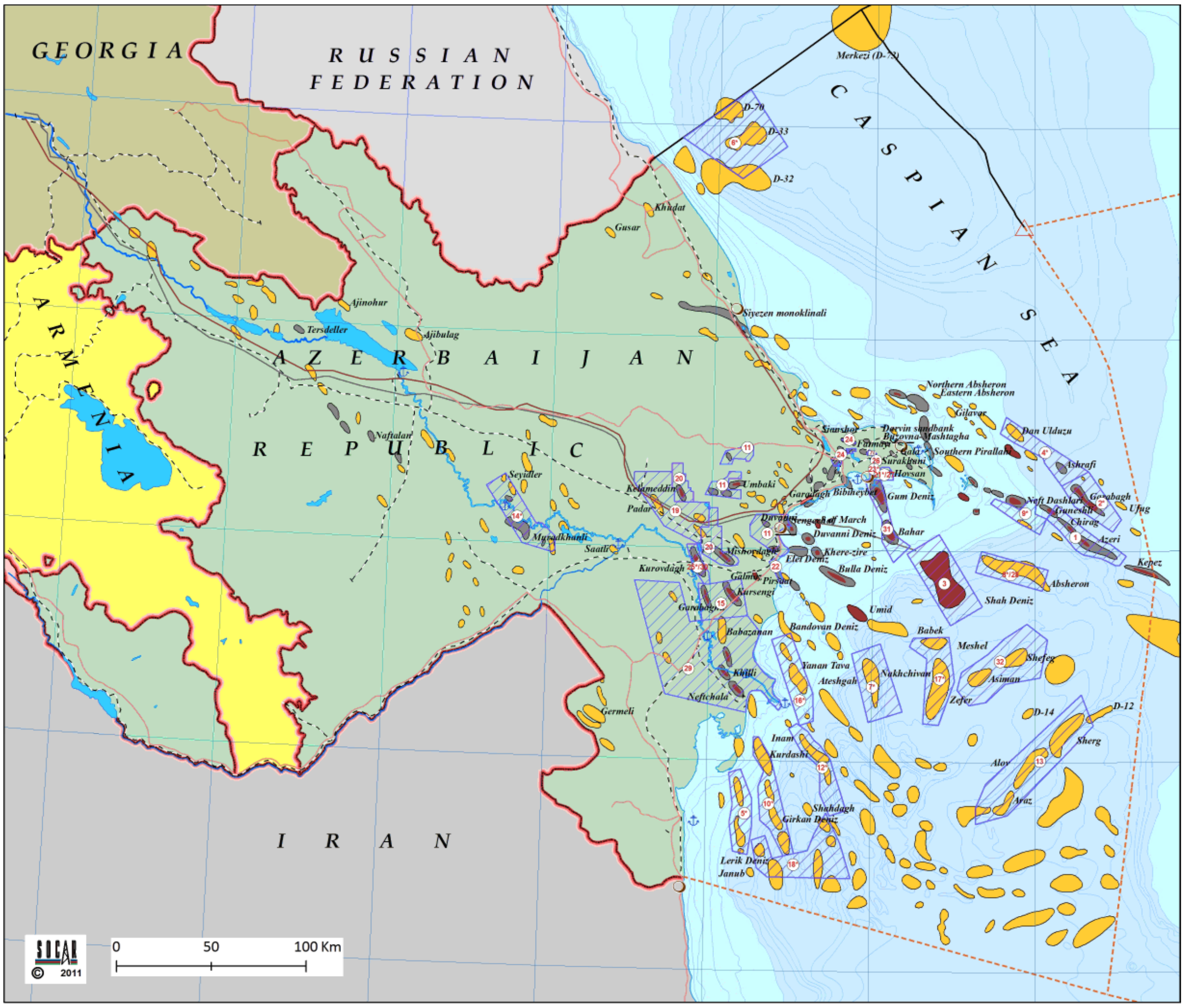
The Company's total revenue increased from AZN 2,721 million in the six months ended 30 June 2010 to AZN 3,434 million in the six months ended 30 June 2011, an increase of AZN 713 million, or 26.2%. The Company's profit for these periods increased from AZN 127 million to AZN 671 million, an increase of 428.3%.

The Company's total revenue increased from AZN 4,196 million in the year ended 31 December 2009 to AZN 5,527 million in the year ended 31 December 2010, an increase of AZN 1,331 million, or 31.7%. The Company's profit for the year decreased from AZN 894 million in the year ended 31 December 2009 to AZN 656 million in the year ended 31 December 2010, a decrease of AZN 238 million, or 26.6%.

The Company's total assets were AZN 16,972 million, as at 30 June 2011, AZN 15,727 million, as at 31 December 2010, and AZN 14,834 million, as at 31 December 2009. The Company's total equity was AZN 8,483 million, as at 30 June 2011, AZN 8,160 million, as at 31 December 2010, and AZN 8,041 million, as at 31 December 2009.

The following map illustrates the Company's principal export routes:

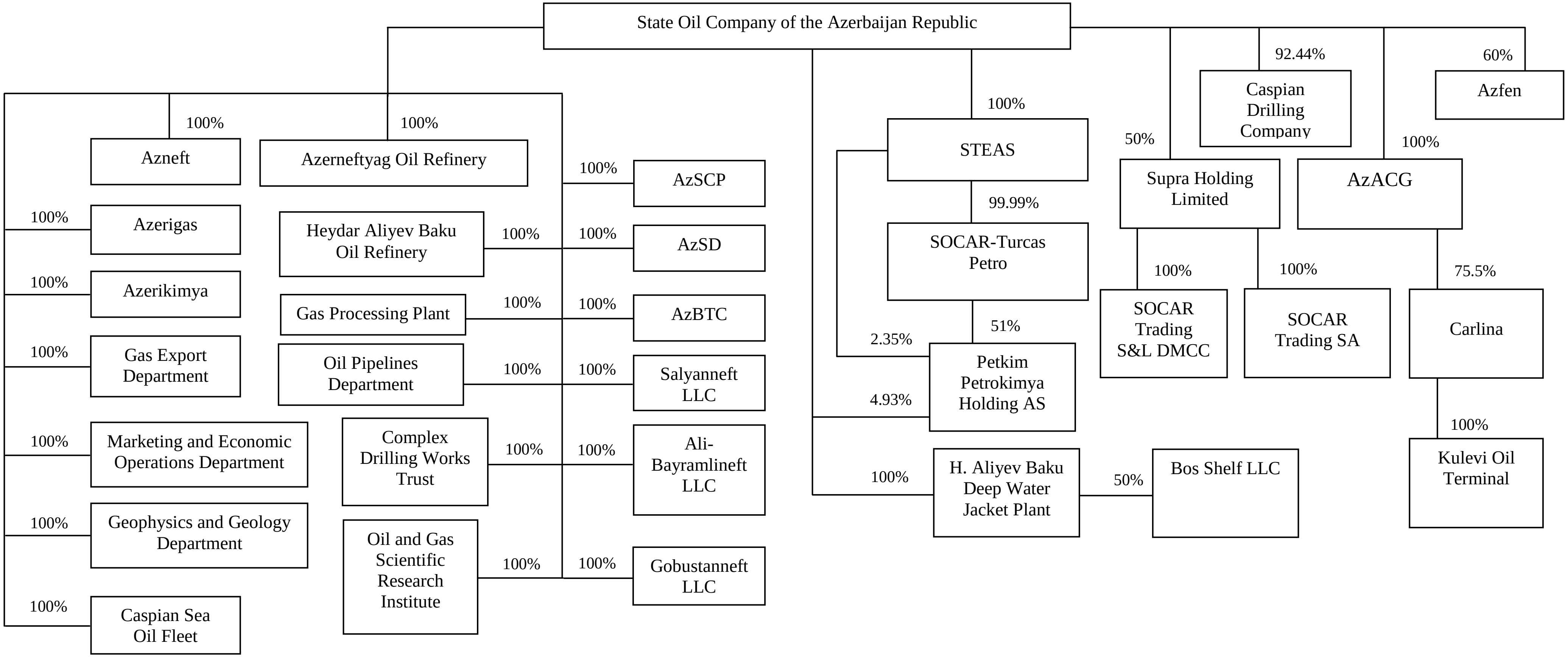
The following map illustrates the principal production fields in Azerbaijan:



Corporate Structure

The Company is comprised of 22 wholly-owned entities, seven wholly-owned special purpose companies and a large number of jointly-controlled entities and associates. In order to improve its operational efficiency, the Company has been restructured several times and its subsidiaries are structured as business units of the Company, responsible for specific areas of the upstream and downstream chain, including oil extraction, geophysics and geology, investments, oil pipelines, refineries, marketing and economic operations, gas operations, sea oil fleet and construction (including deep water jacket construction).

The organisational structure of the principal members of the Group as at the date of this Prospectus is as follows:



Key Strengths

The Company believes that its key strengths are:

- ***A strong relationship with the Government.***

  As a 100% state-owned entity, the Company benefits from a strong relationship with the Government. Among other things, the Government historically has assisted the Company by providing significant financial and strategic support and has played an important role in helping the Company expand its operations, reserves, production levels, transportation and refining networks. The Company is the largest contributor to the state budget and in the year ended 31 December 2010, paid AZN 1.3 billion in income and other taxes (or 13% of total budget receipts), as well as AZN 416 million in social expenses. In 2009, its revenues amounted to 12.1% of Azerbaijan's gross domestic product for that year. Its 2010 revenues amounted to 12.6% of Azerbaijan's gross domestic product for that year. In addition, the Company is the largest employer in the country, with over 80,000 employees as at 31 December 2010.

- ***It is a vertically-integrated oil and gas company.***

  The Company is vertically-integrated across the energy value chain and conducts prospecting, exploration and development, preparation, refining, transportation and retail activities, principally in Azerbaijan. Its exploration and development and transportation activities are conducted onshore and offshore (in the Caspian Sea). In addition to its domestic retail activities, it also conducts retail activities in Georgia, Romania and Ukraine, and has recently acquired a network of gasoline stations in Switzerland. It conducts petrochemical activities both domestically and through its controlling interest in Turkey's sole petrochemical producer, Petkim. With its 50-year track record of oil and gas production, the Company is well placed to strengthen its position in the region.

- ***Its controlling interest in Petkim and STEAS.***

  In 2008, the Company made a strategic investment through STEAS to acquire a controlling interest in Petkim, the only petrochemical producer in Turkey, which was being privatised by the Turkish government. This acquisition further diversifies the Company's holdings and increases the scope and scale of its downstream activities. In 2010, STEAS received permission from the Turkish government to construct a refinery adjacent to Petkim's facilities. The site preparation work for the new refinery began in October 2011. The Company expects that this refinery will reduce the cost of raw materials for Petkim, which will enhance Petkim's profitability and market share. See "*Business—Refining, Marketing and Trading—Petkim*".

- ***Limited exposure to exploration risks and rising oil prices have allowed the Company to achieve sound financial performance with high profitability.***

  Under the Company's current PSAs, the Company generally does not bear any exploration risks (with the exception of the ACG PSA and the Shah Deniz PSA). The Company generally enters into PSAs whereby any output is divided into "cost oil", which usually accounts for approximately 50% of production and is used to cover all expenses, including, *inter alia*, capital and operating expenses, and "profit oil", which is split in varying proportions among the Company, the Government and the other parties to the relevant PSA. Partly as a result of increasing oil prices during recent periods, the proportion of oil that is "profit oil" has increased, resulting in higher revenues and improved profitability of the Company. See "*Regulation of the Oil and Gas Sector in Azerbaijan—PSAs*".

- ***Holding a dominant position in Azerbaijan's upstream and downstream oil and gas industry, with the ability to participate in all hydrocarbon projects in Azerbaijan***.

  The Company is a member of all international consortia that are developing new oil and gas projects in Azerbaijan. In this respect, the Company has entered into 32 major PSAs since its establishment. In addition, the Company operates both of the refineries operating in Azerbaijan, which have a combined processing capacity of 16 million tonnes of crude oil per annum, and has significant interests in the pipeline system in Azerbaijan, including, *inter alia*, owning and operating the pipelines that deliver crude oil to the Company's refineries, as well as other pipelines in a domestic network totalling 771 km of pipelines, the Dubendi Oil Terminal, 14 oil injection stations and oil tank yards with total capacity of approximately 417 mcm.

Strategy

The Company's goal is to maintain its position as the only vertically-integrated oil and gas company in Azerbaijan with vertically-integrated upstream, midstream and downstream operations, by focusing on the following priorities:

- ***Increasing exports of natural gas.***

  The Company is focusing on increasing its natural gas reserves and production with the aim of increasing exports to Europe, where natural gas prices are higher than in the domestic or regional markets. To this end, the Company has increased its investment in upstream gas activities, contributing to two major gas discoveries in the past year. In November 2010, a large gas field in the Umid structure in the Caspian Sea was discovered. Initial estimates suggest that it has reserves of 200 bcm of natural gas and 40 million tonnes of condensate. In August 2011, a large gas field was discovered in the Absheron field in the Caspian Sea. Initial estimates suggest the Absheron field contains reserves of 350 bcm of gas and 45 million tonnes of condensate. Drilling has commenced in both of these fields. The Company also has several other exploration projects at various stages of development.

- ***Increasing the scope of the Company's international activities in order to take advantage of higher international market prices.***

  The Company is increasing its operations outside of Azerbaijan, in particular its downstream activities, in order to take advantage of higher international prices for its products and to secure lines of supply. For example, through STEAS, the Company is constructing a major new refinery at the site of Petkim that can use oil produced by the Company and other producers. The Company is also planning a fertiliser plant in Georgia that will use gas from the Company as its feedstock. In both cases, products at these facilities are expected to be sold at international market prices.

- ***Increasing and consolidating domestic downstream refining and petrochemical activities.***

  The Company believes that it has significant opportunities to expand both the scope and profitability of its downstream activities by constructing new, modern facilities and locating them closer to customers. For example, the Company is planning on modernising its facilities at Azerikimya and, in addition to the aforementioned fertiliser plant in Georgia, is expecting to construct a fertiliser plant in Azerbaijan, to be funded by the Government, to serve the domestic market. In addition, the Company expects to replace its two existing refineries in central Baku, built in 1881 and 1953, and its other petrochemical production assets with a new, modern refinery, petrochemical and power generation complex to be built outside of Baku. The complex is expected to be the anchor of a new industrial park that will use the products from the complex as feedstock. The Company believes that by consolidating these activities and locating them with end users, it will achieve savings on transportation and logistics.

- ***Enhancing the efficiency of its operations.***

  The Company is engaged in a long-term effort to improve the efficiency of its operations, in particular its extraction activities, through the implementation of new technologies, processes and procedures, as well as through rehabilitation projects to extend the life of oil and gas producing assets. In addition, the Company is actively seeking to further improve the quality of its management staff through external recruitment and through its internal training programme.

- ***Contributing to Azerbaijan's further development.***

  The Company plays a major role in the economy of Azerbaijan and in funding other sectors of the economy through tax payments, social expenses and other financial contributions. The Company is also planning to extend its supply of gas to unserved and underserved areas in Azerbaijan and is commencing work on a fertiliser plant to improve food security in Azerbaijan. The Company believes that further development of other sectors of the economy will benefit it through increased sales of its products, in particular end-consumer products.

Reserves

According to estimates prepared by M&L, as at 1 January 2011, the Company's total PDP reserves of crude oil were 78,744 million tonnes and its total probable and possible reserves were an additional 29,097 million tonnes. According to estimates prepared by M&L, as at 1 January 2011, the Company's total PDP gas reserves were 31,622 mcm and its total probable and possible reserves were an additional 4,688 mcm. As a result, according to M&L, the Company's wholly-owned PDP oil reserves represented over 9.3 times production levels in 2010 and 4.4 times gas production levels in 2010. See "*Risk Factors—Risks Factors Relating to the Company's Business*" and "*Presentation of Financial, Reserves and Certain Other Information*". Reserves are measured only on an annual basis and, accordingly, as at the date of this Prospectus, no reserve information is available as at any date after 1 January 2011. See the M&L Report at Annex 1.

The following table sets forth the Company's PDP reserves as at 1 January 2011:

	As at 1 January 2011				
Company and Field	**Ownership interest**	**Oil**	**Share of total**	**Gas**	**Share of total**
	(%)	*(thousand tonnes)*	*(%)*	*(mcm)*	*(%)*
28 May OGPD	100	55,389	70.3	28,899	91.4
Neft Dashları OGPD	100	11,156	14.2	647	2.0
N.Narimanov OGPD	100	4,967	6.3	1,229	3.9
Balakhanyneft OGPD	100	2,998	3.8	116	0.4
Absheronneft OGPD	100	1,652	2.1	16	0.1
Bibi-Heybetneft OGPD	100	1,458	1.9	171	0.5
A.C.Amirov OGPD	100	628	0.8	62	0.2
H.Z.Tagıyev OGPD	100	91	0.1	4	0.0
Qarachuxur IM	100	49	0.1	14	0.0
Muradxanlı INM	100	353	0.4	—	—
Total for Azneft	**100**	**78,741**	**100.0**	**31,158**	**100.0**
Salyan Oil OC	50	16,420	19.8	5,387	14.6
Shirvan Oil OC	20	4,720	5.7	3,192	8.6
Karasu OC	15	8,257	10.0	2,612	7.1
Azgerneft JV	40	6,631	8.0	0.041	0.0
Neftchala OC	20	8,845	10.6	2,046	5.5
Gobustan OC	20	1,025	1.2	1,249	3.4
Pirsaat Oil OC	20	1,483	1.8	4,266	11.5
Binagadi Oil OC	25	11,524	13.9	0.73	0.0
Surakhani OC	25	6,048	7.3	223	0.6
Absheron OC	75	11,224	13.5	2,412	6.5
Bahar Enerji OC	20	6,739	8.2	15,561	42.1
Total for JVs and OCs		**82,916**	**100.0**	**36,949**	**100.0**
Total ACG	100	816,875		310,393	
of which attributable to the Company	*11.65*	95,329		36,223	
Total Shah Deniz	100	1,454[(1)]		1,200	
of which attributable to the Company	*10*	145		120	

Note:
(1) Condensate.

Exploration and Production

Overview of Crude Oil and Gas

Crude oil has been produced in Azerbaijan since 1847. Most of the oil fields controlled and operated by the Company are in a stage of declining production, and the Company believes that recoverable oil reserves in Azerbaijan are declining. Re-development is required to maintain production levels and is being undertaken by the Company. One of such fields, the offshore field shallow-water Gunashli, located 100 km off Azerbaijan's Absheron Peninsula, yields 76% of the Company's offshore crude oil and 60% of the Company's total output. This field is included in 28 May OGPD, a department that comprises several fields. Most of these fields consist of wells which became operational decades ago in the Soviet era and were developed with the old technology, as a result most of the fields, including the shallow-water Gunashli field, are expected to be re-developed if the required investments can be made. See *"—Oil Field Development and Rehabilitation"*. Most of the crude oil produced in Azerbaijan is referred to as "Azeri light" and has a medium gravity, 34-34.5 degree API and a very low sulphur content of 0.15%. By contrast, Brent crude has 38.5 degree API and 0.8% sulphur content. Azeri light is quoted CIF Augusta (Italy) and has an historical average premium of 80¢ per barrel over Brent crude.

In each of the six-month periods ended 30 June 2010 and 2011, the Company's production was 4.2 million tonnes (3.6 million tonnes excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of crude oil. In the years ended 31 December 2009 and 2010, the Company's production was 8.5 million tonnes (7.3 million tonnes excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of crude oil. The Company's production of crude oil (including the production of joint ventures and associates) represented 17.6%, 16.7% and 16.9% of the total crude oil production in Azerbaijan for the six months ended 30 June 2011 and for the years ended 31 December 2010 and 2009, respectively, based on the Company's internal information. The Company's total historic production of crude oil is over 1.4 billion tonnes.

Since 2007 the Company has been increasing its focus on natural gas exploration and production. The Company's internal estimates indicate that it has proven reserves of natural gas to supply Azerbaijan at current levels for as much as 150 years, although this estimate has not been independently verified. In addition, due to its increased focus on exploration activities, two significant discoveries have recently been made in the Umid and Absheron fields in the Caspian Sea, which the Company currently estimates have reserves of 350 bcm of natural gas and 45 million tonnes of condensate, in the case of Umid, and 200 bcm of gas and 40 million tonnes of condensate, in the case of Absheron. The Company also has several other exploration projects at various stages of development. See "—Exploration Projects".

In the six months ended 30 June 2011, the Company's production was 3.5 bcm (3.4 bcm excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of gas compared to 3.6 bcm (3.5 bcm excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of gas in the six months ended 30 June 2010. The Company's major gas producing member is Azneft, which produced 96% of the Company's production of gas, or 3.4 bcm in the six months ended 30 June 2011. In the six months ended 30 June 2011, the Company also received 1.9 bcm of associated gas from AzACG at no cost to the Company pursuant to the ACG PSA. In the year ended 31 December 2010, the Company's production was 7.2 bcm (7.0 bcm excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of gas compared to 6.9 bcm (6.8 bcm excluding the proportionate share of the Company and its subsidiaries in jointly-controlled entities and associates) of gas in the year ended 31 December 2009. Azneft accounted for 98% of the Company's production of gas, or 7.1 bcm in the year ended 31 December 2010. The Company also received 3.4 bcm of associated gas from ACG in 2010. The Company's total historic production of gas is over 511.5 bcm.

Production and Development Assets

The following tables set forth the Company's production for the periods indicated:

Company and Field	For the six months ended 30 June 2011				
	Ownership interest	**Oil**	**Share of total**	**Gas**	**Share of total**
	(%)	*(thousand tonnes)*	*(%)*	*(mcm)*	*(%)*
28 May OGPD	100	2,552	60.7	3,120	88.4
Neft Dashları OGPD	100	454	10.8	33	0.9
N.Narimanov OGPD	100	190	4.5	169	4.8
Balakhanyneft OGPD	100	108	2.6	6	0.2
Absheronneft OGPD	100	91	2.2	23	0.7
Bibi-Heybetneft OGPD	100	63	1.5	9	0.3
A.C.Amirov OGPD	100	35	0.8	21	0.6
H.Z.Tagıyev OGPD	100	33	0.8	2	0.1
Qarachuxur IM	100	11	0.3	4	0.1
Muradxanlı INM	100	15	0.4	0.3	0.0
Total for Azneft	**100.0**	**3,552**	**85.1**	**3,387**	**96.1**
Salyan Oil OC	50	108	2.6	21	0.6
Shirvan Oil OC	20	90	2.1	7	0.2
Karasu OC	15	108	2.6	2	0.0
Azgerneft JV	40	42	1.0	0	0.0
Neftchala OC	20	20	1.5	1	0.0
Gobustan OC	20	1	0	2	0.0
Pirsaat Oil OC	20	1	0	—	—
Binagadi Oil OC	25	68	1.6	3	0.1
Kura Valley OC	20	1	0	—	—
Surakhani OC	25	94	2.2	1	0.0
Absheron OC	75	62	1.5	15	0.4
Bahar Enerji OC	20	34	0.8	86	2.4
Total for JVs and OCs		**629**	**15.0**	**138**	**3.9**
Total SOCAR		4,181		3,525	
ACG	100	18,886		6,288	
of which attributable to the Company	*11.65*	*2,204*		*734*	
Shah Deniz	100	816		3,110	
of which attributable to the Company	*10*	*82*		*311*	
Total production in Azerbaijan		**23,883**		**12,923**	

Company and Field	Ownership interest	Oil	Share of total	Gas	Share of total
	For the year ended 31 December 2010				
	(%)	*(thousand tonnes)*	*(%)*	*(mcm)*	*(%)*
28 May OGPD	100	5,199	61.5	6,244	87.0
Neft Dashları OGPD	100	905	10.7	65	0.9
N.Narimanov OGPD	100	383	4.5	399	5.6
Balakhanyneft OGPD	100	210	2.4	11	0.2
Absheronneft OGPD	100	173	2.0	52	0.7
Bibi-Heybetneft OGPD	100	120	1.4	19	0.3
A.C.Amirov OGPD	100	69	0.8	39	0.5
H.Z.Tagıyev OGPD	100	65	0.8	6	0.1
Qarachuxur IM	100	20	0.2	6	0.1
Muradxanlı INM	100	32	0.4	1	0.0
Total for Azneft	**100.0**	**7,176**	**84.7**	**6,842**	**95.4**
Salyan Oil OC	50	225	2.7	28	0.4
Shirvan Oil OC	20	178	2.1	15	0.2
Karasu OC	15	242	2.9	4	0.1
Azgerneft JV	40	82	1.0	0	0.0
Neftchala OC	20	49	0.6	28	0.4
Gobustan OC	20	1	0.0	3	0.0
Pirsaat Oil OC	20	2	0.0	—	—
Binagadi Oil OC	25	139	1.7	6	0.1
Kura Valley OC	20	1	0.0	—	—
Surakhani OC	25	179	2.1	2	0.0
Absheron OC	75	65	0.8	17	0.2
Bahar Enerji OC	20	19	0.2	55	0.8
Total for JVs and OCs		**1,182**	**14.1**	**158**	**2.3**
Total SOCAR		8,358		7,000	
ACG	*100*	40,487		12,278	
of which attributable to the Company	*11.65*	*4,725*		*1,228*	
Shah Deniz	100	1,848		6,893	
of which attributable to the Company	*10*	*185*		*689*	
Total production in Azerbaijan		50,693		26,171	

Company and Field	For the year ended 31 December 2009 Ownership interest	Oil	Share of total	Gas	Share of total
	(%)	*(thousand tonnes)*	*(%)*	*(mcm)*	*(%)*
28 May OGPD	100	5,256	61.5	5,837	87.5
Neft Dashları OGPD	100	875	10.2	65	1.0
N.Narimanov OGPD	100	382	4.3	489	7.3
Balakhanyneft OGPD	100	209	2.4	11	0.2
Absheronneft OGPD	100	166	2.0	52	0.8
Bibi-Heybetneft OGPD	100	116	1.4	17	0.3
A.C.Amirov OGPD	100	68	0.8	46	0.7
H.Z.Tagıyev OGPD	100	64	0.8	3	0.1
Qarachuxur IM	100	7	0.2	2	0.1
Muradxanlı INM	100	32	0.4	1	0.0
Total for Azneft	**100.0**	**7,175**	**85.2**	**6,523**	**98.0**
Salyan Oil OC	50	239	2.8	26.5	0.4
Shirvan Oil OC	20	188	2.2	15	0.2
Karasu OC	15	314	3.7	6	0.1
Azgerneft JV	40	74	0.9	0	0.0
Neftchala OC	20	52	0.6	27	0.4
Gobustan OC	20	1	0.0	4	0.1
Pirsaat Oil OC	20	2	0.0	—	—
Binagadi Oil OC	25	137	1.6	4	0.1
Kura Valley OC	20	3.5	0.0	—	—
Surakhani OC	25	165	2.0	3	0.0
Absheron OC	75	58	0.7	13	0.2
Bahar Enerji OC	20	23	0.3	65	1.0
Total for JVs and OCs		**1,257**	**14.8**	**164**	**1.5**
Total SOCAR		8,432		6,691	
ACG	*100*	40,224		10,523	
of which attributable to the Company	*11.65*	*4,694*		*1228*	
Shah Deniz	100	1,652		5,256	
of which attributable to the Company	*10*	*165*		*526*	
Total production in Azerbaijan		50,316		22,470	

The following table sets forth certain information relating to the production activities and development activities of the Company and its subsidiaries, jointly-controlled entities and associates at their respective significant fields as at the dates and for the periods indicated:

					New production wells drilled	
Company and Field	**Date Begun**	**Expiration of Agreement**	**Production wells(1)**	**Injection wells(1)**	**In the six months ended 30 June 2011**	**In the year ended 31 December 2010**
Azneft			4,385	135	42	85
Salyan Oil OC	15.12.98	15.12.23	253	4	0	1
Shirvan Oil OC	03.02.09	03.02.34	303	30	1	0
Karasu OC	12.09.00	12.09.25	173	72	10	14
Azgerneft JV	1994	2019	230	10	0	0
Neftchala OC	03.01.09	03.01.34	199	0	2	0
Gobustan OC	02.06.98	02.06.23	5	0	0	0
Pirsaat Oil OC	04.06.03	04.06.28	8	0	0	0
Binagadi Oil OC	29.09.04	29.09.29	725	60	4	0
Surakhani Oil OC	16.08.05	16.08.30	322	0	6	6
Absheron OC	03.11.06	03.11.31	15	0	1	1
Bahar Enerji OC	21.01.09	21.01.34	44	0	0	0
Total for JVs and OCs			2,279	176	24	22
Total ACG	20.09.94	20.09.24	68	32	3	8
Total Shah Deniz	04.06.96	04.06.21	5	0	1	1
Total			**2,352**	**208**	**28**	**31**

Note:
(1) As at 30 June 2011.

Significant Production Fields of Azneft

Azneft, which is wholly-owned by the Company, is the Company's largest subsidiary in terms of reserves of crude oil and gas, representing 58% of the Company's reserves of crude oil and 57% of the Company's reserves of gas. Azneft is also the Company's largest subsidiary in terms of production volume, representing 73.2% of the Company's total oil production and 63.7% of the Company's total gas production in 2010.

Many of Azneft's significant fields are mature; therefore, production levels are achieved by various field stimulation and rehabilitation projects, including drilling new wells, completing well workovers and introducing various secondary enhancement and well stimulation and recovery techniques. See "*—Oil Field Development and Rehabilitation*".

The principal operations and facilities at the Oil Rocks field are divided as follows:

- Oil Rocks. Oil Rocks is an offshore production field located 110 km from Baku and has been in operation since 1950. There are 355 wells in this field, of which 342 are production wells and 13 are injection wells. The average depth of the wells is 1,231 m and average daily production from the field is 2,230 tonnes. As at 30 June 2011, the facilities at Oil Rocks include gas injection, fountain and depth pumping equipment as well as a pipeline to the shore.

- Palchiq Pilpasi. Palchiq Pilpasi is an offshore production field located 80 km from Baku and has been in operation since 1963. There are 151 wells in this field; all are production wells. The average depth of the wells is 1,274 m and average daily production of the field is 310 tonnes. As at 30 June 2011, the facilities at Palchiq Pilpasi include gas injection and fountain pumping equipment as well as a pipeline to the shore.

The principal operations and facilities at the 28 May field are divided as follows:

- Guneshli. Guneshli is an offshore production field located 120 km from Baku and has been in operation since 1985. There are 231 operational wells in this field; 161 are oil wells, 56 are gas wells and 14 are water injection wells. The average depth of the wells is 3,300 m and average daily production of the field is 13,929 tonnes. As at 30 June 2011, the facilities at Guneshli include gas injection and fountain pumping equipment as well as a pipeline to Oil Rocks and to the shore.

- Jilov. Jilov is an offshore production field located 62 km from Baku and has been in operation since 1951. There are 32 oil wells in this field, of which 27 are operating. The average depth of the wells is 800 m and the average daily production of the field is 80 tonnes. As at 30 June 2011, the facilities at Jilov include gas injection and fountain pumping equipment as well as a pipeline to the shore.

The principal operations and facilities at the N. Narimanov field are divided as follows:

- Sangachal-Duvanni-Xara-Zira island. Sangachal-Duvanni-Xara-Zira Island is an offshore production field located 50 km from Baku and has been in operation since 1969. There are 144 wells in this field. The depth of the wells ranges from 3,000 m to 6,000 m and the average daily production of the field is 759 tonnes. As at 30 June 2011, the facilities at Sangachal-Duvanni-Xara-Zira Island include gas injection and fountain pumping equipment as well as a pipeline to the shore.

- 8 Mart. 8 Mart is an offshore production field located 40 km from Baku and has been in operation since 1988. There are seven wells in this field. The depth of the wells ranges from 5,500 m to 5,800 m and the average daily production of the field is 82 tonnes. As at 30 June 2011, the facilities at 8 Mart includes a pipeline to the shore, gas injection and fountain pumping.

- Elet-Sea. Elet-Sea is an offshore production field located 50 km from Baku and has been in operation since 1986. There are 17 wells in this field. The depth of the wells ranges from 3,500 m to 4,200 m and the average daily production of the field is 201 tonnes. As at 30 June 2011, the facilities at Elet-Sea include gas injection and fountain pumping equipment as well as a pipeline to the shore.

- Bulla-Sea. Bulla-Sea is an offshore production field located 55 km from Baku and has been in operation since 1975. There are 14 oil wells in this field. The depth of the wells ranges from 5,000 m to 6,200 m and the average daily production of the field is 122 tonnes. As at 30 June 2011, the facilities at Bulla-Sea include gas injection and fountain pumping equipment as well as a pipeline to the shore.

Significant Production Fields of the Company's Joint Ventures and Associates

Azeri-Chirag-Gunashli fields

AzACG is a wholly-owned subsidiary of the Company, incorporated in the Cayman Islands, which holds and manages the Company's 11.65% interest in the agreement (the "**ACG PSA**") on joint development and production sharing for the Azeri and Chirag fields and the deep water portion of the Gunashli field in the Azerbaijan sector of the Caspian Sea (the "**ACG fields**"). The ACG PSA has a thirty-year term, which started in 1994, and participating interests are also held by BP (which acts as operator and holds a 35.78% interest), Chevron (11.27%), Inpex (10.96%), Statoil (8.56%), ExxonMobil (8.00%), TPAO (6.75%), Itochu (4.30%) and Delta Hess (2.72%).

PSAs have a special legal status under Azerbaijan law. See "*Regulation of the Oil and Gas Sector in Azerbaijan—PSAs*".

As at 31 December 2010, the ACG fields had estimated recoverable reserves of crude oil of 824 million tonnes and was considered to be the largest oil field under development in the Azerbaijani sector of the Caspian Sea.

The ACG fields, located approximately 100 km offshore to the east of Baku in the South Caspian Sea region of Azerbaijan, were discovered in 1984. The ACG fields, which together are approximately 45 km long, cover an area of approximately 432.2 km^2 and lie in water depths of up to 400 m. Production began at the ACG fields in November 1997. The grade of crude oil produced at the ACG fields usually has a maximum density of 0.851 per m^3, sulphur content up to 1% and an average watercut of 4.3%. The ACG fields' wellstock consisted of 70 production and 33 injection wells as at 30 June 2011 and 63 production and 32 injection wells as at 31 December 2010.

In the six months ended 30 June 2011, the ACG fields produced 18.9 million tonnes of crude oil (of which 625,000 tonnes was transferred to AzACG under the ACG PSA). The ACG fields produced 40.5 million tonnes in 2010, 40.2 million tonnes in 2009 and 34.0 million tonnes of crude oil in 2008 (of which 1.4 million tonnes, 1.5 million tonnes and 1.5 million tonnes was transferred to the Company under the ACG PSA in 2010, 2009 and 2008, respectively). In the six months ended 30 June 2011, production wells at the ACG fields produced an average of 0.1 million tonnes of crude oil per day and, in the year ended 31 December 2010, production wells at the ACG fields produced an average of 0.1 million tonnes of crude oil per day.

In the six months ended 30 June 2011, the ACG fields produced 7.3 bcm of associated gas (of which 1.9 bcm was transferred to the Company under the ACG PSA). The ACG fields produced 12.3 bcm of gas in 2010, 10.5 bcm in 2009 and 8.4 bcm of gas in 2008 (of which 3.4 bcm, 3.9 bcm and 2.1 bcm was transferred to the Company under the ACG PSA in 2010, 2009 and 2008, respectively).

Oil and gas from the ACG fields are transported via subsea pipelines to the Sangachal Terminal. Crude oil produced from the ACG fields is primarily exported via the BTC Pipeline. Gas produced from the ACG fields is exported via the SCP and via the Company's pipeline connecting the Sangachal Terminal's gas processing facilities to Azerigas' national grid system.

The principal operations and facilities at the ACG fields are divided as follows:

- Chirag. Chirag is an offshore production, drilling and quarters ("**PDQ**") platform located approximately 120 km from Baku in the Caspian Sea and has been in operation since the "Early Oil Project", which commenced in 1997. The Chirag platform has both producing and water injection wells and has an average oil production of 0.125 million bopd. As at 30 June 2011, the facilities at Chirag include a PDQ platform, an oil pipeline to the Sangachal Terminal, gas pipelines to the Oil Rocks, an offshore platform, and Central Azeri as well as a compression and water injection platform.

- Central Azeri. Central Azeri is an offshore PDQ platform constructed to produce oil from the central portion of the Azeri field and is located in approximately 128 m of water, 100 km east of Baku in the Caspian Sea. The platform has been in operation since February 2005 and is designed to process 0.420 million bopd. As at 30 June 2011, the facilities at Central Azeri include a PDQ platform, an oil pipeline and a gas pipeline to the Sangachal Terminal, expansion of the existing onshore terminal at Sangachal, a compression and water injection platform and a bridge linked to the PDQ platform to create offshore accommodation, drilling, production, processing, compression and re-injection facilities.

- Compression and water injection platform. Compression and water injection platform is the bridge linked to Central Azeri, which provides water and gas injection services to the Central, West and East Azeri platforms, manages associated gas export and provides electrical power. As at 30 June 2011, the facilities include gas injection/lift capacity of one billion standard cubic feet per day using five gas injection wells, water injection capacity or 1 million bopd using 12 water injection wells, gas export capacity of 250 million standard cubic feet per day and a collection of large water injection pumps and gas injection compressors.

- West Azeri. West Azeri is an offshore PDQ platform located in approximately 120 m of water, 100 km east of Baku in the Caspian Sea. West Azeri has been in operation since December 2005 and was constructed to produce oil from the western portion of the Azeri field. The facilities at West Azeri include a PDQ platform and an oil pipeline to the Sangachal Terminal.

- East Azeri. East Azeri is an offshore PDQ platform located 100 km east of Baku in the Caspian Sea. East Azeri has been in operation since November 2006 and was constructed to produce oil from the eastern part of the Azeri field. As at 30 June 2011, the facilities at East Azeri include a PDQ platform.

- Deepwater Gunashli. The deepwater Gunashli complex (the "**DWG**") is the third phase of development of the ACG fields and has been in operation since April 2008. The DWG is located in 175 m of water, on the east side of the Gunashli field. The DWG is expected to produce approximately 320,000 bopd. As at 30 June 2011, the facilities at the DWG include a drilling, utilities and quarters platform, gas compression, water injection and utilities platform, two oil pipeline tie-ins and a gas pipeline tie-in to the Azeri field subsea export pipeline to the Sangachal Terminal and three subsea water injection wells (the only such wells in the ACG fields). Production from DWG is expected to be increased by a subsea seawater injection to increase pressure.

Shah Deniz

Azerbaijan (Shah Deniz) Limited ("**AzSD**") is a wholly-owned subsidiary of the Company, incorporated in the Cayman Islands, to hold and manage the Company's interest in the PSA (the "**Shah Deniz PSA**") in relation to the development and exploitation of the Shah Deniz field (the "**Shah Deniz field**"). The Shah Deniz PSA has a thirty-year term, which started in 1996, and participating interests are held by BP (which acts as operator and holds a 25.5% interest), Statoil (25.5%), AzSD (10%), LUKOIL Overseas (10%), NICO (10%), Total E&P (10%), and TPAO (9%). See "*Regulation of the Oil and Gas Sector in Azerbaijan—PSAs*".

BP operates the Shah Deniz field on behalf of the other parties to the Shah Deniz PSA. The Shah Deniz field was discovered in 1999 and is considered to be one of the world's largest gas condensate fields, with over 1,000 bcm of gas. The Shah Deniz field is located in water depths ranging from 50 m to 500 m on the deep water shelf of the Caspian Sea, approximately 70 km south-east of Baku. Gas from the Shah Deniz field is transported via subsea pipelines to the

Sangachal Terminal. Gas is then transported via the Company's pipeline connecting the Sangachal Terminal's gas processing facilities to Azerigas' national grid system and exported via the SCP.

In the six months ended 30 June 2011, the Shah Deniz field produced 0.8 million tonnes of crude oil (of which 0.1 million tonnes was transferred to the Company under the Shah Deniz PSA). The Shah Deniz field produced 1.8 million tonnes of crude oil in 2010, 1.7 million tonnes in 2009 and 1.9 million tonnes of crude oil in 2008 (of which 0.2 million tonnes, 0.1 million tonnes and 0.1 million tonnes was transferred to AzSD under the Shah Deniz PSA in 2010, 2009 and 2009, respectively).

In the six months ended 30 June 2011, the Shah Deniz field produced 3.1 bcm of gas (of which 0.2 bcm was transferred to the Company under the Shah Deniz PSA). The Shah Deniz field produced 6.8 bcm of gas in 2010, 6.2 bcm in 2009 and 7.2 bcm of gas in 2008 (of which 0.6 bcm, 0.5 bcm and 0.6 bcm was transferred to the Company under the Shah Deniz PSA in 2010, 2009 and 2009, respectively).

There are two stages to the Shah Deniz field's development. Stage 1 commenced in 2006 and the maximum production rate from Stage 1 is expected to be 8.9 bcm of gas and approximately 2 million tonnes of condensate per annum. As part of Stage 1, six wells were drilled and a platform, onshore terminal and 700 km of pipeline to Turkey were built. Stage 1 is now complete.

Stage 2 of the Shah Deniz field's development is the "Shah Deniz Full Field Development", together with the expansion of the SCP. Stage 2 is intended to deliver an additional 16 bcm of gas and up to 4 million tonnes of condensate per annum through the construction of new offshore platforms, wells, subsea pipelines, an expansion of the Sangachal Terminal and an expansion of the SCP to over 25 bcm per annum. This additional volume is expected to be exported to the European Union, as well as to existing markets in Georgia and Turkey.

In 2007, the governments of Azerbaijan and Turkey entered into an agreement for the sale and transit of gas across Turkey, under which the Company will supply 89.2 bcm of gas over a 15-year period. Sales and transit began in the first quarter of 2007. On 25 October 2011, several additional agreements were signed in Izmir, Turkey in respect of the transportation and export of gas produced at Shah Deniz, including, *inter alia*, an intergovernmental agreement between the Government and the government of the Republic of Turkey and gas sales and transit agreements between the Company and BOTAS, the Turkish state-owned pipeline company. The signing was attended by the President of the Republic and the Prime Minister of the Republic of Turkey, as well as other top officials from both countries. The agreements provide a legal framework to regulate the sale of Shah Deniz gas to Turkey and its transportation to European markets through Turkey.

Other Major Joint Venture Projects and PSAs

The block including the Mishovdag and Kelameddin oil fields (Karasu)

On 12 September 2000, the Company entered into a PSA with Global Investment Energy in relation to the block including the Mishovdag and Kelameddin oil fields. The Company holds its 15% participatory interest in this block through Ali-Bayramlineft LLC, a wholly-owned subsidiary. See "*Regulation of the Oil and Gas Sector in Azerbaijan—PSAs*".

The Mishovdag and Kelameddin oil fields are located in the Hajigabul district. The Mishovdag and Kelameddin oil fields were discovered in 1956 and 1978, respectively, and started producing in 1956 and 1980, respectively. As at 31 December 2010, the Mishovdag and Kelameddin oil fields had estimated reserves of crude oil of 8.3 million tonnes.

The wellstock consisted of 455 production wells and 179 injection wells as at 31 June 2011, with nine new wells drilled in the six months ended 30 June 2011 and 14 new wells drilled in 2010. The field produced 0.11 million, 0.21 million and 0.31 million tonnes of crude oil in the six months ended 30 June 2011 and in the years ended 31 December 2010 and 2009, respectively.

The block including Kursengi and Garabagli oil fields (Salyan)

On 15 December 1998, the Company entered into a PSA with Frontera Resources Azerbaijan Corporation and Delta Hess in relation to the block including the Kursengi and Garabagli oil fields. The interests of Delta Hess and Frontera were subsequently passed to the China National Oil and Gas Exploration and Development Corporation and Fortunate, respectively. The Company holds its 50% participatory interest in this block through Salyanneft LLC, a wholly-owned subsidiary of the Company. See "*Regulation of the Oil and Gas Sector in Azerbaijan—PSAs*".

The Kursengi and Garabagli oil fields are located in the Salyan district. The Kursengi and Garabagli oil fields were both discovered in 1960 and started producing in 1962 and 1960, respectively. As at 31 December 2010, the Kursengi and Garabagli oil fields had estimated reserves of crude oil of 16.4 million tonnes.

The wellstock consisted of 337 production wells and 5 injection wells as at 30 June 2011, with one new well drilled in the six months ended 30 June 2011 and one new well drilled in 2010. The field produced 0.11 million, 0.23 million and 0.24 million tonnes of crude oil in the six months ended 30 June 2011 and in the years ended 31 December 2010 and 2009, respectively.

The block including the Binagadi, Girmaki, Chahnaglar, Sulutepe, Masazir, Fatmai, Shabandag and Sianshor oil fields

On 29 September 2004, the Company entered into a PSA with AZEN Oil (Netherlands) in relation to the block including the including the Binagadi, Girmaki, Chahnaglar, Sulutepe, Masazir, Fatmai, Shabandag and Sianshor oil fields. The Company holds a 25% participatory interest in this block. See "*Regulation of the Oil and Gas Sector in Azerbaijan—PSAs*".

The Binagadi, Girmaki, Chahnaglar, Sulutepe, Masazir, Fatmai, Shabandag and Sianshor oil fields are located in the Baku and Binagadi districts. The fields were discovered and began producing at various times between 1896 and 1980. As at 31 December 2010, the Binagadi, Girmaki, Chahnaglar, Sulutepe, Masazir, Fatmai, Shabandag and Sianshor oil fields had estimated reserves of crude oil of 11.5 million tonnes.

The wellstock consisted of 1,099 production wells and 151 injection wells as at 30 June 2011, with no new wells drilled in the six months ended 30 June 2011. The field produced 0.07 million, 0.14 million and 0.14 million tonnes of crude oil in the six months ended 30 June 2011 and in the years ended 31 December 2010 and 2009, respectively.

The block including the Surakhani oil field

On 16 August 2005, the Company entered into a PSA with Rafi Oil (UAE) in relation to the block including the Surakhani oil field. The Company holds a 25% participatory interest in this PSA. See "*Regulation of the Oil and Gas Sector in Azerbaijan—PSAs*".

The Surakhani oil field is located in the Surakhani district. The field was discovered and started producing in 2004. As at 31 December 2010, the Surakhani oil field had estimated reserves of crude oil of 6.05 million tonnes.

The wellstock consisted of 523 production wells and 17 injection wells as at 30 June 2011, with no new wells drilled in the six months ended 30 June 2011 and 6 new wells drilled in 2010. The field produced 0.09 million, 0.18 million and 0.16 million tonnes of crude oil in the six months ended 30 June 2011 and in the years ended 31 December 2010 and 2009, respectively.

The block including the Kurovdag oil field (Shirvan)

On 3 February 2009, the Company entered into a PSA with Global Energy Azerbaijan Ltd (BVI) in relation to the block including the Kurovdag oil field. The Company holds a 20% participatory interest in this PSA directly without the involvement of an oil affiliate. See "*Regulation of the Oil and Gas Sector in Azerbaijan—PSAs*".

The Kurovdag oil field is located in Shirvan City. The fields were discovered and started producing in 1955. As at 31 December 2010, the Kurovdag oil field had estimated reserves of crude oil of 4.72 million tonnes.

The wellstock consisted of 446 production wells and 66 injection wells as at 30 June 2011, with no new wells drilled in the six months ended 30 June 2011 or in 2010. The field produced 0.09 million, 0.18 million and 0.19 million tonnes of crude oil in the six months ended 30 June 2011 and in the years ended 31 December 2010 and 2009, respectively.

The block including the Bahar Field and Gum-Deniz field in the Azerbaijan Sector of the Caspian Sea

On 22 December 2009, the Company entered into a PSA with Bahar Energy Ltd (UAE) in relation to the block including the Bahar field and Gum-Deniz field in the Azerbaijan sector of the Caspian Sea. The Company holds its 20% participatory interest in this PSA. See "*Regulation of the Oil and Gas Sector in Azerbaijan—PSAs*".

The Bahar field and Gum-Deniz field in the Azerbaijan sector of the Caspian Sea are located in the Surakhani District and the Gum-Deniz offshore district, respectively. The Bahar field and Gum-Deniz field were discovered in 1968 and 1952 and started producing in 1969 and 1955, respectively. As at 31 December 2010, the Bahar field and Gum-Deniz field in the Azerbaijan sector of the Caspian Sea had estimated reserves of crude oil of 5.36 million tonnes.

The wellstock consisted of 60 production wells and no injection wells as at 30 June 2011, with no new wells drilled in the six months ended 30 June 2011 or in 2010. The field produced 0.03 million, 0.02 million and 0.02 million tonnes of crude oil in the six months ended 30 June 2011 and in the years ended 31 December 2010 and 2009, respectively.

Exploration Projects

The Company is a party to every international agreement aimed at developing new oil and gas projects in Azerbaijan and has signed 32 PSAs with foreign oil companies since 1994. Under a PSA, the Company generally does not bear exploration risk and does not participate in the development of the field. The Company does, however, undertake responsibility for some of its own exploration projects.

The Company has identified, among others, four prospective offshore fields, the Asiman, Babek, Naxchivan and Shafag fields, and is conducting preliminary work on these fields. According to preliminary estimates of the Company, the four aforementioned fields have, collectively, as much as 2,500 bcm of gas and 350 million tonnes of condensate.

The following table sets forth the significant exploration activities of the Company, its subsidiaries and its and their joint ventures as at 30 June 2011:

	As at 30 June 2011					
					Interest in licence or contract	
Exploration area	**Owning entity**	**Aggregate project area**	**Expiration**	**Number of exploratory wells**	**Sole operations**	**Joint operations**
		(km)			*(%)*	
Offshore						
Bulla-deniz	SOCAR	8.5 x 3.5 ($30\ km^2$)	2011-2012	1	100	—
Alat-deniz	SOCAR	3 x 2 ($6\ km^2$)	2012	1	100	—
Umid	SOCAR Nobel Oil	10 x 2 ($20\ km^2$)	2012	2	—	80 20
Absheron	SOCAR Total GdF Suez	$400\ km^2$	2009-2034	2	—	40 40 20
Onshore						
Bayimdagh - Takchay	SOCAR	7.5 x 2 ($15\ km^2$)	2012	1	100	

The Umid field

In 2009, the Company began deep-water exploratory drilling on the Umid structure in the Azerbaijani sector of the Caspian Sea. The project is run by the Company, which has an 80% interest and Nobel Oil Exploration and Production Ltd., which holds the remaining 20%. In November 2010, a large field of gas condensate was discovered. Initial estimates suggest reserves of 200 bcm of natural gas and 40 million tonnes of condensate. A permanent offshore platform has been constructed and a well has been drilled at a depth of 6,006 m. Drilling has begun from the Umid platform on a second well, which has a target depth of 6,500 m. The Company currently expects production from the second well to commence in 2012.

The Absheron field

The Absheron project is run by a consortium led by Total, a French oil company. In August 2011, a major discovery of gas was made in the Absheron field, which is a 747 km^2 area lying 100 km south-east of Baku under 350-550 m of water. Initial estimates suggest reserves of 350 bcm of gas and 45 million tonnes of condensate. An agreement was concluded on 27 February 2009 between the Company and Total, who each have a 40% stake in the project; GDF and Suez have since joined the consortium and hold the remaining 20%. Under the agreement, a well is to be drilled to a depth of 6,000 m within three years. Two further wells are planned during the following three-year period, with an estimated depth of 6,600 m. As at the date of this Prospectus, the first well has been drilled to a depth of 6,568 m. The Company does not yet have an estimate for when production will begin.

Mining Taxes

The Company's production subsidiaries and joint ventures, except those operating under PSAs, are subject to a mining tax obligation under the Tax Code. The rate of the mining tax is 26% of the wholesale price of produced crude oil and 20% of the wholesale price of produced natural gas. The volumes of crude oil and natural gas that are pumped back into production wells due to technological processes are not taken into account for calculating mining tax. Production conducted under PSAs is subject to taxation pursuant to the terms of the relevant PSAs which provide for a taxation regime that is different from the statutory regime and which does not require payment of mining tax.

Oil Field Development and Rehabilitation

The overall level of crude oil production from the fields described in this Prospectus has been and will continue to be affected by several key factors, including the relative age of the fields and, to a lesser degree, the characteristics of the oil and the complex geological formations of the reservoirs.

Most oil fields controlled and operated by the Company are in a stage of declining production. As at 30 June 2011, the depletion rate for the Company's onshore fields was 1.0% per annum and the depletion rate for its offshore fields was 7.3% per annum. For example, the offshore shallow-water Gunashli field, located approximately 100 km from Azerbaijan's Absheron peninsula yields 80% of the Company's offshore oil and 65% of the Company's total output. According to the Company's internal estimates, the depletion rate of this field is 12.0% per annum.

The Company, its subsidiaries and its jointly-controlled entities apply a wide variety of field development and rehabilitation techniques, such as drilling new wells, drilling injection wells and utilising secondary, enhanced recovery and well stimulation techniques, including hydro-fracturing and various chemical and thermal methods. The primary objective of the development and rehabilitation of the fields is to maintain a stable level of production.

The following table sets forth the principal activities that were undertaken by the Company's subsidiaries, jointly-controlled entities and associates to develop and rehabilitate their fields during the year ended 31 December 2010 and the six months ended 30 June 2011:

Field Name	Wells where hydro-facturing applied	Well workovers	New Production wells: In the six months ended 30 June 2011	New Production wells: In the year ended 31 December 2010	Total incremental increase in production
					(thousand tonnes)
Guneshli	12	4	6	12	10,620
Neft Dashları	12	3	7	14	3,280
Shimal qır.	—	—	4	—	—
Darvin kup	—	2	5	12	194
Abşeron bankası	—	2	—	—	159
Balakhanı	84	22	1	6	607
Pirallahı	—	18	6	16	306
Sedan	—	13	5	4	168
Ceferli	—	—	1	1	—
Qalmaz	—	—	1	3	—
Palchiq Pilpilesi	—	3	—	4	583
Qum Deniz	—	—	—	1	—
Bahar	—	—	—	—	—
Elet Deniz	—	—	—	1	—
Bibiheybet	21	10	—	7	705
Buzovna-Mashtaga	4	4	—	1	279
Qala	—	6	—	—	678
Zaglı-Zeyve	—	4	—	4	51
Lokbatan	—	14	—	1	593
Korgöz- Qızıltəpə	—	2	—	—	170
Şabandağ-Şubanı	—	10	—	—	233
Siyəzən-Nardaran	—	4	—	—	41
Əmirxanlı	—	4	—	—	82
Candahar-Zarat	—	1	—	—	33
Qaraçuxur	—	4	—	—	196
Hovsan	—	—	2	1	—
Suraxanı	—	11	8	5	2,039
Mishovdag	—	3	8	8	604
Kurovdag	—	7	—	1	790
Qarabaglı	—	2	1	—	427
Biinəqdi	—	5	—	—	261
Ramanı	—	12	—	—	1,039
Neftçala	—	5	—	—	252
Total	133	175	55	102	24,390

Transportation

Overview

The Company owns and operates the domestic pipeline network in Azerbaijan. As at 30 June 2011, the total length of the Company's oil pipeline system was 771 km and the total length of its natural gas pipeline system was 40,800 km. The Company accounted for approximately 72% of Azerbaijan's crude oil exports in 2010, as compared to 67% in 2009 and 62% in 2008.

Oil and gas from the ACG fields and the Shah Deniz field are transported via subsea pipelines to the Sangachal Terminal, approximately 35 km south of Baku. As at 30 June 2011, the capacity of the terminal's overall processing systems was 160,000 tonnes of oil and 25 mcm of Shah Deniz gas per day. Gas is then exported via the SCP and via the Company's pipeline connecting the Sangachal Terminal's gas processing facilities to Azerigas' national grid system. The Sangachal Terminal exported 20.9 million tonnes of crude oil (18.2 million tonnes of crude oil via BTC) in the six months ended 30 June 2011, 43.8 million tonnes of crude oil (38.6 million tonnes of crude oil via BTC) in the year ended 31 December 2010 and 43.8 million tonnes of crude oil (38.5 million tonnes of crude oil via BTC) in the year ended 31 December 2009. The Sangachal Terminal also transported 10 bcm of gas oil in the six months ended 30 June 2011, 10.2 bcm of gas oil in the year ended 31 December 2010 and 5.3 bcm of gas oil in the year ended 31 December 2009. Sangachal Terminal is operated by BP on behalf of four project parties, which are the ACG investor group, Shah Deniz investor group, South Caucasus Pipeline Company and Baku-Tbilisi-Ceyhan Pipeline Company. The Sangachal Terminal facilities are designated as direct facilities (*i.e.*, no project party has the right to use another project party's direct facility except otherwise agreed between the parties) and shared facilities (*i.e.*, each project party's participation interest in each facility is equal to its interest in the relevant jointly-controlled entity).

Oil and gas from Azneft and from the jointly-controlled entities are transported via the domestic pipeline network.

The following table sets forth certain information with respect to the pipeline segments owned, operated and used by the Company as at 30 June 2010:

	As at 30 June 2010				
		Diameter of pipelines			
Pipeline	**Km of pipelines**	**Under 0.5 m**	**0.5 m to 1.4 m**	**Throughput capacity**(1)	**Primary source of gas or crude oil**
Transportation of Crude Oil					
Domestic network......................................	771	243	527	63.4	Neft Dashlari
Baku-Novorossiysk (Northern Route Export Pipeline)(2)......................................	1,330	0	1,330	9	Neft Dashlari
Western Route Export Pipeline(3)	833	0	833	6	ACG field
BTC Pipeline(4)	1,768	0	1,768	60	ACG field
Total..	**4,702**				
Transportation of Gas					
Domestic network(5)..................................	40,800	—	—	—	Mixture of different gas sources
SCP(6)...	692	0	692	9	Shah Deniz field
Gas (Baku-Mozdok) Pipeline(2)................	680	0	680	13	Shah Deniz field
Total..	**42,172**				

Notes:
(1) bcm per annum for gas and millions of tonnes per annum for crude oil (annualised).
(2) The Company owns and operates the section of the pipeline in Azerbaijan.
(3) The Company holds a 0% interest.
(4) The Company holds a 25% interest and does not operate the pipeline.
(5) Includes the domestic and retail distribution network in Azerbaijan.
(6) The Company holds a 10% interest and does not operate the pipeline.

Transportation of Crude Oil

Overview

The Oil Pipeline Department coordinates the storage and transportation of oil in Azerbaijan. The Oil Pipeline Department is supported by Absheron Oil Pipeline Department, Qaradag Oil Pipeline Department, Dubendi Oil Terminal, Export Oil Pipeline Department, Transportation Department and Supply Base. As at 30 June 2011, the total length of the Company's domestic oil pipeline network was 771 km. In 2009 and 2010, the Company transported through the domestic pipeline network a total of 8.5 and 8.4 million tonnes of crude oil, respectively. In the six months ended 30 June 2011, the Company transported a total of 4.2 million tonnes of crude oil.

The Company has also entered into a number of joint ventures with international operating companies and holds participatory interests in the NRE Pipeline (Baku-Novorossiysk), the BTC Pipeline and the WRE Pipeline (Baku-Supsa) (each, as defined below).

Crude oil from the Company's offshore and onshore production activities (not including the ACG fields and Shah Deniz field) is stored in the Dubendi tank farm, from where oil is pumped to the Boyuk Shore Terminal, a large storage terminal located near the Company's refineries in Baku. From this terminal, crude oil is either processed or pumped for export via the NRE Pipeline. Crude oil produced from the ACG fields is stored at the Sangachal Terminal from where it is exported via the BTC Pipeline, the WRE Pipeline, the NRE Pipeline and the Baku-Batumi railway route.

The Company has long-term sales contracts with SOCAR Trading for the sale of 24 million tonnes per annum of crude oil at Ceyhan Terminal and with SOCAR Overseas LLC, a company organised under the laws of U.A.E., for the sale of 19 million tonnes per annum of crude oil at Ceyhan Terminal. The Company also has two off-take contracts for the sale of unfixed quantities of crude oil at Supsa and Ceyhan Terminals with Petron Singapore Trading Pte Ltd. and Coral Energy Pte Ltd., both of which are trading companies organised under the laws of Republic of Singapore**.**

The following table sets forth certain information with respect to volumes of oil transported for the periods indicated:

Pipeline	For the year ended 31 December	
	2010	**2009**
	(millions of tonnes)	
Domestic Pipelines	6.17	6.04
Baku-Novorossiysk (NRE Pipeline)[1]	2.25	2.48
Baku-Supsa (WRE Pipeline)[2]	3.99	4.21
Baku-Tbilisi-Ceyhan (BTC Pipeline)[3]	38.61	38.48

Notes:
(1) The Company owns and operates the section of the pipeline located in Azerbaijan.
(2) Representing total supply of the pipeline, which is 0% owned by the Company.
(3) Representing total supply of the pipeline, which is 25% owned by the Company.

BTC Pipeline

AzBTC a limited liability company established in 2002, is wholly-owned by the Company and is the second largest shareholder in the Baku-Tbilisi-Ceyhan Pipeline Project. AzBTC owns 25% of the Baku-Tbilisi-Ceyhan Pipeline Company, the pipeline consortium consisting of 11 major international oil companies, which is responsible for the construction and operation of the BTC Pipeline. BP currently operates the pipeline on behalf of the Baku-Tbilisi-Ceyhan Pipeline Company.

In the six months ended 30 June 2011, 18 million tonnes of oil and condensate produced in Azerbaijan were transported through the BTC Pipeline, representing 84.9% of the total oil and condensate produced in Azerbaijan, and, in the year ended 31 December 2010, 39 million tonnes of oil and condensate produced in Azerbaijan, were transported through the BTC Pipeline, representing 86.1% of the total oil and condensate produced in Azerbaijan. As at 30 June 2011, the BTC Pipeline had a throughput capacity of 1.2 mbd. As at 30 June 2011, the BTC Pipeline had a throughput capacity of 60 million tonnes per annum and was 1,768 km in length, with the segment in Azerbaijan totalling 443 km. The pipeline is buried along its entire length. As at 30 June 2011, the BTC Pipeline's facilities included eight pump stations (two in Azerbaijan, two in Georgia and four in Turkey), two intermediate pigging stations, one pressure reduction station and 101 small block valves.

The BTC Pipeline primarily transports crude oil extracted from the ACG fields from the Sangachal Terminal near Baku, through Azerbaijan and Georgia and terminating in Turkey at the Ceyhan marine terminal on the Mediterranean Sea. The BTC Pipeline provides an alternative route for pipelines to the Black Sea from Central Asian states without travelling over Russian territory. The parties to the ACG PSA have the first right to use the capacity of the BTC Pipeline. See *"—Exploration and Production—Significant Production Fields of the Company's Joint Ventures and Associates—Azeri-Chirag-Gunashli fields"*.

The tariffs paid by ACG are comprised of three components: (i) the fuel cost tracker charge; (ii) the variable cost tracker charge; and (iii) the recovery charge. The recovery charge calculation is based on a transportation spreadsheet methodology. The purpose of this is to ensure that the recovery charge, paid by the shippers, provides the transporter with the agreed 12.5% real rate of return, taking into account the amount and timing of allowable costs and qualifying revenues.

In addition to transporting oil produced by ACG, the BTC Pipeline also transports third-party volumes and has agreements to transport, *inter alia*, 60,000 bpd on behalf of SOCAR Trading and 4,000 bpd per day on behalf of Litasco, a subsidiary of Lukoil.

The first oil to reach the Ceyhan Terminal through the line was in May 2006 and the first tanker export of crude oil that travelled through the line was in June 2006. Approximately 10 million barrels of oil were required to fill the BTC pipeline.

NRE Pipeline

The Northern Route Export Pipeline (the "**NRE Pipeline**") consists of two sectors and runs from the Sangachal Terminal in Baku to the Black Sea Port of Novorossiysk in Russia. The Azerbaijan section of the pipeline is operated by the Company, and the Russian section of the pipeline is operated by Transneft. In the six months ended 30 June 2011, 1.1 million tonnes of oil and condensate produced in Azerbaijan were transported through the NRE Pipeline, representing 5.2% of the total oil and condensate produced in Azerbaijan, and, in the year ended 31 December 2010, 2.2 million tonnes of oil and condensate produced in Azerbaijan, were transported through the NRE Pipeline, representing 5.0% of the total oil and condensate produced in Azerbaijan. As at 30 June 2011, the NRE Pipeline had a throughput capacity of 9 million tonnes per annum and was 1,330 km in length, with the segment in Azerbaijan totalling 231 km. The entire length of the pipeline is buried underground. As at 30 June 2011, the pipeline's facilities included three pump stations located in Azerbaijan, two intermediate pigging stations, no pressure reduction stations and 29 small block valves.

The first oil to reach the terminal in Novorossiysk through the line was in October 1997 and the first tanker export of crude oil that travelled through the line was in March 1998. Approximately 0.49 million barrels of oil were required to fill the NRE Pipeline.

The volume of crude oil exported through the NRE Pipeline in the years 2009-2011 was 1,084 million tonnes in the six months ended 30 June 2011, 2,240 million tonnes in the year ended 31 December 2010, and 2,466 million tonnes in the year ended 31 December 2009.

WRE Pipeline

The Western Route Export Pipeline (the "**WRE Pipeline**") was reconstructed by the Azerbaijan International Operating Company ("**AIOC**"), an operating company under the ACG PSA, and runs from the Sangachal Terminal near Baku through Azerbaijan and Georgia to the Supsa Terminal on the Georgian Black Sea coast. Crude oil is further shipped from here via tankers to the European markets. The WRE Pipeline is owned and operated by AIOC on the Company's behalf. In the six months ended 30 June 2011, 2.1 million tonnes of oil and condensate produced in Azerbaijan were transported through the WRE Pipeline, representing 9.9% of the total oil and condensate produced in Azerbaijan, and, in the year ended 31 December 2010, 4 million tonnes of oil and condensate produced in Azerbaijan, were transported through the WRE Pipeline, representing 8.9% of the total oil and condensate produced in Azerbaijan. As at 30 June 2011, the WRE Pipeline had a throughput capacity of 6 million tonnes per annum and was 833 km in length. As at 30 June 2011, the WRE Pipeline's facilities included six pump stations (three in Azerbaijan and three in Georgia) and two pressure reduction stations.

The first delivery of oil through the pipeline commenced in February 1999. In 2007, extensive repair and replacement works were undertaken on the pipeline, which was shut down until their completion in the first quarter of 2008. These works included section replacements in Georgia and Azerbaijan. While the WRE Pipeline was shut down, alternative routes were used to deliver oil to the world markets, thereby ensuring that there was no impact on the demand or production from the ACG fields. In 2008, the AIOC undertook a full re-commission programme for the WRE Pipeline. The Company estimates that it will transport 600,000 barrels of oil per annum via the WRE Pipeline.

The expected increase in production from the ACG fields will require increased capacity of the transportation infrastructure in Azerbaijan, including the WRE Pipeline.

The pipeline is buried underground along its entire length. As at 30 June 2011, the pipeline's facilities included six pump stations (three in Azerbaijan and three in Georgia) and two pressure reduction stations.

The first oil to reach the Supsa Terminal after the repair and reconstruction of the pipeline was in April 1999 and the first tanker export of crude oil that travelled through the line was in April 1999.

Tariff payments are comprised of: the Azerbaijan tariff of U.S.$0.34 per bbl, the Georgian tariff of U.S.$0.23 per bbl and the OPEX tariff which varies from time to time (and which is approximately U.S.$2 per bbl as at the date of this Prospectus).

Batumi Oil Terminal

Batumi Port comprises 12 operating terminals, including crude oil terminals, with a loading capacity of 25 million tonnes of oil per annum. The terminals at the Batumi Marine Export Terminal are comprised of three terminals and one single point buoy mooring, with a total projected loading capacity of 15 million tonnes of oil and petroleum products per annum.

Kulevi Oil Terminal

The Kulevi Oil Terminal and port, from which oil, primarily from Kazakhstan, is shipped across the Black Sea, was indirectly acquired by the Company in 2006 for U.S.$265 million and, after two years of significant investment (resulting in further expenditures of approximately U.S.$105 million by the Company), started operations in May 2008. Although currently loss-making, the Company considers the Kulevi Oil Terminal to be a strategic asset, as the Kulevi Oil Terminal gives the Company an alternative export route. In addition, the Company expects increased shipment of oil from Central Asia in the medium-term to improve profitability. The terminal has annual processing capacity of 10 million tonnes of crude oil and refined products and processed 3.4 million tonnes in 2010. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Debt Obligations—Carlina*".

Transportation and Storage of Gas

Overview

The Gas Export Department manages the export of natural gas extracted by the Company. The Company's share of gas from Shah Deniz is sold jointly by the parties to the Shah Deniz PSA. The Company's domestic natural gas pipeline network is comprised of 40,800 km of pipelines and transported 12.6 bcm of gas in 2010. The Company uses its domestic gas pipeline for the distribution of gas produced by the Company, AzACG (which produces associated gas that, pursuant to the ACG PSA, is given to the Company for free), Shah Deniz and others.

As at 30 June 2011, Azerigas operated 40,800 km of gas pipelines, utilised nine compressor stations equipped with 43 gas compressor units, having a total capacity of 206,700 mW, operated four natural gas distribution stations and had a total active natural gas storage capacity of 20 bcm. The majority of the natural gas transportation system operated by Azerigas is above ground with diameters of 50-500 mm (domestic), 1,000-1,200 mm (export).

The domestic pipeline system was principally constructed during the Soviet era and has an estimated lifetime of 25 to 30 years. The pipelines are checked annually and repaired as required. The Company has also entered into a number of joint ventures with international operating companies and holds participatory interests in the SCP and the Gas (Baku-Mozdok) Pipeline, which enable it to export the gas produced by the Company to foreign markets.

South Caucasus Pipeline

The South Caucasus Pipeline Company is a joint venture that owns, operates and maintains the SCP and is itself owned by seven shareholders and operated by its two largest shareholders, BP and Statoil. The Company holds a 10% ownership interest in the SCP through its wholly-owned subsidiary, Azerbaijan South Caucasus Pipeline Ltd. In the six months ended 30 June 2011, 3.1 bcm of gas was transported through the SCP, representing 24% of the total natural gas produced in Azerbaijan, and, in the year ended 31 December 2010, 6.8 bcm of natural gas was transported through the SCP, representing 25% of the total natural gas produced in Azerbaijan.

The SCP transports gas from the Shah Deniz field in the Caspian Sea to Turkey and follows the route of the BTC Pipeline (See "*—Transportation of Crude Oil—BTC Pipeline*"). In March 2001, the Turkish Government agreed to purchase gas over a 15-year period, beginning with 2 bcm, 3 bcm and 5 bcm in 2004, 2005 and 2006, respectively, and 6.6 bcm over the remaining period from 2007 until 2019. The SCP is also connected to the Turkish internal gas pipeline system at the border with Turkey, allowing gas to be exported from Azerbaijan to Southern European countries by transportation towards the west of Turkey.

The first deliveries of gas through the pipeline commenced on 30 September 2006. As at 30 June 2011, the SCP was 692 km in length, with the segment in Azerbaijan totalling 433 km. The SCP is a 42-inch diameter pipeline and has a capacity of 9 bcm per annum. As at 30 June 2011, the SCP's facilities included one head compressor station in Sangachal Terminal, one intermediate pigging station in Georgia and 11 block valves (five in Azerbaijan and six in Georgia).

Gas (Baku-Mozdok) Pipeline

On 14 October 2009 the Company and JSC Gazprom entered into a sales purchase contract to supply natural gas from Azerbaijan to Russia via the gas pipeline between Baku and Mozdok (the "**Gas Pipeline**"). In the six months ended 30 June 2011, almost 2.5 bcm of natural gas was transported through the Gas Pipeline, representing 20% of the total natural gas produced in Azerbaijan, and, in the year ended 31 December 2010, 3.5 bcm of gas was transported, representing 26% of the total natural gas produced in Azerbaijan.

The Gas Pipeline transports gas from the Shah Deniz field in the Caspian Sea to Mozdok in southern Russia. The first deliveries of gas through the pipeline commenced on 1 January 2010. As at 30 June 2011, the Gas Pipeline was 680 km in length, with the segment in Azerbaijan totalling 200 km. The Gas Pipeline is a 42-inch diameter pipeline and has a capacity of up to 13 bcm per annum.

Export gas supply agreements

On 14 October 2009, the Company and Gazprom Export LLC entered into a five-year gas supply contract to supply gas to Russia. The price of the gas is determined on a quarterly basis using a formula which relies on a base price. The annual volume of gas to be delivered under this agreement is 0.5 bcm.

Pursuant to an addendum to this contract dated 3 September 2010, the volume of natural gas due to be delivered to Gazprom Export LLC was increased to 2 bcm in the year ended 31 December 2011 and more than 2 bcm in the year ended 31 December 2012. So far under this contract, in the year ended 31 December 2010, 0.8 bcm of gas was delivered and, in the six months ended 30 June 2011, 1.0 bcm of gas was delivered.

As part of its obligation to supply natural gas to the entire country, the Company is bound to supply the Nakhchivan region of Azerbaijan, which is not contiguous with the rest of Azerbaijan's territory and is bordered by Iran and Armenia. In August 2004 Azerigas agreed to a gas swap arrangement with the National Iranian Gas Export Company ("**NIGEC**") for a 25 year period. Under this arrangement, the Company has agreed to ship gas to NIGEC and in return NIGEC has agreed to ship an equivalent volume (minus an amount in lieu of a transit fee) to the Nakhchivan region. The Company expects to supply 0.75 bcm in 2011 and 1 bcm in each subsequent year under the arrangement.

Compressor Stations, Gas Distribution Stations and Storage Reservoirs

Natural gas is highly pressurised as it travels through pipelines, and compressor stations are required periodically along the pipe to ensure that the flow of gas is continuous. As at the date of this Prospectus, the Company has nine compressor stations in the domestic network. In some pipelines, the gas flow direction in a pipeline can be reversed by switching the input and output at the compressor stations.

As at the date of this Prospectus, the Company operates 200 gas distribution stations, which are used to reduce pressure, deliver gas to consumer pipelines, purify gas, inject odorant and metre gas. Some of these stations date from 1970. The Company has installed additional gas manufactured in accordance with international specifications in order to improve its collection of revenue, in addition to performing continuous maintenance and general repairs on the stations.

Gas Transportation Tariffs

Under the resolution of the Cabinet of Ministers of Azerbaijan № 178 dated 28 September 2005, the Company's tariffs for domestic natural gas transportation are subject to regulation by the Tariff Council. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Government has imposed regulations and other requirements requiring the Company to sell oil, oil products and gas in the domestic market at below market prices*" and "*Regulation of the Oil and Gas Sector in Azerbaijan—Other regulatory requirements—Price regulation*".

Tariffs for domestic transportation are subject to regulation and approval by the Tariff Council. On 2 February 2007, the Tariffs Committee set the tariff with effect from 1 February 2007 for domestic transportation of gas at AZN 2, including VAT, for 1,000 m^3 of natural gas transported over 100 km of pipeline. See "*Risk Factors—Risks Factors Relating to the Company's Business—The Government has imposed regulations and other requirements requiring the Company to sell oil, oil products and gas in the domestic market at below market prices*" and "*Regulation of the Oil and Gas Sector in Azerbaijan—Other regulatory requirements—Price regulation*".

Refining, Marketing and Trading

Overview

The Company conducts sales activities through its Marketing and Economic Operations Department and SOCAR Trading. Crude oil from the Company's production operations, which is not exported, is transported for refining at the Heydar Aliyev Baku Oil Refinery and the Azerneftyag Oil Refinery, which are both wholly-owned and operated by the Company. These are the only two refineries in Azerbaijan and were constructed in 1953 and 1881, respectively. The Company has also made efforts to build a retail network in recent years in Azerbaijan, Georgia, Romania, Switzerland and Ukraine, which it seeks to expand.

The following tables set forth certain information with respect to amounts of crude oil, oil products and natural gas sold by the Company domestically and exported for the periods indicated:

	1 January – 30 June 2011				1 January – 30 June 2010			
	Domestic		Export		Domestic		Export	
		(%)		(%)		(%)		(%)
Crude oil(1)(2)	0	0.0	1,084	100.0	0	0.0	1,046	100.0
Oil products(1)	1,740	64.7	951	35.3	1,472	54.3	1,241	45.7
Gas(3)	4,102	74.0	1,441	26.0	3,705	85.4	635	14.6

Notes:
(1) Measured in thousands of tonnes.
(2) The Company does not sell crude oil domestically. The Company refines crude oil in Azerbaijan pursuant to tolling arrangements with its refineries.
(3) Measured in mcm.

	1 January – 31 December 2010				1 January – 31 December 2009				1 January – 31 December 2008			
	Domestic		Export		Domestic		Export		Domestic		Export	
		(%)		(%)		(%)		(%)		(%)		(%)
Crude oil(1)(2)	0	0.0	2,240	100.0	0	0.0	2,466	100.0	0	0.0	1,197	100.0
Oil products(1)	3,241	56.4	2,508	43.6	3,041	56.8	2,316	43.2	3,686	55.2	2,987	44.8
Gas(3)	6,968	86.0	1,139	14.0	9,145	94.7	513	5.3	10,767	95.8	471	4.2

Notes:
(1) Measured in thousands of tonnes.
(2) The Company does not sell crude oil domestically. The Company refines crude oil in Azerbaijan pursuant to tolling arrangements with its refineries.
(3) Measured in mcm.

Sales of Crude Oil

The Company exported 32.4 million tonnes of crude oil in the year ended 2010. Oil produced by the Company is sold at Supsa (Georgia), Batumi (Georgia), Ceyhan (Turkey) and Novorossiysk (Black Sea Port of Russia) via tenders and long-term contracts. The Company conducts sales activities through its Marketing and Economic Operations Department and SOCAR Trading.

The Company's Marketing and Economic Operations Department, which reports directly to the President of the Company, manages sales of crude oil and oil products in the domestic market to large consumers in Azerbaijan. The Marketing and Economic Operations Department is also primarily responsible for international sales of the Company's exports. In addition, the Marketing and Economic Operations Department acts as agent in respect of the sales of the Company's share and the Government's share under PSAs, for which it is paid a fee. The Marketing and Economic Operations Department holds weekly tenders for the sales of the Company's exported oil and the oil it sells as agent.

Because the Marketing and Economic Operations Department is required under applicable regulation to sell oil only pursuant to letters of credit, against advance payments or guarantees and, as a matter of practice, it does not enter into certain other arrangements common in the industry, including, *inter alia*, hedging, storage, shipping arrangement, the Company, together with two international partners, established SOCAR Trading in 2008. SOCAR Trading purchases approximately 60% of the volume of crude oil sold by the Marketing and Economic Operations Department at the price established by the weekly tender. It is then able to enter into the aforementioned arrangements.

The Company has a 50% stake in Supra Holding, incorporated in Malta, which in turn owns 100% of SOCAR Trading. Heritage General Trading and Renfrel Holding Limited have a 40% and a 10% stake, respectively, in Supra Holding. In 2010, Supra Holding had a profit of AZN 68 million, 50% of which was attributable to the Company. In the first six months of 2011, Supra Holding had a profit of AZN 60 million.

SOCAR Trading's customers are a diverse group of large European trading houses, smaller traders, oil companies and refineries, including PTT Public Company Limited (Thailand), Total (France), ENI (Italy), Saras (Italy), Sunoco (USA), Irving (Canada), Glencore Energy UK Ltd, Arcadia Petroleum Ltd (UK), Vitol SA (Switzerland), Coral Energy PTE LTD (Switzerland), Select Energy GmbH (Germany), Addax BV (Switzerland), Taurus Petroleum Ltd (Switzerland), Sumato Energy PTE LTD (Singapore), Shell (UK), ERG (Italy), East Energy FZCO (Dubai), Trafigura Beheer B.V. (Switzerland), Petraco Oil Company Limited (Channel Islands), Petro Singapore Trading Pte Ltd. and Guvnor (Switzerland), as well as other various international oil companies.

Sales of Natural Gas

The Company's Gas Export Department is responsible for exports of natural gas. The Company exports natural gas to Russia pursuant to a long-term contract with Gazprom. See "*—Transportation—Transportation and Storage of Gas—Export gas supply agreements*".

Refining Facilities

As at the date of this Prospectus, there are two crude oil refineries operating in Azerbaijan located in the city of Baku, which are both wholly-owned and operated by the Company. As at 31 December 2010, the total actual refining capacity of these refineries was approximately 16 million tonnes of crude oil. Both refineries were constructed before independence and were designed to serve regional markets in the former Soviet Union that lacked their own refining capacities. As many of these markets have since developed, the utilisation rate for the Heydar Aliyev Baku Oil Refinery is over 70% and for the Azerneftyag Oil Refinery is up to 20%. The refineries are currently operated primarily to meet domestic demand, although some products are exported. The refineries operate on a tolling basis, primarily with Azneft. See "*—New refinery and Petrochemicals Projects*".

Heydar Aliyev Baku Oil Refinery

As at 30 June 2011, the Heydar Aliyev Baku Oil Refinery was the smaller of the two oil refineries in Azerbaijan and had a design refining capacity of 6.0 million tonnes of crude oil per annum and an actual capacity of 4.4 million tonnes of crude oil per annum, or 120,000 bopd. In 2010, 4.4 million tonnes of crude oil was refined, and 4.3 million tonnes of refined products were produced, which satisfied domestic demand and left approximately 2 million tonnes available for export to Georgia and Turkey. Jet fuel is also produced at this refinery.

The Heydar Aliyev Baku Oil Refinery, which was constructed in 1953, is located in the city of Baku and is linked to the Boyukshor Terminal.

The following table sets forth the historical product mixture and volumes of refined oil products produced at the Heydar Aliyev Baku Oil Refinery for the periods indicated:

	For the six months ended 30 June		**For the year ended 31 December**	
	2011	**2010**	**2010**	**2009**
	(thousand tonnes)			
Crude oil	**2,188.7**	**2,401.1**	**4,406.8**	**4,053.1**
Naphta	103.9	104.0	204.3	232.6
Gasoline	584.1	593.0	1,248.9	1,235.0
Kerosene	294.1	301.2	599.8	609.7
Diesel	1,114.1	1,175.6	2,420	2219.7
Total light products	**2,096.2**	**2,173.8**	**4,473.4**	**4,297.0**
LPG	104.3	104.8	214.0	173.3
Petroleum coke	136.0	129.1	267.5	220.8
Bitumen	0	0	0	0
Lubricating oil	111.3	96.4	241.5	236.4
Bunker oil	42.3	32.8	86.5	44.2
Processing depth *(%)*	90.5	92.6	90.9	91.8

Azerneftyag Oil Refinery

Constructed in 1881, the Azerneftyag Oil Refinery is the larger refinery of the two operating refineries in Azerbaijan. As at 30 June 2010, the Azerneftyag Oil Refinery had a design refining capacity of 10 million tonnes of crude oil per annum and an actual capacity of 1.8 million tonnes of crude oil per annum. In 2010, 1.8 million tonnes of crude oil was refined and 0.4 million tonnes of refined products were produced.

The Azerneftyag Oil Refinery is located in Baku and is linked to the Boyukshor Terminal. The Azerneftyag Oil Refinery refined 27.5% of the total oil refined in Azerbaijan in the six months ended 30 June 2011 and 23.4% and 31.5% in the years ended 31 December 2010 and 31 December 2009, respectively. Major parts of the products after the Crude Distillation Unit are delivered to the Heydar Aliyev Baku Oil Refinery for further processing.

The Azerneftyag Oil Refinery includes a lubeoil hydrotreatment oil plant, which was brought on-stream in 1981, which improves the colour and quality of the sulphuric and nitrogen compositions of basic oils by cleaning mercaptans and pyridines.

The Azerneftyag Oil Refinery has implemented a number of modernisation measures in recent years. In 1994-1995, two ELOU-AVT-2 plants, each with a capacity of two million tonnes per annum were constructed and brought on-stream. These plants have enabled the Azerneftyag Oil Refinery to increase its capacity and output of light oil products and to improve the quality of base oil for the production of lubricating motor oils. These plants also resulted in a decrease in the Azerneftyag Oil Refinery's energy consumption and the substantial reduction in the loss of oil and oil products.

In 2000, the Azerneftyag Oil Refinery's bitumen unit, which was constructed as a joint project with the Austrian company "Biturox" was opened, replacing the Azerneftyag Oil Refinery's previous bitumen unit, which had been in operation since 1934. The Azerneftyag Oil Refinery's bitumen producing activities now meet international quality control standards.

The following table sets forth the historical product mixture and volumes of refined oil products produced at the Azerneftyag Oil Refinery for the periods indicated:

	For the six months ended 30 June		**For the year ended 31 December**	
	2011	**2010**	**2010**	**2009**
	(thousand tonnes)			
Crude oil	**829.2**	**732.7**	**1813.8**	**1979.7**
Naphta	94.0	86.5	215.3	223.3
Gasoline	—	—	—	—
Kerosene	104.5	67.4	174.5	215.1
Diesel	259.9	238.1	600.0	598.4
Total light products	**458.4**	**392.0**	**989.8**	**1,036.8**
LPG	—	—	—	—
Petroleum coke	—	—	—	—
Bitumen	111.3	96.4	241.5	236.4
Lubricating oil	42.3	32.8	86.5	44.2
Bunker oil	53.9	40.6	65.8	145.3
Processing depth *(%)*	98.7	98.2	98.6	93.7

Refined Oil Products Sales and Distribution

The Company sells and distributes its refined oil products internationally through its own Marketing and Economic Operations Departments and SOCAR Trading, as well as directly from some refineries.

Refined products are typically not eligible to be shipped via pipelines and, accordingly, the transportation of refined products is mainly by train to Georgia and then by further transhipment through the Georgian Black Sea ports of Batumi and Poti to Turkey and other international markets. Shipments have also been made to Central Kazakhstan, Uzbekistan and Afghanistan and sometimes to Iraq. Shipments have been made to Iran in the past but are no longer being made and the Company has no plans to supply products to Iran in the future through subsidiaries, affiliates or agents.

Retail Station Network

The Company owns and operates an expanding network of gasoline stations in Azerbaijan, Georgia, Romania and Ukraine. The Company owned 11 gasoline stations located in Azerbaijan as at 30 June 2011 and 6 gasoline stations as at 31 December 2010, which, according to the Company's estimates and including sales to third party retailers, were responsible for 21% and 1.6% of gasoline sales in the domestic market for those periods, respectively. The Company did not own any gasoline stations as at 31 December 2009.

The Company owned 74 gasoline stations located in Georgia, through its subsidiary SOCAR Georgia Petroleum LLC (which is wholly-owned by SOCAR Energy Georgia), as at 30 June 2011, 74 gasoline stations as at 31 December 2010 and 20 gasoline stations as at 31 December 2009, which, according to the Company's estimates, were responsible for 18%, 25% and 8.9% of retail gasoline sales in the Georgian market for those periods, respectively.

The Company owned 16 gasoline stations located in Ukraine, through its subsidiary SOCAR Energy Ukraine LLC and its affiliated companies in Ukraine (which is wholly-owned by Gacrux Investments and Finance B.V.), as at 30 June 2011, 15 gasoline stations as at 31 December 2010 and 12 gasoline stations as at 31 December 2009, which, according to the Company's estimates, were responsible for less than 1% of retail gasoline sales in the Ukraine market for those periods. The Company is currently rebranding its gasoline stations in Ukraine under the SOCAR name.

The Company is expanding its retail operations in Georgia and Ukraine and is considering expanding its operations further in both countries and in neighbouring countries in south-eastern Europe. The Company believes that, if such expansions are undertaken, it would have a competitive advantage due to the proximity of these countries to its principal export routes and the activities of SOCAR Trading, which conducts a substantial portion of its business with counterparties in the region.

The Company is also expanding its retail presence in Romania, having acquired 14 gasoline stations there in July 2011. The Company is currently rebranding its gasoline stations in Ukraine under the SOCAR name, opening 11 such stations in October 2011.

In November 2011, the Company signed an agreement with Exxon whereby the Company agreed to purchase Esso Switzerland for a total consideration of CHF 330 million. The Company expects the transaction to close in July 2012. Esso Switzerland operates, *inter alia*, a retail network with more than 170 service stations, of which 63 are company-owned. The petrol stations, which are currently branded as Esso stations, are expected to be rebranded under the SOCAR name by 2013.

Azerikimya

In April 2010, pursuant to a Presidential Decree, the Company acquired 100% of the share capital of Azerikimya OJSC from the Government and, following the acquisition, transformed the company into Azerikimya Production Union. Azerikimya is involved in the production of petrochemicals in Azerbaijan and has three production units, Surface-Active Substances, Ethylene-Polythylene and Organic Synthesis. Azerikimya's production activities include the production of high-density polyethylene, purified isopropyl, propylene, heavy tar, propylene oxide, caustic soda and hydrochloric acid

In order to increase production of polypropylene, polyethylene and other refined products and to improve efficiency, the Company is currently undertaking a modernisation and overhaul project at Azerikimya involving the installation of two new plants to be acquired in Canada and Austria and relocated to the Sumgayit Petrochemical Complex near Baku. The project, which is expected to be completed in late 2012 or early 2013, is expected to cost approximately €100 million. The project will allow the production of polypropylene and pipe-grade polyethylene for the first time in Azerbaijan. The Company expects this project to result in annual capacities of both polypropylene and polyethylene products of 18,000 tonnes per annum.

New Refinery and Petrochemicals Projects

Many of the Company's refining, gas processing and petrochemical facilities are located in dense urban areas and are in need of modernisation, as some facilities date from the nineteenth century and others were first constructed during the Soviet period. As a result and at the direction of the Government, the Company established an internal working group in 2009, headed by the vice-president of strategic development, to prepare a feasibility study for a proposed refinery, gas processing and petrochemical complex to be located outside Baku. The Company engaged international and local advisors to assist the Company in preparing this study. The draft feasibility study was completed in July 2011 and the Company submitted the draft, along with the recommendations, to the Government. The office of the President of the Republic, the Cabinet of Ministers and various ministries are reviewing the draft feasibility study and preparing their comments. The Company expects to receive comments from the Government sometime in late 2011 or early 2012. If the project is agreed by the Company and the Government substantially as contemplated in the feasibility study, construction is expected to commence in 2013 or 2014, with the first facilities beginning operations by 2018, and completed in 2020, following which the existing facilities, being replaced by the new complex, will be decommissioned. The Company does not yet have an estimate for the costs of decommissioning the existing facilities, but it is expected that the Company will be responsible for financing the decommissioning costs.

The estimated cost of the project, as currently contemplated, is up to U.S.$15 billion. The Company and the Government have not yet determined how the project will be financed, although the Company expects that the Government will provide significant financial support to the project and that external project finance funding will be sought. As at the date of this Prospectus, the ownership structure for this project has not been agreed upon.

If the project goes forward, it will replace the two existing refineries located in central Baku with a new refinery 65 km outside Baku, as well as the Company's gas processing and petrochemical production assets and certain of Azerikimya's petrochemical production assets. As of the date of this Prospectus, no final plans for the construction of this complex have been announced.

The new complex is expected to have a refining capacity of 10 million tonnes of crude oil per annum, a petrochemical production capacity of 650 thousand tonnes and a gas processing capacity of 10 bcm per annum, which may be increased to 20 bcm per annum if an expansion project is undertaken. In addition, a 250 MW power plant is expected to be built as part of the project, which will provide electrical power to the complex and sell any surplus, expected to be up to 30% of its generating capacity to the national grid. The Government has also announced its intention to encourage the development of an industrial park in proximity of the new complex, in order to take advantage of the feedstock produced in the complex. If constructed, the complex will primarily serve the domestic market for refined products and petrochemicals with the surplus to be exported, and will primarily use the Company's own production of oil and gas as feedstock.

Fertiliser Plant Project

In July 2011, the Government and the Company announced plans to construct a fertiliser plant near the existing facilities of Azerikimya in order to ensure a reliable source of fertiliser in the Republic. The Government is expected to finance the cost of constructing the new plant, which is estimated at U.S.$800 million, through contributions to the Company's share capital, part of which approximately U.S.$50 million was paid in July 2011. The Government and the Company have agreed that fertiliser produced at this plant will be purchased by the Government at international market prices, although the Government has indicated that it intends to sell such fertiliser to farmers in Azerbaijan at subsidised rates. The feedstock for the plant, natural gas produced by the Company, will be sold to the plant at the regulated domestic price. The plant is expected to be completed in 2014 or 2015.

In addition, the Company is considering plans to construct a similar fertiliser plant in Georgia using its own funds. The Company believes that a plant in Georgia will benefit from cost savings due to similar design as the plant to be constructed in Azerbaijan, proximity to export routes on the Black Sea, access to the Company's natural gas supplies for use as feedstock and favourable tax and customs laws and regulations in Georgia.

Petkim

Overview

Petkim was established on 3 April 1965 by the Turkish government and is currently the sole petrochemical producer in Turkey. In 2008, the Company acquired a controlling interest in the Petkim Petrokimya Holding A.Ş., which owns the Petkim facilities. The Company holds its interest both directly (approximately 3%) and indirectly (51%) through SOCAR-Turcas Petro, which is 99.99%-owned by STEAS. STEAS is in turn wholly-owned by the Company. SOCAR-Turcas Petro spent U.S.$2.04 billion purchasing the 51% stake, whilst STEAS has spent YTL 19.4 million and the Company has spent U.S.$60.6 million on their direct acquisitions of Petkim shares. As a result of the foregoing, the Company has an effective 58.28% interest in Petkim. The Turkish government owns a single share of Petkim that carries special rights (a so-called "golden share"), including, *inter alia*, pre-emptive and blocking rights on sales of a controlling interest in Petkim and the right to require Petkim to maintain certain production levels, and the Privatisation Administration of the Turkish government owns approximately 10.3%. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Turkish government holds a "golden share" in Petkim*". The remainder is publicly-held and listed on the Istanbul Stock Exchange. According to statistics published by the Istanbul Stock Exchange, as at 31 December 2011, the market capitalisation of Petkim was YTL 2 billion.

Petkim's production facilities

Petkim produces basic and intermediate petrochemical raw materials with a total core production capacity of 1.9 million tonnes. In 2010, Petkim operated at approximately 99% capacity, producing 1.57 million tonnes of saleable products from a total gross output of 3.24 million tonnes. The Petkim complex has 14 major petrochemical plants, including an LDPE low density polyethylene plant, a polypropylene plant, an aromatics plant, an ethylene plant, a vinyl chloride monomer and a polyvinyl chloride plant, a dedicated waste water plant, an energy production unit, a dedicated port and the Güzzel Hisar Dam, which has a total storage volume of 150 mcm. According to Petkim estimates, it has a domestic market share in Turkey of approximately 25% from its own production and an additional 5% market share from third-party trading.

Petkim's facilities are located on a peninsula in Aliağa, Turkey on the coast of the Aegean Sea, approximately 30 km from Izmir, which is one of the few coastal areas in Turkey dedicated to industrial activity. Petkim and STEAS are both seeking to further develop the production capacity of the peninsula. See also "—*STAR Project*". Petkim has five capacity increasing projects currently underway that are expected to increase its existing capacity by approximately 160 thousand tonnes per annum by 2013, as well as three projects to create new capacity, which are expected to add a further 250 thousand tonnes of capacity per annum by 2014.

Petkim also has a consultancy agreement with Singapore's Jurong International, who will prepare a master plan for the Petkim complex in Aliağa aimed at optimising the use of the available infrastructure and land, and will be similar to the chemical park that was established on Singapore's Jurong island. The first phase of this plan, comprising field and infrastructure planning, was completed in 2010. Construction work has commenced, with, most notably, completion of a refinery expected in late 2015. See "—*STAR Project*".

In addition, Petkim is in the final phases of selecting an advisor to undertake a feasibility study in respect of a proposed 300-600 MW power plant to be built on the peninsula, at an estimated cost of U.S.$800 million, in order to create a self-contained industrial facility. Petkim is also seeking to expand the existing port on the peninsula by constructing a container port. The cost of the new port is estimated at U.S.$250 million, and Petkim intends to enter into a joint venture with an international operator. Petkim has undertaken other strategic projects, including a wind power plant, for which it has a licence for 25 MW of wind power generation, a carbon emission reduction projects and a plan to increase its trading activities.

Results of Operations of Petkim

In the year ended 31 December 2010, Petkim's profit was YTL 130 million, as compared to YTL 114 million in the year ended 31 December 2009, an increase of YTL 16 million or 14.0%. This increase was principally due to a 9.6% increase in production in 2010, as compared to 2009, which, together with higher international oil prices and their resulting effect on petrochemical prices in 2010, resulted in a 41.4% increase in net sales. Petkim also increased its exports in 2010 to U.S.$531 million from U.S.$347 million in 2009, an increase of U.S.$184 million, or 53.0%. Petkim is generally able to command higher prices for its exported products than those used in the domestic Turkish market, and, as a result, is seeking to continue to increase exports.

The summary financial information of Petkim set forth below as at and for the years ended 31 December 2010 and 31 December 2009 has been summarised without material adjustment and extracted from the translated auditors' report and consolidated financial statements, originally issued in Turkish, of Petkim included in the Petkim Annual Report, published by Petkim for the year ended 31 December 2010. See "*Presentation of Financial, Reserves and Certain Other Information—Certain Third Party Information*".

Summary Petkim Consolidated Balance Sheet Data

	For the year ended 31 December 2010	2009	Change
	(YTL millions)		*(%)*
ASSETS			
Current assets			
Cash and cash equivalents	202	175	15.4
Trade receivables	415	338	22.8
Other receivables	13	10	30.0
Inventories(1)	435	313	39.0
Other current assets	42	18	133.3
Total current assets	1,107	854	29.6
Non-current assets			
Financial assets	0	0	0.0
Property, plant and equipment(2)	1,208	1,195	1.1
Intangible assets	10	3	233.3
Investment property	1	—	—
Other non-current assets	32	31	3.2
Deferred income tax assets	19	29	(34.5)
Total non-current assets	1,270	1,259	0.9
TOTAL ASSETS	**2,376**	**2,113**	12.4
LIABILITIES			
Current liabilities			
Financial liabilities	89	88	1.1
Trade payables	524	400	31.0
Other payables	1	1	0.0
Provision for employee benefits	7	12	(41.7)
Provisions	4	5	(20.0)
Other current liabilities	58	60	(3.3)
Total current liabilities	683	566	20.7
Non-current liabilities			
Financial liabilities	8	—	—
Provision for employee benefits	81	77	5.2
Other non-current liabilities	6	—	—
Total non-current liabilities	95	77	23.4
TOTAL LIABILITIES	**778**	**643**	21.0
EQUITY			
Share capital	1,000	205	387.8
Adjustment to share capital	487	1,282	(62.0)
Restricted reserves	—	—	—
Accumulated deficit	(17)	(131)	(87.0)
Net profit for the year	130	114	14.0
TOTAL EQUITY	**1,600**	**1,470**	8.8
TOTAL LIABILITIES AND EQUITY	**2,376**	**2,113**	12.4

Source: Petkim Annual Report

Notes:

(1) The increase in inventories as at 31 December 2010, as compared to 31 December 2009, is primarily due to higher international oil prices and the resulting impact on petrochemical prices.

(2) The net book value of property, plant and equipment as at 31 December 2010 was YTL 1,208 million, as compared to YTL 1,195 million, as at 31 December 2009. Depreciation charges amounting to YTL 59 million were recognised in the year ended 31 December 2010, as compared to YTL 98 million in the year ended 31 December 2009, of which an additional YTL 33 million was allocated to cost of sales in 2010, primarily due to higher international oil prices.

Summary Petkim Consolidated Statement of Comprehensive Income

	For the year ended 31 December		
	2010	**2009**	**Change**
	(YTL millions)		*(%)*
Sales[(1)]	2,909	2,057	41.4
Cost of sales[(1)]	(2,680)	(1,944)	37.9
Gross profit	**229**	**114**	100.9
Research and development expenses	(2)	(1)	100.0
Marketing, selling and distribution expenses[(2)]	(17)	(13)	30.8
General administrative expenses[(3)]	(74)	(54)	37.0
Other operating income[(4)]	8	23	(65.2)
Other operating expense[(5)]	(16)	(28)	(42.9)
Operating profit	**127**	**41**	209.8
Finance income[(5)]	147	107	37.4
Finance costs[(6)]	(134)	(83)	61.4
Profit before taxation	**140**	**65**	115.4
Taxation on income[(7)]	(10)	49	—
Net profit for the year	**130**	**114**	14.0

Source: Petkim Annual Report

Notes:
(1) The increase in sales and cost of sales in 2010, as compared to 2009, is primarily due to higher international oil prices and the resulting impact on petrochemical prices, as well as increased usage of Petkim's facilities.
(2) The increase in marketing, selling and distribution expenses in 2010, as compared to 2009, is primarily due to a YTL 3 million increase in outsourced services expenses.
(3) The increase in general administrative expenses in 2010, as compared to 2009, is primarily due to a YTL 12 million in outservices expenses and a YTL 4 million increase in employment termination benefits, partially offset by a YTL 3 million reduction in staff costs.
(4) The decrease in other operating income in 2010, as compared to 2009, is primarily due to a YTL 13 million decrease in compensation from customers resulting from a breach of certain purchase commitments in 2009 in accordance with the agreed terms.
(5) The decrease in other operating expense in 2010, as compared to 2009, is primarily due to a YTL 10 million decrease in idle time expense and a YTL 2 million decrease in provisions for legal cases, partially offset by a YTL 3 million capital increase expense incurred in 2010.
(6) The increase in finance income in 2010, as compared to 2009, is primarily due to a YTL 45 million increase in foreign exchange gain, partially offset by a YTL 5 million decrease in interest income.
(7) The increase in finance costs in 2010, as compared to 2009, is primarily due to a YTL 52 million increase in foreign exchange loss, partially offset by a YTL 1 million increase in interest expense.

STAR Project

In June 2010, STEAS received a licence from the Turkish government to construct a 10 million tonne capacity refinery on the peninsula. In October 2011, ground was broken on the site preparation phase of the project, which was attended by the President of Azerbaijan, Ilham Aliyev, and the Prime Minister of Turkey, Recep Tayyip Erdogan. The new refinery is expected to have a process capacity of 10 million tonnes of crude oil per annum (214,000 bopd) and produce naphtha, diesel and jet fuel and other products. The naphtha is intended to be used as feedstock for Petkim and the diesel and jet fuel are intended to supply the domestic Turkish market.

Preliminary project cost estimates for the new refinery are U.S.$5-6 billion. No financing arrangements are yet in place, although STEAS expects to seek funding on a project finance basis. STEAS is currently running a competitive international tender among leading EPC contractors, four consortia of which have prequalified to date. STEAS expects to award the EPC contract in the second quarter of 2012 and to award it to a consortium of contractors in order to be in a position to take advantage of international export credit agency financial support available to a number of contractors.

STEAS and Petkim believe that this project will continue to have strong Turkish government support. Current estimates predict that by increasing the domestic supply of diesel and jet fuel and reducing reliance on imports, the new refinery will cut Turkey's current account deficit by approximately 1.5%. STEAS expects that as much as 70% of the expected revenue of the new refinery will be based on off-take contracts with local retailers of diesel and jet fuel.

STAR Project and Petkim

STEAS expects that approximately 25% (by revenue) of the new refinery's products will be sold on-site to Petkim on long-term take or pay off-take contracts. By locating the new refinery on the same site as Petkim, STEAS and Petkim believe that significant capital expenditure and transportation savings will be achieved and that Petkim's exposure to feedstock shortages and price volatility will be reduced. The Company has also agreed that it will supply a portion of the new refinery's crude oil requirements, either from its own production or via its trading capacities.

Petkim has granted a 49-year lease for the land required for the new refinery. Petkim has also agreed to provide key utilities and services, such as steam, nitrogen, oxygen, water and electricity) to the new refinery on long-term use rate contracts.

Construction

The Company carries out all construction work relating to its oil and gas activities through two entities: Complex Drilling Work Trust and Oil and Gas Construction Trust. Although it is one of the Company's main operating segments, the work carried out by these entities is principally for other entities within the Company's Group and revenue from external customers is not significant.

In March 2007, the Company formed Complex Drilling Work Trust, which is responsible for drilling wells in the Company's onshore and offshore hydrocarbon fields, for example the Umid field. The Company also has a majority interest in Caspian Drilling Company ("**CDC**"), a joint venture with Heritage General Trading FZE ("**Heritage**"). The joint venture was originally entered into in 1996 with Santa Fe, who sold its 45% share in 2009 to CDC who, in turn, sold a 4.5% stake to Heritage. Following a capital reduction through which CDC's share was dissolved, the Company now owns 92.44% of CDC and Heritage owns 7.56%. The Oil and Gas Construction Trust is responsible for all construction work other than drilling wells, principally work relating to refineries and pipelines.

Other Activities

SOCAR Fleet

The Company operates a fleet of approximately 300 ships engaged in transportation activities principally in the Azerbaijani sector of the Caspian Sea. The fleet plays an important role in the exploration and production of offshore oil and gas fields and maintains all types of vessels required to perform these roles. The fleet also has alliances with non-Azerbaijani fleet companies. The fleet provides staff transportation services, as well as rescue and salvage services, primarily to the Company, members of the Group and joint ventures and operating companies in which the Company has an interest. The Company also has alliances with foreign companies specialising in marine and diving services to support the development and production of its oil and gas fields.

Shipyard

In 2010, the Company entered into a joint venture agreement with Keppel Group of Singapore and Azerbaijan Investment Company, which is a state-owned fund, for the purpose of developing and operating a shipbuilding and ship repair facility near Baku. It is contemplated that the shipbuilding facility will produce various types of vessels, including oil tankers and service vessels, for the oil and gas industry.

Social Activities

In common with other oil and gas companies in the region, the Company constructs and has previously operated facilities designed to deliver social services to employees and their families, such as hospitals and other healthcare facilities, accommodation, schools and recreation centres. Pursuant to a number of orders of the Cabinet of Ministers adopted in December 2011, most of these facilities have been transferred to various state authorities and state-owned companies. The transferred facilities are no longer operated by the Company. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Government, which directly controls the Company, may cause the Company to engage in business practices that may not be in the interests of the Noteholders and may cause the appointment or removal of members of the Company's management team*" and "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Descriptions of Principal Income Statement Items—Operating Expenses—Social Expenses*".

Competition

Exploration and Production

As the manager of the State's activities in the oil and gas sector in Azerbaijan, the Company has the exclusive right to participate in all domestic oil and gas exploration and production activities. See "*Regulation of the Oil and Gas Sector in Azerbaijan*".

Transportation

The Company owns the domestic oil and gas pipeline networks and has holdings in all of the international pipelines that run through Azerbaijan. No other domestic entities have holdings in the pipelines, but some external contractors have interests in the domestic pipelines as part of the PSA arrangements.

Refining, Marketing and Trading

The Company has a dominant position in Azerbaijan, as there is no competition in the domestic market, and the Company wholly-owns the two oil refineries in Azerbaijan. Although there are some petrol stations owned by third parties, these petrol stations buy their petrol from the Company. See "*—Refining, Marketing and Trading—Refining Facilities*".

Employees

The following table sets forth the approximate number of employees of the Company, by business unit or entity, as at the dates indicated:

	As at 30 June	As at 31 December	
	2011	2010	2009
SOCAR Head Office	426	361	318
Azneft	18,348	18,694	19,505
Azerigas	13,847	13,929	11,404
Azerikimya	4,927	5,775	—
Geophysics and Geology Department	1,912	1,933	1,661
Oil Pipelines Department	1,129	1,143	1,060
Marketing and Economic Operations Department	746	754	914
Investments Department	43	47	45
Azerneftyag Oil Refinery	2,326	2,335	2,326
Heydar Aliyev Baku Oil Refinery	2,501	2,516	2,474
Heydar Aliyev Baku Deep Water Jacket Factory	1,857	1,774	1,827
Gas Processing Plant	659	657	626
Social Development Department	7,575	7,131	6,093
Security Department	4,348	4,496	3,848
Ecology Department	345	324	285
Gas Export Department	180	174	146
Information Technologies and Communications Department	860	860	817
Caspian Sea Oil Fleet	5,253	5,266	4,976
Oil and Gas Construction Trust	5,195	5,263	4,892
Complex Drilling Works Trust	5,055	4,900	5,137
Oilgasscientificresearchproject Institute	1,040	1,096	1,052
Office of "Azerbaijan Oil Industry" magazine	21	22	19
"Development of Work condition norms" Department	87	92	89
Companies involved in SOCAR's international projects			
AzACG	8	8	7
AzBTC	8	8	8
AzSD	9	9	7
SCP	9	9	8
Salyanoil	8	8	8
Alibayramlioil	7	7	8
Gobustanoil	8	8	8
Total	**78,737**	**79,569**	**69,622**

The Company is the largest corporate employer in Azerbaijan and the trans-Caucasus region. The Company's trade union, the Union for Oil and Gas Industry Employees, was established in 23 May 1997. As at 30 June 2011, it had 87,986 members. The Company has experienced no material labour disputes or strikes and believes employee relations to be good.

Litigation

As at the date of this Prospectus, the Company is not a party to any material litigation. The Company is not, and has not been, involved in any governmental, legal or arbitration proceedings, including any such proceedings pending or threatened of which the Company is aware, during the last 12 months preceding the date of this Prospectus that may have, or have had, during that time a significant effect on the financial position or profitability of the Company or the Group.

Insurance

The terms of the Company's insurance coverage are similar to those that are generally accepted in the oil and gas industry and are tailored to address the specific activities of the Company. The Company's insurance coverage includes employer's liability insurance, hazardous object insurance and directors' and officers' liability insurance and also covers property. However, the Company's insurance does not include coverage for environmental damage caused by the Company's subsidiaries' operations, sabotage or terrorist attacks, which is not compulsory under Azerbaijani law.

Under the Law on Compulsory Insurance, which came into force in October 2011, the Company is also required to maintain the following types of insurance: (i) immovable property insurance; and (ii) liability insurance for holders of immovable property. The new law has removed the legal requirement to maintain environmental insurance; however, it is expected that environmental damage will be covered by other types of insurance (such as liability insurance for damage caused by hazardous objects) and the new requirement for liability insurance for holders of immovable property. When entering into joint ventures or other partnerships, the Company seeks to require partners to obtain the maximum amount of environmental liability insurance reasonably available, however availability is often limited. The Company does not have a general insurance policy to cover environmental risks, but insurance may be put in place for individual projects. The implementation of the Law on Compulsory Insurance is still being developed and the Company has not yet obtained policies for the new types of mandatory insurance. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Company's insurance coverage may not be adequate to cover losses arising from potential operational hazards and unforeseen interruptions*" and "*Regulation of the Oil and Gas Sector in Azerbaijan—Other regulatory requirements—Mandatory insurance*".

The Company also maintains liability insurance to cover certain assets with respect to fire, lightning, explosion and earthquake and medical insurance for its employees with Pasha Insurance and Xalq Insurance.

Information Technology

The IT management of the Company is undertaken by the IT and Communications Department which performs the following functions: providing the Company's telecommunication services; implementing automatic processing control systems, developing integrated software, creating databases and organising management systems; developing and implementing the IT network, which includes organising the tracking of documents and the exchange of information on the network; and safeguarding the information infrastructure. The IT systems of all of the Company's subsidiaries are integrated into one centralised IT framework which services the Group. The Company budgeted U.S.$69.2 million for maintaining and further upgrading its IT systems in 2011, of which U.S.$62 million had been funded as at 31 December 2011.

The Company is currently implementing a project to improve its back office processes and corporate information system. It has selected software developed by SAP and is being advised by PriceWaterhouseCoopers International Consulting Company. The Company expects that this project will improve its back office and reporting efficiency and achieve cost savings. As at 31 December 2011, the Company had spent AZN 55 million on this project. In July 2010, SAP awarded the Company its CIS Quality Award 2010 in respect of this project.

The Company is planning to create a separate disaster recovery centre or an off-site server located outside of the Company's main administrative premises. At the moment, the Company does not have a disaster recovery plan.

MANAGEMENT

Governance Bodies

The Company's management structure consists of its president and its vice-presidents, who, together with other officers of the Company, constitute the Council and are responsible for the day-to-day management of the Company. See "*Relationship with the Government—Senior Management*", "*Risk Factors—Risk Factors Relating to the Company's Business—The Government, which directly controls the Company, may cause the Company to engage in business practices that may not be in the best interests of the Noteholders and may cause the appointment or removal of members of the Company's management team*" and "*Risk Factors—Risk Factors Relating to the Company's Business—Two senior members of SOCAR's management team do not receive salaries from SOCAR*".

President

The Company's president is appointed by the President of the Republic of Azerbaijan and has the following main responsibilities**:**

- ensuring the effective operation of the head office of the Company and of the entities within the Company's structure, including approving the structure and staff schedule of the Company's head office and appointing and dismissing employees;
- ensuring the implementation of the Company's decisions;
- appointing and dismissing heads of entities within the Company and their deputies and chief accountants, approving charters and regulations of such entities and determining the composition and duties of the Human Resources Committee;
- arranging and managing the work of the Council;
- representing the Company before state authorities, local and foreign institutions, and international organisations;
- executing contracts and other legal documents on behalf of the Company and ensuring their performance;
- approving internal regulations, issuing orders and decrees in connection with the management of the Company and signing the Council's resolutions; and
- other authorities provided for in the legislation (*e.g.*, certain authorities are granted by the President of the Republic of Azerbaijan empowering the Company to enter into PSA arrangements).

The term of office of the Company's president is not limited in time and he shall remain in office until dismissed by the President of the Republic of Azerbaijan.

The president of the Company is Rovnag Abdullayev. Mr. Abdullayev was born in Nakhchivan city on 3 April 1965. In 1982, he entered the Industrial and Civil Construction Engineering Department of Azerbaijan Construction Engineering Institute. After having served in the army, in 1985 he was transferred to the Construction Engineering Institute, from which he graduated in 1989. In 1989, Mr. Abdullayev started working at Neft Dashlari (Oil Rocks). In 1990, Mr. Abdullayev took a position as an engineer in the Construction Department of the 28th of May Oil and Gas Production Department. In 1991, Mr. Abdullayev became the Head of the Production Technology Department of the Construction and Assembling Management #3 of the Khazardenizneftgazinshaat (Caspian Sea Oil and Gas Construction) Trust. In 1997, Mr. Abdullayev became the Head of the Khazardenizneftgazinshaat Trust. On 31 March 2003, he was appointed Director of the Heydar Aliyev Baku Oil Refinery. In the elections held on 6 November 2005, he was elected to Parliament. Mr. Abdullayev was appointed President of the Company on 9 December 2005. On 14 March 2008, he was appointed President of the AFFA (Azerbaijan Football Federations' Association). On 7 November 2010, he was re-elected to Parliament.

Vice-presidents

The Company has 11 vice-presidents whose role is to manage the day-to-day operations of the Company. The vice-presidents of the Company are appointed and dismissed by the President of the Republic of Azerbaijan upon petition of the president of the Company. As at the date of this Prospectus, the Company's vice-presidents are:

Name	Age	Appointed	Current Position
Currently vacant	-	-	First vice-president
Khoshbakht Yusifzade	81	2004	First vice-president of geology, geophysics and field development issues
Suleyman Gasimov	50	2006	Vice-president of economic issues
Elshad Nasirov	51	2005	Vice-president of investments and marketing
David Mammadov	56	2005	Vice-president of refining
Mikayil Ismayilov	47	2005	Vice-president
Badal Badalov	50	2011	Vice-president of social issues
Khalik Mammadov	53	2007	Vice-president of human resources, regime and information technologies
Rahman Gurbanov	65	2010	Vice-president of oil and gas production and transportation
Tofik Gahramanov	58	2010	Vice-president of strategic development
Rafiga Huseyn-zade	59	2011	Vice-president of ecology

Under the Company's charter and the Council's regulations, in the instance of a tie in voting at Council meetings and in the absence of the president of the Company, the first vice-president has a casting vote. As at the date of this Prospectus, the position of first vice-president of the Company remains vacant.

Khoshbakht Yusifzade

Khoshbakht Yusifzade was born in Baku, Azerbaijan on 14 January 1930 and graduated from the Azerbaijan Industrial Institute in 1952 with a degree in geology. Mr Yusifzade started his career at The Oil Ministry in 1952. He worked as Deputy General Manager of the Geology department for Azdenizneft from 1952 to 1953. He worked as Chief Geologist at Azerneft from 1953 to 1960. He worked as Chief Geologist at Neft Dashlari from 1960 to 1963, then as Deputy Chief Geologist, Chief Geologist and Deputy General Manager at Caspian Sea Oil and Gas Production Union from 1963 to 1992. He worked as vice-president at Azerneft Concern in 1992 and as an adviser to the president of the Company from 1992 to 1994. He was vice-president of geology, geophysics and field development issues from 1994 to 2004 and in 2004 he became the first vice-president of geology, geophysics and field development refining. Mr Yusifzade became a member of the Council in 1992.

Suleyman Gasimov

Suleyman Gasimov was born in Bolnisi district, Georgia on 26 December 1961 and graduated from the Azerbaijan National Economic Institute in 1982 with a degree in accounting. Mr Gasimov started his career at Oil and Gas Production Union in 1982. He worked as an economist and Deputy Chief Accountant at Neft Dashlari offshore oil field from 1984 to 1991. He worked as the Chief Accountant at Khazardenizneftgas from 1991 to 1992. He worked as the Chief Accountant at Offshore Oil and Gas Production Union from 1994 to 2003. In 2006, he became the Company's vice-president of economic issues. Mr. Gasimov became a member of the Council in 2006.

Elshad Nasirov

Elshad Nasirov was born in Baku, Azerbaijan on 29 September 1960 and graduated from Moscow State Institute of International Relations in 1982. Mr. Nasirov started his career at the Academy of Sciences of Azerbaijan SSR in 1982. He worked in the Ministry of Foreign Affairs from 1992 to 2003. He worked as Chief Executive of the Company's marketing and economic operations department from 2003 to 2005. In 2005, he became the Company's vice-president of investments and marketing. Mr. Nasirov became a member of the Council in 2005.

David Mammadov

David Mammadov was born in Kurdamir district, Azerbaijan on 28 September 1955 and graduated from the Azerbaijan Oil and Chemistry Institute in 1980 with a degree in chemical engineering. Mr Mammadov started his career at the

Baku Oil Refinery in 1976. He worked as an operator, head of department and deputy to the general manager at the refinery from 1979 to 1994. He worked as a first Deputy General Manager at Azerneftyag Oil Refinery from 1994 to 2005. In 2005, he became the Company's vice-president of refining. Mr Mammadov became a member of the Council in 2005.

Mikayil Ismayilov

Mikayil Ismayilov was born in Aghsu district, Azerbaijan on 9 June 1964 and graduated from Leningrad Finance Economics Institute in 1988 with a degree in financial accounting. Mr Ismayilov started his career at Caspian Oil and Gas Construction Trust in 1988. He worked as an accountant at the Caspian Oil and Gas Construction Trust from 1988 to 1992. He worked as the Chief Accountant at Offshore Oil and Gas Production Union from 1992 to 2003. He worked as the Deputy General Manager at Heydar Aliyev Baku Oil Refinery from 2003 to 2005. In 2005, he became a vice-president of the Company. Mr Ismayilov became a member of the Council in 2005.

Badal Badalov

Badal Badalov was born in Ismayilli district, Azerbaijan on 15 October 1961 and graduated from the Azerbaijan Construction Engineering Institute in 1987 with a degree in engineering. Mr Badalov started his career at the Caspian Sea Oil and Gas Construction Trust, where he worked from 1979 to 1997. He worked as an engineer, senior engineer and Chief of the Department at the Caspian Oil and Gas Construction Trust from 1997 to 2003. He worked as Deputy General Manager at Azerneftyag Oil Refinery from 2003 to 2005. He worked as General Manager at Heydar Aliyev Baku Oil Refinery from 2005 to 2007. He worked as General Manager at Social Development Department from 2007 to 2011. In 2011, he became the Company's vice-president of social issues. Mr Badalov became a member of the Council in 2011.

Khalik Mammadov

Khalik Mammadov was born in Astara district, Azerbaijan on 28 June 1958 and graduated from the Azerbaijan Oil and Chemistry Institute in 1984 with a degree in electrical engineering. Mr Mammadov started his career at Baku Oil Refinery in 1976. He worked as an electrician and Head of Department at Baku Oil Refinery from 1976 to 1991. He worked as Deputy Chairman at Nizami District Executive Power from 1991 to 1994. He worked as Head of HR department and Deputy Manager at Azerneftyag Oil Refinery from 1994 to 2005. In 2007, he became the Company's vice president of human resources, regime and information technologies. Mr Mammadov became a member of the Council in 2007.

Rahman Gurbanov

Rahman Gurbanov was born in Baku, Azerbaijan on 11 September 1946 and graduated from the Oil and Chemistry Institute in 1968 with a degree in mining engineering. Mr Gurbanov started his career at Caspian Oil and Gas Production Union, and worked there from 1968 to 1986. He worked as a departmental chief at Khazardenizneftgas from 1986 to 1994 and was the General Manager at Khazardenizneftgas from 1994 to 2003. He worked as General Manager at SOCAR Oil and Gas Department from 2006 to 2010. In 2010, he became the Company's vice-president of gas and oil production and transportation. Mr Gurbanov became a member of the Council in 2010.

Tofik Gahramanov

Tofik Gahramanov was born in Baku, Azerbaijan on 21 December 1953 and graduated from the Azerbaijan Oil and Chemistry Institute in 1976 with a degree in electrical engineering. Mr Gahramanov started his career at Baku Oil Refinery, where he worked from 1976 to 1983. He worked as an instructor at Nizami District Party Committee from 1983 to 1990. He worked as general manager at Azinteroil JV from 1991 to 1998. He worked as Head of Department of investments and economic operations at Heydar Aliyev Baku Oil Refinery from 1998 to 2006. He worked as head of department of refinery at the Company's head office from 2006 to 2007. He worked as General Manager of the Company's marketing and economic operations department from 2007 to 2010. In 2010, he became the Company's vice-president of strategic development. Mr Gahramanov became a member of the Council in 2010.

Rafiga Huseyn-zade

Rafiga Huseyn-zade was born in Baku, Azerbaijan on 25 July 1952 and graduated from the Azerbaijan Oil and Chemistry Institute in 1974 with a degree in geological engineering. Ms Huseyn-zade started her career at the Petrochemical Institute, where she worked from 1975 to 1985. She worked as a laboratory assistant and senior engineer at Baku State University from 1985 to 2001. She worked as General Manager at AzLab CJSC from 1999 to 2011. In 2011, she became the Company's vice-president of ecology. Ms Huseyn-zade became a member of the Council in 2011.

Council

The Council is a collegiate advisory body of the Company chaired by the president of the Company and empowered to discuss the following matters:

- the annual work plans and annual reports of entities within the Company's structure;
- the establishment and use of funds of the Company;
- the relations between entities within the Company's structure and prices for their products and services;
- the complete or partial centralisation of production and economic functions of entities within the Company's structure;
- the necessity of establishing joint projects with foreign companies;
- the disputes arising among entities within the Company's structure;
- the establishment of the Company's development strategy; and
- other issues relating to the Company's activities.

Resolutions of the Council enter into force and become binding on the Company once signed by the President of the Company. The Council is composed of vice-presidents and other officers of the Company appointed by the President of the Company. (See "—*Vice-presidents*".) As at the date of this Prospectus, the Council consists of the following members, other than vice-presidents of the Company:

Cahangir Aliyev

Cahangir Aliyev was born in Baku, Azerbaijan on 10 March 1955 and graduated from the Azerbaijan National Economic Institute in 1976 with a degree in industrial economics. Mr Aliyev started his career as an engineer and economist at Baku Machine-Building Plant, where he worked from 1976 to 1980. He worked as Head of Department at Azerbaijan Oil and Gas Industry from 1980 to 1992. He worked as Deputy General Manager at SOCAR-SDD from 1992 to 1996. He worked as Chairman of the trade union organisation, Trade Union Committee of the Azerbaijan Republic from 1996 until present. Mr Aliyev became a member of the Council in 2006.

Eldar Orujov

Eldar Orujov was born in Guba district in Azerbaijan on 2 August 1965 and graduate from Baku State University in 1992 with a degree in law. Mr Orujov started his career at Aynur LLC, where he worked from 1992 to 1995. He worked as Deputy Manager at Logoservice LLC from 1995 to 2000. He worked as a senior legal advisor at the Company from 2005 to 2006. He has worked as Head of the Legal Department at the Company since 2006. Mr Orujov became a member of the Council in 2006.

Agasef Aliyev

Agasef Aliyev was born in Salyan district, Azerbaijan on 10 May 1939 and graduated from the Azerbaijan Oil and Chemistry Institute in 1962 with a degree in chemical engineering. Mr Aliyev started his career at Qaradagh GasPetrol Factory, where he worked from 1962-1969. He worked as a mechanic and Head of Department at Azerdenizneftinshaat from 1969 to 1979. He worked as a senior technologist at Caspian Sea Oil and Gas Construction trust from 1979 to 1983. He worked as General Manager at Caspian Sea oil and gas construction trust from 1983 to 2003. He worked as Deputy General Manager at Azneft from 2003 to 2006. He has worked as General Manager at the Company's Capital Investments Division, at the Company's Head Office since 2006. Mr Aliyev became a member of the Council in 2006.

Yashar Nabiyev

Yashar Nabiyev was born in Baku, Azerbaijan on 11 April 1955 and graduated from the Azerbaijan National Economic Institute in 1976 with a degree in economics. Mr Nabiyev started his career at Baku Oil Refinery, where he worked from 1976 to 2006. He worked as first assistant to the president at the Company's head office from 2006 to 2008. He has worked as the General Manager of the Executive Office at the Company's head office since 2008. Mr Nabiyev became secretary of the Council in 2008.

The business address of the president, each vice-president and the other members of the Council is the registered office of the Company at 73, Neftchilar Avenue, Baku AZ1000, Republic of Azerbaijan.

Audit Committee

The Audit Committee is an advisory body within the Council established by the resolution of the Company's president dated 30 January 2008.

As at the date of this Prospectus, the Audit Committee consists of the following members:

Name	Position
Mikayil Ismayilov	Chairman of the Audit Committee
Suleyman Gasimov..............................	Vice-president of economic issues
Eldar Orujov..	Head of the Legal Department of the Company

The Audit Committee was established in furtherance of the Law on Internal Audit enacted on 22 May 2007, which requires the establishment of audit committees in entities such as the Company. Under this law the functions of an audit committee include, *inter alia*:

- determining Group audit policy and strategy and approving internal audit plans;
- approving regulations of internal auditors, internal audit reports and systems;
- making proposals to management on the establishment, implementation and improvement of internal control systems and risk management systems;
- making proposals to management bodies on external audits;
- determining financial risk and ensuring effective risk management;
- considering fraud, deficiencies and inadequacies revealed during external and internal audits or other examinations and providing relevant recommendations to management;
- reviewing legal matters that may significantly affect financial reporting and providing recommendations on these matters;
- supervising the preparation of annual and current financial reports and annual and current financial condition;
- ensuring discussion of and recommendations of internal auditors provided during the audit; and
- involving management in the implementation of recommendations of internal auditors.

Other Committees

The Company also has the following committees:

- Risks Management Committee;
- Procurement Committee;
- Human Resources Committee; and
- Information Safety Committee

The business address of each of the members of the Company's committees is the registered office of the Company at 73, Neftchilar Avenue, Baku AZ1000, Republic of Azerbaijan.

Management Remuneration

All of the Company's employees in Azerbaijan, including the members of the Council and the Audit Committee, are remunerated according to a pay grade scale set by the Company, which is similar to the system used in the public sector.

Total compensation to the key management personnel of the Company amounted to AZN 147,000 for the six months ended 30 June 2011, AZN 268,000 and AZN 168,000 for the years ended 31 December 2010, and 2009, respectively.

Employment Contracts with Senior Executive Officers

In general, the Company enters into employment contracts of indefinite duration with its senior executive officers. Under these contracts, the senior executive officers of the Company are entitled, in addition to their regular salary, to discretionary annual bonuses based on the Company's annual performance. No bonuses were awarded in 2010 or 2009.

Conflicts of Interest

The Company believes there are no potential conflicts of interest between any duties owed to the Company by the president, vice-presidents, members of the Council and the Audit Committee and their private interests or other duties. The president of SOCAR and Mukhtar Babayev (chairman of the Supervisory Board of Azerikimya) are Members of the Parliament of the Republic. Under applicable Azerbaijani law, Members of Parliament are prohibited from receiving salaries or other remuneration tied to employment with a commercial entity, such as SOCAR. Accordingly, the president and Mr. Babayev are prohibited from receiving or accruing salaries from SOCAR. These individuals are paid in connection with their official responsibilities as Members of Parliament out of the state budget. The Company does not believe that these arrangements constitute a conflict of interest.

RELATIONSHIP WITH THE GOVERNMENT

The State Oil Company of the Azerbaijan Republic is a 100% state-owned company organised and existing under the laws of the Republic of Azerbaijan. The Company was established under a Presidential Decree passed on 13 September 1992. The initial charter of the Company was approved by a Presidential Decree of 14 November 1992, which was replaced by a new charter on 5 April 1994. The latest charter of the Company was approved by a Presidential Decree of 24 January 2003, which clarified the management structure and status of the Company. The charter was last amended by Presidential Decrees of 22 April 2010, 1 September 2011 and 29 November 2011, which provided for certain structural changes and licence exemptions. See "*Regulation of the Oil and Gas Sector in Azerbaijan*". The annual estimate of the Company's income and expenditure, as well as any investment programs to be undertaken by the Company, are subject to the review and approval of the Government.

Charter Capital

Under the Company's charter its charter capital is AZN 600 million. Due to the Company's specific structure the charter capital of the Group is calculated separately from the charter capital of the Company. Thus, although not reflected in the Company's charter, the aggregate charter capital of the Group has been increased in 2010 and 2011 (which capital increases allocated to charter capital of various companies of the Group).

In 2010, the Group's charter capital was increased by AZN 246.532 million. This amount includes deferred income representing a grant converted to the charter capital, retained earnings and transfer from the state budget under the Resolution of the Cabinet of Ministers № 183, dated 22 October 2010.

In 2011, the Group's charter capital was increased by AZN 190 million, received from the state budget under the Order of the Cabinet of Ministers № 156, dated 16 June 2011. A total of AZN 150 million from this increased charter amount was transferred to the Group for the purpose of gasification of Baku and other regions and AZN 40 million was transferred to the Group for the purpose of construction of nitrogen fertilizers plant.

As at 31 December 2011 the charter capital of the Group was AZN 1,059 million.

Senior Management

The Company's key management includes the president of SOCAR and its vice-presidents, who are appointed by the President of the Republic. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Government, which directly controls the Company, may cause the Company to engage in business practices that may not be in the best interests of the Noteholders and may cause the appointment or removal of members of the Company's management team*".

In addition, the president of SOCAR and one other member of the Company's senior management team are members of the Parliament of the Republic. Under applicable Azerbaijani law, members of Parliament are prohibited from receiving salaries or other remuneration tied to employment with a commercial entity, such as SOCAR. Accordingly, the president and the other member of the management team are prohibited from receiving or accruing salaries from SOCAR. These individuals are paid in connection with their official responsibilities as Members of Parliament out of the state budget. As a result, the performance of these individuals as employees of SOCAR is not tied to their salaries. See "*Risk Factors—Risk Factors Relating to the Company's Business—Two senior members of SOCAR's management team do not receive salaries from SOCAR*".

Related Party Transactions

In addition to the Company and its group members, the Azerbaijani state has direct and indirect interests in several companies operating in the Republic, with which the Company does business from time-to-time. Sales to related parties are made at prices regulated by the Government. Outstanding balances at period-end are unsecured and settlement occurs in cash. In general, such balances are not guaranteed by the Government. See "*—Supply Obligations*" and "*Risk Factors—Risk Factors Relating to the Company's Business—The Government has imposed regulations and requirements requiring the Company to sell oil, oil products and gas in the domestic market at below market prices*".

The following table sets forth the Company's outstanding balances with the Government and entities under Government control and with associates and joint ventures as at the dates indicated:

	As at 30 June 2011		As at 31 December 2010	
	The Government and entities under Government control	**Associates and joint ventures**	**The Government and entities under Government control**	**Associates and joint ventures**
	(AZN millions)			
Gross amount of trade receivables[(1)]	276	1,024	176	616
Impairment provisions for trade and other receivables[(1)]	(45)	—	(44)	—
Cash and cash equivalents[(2)]	346	—	177	—
Deposits[(3)]	1,416	—	1,346	—
VAT and other taxes receivable	381	—	435	—
Prepayment for corporate income tax	20	—	27	—
Loan receivable from jointly-controlled entity[(4)]	—	149	—	263
Borrowings from IBA[(5)]	(1,619)	—	(1,734)	—
Borrowings from the Ministry of Finance[(6)]	(179)	—	(183)	—
Trade and other payables	(74)	(458)	(94)	(378)
Payable to SOFAZ[(6)]	(1,524)	—	(1,109)	—
Other taxes payable	(247)	—	(177)	—
Corporate income tax payable	(224)	—	(89)	—

Notes:

(1) As at 31 December 2010, AZN 45 million was due from Azerenerji (as defined below). See "*—Supply Obligations*" and Note 6 to the 2010 Financial Statements. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Government has imposed regulations and requirements requiring the Company to sell oil, oil products and gas in the domestic market at below market prices*".

(2) Includes call deposits with the IBA (AZN 288 million, as at 31 December 2010).

(3) Includes two restricted deposits with a carrying value of AZN 956 million and AZN 399 million as at 30 June 2011 and 31 December 2010 with the IBA matching certain obligations relating to the Company's acquisition of its controlling interest in Petkim. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Debt Obligations—Principal Debt Obligations of the Company and its Material Subsidiaries*" and Notes 5 and 6 to the Interim Financial Statements and Notes 8 and 9 to the 2010 Financial Statements.

(4) Includes the loan made by AzACG to Carlina. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Debt Obligations—Principal Debt Obligations of Non-Consolidated Jointly-Controlled Entities and Associates*".

(5) Includes loans from the IBA related to the Company's acquisition of its controlling interest in Petkim. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Debt Obligations—Principal Debt Obligations of Non-Consolidated Jointly-Controlled Entities and Associates*".

(6) See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Debt Obligations—Principal Debt Obligations of the Company and its Material Subsidiaries*".

The following table sets for the Company's transactions with the Government and entities under Government control and with associates and joint ventures during the periods indicates:

	For the six months ended 30 June 2011		For the year ended 31 December 2010	
	The Government and entities under Government control	**Associates and joint ventures**	**The Government and entities under Government control**	**Associates and joint ventures**
	(AZN millions)			
Sales of natural gas[1]	102	—	210	—
Sales of oil products[1]	103	125	243	187
Services rendered	22	33	20	65
Interest income on deposits[2]	15	—	25	—
Interest income on loans from related parties[1][3]	—	6	—	12
Corporate income tax[4]	(175)	—	(301)	—
Excise tax[5]	(203)	—	(390)	—
Price margin tax[5]	(218)	—	(316)	—
Mining tax[6]	(59)	—	(122)	—
Other taxes	(71)	—	(203)	—
Utilities costs	(30)	—	(66)	—
Other operating expenses	(5)	(5)	(62)	(656)
Interest expense on loans from related parties	(24)	—	—	—
Social security deductions	(59)	—	(105)	—
Social expenses[7]	(303)	—	(454)	—
Transportation expenses	(1)	—	(6)	(8)
Ecology service and environmental security	(1)	(8)	(3)	(17)
Purchases of property, plant and equipment and inventory	(12)	(550)	(34)	(167)
Dividends received from jointly-controlled entities[8]	—	1	—	6
Dividends received from associates[9]	—	24	—	58

Notes:

(1) See "*Risk Factors—Risk Factors Relating to the Company's Business—The Government has imposed regulations and requirements requiring the Company to sell oil, oil products and gas in the domestic market at below market prices*".

(2) Includes call deposits with the IBA (AZN 288 million, as at 31 December 2010).

(3) Includes the loan made by AzACG to Carlina. See "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Debt Obligations—Principal Debt Obligations of Non-Consolidated Jointly-Controlled Entities and Associates*".

(4) See Note 33 to the 2010 Financial Statements.

(5) See Note 28 to the 2010 Financial Statements.

(6) See Note 29 to the 2010 Financial Statements.

(7) The Company is periodically required by the Government to make direct cash contributions or finance construction and repair works for the state budget, various Government agencies and projects administered by the Government. In 2010, such cash transfers and financing amounted to AZN 191 million and AZN 225 million, respectively. See "*Risk Factors—Risk Factors Relating to the Company—The Government, which directly controls the Company, may cause the Company to engage in business practices that may not be in the best interests of the Noteholders and may cause the appointment or removal of members of the Company's management team*".

(8) See Note 16 to the 2010 Financial Statements.

(9) See Note 17 to the 2010 Financial Statements.

Set-off of tax obligations

The Company is permitted to set-off tax obligations of entities within the Group against taxes overpaid by other Group entities.

Other State-owned Companies

Settlement terms with certain customers under Government control, including Azerenerji JSC ("**Azerenerji**"), the national electricity monopoly, and Azerbaijan Airlines JSC ("**Azal**"), the national airline, which are considered to be vital infrastructure assets of the state, are dictated by Government policy. For example, in 2008 and 2009, the Company received no payments from either Azerenerji or Azal. In 2010, pursuant to a Presidential Decree, the Company was instructed to fully write off any amounts due to it from Azerenerji or Azal. As a result, the Company recognised impairment losses of AZN 1,555 million, with respect to trade and other receivables due from Azernerji, and AZN 99 million, with respect to trade and other receivables due from Azal.

SOFAZ

SOFAZ is the Republic's state oil fund and is an extra-budgetary fund that functions as a separate legal entity from the Government. The rules under which it operates are set forth in the Constitution and laws of the Republic, by Presidential Decrees and Resolutions and its own internal regulations. SOFAZ is, in the first instance, accountable to the President of the Republic of Azerbaijan.

SOFAZ receives its income primarily from the Republic's share of revenues under PSAs. It funds various social and other projects in the Republic, including, *inter alia*, building housing and other social amenities for internally-displaced persons and refugees as a result of the conflict with Armenia, constructing the Oguz-Qabala-Baku water supply system, modernising the Samur-Absheron irrigation system, improving of the railways in Azerbaijan and financing the Republic's share in the BTC pipeline expansion project.

The Company and SOFAZ are managed independently. The Company and SOFAZ have entered into a number of transactions as counterparties (*e.g.*, SOFAZ purchased a single bond issued by AzACG to finance the acquisition of additional participating interest in the ACG PSA (see "*Management's Discussion and Analysis of Results of Operations and Financial Performance—Debt Obligations—Principal Debt Obligations of the Company and its Material Subsidiaries*")) and in an agent-principal capacity (*e.g.*, in exchange for a fee, the Company sells the Government's share of crude oil received under PSAs on behalf of the Government and transfers revenue in respect of such sales to SOFAZ).

REGULATION OF THE OIL AND GAS SECTOR IN AZERBAIJAN

General

Regulation of the oil and gas sector in Azerbaijan, in particular in respect of the Company is developing. "See "*Risk Factors—Risk Factors Relating to the Company's Business—The regulatory regime in Azerbaijan is underdeveloped*" and "*Relationship with the Government*". The applicability of certain laws and regulations of general application to the Company is unclear, but, in general, the Company has not been required to comply with certain laws and regulations applicable to other companies and entities operating in the oil and gas sector in Azerbaijan. The Company is, however, subject to pricing regulations imposed by the Government. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Government has imposed regulations and other requirements requiring the Company to sell oil, oil products and gas in the domestic market at below market prices*."

Licensing Requirements in the Oil and Gas Sector

Special Permits and Consents

The Law on Energy of 24 November 1998 (the "**Energy Law**") requires that an individual or legal entity wishing to engage in the exploration, exploitation, production, processing, storage, transportation, distribution or use of energy raw materials and products, including, *inter alia*, oil and natural gas, must obtain a permit and enter into an energy contract with the Ministry of Industry and Energy of the Republic. Pursuant to the Subsoil Law, local and foreign legal entities and individuals are allowed to use subsoil resources only in accordance with the terms and conditions of a special permit or consent issued to such entities by Government authorities.

Pursuant to Presidential Decree № 782 "On Improvement of Rules on Issuance of Special Consent (Licenses) for Some Types of Activities", dated 2 September 2002, the following activities are subject to Government licensing: (i) the sale of oil and gas products; (ii) the installation and operation of facilities for liquid and natural gas; (iii) mining and drilling works; and (iv) the transportation of dangerous goods by vehicles, which includes the transport of oil, certain oil products and gas by sea or on land.

The Law "On the List of Goods with Limited Circulation" of 23 December 2003 limits ownership of certain equipment principally used in and for the production and processing of oil, oil products and natural gas to certain persons who have obtained a special permit from the Ministry of Industry and Energy. Pursuant to Presidential Decree № 292 "On Additional Measures for Regulation of Circulation of Goods with Limited Circulation" of 12 September 2005 ("**Decree 292**"), a special permit for the circulation of goods may also be issued to state-owned enterprises and joint-stock companies in which the state is a controlling shareholder, in certain circumstances which are not specified in either the aforementioned law or Decree 292. As a result, these provisions are subject to interpretation and a practice in respect thereof has not yet been established. There is also doubt as to whether such permits are required for state-owned enterprises and joint-stock companies controlled by the Government.

Under its charter, the Company and its subsidiaries are entitled to engage in certain specified activities including the exploration, exploitation, production, processing, storage, transportation, distribution and use of oil and gas and related products without obtaining licences. Since the Company's charter is approved by the President of Azerbaijan, who in turn is authorised by law to determine licensing matters within Azerbaijan, the Company is deemed to be vested with all necessary licences without the need to obtain further licences.

Other Consents

The Law on Natural Monopolies of 15 December 1998 (the "**Monopolies Law**") governs relations among natural monopolies, consumers and Government authorities in relevant commodity markets. The Monopolies Law applies, *inter alia*, to entities, such as the Company, engaged in pipeline transportation of oil and natural gas, as well as to entities, such as the Company, engaged in the storage and distribution of natural gas. The Monopolies Law grants the regulator, the State Service for Antimonopoly Policy and Protection of Consumer's Rights of the Ministry of Economic Development, the powers to limit the power of monopolies by controlling prices, requiring mandatory service to customers, setting minimum volumes and limiting the volumes of production or sales. In addition, the regulator can limit the extension of monopolies into other industries by requiring companies subject to the Monopolies Law to request a consent prior to engaging in certain classes of transactions, including the acquisition of certain property rights over fixed assets exceeding certain value and intended for the production of goods not otherwise regulated by the Monopolies Law and investments in other activities and industries.

Applicability of licensing and permit requirements to SOCAR

The Constitution of the Republic of Azerbaijan 12 November 1995 states that, without prejudice to the rights and interests of any individuals or legal entities, natural resources belong to Azerbaijan. The same applies with regard to the state ownership over subsoil as provided for by the Law on Subsoil. Under Azerbaijan law, the President of Azerbaijan has considerable powers over the Company and the President is authorised to decide on all issues which are not reserved to the exclusive authority of legislative and judicial branches of power.

The initial charter of the Company was approved by a Presidential Decree of 14 November 1992, which was replaced by a new charter, restructuring the Company, on 5 April 1994. The latest charter of the Company was approved by a Presidential Decree of 24 January 2003, which clarified the management structure and status of the Company. The charter was last amended by Presidential Decrees of 22 April 2010, 1 September 2011 and 29 November 2011, which provided for certain structural changes and licence exemptions. These Decrees establish the Company's activities in respect of, among other things, the development, exploration and processing of oil and gas fields and the transportation, processing and sale of oil, gas, and condensate and related products. As a result, the Company's business activities are, both as a matter of Azerbaijani law and in practice, regulated by the content of the Decrees.

Provisions not currently applicable to SOCAR

It is currently believed that a variety of other laws and regulations that may, on their face, appear to apply to the Company do not, in fact, apply to the Company as a result of its special status and authorities granted by Presidential Decree. See "*Risk Factors—Risk Factors Relating to the Company's Business—Legal provisions currently believed to be inapplicable to the Company may, in the future, be deemed applicable to the Company*". Given the special legal status of PSAs, however, it is unclear what immediate impact, if any, the Company would experience in the event that these provisions were to be deemed applicable to the Company. See "*—Other regulatory requirements—PSAs*".

Set forth below is a description of several provisions that may, among others, be deemed applicable to the Company in the future.

- Presidential Decree № 310 "On Measures for Improving Issuance of Special Consents (Licences) for Certain Business Activities in the Republic of Azerbaijan" of 28 March 2000 exempts entities financed from the state budget from certain licensing requirements.

- The Energy Law establishes certain permit requirements, and the Presidential Decree on the implementation of the Energy Law gives the Ministry of Industry and Energy the authority to issue permits. However, no rules for the issuance of such permits have been published, and, as a result, the Company has never requested a permit under the Energy Law.

- The Presidential Decree implementing the Subsoil Law does not set out which Government authorities are responsible for the issuance of licenses or permits for the extraction of hydrocarbons. As a result, the Company has never requested a permit under the Subsoil Law.

PSAs

The exploration and production of oil and gas in Azerbaijan by entities other than the Company is conducted almost exclusively under PSAs concluded between private entities and the Company. Azerbaijani law does not regulate the procedure for entering into PSAs and does not set any requirements for the content of PSAs. However, in practice, all PSAs follow in general the same form, including provisions on the minimum obligatory work program of contractors, project management, operating company, personnel and training, use of land and facilities, taxation, production and sharing of petroleum, valuation of petroleum and natural gas and environmental protection, among other things. Upon conclusion all PSAs are ratified by the Parliament of the Republic and given the force of law prevailing over any conflicting provisions of current and future Azerbaijani law. In general, PSAs provide a favourable regime for contractors and sub-contractors allowing exemption from certain taxes and customs duties.

Allocation of Costs and Profits

Parties to a PSA are responsible for funding their participating interest share of costs related to operations in the contract area. The Parties to a PSA agree to recover costs and participate in profits on a conventional production sharing basis.

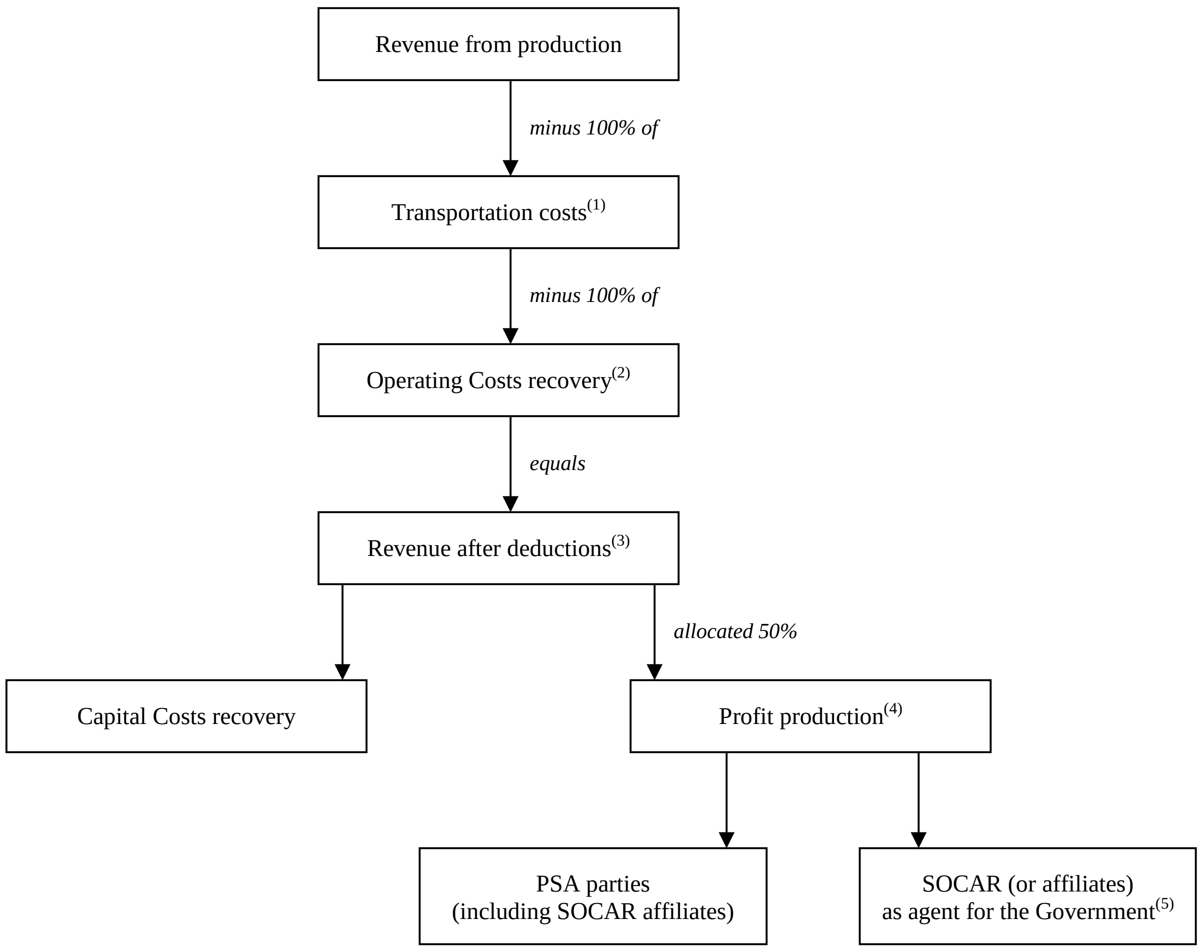
Production is divided into "cost recovery" production and "profit" production. The general formula is that the parties recover Operating Costs and Capital Costs (each, as defined below) out of a portion of production based on price, net of transportation costs, which is the cost recovery portion, and remaining production, the profit portion, is shared between the parties. The allocation of the profit portion amongst the various parties to a PSA, including SOCAR and the Government, varies according to, among other things, transportation costs and the parties' cumulative, after-tax real rate of return.

The amount of the cost recovery portion attributable to the parties' direct and indirect operating costs ("**Operating Costs**") and capital costs ("**Capital Costs**") is determined on a quarterly basis.

The total amount of production from a contract area less any production used in the operation of the project (the "**Total Production**") is first allocated to the recovery of the parties' Operating Costs. If Total Production is sufficient to cover 100% of the Operating Costs, then 50% of the remainder after recovery of operating costs is allocated to the recovery of Capital Costs. To the extent that the amount of cost recovery production in any single quarter is insufficient to allow recovery of the parties' cumulative, unrecovered Operating Costs and Capital Costs, the unrecovered balance of such costs is carried over into the next quarter together with financing charges calculated at an annual rate equal to the three-month LIBOR plus 4.0%.

For purposes of determining how profit production will be shared, the parties' cumulative rate of return is calculated on the basis of net cash flow, which is defined as total income from sales (adjusted for transportation costs) less the sum of all operating costs and capital costs, bonus payments made to SOCAR, as agent of the Government, and profit taxes paid under the PSA.

The following diagram illustrates the allocation of revenues under PSAs:



Notes:
(1) Includes transit fees, pipeline tariffs, quality adjustments and pipeline losses.
(2) Includes operational expenses for the current period, interest on unrecovered operational expenses for previous periods and unrecovered operational expenses from previous periods.
(3) Revenue is shared equally between capital cost recovery and profit oil.
(4) Distribution is according to the formula set out in the relevant PSA.
(5) Proceeds from these sales are transferred to SOFAZ.

Governance

All the parties to a PSA, except for AzACG under the ACG PSA, are referred to as "**Contractor Parties**". Pursuant to the relevant PSA, the Contractor Parties and the Company form a Steering Committee comprised of representatives of each of the Contractor Parties and an equal number of representatives of the Company. Generally, the relevant SOCAR entity does not have its own seat on a "**Steering Committee**". Each Steering Committee is charged with, among other things, oversight of operations and approval of annual work programmes and budgets. The Contractor Parties, as a group, for the relevant PSA and SOCAR are each entitled to one vote for decisions taken by the Steering Committee. All decisions of the Steering Committee require a unanimous vote. Deadlocked decisions, if not mutually resolved, are referred to arbitration. Each Steering Committee meets at least twice each year.

Operations are managed through annual work programmes and approved budgets, which must be submitted to a Steering Committee by the Contractor Parties at least three months prior to the beginning of each calendar year. The Annual Work Programmes and Budgets are subject to approval by the Steering Committee, failing which they are submitted to arbitration.

Under each PSA, the operator of the PSA may prepare and issue cash call invoices up to three times per month for periods covering, in general, ten days. Each request includes an estimate of cash requirements for the next two months. If any party fails to pay an invoice when due, then the party is in default. The operator must promptly give written notice of such default to such party and each of the non-defaulting parties. The amount not paid by the defaulting party shall bear interest from the date due until paid in full. Interest is generally assessed at LIBOR plus 4%. In the event the defaulting party fails to cure its default within 90 days, such forfeiture shall constitute an automatic forfeiture of the defaulting party's participating interest, which shall be deemed to have been transferred to the Contractor Parties.

The Contractor Parties are required under the PSA to make certain bonus payments to the Company, as agent for the Government, which are subsequently transferred to the Government.

Joint Operating Agreements

Each PSA requires that the Contractor Parties form a joint operating entity to act as operator for the contract area under a joint operating agreement (a "**JOA**"). Each JOA also governs the relationship among the Contractor Parties for the development of the contract area. Under the terms of each JOA, the Contractor Parties form a jointly-managed operating entity and may appoint an operator to assume responsibility for operations and management, which, in the case of the ACG PSA and the Shah Deniz PSA, is BP. The operations of the ACG Contract Area are also governed by a contractor management committee that consists of representatives from each Contractor Party, which have voting rights equal to their respective participating interests in the JOA.

Other regulatory requirements

Pre-emptive right

Under the Energy Law, the Republic has a pre-emptive right to purchase energy products (as set out in the Energy Law) under energy contracts in order to satisfy domestic demand. When exercising this pre-emptive right, the Republic is required to purchase the energy products at international market prices.

Price regulation

Price regulation in Azerbaijan is conducted by the Tariff Council, which is chaired by the Minister of Economic Development and composed of various deputy ministers and deputy heads of various state authorities. Ordinary meetings of the Tariff Council are conducted on a quarterly basis but members of the Tariff Council may request the convening of extraordinary meetings. The quorum for a meeting of the Tariff Council is satisfied when at least three-quarter of members participate in the meeting. The decisions of the Tariff Council are adopted by a simple majority of votes and the chairman of the Tariff Council has a casting vote.

The Tariff Council has the authority to regulate, among other things, domestic wholesale and retail prices of oil, oil products and gas and tariffs for services relating to the transportation of oil and natural gas through pipelines as well as storage and distribution of natural gas. The prices and tariffs for these goods and services have been prescribed by the Tariff Council. See "*Risk Factors—Risk Factors Relating to the Company's Business—The Government has imposed regulations and other requirements requiring the Company to sell oil, oil products and gas in the domestic market at below market prices*".

Special regimes and exemptions

The Company, as a company representing Azerbaijan in PSAs, pipeline agreements and other similar agreements, enjoys a number of exemptions from the regulatory requirements in connection with such projects, including VAT exempt supplies.

Furthermore, to promote and strengthen domestic oil and gas infrastructure, expertise, manpower and capacity, a special economic regime, to be in force for at least 15 years, has been set up in Azerbaijan concerning the export-orientated oil and gas services, which, however, specifically excludes any operations undertaken under PSAs, pipeline agreements and other similar agreements or operations carried on relating to domestic oilfields. On obtaining a permit from the Ministry of Industry and Energy, concerned entities (acting as contractors and subcontractors in the relevant operations and including, without limitation, joint ventures set-up with the participation of foreign investors) are entitled to a favourable tax regime with the right to apply either a 5% withholding tax or statutory profit tax to its profits and also to certain exemptions from VAT and customs duties. Additionally, such exporters are required to meet certain currency requirements (such as notification to the Central Bank of the offshore bank accounts) and local content obligations when staffing their operations.

Mandatory insurance

The Company is required to obtain and maintain insurance under applicable law, including: (i) occupational health and safety insurance; (ii) liability insurance for damage caused by potentially hazardous objects and installations (including various installations for the production of oil and gas); (iii) immovable property insurance; (iv) liability insurance for holders of immovable property; and (v) liability insurance for holders of motor vehicles. See "*Business—Insurance*".

The Ministry of Industry and Energy

The Ministry of Industry and Energy is the chief regulator in the oil and gas sector. It supervises and issues permits to entities and individuals wishing to engage in exploration, exploitation, production, processing, storage, transportation, distribution and use of energy materials and products, including, *inter alia*, oil and natural gas. Upon instruction of the President of Azerbaijan, the Ministry has the authority to: (i) prepare draft agreements on production of hydrocarbon resources, such as PSA; (ii) conduct negotiations in respect of such agreements; (iii) sign such agreements on behalf of the Government; and (iv) supervise the implementation thereof.

The State Agency for Alternative and Renewable Energy Sources was established under the Ministry of Industry and Energy on 16 July 2009. The agency is vested with the authority to promote the development of alternative and renewable energy in Azerbaijan.

Environmental compliance and ecological permits

The Company is subject to a variety of environmental laws in Azerbaijan, including, *inter alia*, regulations and requirements that govern air emissions, water use and disposal, waste management and impact on wildlife, as well as land use restrictions. A number of laws and codes regulate these areas of environmental protection. In addition, certain standards adopted in the Soviet era are still in force in Azerbaijan. The penalties for failing to comply with these obligations can be substantial, including fines or even suspension of permission to operate facilities that are not compliant with applicable environmental regulations.

The Law on Protection of Ambient Air of 2001 (the "**PAA Law**") provides that the emission of harmful substances into the air from stationary sources is permitted only if a special permit issued by the Ministry of Ecology and Natural Resources has been obtained. Under the PAA Law, the special permit establishes the level of permissible emissions and required mitigating measures that the permit holder must take. The PAA Law further provides that any emissions (or other impact on ambient air) conducted without a special permit and violation of the conditions of a special permit may result in restriction, suspension or termination of the violating activities. The PAA Law also prohibits flaring without the use of purification equipment.

The Ministry of Ecology and Natural Resources also has an authority to issue permits to drain waste water and prescribe maximum amount of waste water that can be drained by enterprises into water basins.

Azerbaijani law and various industry standards applicable in Azerbaijan also contain a number of requirements on the placement of drilling wells relative to various locations and objects such as water basins, roads, settlements, nature reserves, historical monuments and telecommunication lines and equipment.

Other Regulatory Authorities

Other governmental ministries and authorities which regulate aspects of hydrocarbon extraction in Azerbaijan include:

- *Ministry of Emergency Situations* — supervises safety of mining works and issues licenses for the installation and operation of liquid and natural gas facilities and the construction of, *inter alia*, drilling facilities, and is also responsible for the supervision of potentially hazardous objects including oil and gas extraction facilities;

- *Ministry of Ecology and Natural Resources* — responsible for environmental protection and preservation of natural resources;

- *Ministry of Health* — responsible for ensuring compliance with health standards;

- *State Committee for Standardisation, Metrology and Patents* — responsible for supervision over compliance of various equipment with applicable standards;

- *Ministry of Labour and Social Protection of Population* — responsible for investigating labour disputes and complaints from individual employees and which monitors compliance with the labour protection regulations;

- *State Migration Service* — issues work permits for foreigners employed in Azerbaijan;

- *Ministry of Taxes and State Customs Committee* — these bodies, together with regulations in the respective fields of taxes and international trade, are responsible for issuing certificates on exemption from value added tax and import duties for entities operating under PSAs in Azerbaijan;

- *State Service for the Register of Immovable Property* — responsible for the registration of title to and rights in immovable property;

- *Local executive authorities and municipalities* — responsible for the allocation of land plots;

- *Cabinet of Ministers* — takes decisions on the requisition of land required for laying oil and gas pipelines; and

- *State Maritime Administration* — keeps a registry of ships and determines the rules for carrying dangerous cargoes by sea.

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal or other amounts under the Notes and the consequences of such actions under the tax laws of those countries.

Except as otherwise indicated, this description only addresses tax legislation, as in effect and in force at the date hereof, without prejudice to any amendments introduced at a later date and implemented with or without retroactive effect.

Azerbaijan Taxation

The following is a summary of certain Azerbaijani tax considerations relevant to the purchase, ownership and disposition of Notes by non-resident and resident holders and does not purport to be a comprehensive discussion of the tax treatment of the Notes. The summary is based on the laws of Azerbaijan in effect as at the date of this Prospectus. The summary does not seek to address the availability of double tax treaty relief in respect of the Notes, or practical difficulties involved in obtaining such double tax treaty relief.

Prospective investors should consult their own tax advisers regarding the tax consequences of investing in the Notes in their own particular circumstances. No representation with respect to the Azerbaijani tax consequences to any particular holder is made hereby.

Many aspects of Azerbaijani tax law are subject to significant uncertainty. Further, the substantive provisions of Azerbaijani tax law applicable to financial instruments may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed capital markets and taxation systems. In this regard, the interpretation and application of such provisions will in practice rest substantially with Azerbaijani tax authorities.

For the purposes of this summary, a "non-resident" means (a) an individual actually present in Azerbaijan for an aggregate period of not more than 182 days in a given calendar year and not treated as an Azerbaijani tax resident for other reasons such as having citizenship, habitual abode, centre of vital interests or a permanent residence in Azerbaijan or (b) a legal person not organised and not carrying on entrepreneurial activity under Azerbaijani law or managed from Azerbaijan, which purchases holds and disposes of the Notes.

Non-resident holders

Payments of interest in relation to securities made by an Azerbaijani entity to non-resident individuals or legal persons are subject to Azerbaijani withholding tax at the rate of 10%. Given that payment of interest will be made through the Paying and Transfer Agents and Euroclear and Clearstream, Luxembourg and in the absence in international capital markets transactions of Azerbaijan issuers it could in practice, be difficult to prove to the local tax authorities that taxes in relation to interest have been withheld and to obtain benefit of any applicable double tax treaty relief.

A non-resident holder generally should not be subject to any Azerbaijani taxes in respect of redemption, sale or other disposition of the Notes outside of Azerbaijan, provided that (i) the proceeds of such disposition are not received from a source within Azerbaijan or (ii) income in relation to the Notes is not received through the activities of a permanent establishment of a non-resident holder in Azerbaijan.

In the event that the proceeds of the disposition of the Notes are received from a source within Azerbaijan, a non-resident holder should not be subject to Azerbaijani withholding tax in respect of the proceeds to the extent such disposition is not deemed a sale of goods in the territory of Azerbaijan (with respect to such classification of the disposition of the Notes we generally note that Azerbaijani tax authorities can adopt a view that Azerbaijani withholding tax shall apply to the payment of any disposition proceeds from a source within Azerbaijan), provided that no portion thereof is attributable to accrued interest. If any portion of such proceeds can be shown to be attributable to accrued interest, Azerbaijani withholding tax will be applied at a rate of 10% to such portion. Non-resident holders should consult their own tax advisers with respect to the possibility of such apportionment.

Resident holders

Payments of interest in relation to securities made by an Azerbaijani entity to resident individuals or legal persons are subject to Azerbaijani withholding tax at the rate of 10%. Tax so withheld can be credited against tax liability of resident legal entities; and in respect of individual residents shall fully discharge their tax liability. Given that payment of interest will be made through the Paying and Transfer Agents and Euroclear and Clearstream, Luxembourg and in the absence in international capital markets transactions of Azerbaijani issuers it could in practice, be difficult to prove to the local tax authorities that taxes in relation to interest have been withheld.

A Noteholder, who is an individual resident in Azerbaijan for tax purposes, or a resident legal entity, is subject to applicable Azerbaijani taxes in respect of gains from disposition of the Notes.

VAT

VAT is not applied to the rendering of financial services in relation to the Notes. Therefore, no VAT will be payable in Azerbaijan on any payment of interest or principal in respect of the Notes.

Inheritance taxes

A resident individual pays Azerbaijani personal income tax in respect of his/her world-wide income. A non-resident individual is liable to pay Azerbaijani personal income tax only in respect of Azerbaijani source income. Inheritance of the Notes will not be deemed Azerbaijani source income (subject to any contradictory position that could be taken by the tax authorities). Accordingly, Azerbaijani personal income tax should not apply to an inheritance of the Notes by non-resident individuals but apply to any inheritance of the Notes by resident individuals (as such inheritance will be included into the worldwide income of a resident).

Azerbaijani law provides for the following exemptions in relation to inheritances: (i) the first AZN 20,000 of any inheritance and (ii) inheritances from family members are fully exempt from tax.

EU Directive on the Taxation of Savings Income (Directive 2003/48/EC)

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**"), Member States are required to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person within its jurisdiction (a "paying agent") to or for an individual (or a non-corporate, "residual entity") in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

Also, a number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a "paying agent" within its jurisdiction to or for an individual in a Member State.

Investors should note that the European Commission has proposed amendments (COM (2008) 727) to the EU Savings Directive. These proposed amendments, if implemented, would extend the scope of the EU Savings Directive so as to treat a wider range of income as similar to interest and to bring payments made through a wider range of collective investment undertakings wherever established (including partnerships) within the scope of the EU Savings Directive. The timing of the implementation of these proposed amendments is not yet known nor is its possible application.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes which, subject to amendment and completion and except for the paragraphs in italics, will be endorsed on each Definitive Note Certificate (if issued).

The U.S.$500,000,000 5.45% Senior Unsecured Notes due 2017 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 17 (*Further Issues*) and forming a single series therewith) of State Oil Company of Azerbaijan Republic (the "**Issuer**") are (a) constituted by and subject to, and have the benefit of, a trust deed dated 9 February 2012 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and Deutsche Trustee Company Limited as trustee (the "**Trustee**", which expression includes all persons for the time being appointed as trustee for the holders of the Notes (the "**Noteholders**") under the Trust Deed) and (b) are the subject of a paying agency agreement dated 9 February 2012 (as amended or supplemented from time to time, the "**Paying Agency Agreement**") between the Issuer, the Trustee and Deutsche Bank AG, London Branch as principal paying and transfer agent (the "**Principal Paying and Transfer Agent**", which expression includes any successor principal paying and transfer agents appointed from time to time in connection with the Notes), the other paying and transfer agents named therein (together with the Principal Paying and Transfer Agent, the "**Paying and Transfer Agents**", which expression includes any successor or additional paying and transfer agents appointed from time to time in connection with the Notes), and Deutsche Bank Luxembourg S.A., in its capacity as Registrar (the "**Registrar**", which expression shall include any successor registrar appointed from time to time in connection with the Notes).

Certain provisions of these Conditions are summaries of the Trust Deed and the Paying Agency Agreement and are subject to their detailed provisions. The Noteholders are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Paying Agency Agreement applicable to them. Copies of the Trust Deed and the Paying Agency Agreement are available for inspection during normal business hours at the Specified Offices (as defined in the Paying Agency Agreement) of the Principal Paying and Transfer Agent and the Paying and Transfer Agents. Copies are also available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the date hereof, Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom.

1. DEFINITIONS

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Agreements**" means the Paying Agency Agreement and the Trust Deed;

"**Audited Financial Statements**" means the audited consolidated financial statements of the Issuer as at and for the year ended 31 December 2010;

"**Auditors**" means Ernst & Young Holdings (CIS) B.V. or, if they are unable or unwilling to carry out any action requested of them under the Agreements, such other internationally recognised firm of accountants as may be nominated in writing by the Issuer and failing such nomination, as may be nominated by the Trustee;

"**Authorised Signatory**" means, in relation to the Issuer, any Person who is duly authorised and in respect of whom the Trustee has received a certificate or certificates signed by a director or another Authorised Signatory of the Issuer setting out the name and signature of such Person and confirming such Person's authority to act;

"**Azerbaijan**" means the Republic of Azerbaijan;

"business day" has the meaning ascribed to it in Condition 8(h) (*Business Days*);

"**Capital Stock**" of any Person means any and all shares, interests (including partnership interests), rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity;

"**Consolidated Tangible Net Worth**" means, at any date of determination, with respect to the Issuer and its Subsidiaries determined on a consolidated basis in accordance with IFRS, the aggregate of:

(i) the amount paid up or credited as paid up on the Issuer's charter capital; and

(ii) the amount otherwise standing to the credit of its equity, based on its latest consolidated balance sheet but adjusted by:

(A) adding any amount standing to the credit of its profit and loss account for the period ending on the date of the Original Financial Statements or, as the case may be, the financial statements delivered to the Trustee pursuant to Condition 6(e)(i) or 6(e)(ii) (Financial Information) to the extent not included in paragraph (ii) above;

(B) deducting any dividend or other distribution declared or payable by the Issuer;

(C) deducting any amount standing to the debit of its profit and loss account for the period ending on the date of the Original Financial Statements or, as the case may be, the financial statements delivered to the Trustee pursuant to Condition 6(e)(i) or 6(e)(ii) (Financial Information);

(D) deducting any amount attributable to goodwill and intangible assets;

(E) deducting any amount attributable to any upward revaluation of assets after the date of the Original Financial Statements;

(F) reflecting any variation in the amount of its charter capital, additional paid-in capital and retained earnings, by deducting the amount of any negative change and adding the amount of any positive change taking place during the period from the date of the Original Financial Statements or, as the case may be, the financial statements delivered to the Trustee pursuant to Condition 6(e)(i) or 6(e)(ii) (Financial Information); and

(G) excluding any amount attributable to deferred tax assets;

"**Consolidated Total Assets**" means, at any date of determination, the amount of the consolidated total assets of the Group, as shown in the Original Financial Statements or, as the case may be, the financial statements most recently delivered to the Trustee pursuant to Condition 6(e)(i) or 6(e)(ii) (*Financial Information*);

"**control**" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "**controlling**" and "**controlled**" have meanings correlative to the foregoing;

"**Core Assets**" has the meaning ascribed to such term in the Prospectus;

"**Event of Default**" has the meaning assigned to such term in Condition 12 (*Events of Default*) hereof;

"**Extraordinary Resolution**" has the meaning assigned to such term in the Trust Deed;

"**Group**" means the Issuer and its Subsidiaries from time to time taken as a whole and "**a member of the Group**" means the Issuer or any of its Subsidiaries, from time to time;

"**IFRS**" means International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board ("**IASB**") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time), consistently applied but ignoring any variation therefrom which is not material;

"**Incur**", "**Incurred**" and "**Incurrence**" means issue, assume, guarantee, incur or otherwise become liable for; *provided*, *however*, that any Indebtedness of a Person existing at the time such Person becomes a Subsidiary of the Issuer (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Person at the time it becomes a Subsidiary of the Issuer and the term "**Incurrence**" when used as a noun shall have a correlative meaning.

"**Indebtedness**" means any obligation (whether Incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;

"**Indebtedness for Borrowed Money**" means, any Indebtedness of any Person for or in respect of (i) moneys borrowed, (ii) amounts raised by acceptance under any acceptance credit facility, (iii) amounts raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or similar instruments, (iv) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with generally accepted accounting standards in the jurisdiction of incorporation of the lessee, be treated as finance or capital leases, (v) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred primarily as a means of raising finance or financing the acquisition of the relevant asset or service or (vi) amounts raised under any other transaction (including any forward sale or purchase agreement and the sale of receivables or other assets on a "with recourse" basis) having the commercial effect of a borrowing;

"**Indebtedness Guarantee**" means in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation) (i) any obligation to purchase such Indebtedness, (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness, (iii) any indemnity against the consequences of a default in the payment of such Indebtedness and (iv) any other agreement to be responsible for repayment of such Indebtedness;

"**Interest Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date;

"**Issue Date**" means the date on which the Notes have been issued;

"**Material Adverse Effect**" means a material adverse effect on (a) the business, property, condition (financial or otherwise), operations or prospects of the Group (taken as a whole), (b) the Issuer's ability to perform its obligations under the Notes or the Agreements or (c) the validity, legality or enforceability of the Notes or any Agreement;

"**Material Subsidiary**" means any Subsidiary of the Issuer that has either (i) assets which constitute 5% or more of the total assets of the Issuer and its Subsidiaries on a consolidated basis as at the later of the date of the Original Financial Statements and the date of the financial statements most recently delivered to the Trustee pursuant to Condition 6(e)(i) or 6(e)(ii) (*Financial Information*) or (ii) adjusted profit which accounts for 5% or more of the consolidated adjusted profit of the Issuer for the period covered by the Original Financial Statements or as the case may be, the period covered by the financial statements most recently delivered to the Trustee pursuant to Condition 6(e)(i) or 6(e)(ii) (*Financial Information*) and for which purpose the adjusted profit of a Subsidiary or the Issuer, as the case may be, shall be its profit before income tax excluding extraordinary items, the cumulative effect of accounting changes and profit attributable to non-controlling interests;

"**Officers' Certificate**" means a certificate signed by an Authorised Signatory of the Issuer;

"**Original Financial Statements**" means the unaudited interim reviewed consolidated financial statements of the Issuer as at and for the six months ended 30 June 2011;

"**Permitted Security Interest**" means:

(i) any Security Interest existing as at the Issue Date;

(ii) any Security Interest granted in favour of the Issuer or any Material Subsidiary;

(iii) any Security Interest on property acquired (or deemed to be acquired) under a financial lease, or claims arising from the use or loss of or damage to such property; provided, however, that any such Security Interest secures only rents and other amounts payable under such lease;

(iv) any Security Interest securing Indebtedness for Borrowed Money of a Person existing at the time that such Person is merged into or consolidated with the Issuer or a Material Subsidiary or becomes a Material Subsidiary; provided, however, that such Security Interest was not created in contemplation of such merger or consolidation or event and does not extend to any assets or property of the Issuer already existing or any Material Subsidiary other than those of the surviving Person and its Subsidiaries or the Person acquired and its Subsidiaries;

(v) any Security Interest already existing on assets or property acquired or to be acquired by the Issuer or any Material Subsidiary; provided, however, that such Security Interest was not created in contemplation of such acquisition and does not extend to any other assets or property (other than proceeds of such acquired assets or property);

(vi) any Security Interest granted upon or with regard to any property hereafter acquired or constructed in the ordinary course of business by any member of the Group to secure the purchase price of such property or to secure Indebtedness for Borrowed Money Incurred solely for the purpose of financing the acquisition of such property and transactional expenses related to such acquisition and repairs related to such property; provided, however, that the maximum amount of Indebtedness for Borrowed Money thereafter secured by such Security Interest does not exceed the purchase price of such property (including transactional expenses) or the Indebtedness for Borrowed Money Incurred solely for the purpose of financing the acquisition of such property and related transactional expenses and the relevant Security Interest only extends to the property acquired;

(vii) any Security Interest arising by operation of law and in the ordinary course of business;

(viii) any Security Interest arising from any judgment, decree or other order which does not constitute an Event of Default under these Conditions;

(ix) a right of set-off, right to combine accounts or any analogous right which any bank or other financial institution may have relating to any credit balance of any member of the Group;

(x) any Security Interest granted in favour of a Person providing Project Financing if the Security Interest is solely on the property, income, assets or revenues of the project for which the financing was Incurred provided, however, (i) such Security Interest is created solely for the purpose of securing Indebtedness for Borrowed Money Incurred by the Issuer or a Subsidiary of the Issuer in compliance with Condition 6(c) (Negative Pledge) no such Security Interest shall extend to any other property, income assets or revenues of the Issuer or any Material Subsidiary or their respective Subsidiaries;

(xi) any other Security Interest securing Indebtedness for Borrowed Money if at the time of Incurrence of such Indebtedness for Borrowed Money, such Indebtedness for Borrowed Money together with the aggregate principal amount of other Indebtedness for Borrowed Money secured by such Security Interest does not exceed in the aggregate 20% of the Consolidated Total Assets at any one time outstanding and for the avoidance of doubt, this paragraph (xi) does not include any Security Interest referred to in paragraphs (i) to (x) above; and

(xii) any Security Interest arising out of the refinancing, extension, renewal or refunding of any Indebtedness for Borrowed Money secured by a Security Interest permitted by any of the above exceptions, provided, however, that the Indebtedness for Borrowed Money thereafter secured by such Security Interest does not exceed the amount of the original Indebtedness for Borrowed Money and such Security Interest is not extended to cover any property not previously subject to such Security Interest;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, unincorporated organisation, trust or other judicial entity, including, without limitation, any state or agency of a state or other entity, whether or not having separate legal personality;

"**Potential Event of Default**" means any event or circumstance which would with the giving of notice, the expiry of a grace period, the making of any determination or any combination of the foregoing become an Event of Default;

"**Preferred Stock**" as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of any other class of Capital Stock of such Person;

"**Project Financing**" means any financing of all or part of the costs of the acquisition, construction or development of any asset or project if (i) the revenues derived from or the proceeds of insurance on such asset or project are the principal source of repayment for the monies advanced and (ii) the Person or Persons providing such financing have been provided with a feasibility study prepared by competent independent experts on the basis of which it is reasonable to conclude that such project would generate sufficient operating income to service the Indebtedness Incurred in connection with such project;

"**Prospectus**" means the Issuer's prospectus relating to the Notes dated 7 February 2012;

"**Rating Agency**" means Moody's Investors Service Limited ("**Moody's**"), Fitch Ratings Ltd. ("**Fitch**") or Standard & Poor's Credit Market Services Europe Limited, a subsidiary of The McGraw-Hill Companies, Inc. ("**S&P**") or any of their successors or any rating agency substituted for any of them (or any permitted substitute of them) by the Issuer, from time to time, with the prior written approval of the Trustee;

"**Security Interest**" means any mortgage, pledge, encumbrance, easement, restriction, covenant, right-of-way, servitude, lien, charge or other security interest or adverse claim of any kind (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease in the nature thereof);

"**Stock Exchange**" means the London Stock Exchange plc or such other stock exchange on which the Notes may be listed;

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**") (i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise or (ii) whose financial statements are, in accordance with applicable law and IFRS, consolidated with those of the first Person; and

"**taxes**" means any taxes (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) which are now or hereafter imposed, levied, collected, withheld or assessed by any taxing authority.

2. FORM, DENOMINATION AND TITLE

(a) Form and denomination

The Notes are in registered form, serially numbered.

The Notes will be issued in minimum denominations of U.S.$200,000 or any amount in excess thereof which is an integral multiple of U.S.$1,000 (each, an "**Authorised Holding**").

(b) Title

Title to the Notes will pass by transfer and registration as described in Conditions 3 (*Registration*) and 4 (*Transfer of Notes*). The holder (as defined in Condition 1 (*Definitions*)) of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or any other interest in it, any writing thereon by any Person (as defined in Condition 1 (*Definitions*)) (other than a duly executed transfer thereof in the form endorsed thereon) or any notice of any previous theft or loss thereof; and no Person will be liable for so treating the holder.

*A certificate in definitive form (a "**Definitive Note Certificate**") will be issued to each Noteholder in respect of its registered holding.*

*The Notes will be represented by a global registered note certificate (the "**Global Certificate**"), interests in which will be exchangeable for Definitive Note Certificates in the circumstances specified in the Global Certificate. The Global Certificate will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank SA/NV and Clearstream Banking, société anonyme.*

(c) Third party rights

No Person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

3. REGISTRATION

The Issuer will cause a register (the "**Register**") to be kept at the Specified Office of the Registrar and maintained by the Registrar in accordance with the Paying Agency Agreement.

4. TRANSFER OF NOTES

(a) Transfer

Each Note may, subject to the terms of the Paying Agency Agreement and to Conditions 4(b) (*Formalities Free of Charge*), 4(c) (*Closed Periods*) and 4(d) (*Regulations Concerning Transfer and Registration*), be transferred in whole or in part in an Authorised Holding by lodging the relevant Definitive Note Certificate (with the endorsed form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the Specified Office of the Registrar or any Paying and Transfer Agent. A Note may be registered only in the name of, and transferred only to, a named person or persons. No transfer of a Note will be valid unless and until entered on the Register.

The Registrar will within five business days of any duly made application for the transfer of a Note, register the transfer and deliver a new Definitive Note Certificate to the transferee (and, in the case of a transfer of part only of a Note, deliver a Definitive Note Certificate for the untransferred balance to the transferor), at the Specified Office of the Registrar, or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Definitive Note Certificate by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

(b) Formalities Free of Charge

Such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith, (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar and the Trustee.

(c) Closed Periods

Neither the Issuer nor the Registrar will be required to register the transfer of any Note (or part thereof) during the period of 15 days immediately prior to the due date for any payment of principal or interest in respect of the Notes.

(d) Regulations Concerning Transfer and Registration

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Paying Agency Agreement. The regulations may be changed by the Issuer to reflect changes in legal requirements or in any other manner which is not prejudicial to the interests of Noteholders with the prior approval of the Registrar (such approval not to be unreasonably withheld or delayed) and the Trustee.

(e) Authorised Holdings

No Note may be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a holder are being transferred) the principal amount of the balance of the Notes not transferred are Authorised Holdings.

5. STATUS

The Notes constitute direct, general, unconditional, unsubordinated and unsecured obligations of the Issuer. The Notes will at all times rank *pari passu* among themselves and at least *pari passu* in right of payment with all other present and future unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

6. COVENANTS

So long as any amount remains outstanding under the Notes:

(a) **Limitation on Distributions of Net Income**

(i) The Issuer will not pay any dividends, in cash or otherwise, or make any other distribution of any sort (whether by way of redemption, acquisition or otherwise) in respect of its share capital or by way of management or other similar fees payable to its direct or indirect shareholders at any time when there exists an Event of Default or a Potential Event of Default or where such payment or other distribution would result in an Event of Default or a Potential Event of Default.

(ii) The Issuer will not permit any Material Subsidiary to pay any dividends or other distributions in respect of any series of charter or share capital of such Material Subsidiary unless such dividends or distributions are paid on a *pro rata* basis to all holders thereof or such dividends or distributions are paid on a basis that results in the Issuer or a Material Subsidiary receiving dividends or other distributions of greater value than would result from them being paid on a *pro rata* basis.

(b) **Limitation on Disposals of Core Assets**

The Issuer will not, and will not permit any Material Subsidiary to, sell, lease, transfer or otherwise dispose of any Core Asset (in a single transaction or in a series of related transactions (including any disposition by means of a merger, consolidation or similar transaction) and whether by a disposition of any shares of Capital Stock of a Material Subsidiary or a disposition of any other assets of the Issuer or any Material Subsidiary). This Condition 6(b) (*Limitation on Disposals of Core Assets*) shall not apply to (i) transfers of assets between or among the Issuer and any of its Subsidiaries or (ii) any upgrade of all or any part of a Core Asset or any replacement of all or any part of a Core Asset which is obsolete, in disrepair or otherwise due for replacement, in either case, with an asset of equivalent value and use.

(c) **Negative Pledge**

The Issuer shall not, and shall not permit any of its Subsidiaries to, create, Incur, assume or permit to arise or subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of the undertakings, assets or revenues, present or future, of the Issuer or any Material Subsidiary to secure any Indebtedness for Borrowed Money or any Indebtedness Guarantee in respect of any Indebtedness for Borrowed Money unless, at the same time or prior thereto, the Issuer's obligations under the Trust Deed and the Notes are secured equally and rateably therewith (to the satisfaction of the Trustee) or have the benefit of such other arrangement as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders or as the Trustee in its discretion shall deem to be not materially less beneficial to the Noteholders.

(d) **Minimum Tangible Net Worth**

The Issuer shall ensure that at all times the Consolidated Tangible Net Worth of the Group equals or exceeds U.S.$3,000,000,000.

(e) **Financial Information**

(i) The Issuer shall deliver to the Trustee as soon as they become available, but in any event within 190 days after the end of each of its financial years, a copy of the Issuer's consolidated financial statements for such financial year.

(ii) The Issuer shall as soon as the same become available, but in any event within 120 days following the end of each first half year of each of its financial years, deliver to the Trustee the Issuer's consolidated financial statements for such period.

(iii) The Issuer hereby undertakes that it will deliver to the Trustee, without undue delay, such additional information regarding the financial position or the business of the Issuer or any of its Subsidiaries as the Trustee may reasonably request, including providing certification according to the Trust Deed.

(iv) The Issuer shall ensure that each set of consolidated financial statements delivered by it pursuant to this Condition 6(e) is:

(A) in the case of the statements provided pursuant to Condition 6(e)(i) prepared generally on the same basis as was used in the preparation of the Audited Financial Statements (including with respect to presentation of prior periods) and in accordance with IFRS; or

(B) in the case of the statements provided pursuant to Condition 6(e)(ii) prepared generally on the same basis as was used in the preparation of the Original Financial Statements (including with respect to presentation of prior periods) and in accordance with IFRS; and

(C) accompanied by notes to the statements and in the case of the statements provided pursuant to Condition 6(e)(i), the audit opinion of the Auditors or, in the case of the statements provided pursuant to Condition 6(e)(ii), the review report of the Auditors and certified by an Authorised Signatory of the Issuer to the effect that the information with respect to the Group included in such statements presents fairly, in all material respects, in accordance with IFRS, the financial position of the Group as at the end of the period to which those statements relate and its financial performance and cash flows for the period then ended.

(v) The Issuer undertakes to furnish to the Trustee such information as the Regulated Market of the Stock Exchange (or any other or further stock exchange or stock exchanges or any relevant authority or authorities on which the Notes may, from time to time, be listed or admitted to trading) may require as necessary in connection with the listing or admission to trading on such stock exchange or relevant authority of such instruments.

(f) **Maintenance of Authorisations**

(i) The Issuer shall, and shall procure that each of the Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things necessary, in the opinion of the Issuer or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and/or operations; and

(ii) The Issuer shall, and shall procure that each of the Material Subsidiaries shall, take all necessary action to obtain, and do or cause to be done all things necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may in any such case at any time be required to be obtained or made in any relevant jurisdiction for the execution, delivery or performance of the Notes and the Agreements or for the validity or enforceability thereof.

(g) **Mergers and Consolidations**

The Issuer will not, directly or indirectly, in a single transaction or a series of related transactions, enter into any reorganisation (whether by way of a merger, accession, division, separation or transformation, as these terms are construed by applicable legislation or otherwise), participate in any other type of corporate reconstruction (in each case, a "**reorganisation**") unless:

(A) the Issuer will be the surviving or continuing Person; and

(B) immediately prior to and immediately after giving effect to such reorganisation and the Incurrence of any Indebtedness to be Incurred in connection therewith, and the use of any net proceeds therefrom on a *pro forma* basis, no Event of Default or Potential Event of Default shall have occurred and be continuing; and

(C) immediately prior to and immediately after giving effect to such reorganisation, the Issuer and its Subsidiaries would be permitted to Incur, directly or indirectly, further Indebtedness pursuant to and in accordance with Condition 6(c) (*Negative Pledge*).

(h) **Officers' Certificates**

(i) Within 14 days of any request by the Trustee, the Issuer shall deliver to the Trustee written notice in the form of an Officers' Certificate stating whether any Potential Event of Default or Event of Default or Change of Status has occurred and, if it has occurred and shall be continuing, what action the Issuer is taking or proposes to take with respect thereto and that the Issuer has complied with its obligations under the Trust Deed.

(ii) The Issuer will at the same time as delivering the financial statements pursuant to Condition 6(e)(i) and 6(e)(ii) (*Financial Information*) and within 30 days of a request from the Trustee, deliver to the Trustee an Officers' Certificate specifying those of its Subsidiaries which were, at a date no more than 20 days before the date of such Officers' Certificate, Material Subsidiaries.

(iii) Following the occurrence of any matter or event specified in Condition 12(h) (*Maintenance of Business*) or the Trust Deed where such Condition or the Trust Deed provide for a determination of whether such matter or event has or will have a Material Adverse Effect, the Issuer, at the request of the Trustee, shall provide the Trustee with an Officers' Certificate certifying whether such matter or event has or will have a Material Adverse Effect and setting out such additional information as may be required to support such determination. The Trustee shall be entitled to rely solely on an Officers' Certificate from the Issuer, certifying whether or not such matter has or will have a Material Adverse Effect.

7. INTEREST

(a) **Interest Accrual**

Each Note bears interest from 9 February 2012 (the "**Issue Date**") at the rate of 5.45% per annum (the "**Rate of Interest**") payable semi-annually in arrear on 9 February and 9 August in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 8 (*Payments*).

(b) **Cessation of Interest**

Each Note will cease to bear interest from the due date for final redemption unless, upon due surrender of the relevant Note, payment of principal is improperly withheld or refused. In such case it will continue to bear interest at such rate (after as well as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment) in accordance with Condition 15 (*Notices*).

(c) **Calculation of Interest for an Interest Period**

The amount of interest payable in respect of each Note for any Interest Period shall be calculated by applying the Rate of Interest to the principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

(d) **Calculation of Interest for any other period**

If interest is required to be calculated for any period other than an Interest Period, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

The determination of the amount of interest payable under Conditions 7(c) (*Calculation of Interest for an Interest Period*) and 7(d) (*Calculation of Interest for any other period*) by the Principal Paying Agent shall, in the absence of manifest error, be binding on all parties.

8. PAYMENTS

(a) Principal

Payment of principal in respect of each Note and payment of interest due other than on an Interest Payment Date will be made to the person shown in the Register at the close of business on the Record Date (as defined below) and subject to the surrender (or, in the case of part payment only, endorsement) of the relevant Definitive Note Certificate at the Specified Office of the Registrar or of the Paying and Transfer Agents.

(b) Interest

Payments of interest due on an Interest Payment Date will be made to the persons shown in the Register at close of business on the Record Date.

(c) Record Date

"**Record Date**" means the fifteenth day before the due date for the relevant payment.

(d) Payments

Each payment in respect of the Notes pursuant to Conditions 8(a) (*Principal*) and 8(b) (*Interest*) will be made by United States dollar cheque drawn on a branch of a bank in New York mailed to the holder of the relevant Note at his address appearing in the Register. However, upon application by the holder to the Specified Office of the Registrar or any Paying and Transfer Agent not less than 15 days before the due date for any payment in respect of a Note, such payment may be made by transfer to a United States dollar account maintained by the payee with a bank in New York.

Where payment is to be made by cheque, the cheque will be mailed, on the business day preceding the due date for payment or, in the case of payments referred to in Condition 8(a) (*Principal*), if later, on the business day on which the relevant Definitive Note Certificate is surrendered (or endorsed as the case may be) as specified in Condition 8(a) (*Principal*) (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder).

Where payment is to be made by transfer to a United States dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated, in the case of principal, on the later of the due date for payment and the day on which the relevant Definitive Note Certificate is surrendered (or, in the case of part payment only, endorsed) and, in the case of interest and other amounts on the due date for payment.

(e) Agents

The names of the initial Paying and Transfer Agents and Registrar and their Specified Offices are set out below. The Issuer reserves the right under the Paying Agency Agreement by giving to the Principal Paying and Transfer Agent and any other Agent concerned at least 60 days' prior written notice, which notice shall expire at least 30 days before or after any due date for payment in respect of the Notes, to remove any Paying and Transfer Agent or the Registrar and to appoint successor or additional Paying and Transfer Agents or another Registrar, provided that it will at all times maintain:

(i) a Principal Paying and Transfer Agent;

(ii) Paying and Transfer Agents in at least two major European cities approved by the Trustee;

(iii) a Paying and Transfer Agent with a Specified Office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Union Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments or any law implementing or complying with, or introduced in order to conform to, such Directive;

(iv) a Paying and Transfer Agent in a jurisdiction other than Azerbaijan; and

(v) a Registrar.

Notice of any such removal or appointment and of any change in the Specified Office of any Paying and Transfer Agent or Registrar will be given to Noteholders in accordance with Condition 15 (*Notices*) as soon as practicable.

(f) **Payments subject to Fiscal Laws**

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 10 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(g) **Delay in Payment**

Noteholders will not be entitled to any interest or other payment in respect of any delay in payment resulting from (i) the due date for payment not being a business day or (ii) a cheque mailed in accordance with this Condition 8 (*Payments*) arriving after the due date for payment or being lost in the mail.

(h) **Business Days**

In these Conditions, "**business day**" means any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in New York and, in the case of surrender of a Definitive Note Certificate, in the place of the Specified Office of the Registrar or relevant Paying and Transfer Agent, to whom the relevant Definitive Note Certificate is surrendered.

9. REDEMPTION AND PURCHASE

(a) **Scheduled redemption**

Unless previously redeemed or purchased and cancelled as provided below, each Note will be redeemed at its principal amount on 9 February 2017, subject as provided in Condition 8 (*Payments*).

(b) **Redemption for Taxation Reasons**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 15 (*Notices*) (which notice shall be irrevocable) at their principal amount, together with interest accrued to (but excluding) the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(i) it has or will become obliged to pay additional amounts as provided or referred to in Condition 10 (*Taxation*), to any greater extent than would have been required had such a payment been required to be made on 9 February 2012, as a result of any change in, or amendment to, the laws or regulations of Azerbaijan or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 9 February 2012; and

(ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee an Officers' Certificate stating that the obligation referred to in (ii) above cannot be avoided by the Issuer taking reasonable measures available to it and an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. The Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above in which event it shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice as is referred to in this Condition 9(b) (*Redemption for Taxation Reasons*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 9(b) (*Redemption for Taxation Reasons*).

(c) **Redemption upon a Change of Status**

If at any time while any Note remains outstanding a Change of Status occurs, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer redeem such Note on the Optional Redemption Date(s) at 100% of its principal amount together with (or, where purchased, together with an amount equal to) interest accrued to but excluding the Change of Status Put Date (as defined below).

Such option (the "**Change of Status Put Option**") shall operate as set out below.

If a Change of Status occurs then, within 14 days of the occurrence of the Change of Status, the Issuer shall, and upon the Trustee becoming so aware (the Issuer having failed to do so) the Trustee may and, if so requested by the holders of at least one-fifth in principal amount of the Notes then outstanding, shall, give notice (a "**Change of Status Notice**") to the Noteholders in accordance with Condition 15 (*Notices*) specifying the nature of the Change of Status and the procedure for exercising the Change of Status Put Option.

To exercise the Change of Status Put Option, a holder of Notes must deliver at the Specified Office of any Paying and Transfer Agent on any business day falling within the period commencing on the occurrence of a Change of Status and ending 90 days after such occurrence or, if later, 90 days after the date on which the Change of Status Notice is given to Noteholders as required by this Condition 9(c) (*Redemption upon a Change of Status*) (the "**Change of Status Put Period**"), a duly signed and completed notice of exercise in the form (for the time being current and which may, if the certificate for such Notes is held in a clearing system, be any form acceptable to the clearing system delivered in any manner acceptable to the clearing system) obtainable from any Specified Office of any Paying and Transfer Agent (a "**Change of Status Put Option Notice**") and in which the holder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition accompanied by the certificate for such Notes or evidence satisfactory to the Paying and Transfer Agent concerned that the certificate for such Notes will, following the delivery of the Change of Status Put Option Notice, be held to its order or under its control.

The Issuer shall at its option redeem or purchase (or procure the purchase of) the Notes the subject of each Change of Status Put Option Notice on the date (the "**Change of Status Put Date**") seven days after the expiration of the Change of Status Put Period unless previously redeemed or purchased and cancelled. A Change of Status Put Option Notice given by a holder of any Note shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the Change of Status Put Option Notice.

For the purposes of this Condition 9(c) (*Redemption upon a Change of Status*) a "**Change of Status**" will be deemed to have occurred upon the occurrence of any of the following:

(i) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that Azerbaijan and/or any state agencies of Azerbaijan appropriately authorised to hold the shares of the Issuer ceases to own and control (directly or indirectly) all of the charter capital and any issued share capital of the Issuer; or

(ii) any change in applicable laws the result of which is that the Issuer ceases to act as the Government of the Republic of Azerbaijan's agent in relation to (A) existing domestic production sharing agreements or (B) future domestic production sharing agreements, *provided that* (in the case of (B) above only) a Change of Status will not be deemed to have occurred if the Issuer does not act as the Government of the Republic of Azerbaijan's agent in relation to one future domestic production sharing agreement per calendar year.

(d) **Purchase**

The Issuer may at any time purchase or procure others to purchase for its account Notes in the open market or otherwise and at any price. The Notes so purchased may be held or resold (provided that such resale is outside the United States and is otherwise in compliance with all applicable laws) or surrendered for cancellation at the option of the Issuer or otherwise, as the case may be in compliance with Condition 9(e) (*Cancellation of Notes*) below. The Notes so purchased, while held by or on behalf of the Issuer, shall not entitle the holder to vote at any meeting of the Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Noteholders or for the purposes of Condition 14(a) (*Meetings of Noteholders*). Any purchase by tender shall be made available to all Noteholders alike.

(e) **Cancellation of Notes**

All Notes which are redeemed pursuant to Conditions 9(b) (*Redemption for Taxation Reasons*) to Condition 9(c) (*Redemption upon a Change of Status*) or submitted for cancellation pursuant to Condition 9(d) (*Purchase*) will be cancelled and may not be reissued or resold. For so long as the Notes are admitted to trading on the Stock Exchange and the rules of such exchange so require, the Issuer shall promptly inform the Stock Exchange of the cancellation of any Notes under this Condition 9(e) (*Cancellation of Notes*).

10. TAXATION

(a) All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or within Azerbaijan or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note:

(i) **Other Connection**

presented for payment by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with Azerbaijan other than the mere holding of the Note;

(ii) **Presentation more than 30 days after the Relevant Date**

where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on surrendering such Definitive Note Certificate for payment on the last day of such period of 30 days;

(iii) **Payment to Individuals**

where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Union Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(iv) **Payment by another Paying and Transfer Agent**

where (in the case of a payment of principal or interest on redemption) the relevant Definitive Note Certificate is surrendered for payment by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by surrendering the relevant Definitive Note Certificate to another Paying and Transfer Agent in a Member State of the European Union.

For the purposes of this Condition 10(a):

"**Relevant Date**" means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received in New York by the Principal Paying and Transfer Agent or the Trustee on or prior to such due date, the date on which, the full amount plus any accrued interest having been so received, notice to that effect shall have been given to the Noteholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition or any undertaking given in addition to or substitution for it under the Trust Deed.

(b) **Taxing jurisdiction**

If the Issuer becomes subject at any time to any taxing jurisdiction other than Azerbaijan, references in this Condition 10 (*Taxation*) to Azerbaijan shall be construed as references to Azerbaijan and/or such other jurisdiction.

11. PRESCRIPTION

Claims in respect of principal and interest will become void unless the relevant Definitive Note Certificate is surrendered for payment as required by Condition 8 (*Payments*) within a period of ten years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

12. EVENTS OF DEFAULT

The Trustee at its discretion may, and if so requested in writing by the holders of not less than one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution (subject to being indemnified, prefunded or secured to its satisfaction) shall, give notice to the Issuer that the Notes are and they shall immediately become due and repayable in each case at their principal amount together with accrued interest if any of the following events (each, an "**Event of Default**") occurs and is continuing:

(a) **Non-payment**

The Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment when the same becomes due and payable either at maturity, by declaration or otherwise or the Issuer is in default with respect to the payment of interest or any additional amount payable in respect of any of the Notes; or

(b) **Breach of other obligations**

The Issuer defaults in the performance or observance of any of its other obligations under the Notes or the Trust Deed and such default is in the opinion of the Trustee, incapable of remedy or being a default which is, in the opinion of the Trustee, capable of remedy, remains unremedied for 30 days or such longer period as the Trustee may agree after the Trustee has given written notice thereof, addressed to the Issuer; or

(c) **Cross-default**

(i) Any Indebtedness of any member of the Group is not paid when due or (as the case may be) within any originally applicable grace period; or

(ii) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the relevant member of the Group or (provided that no event of default, howsoever described, has occurred) any Person entitled to such Indebtedness; or

(iii) any member of the Group fails to pay when due any amount payable by it under any Indebtedness Guarantee;

provided that the amount of Indebtedness referred to in Conditions 12(c)(i) and/or 12(c)(ii) and/or the amount payable under any Indebtedness Guarantee referred to in Condition 12(c)(iii) individually or in the aggregate exceeds U.S.$50,000,000 (or its equivalent in any other currency or currencies); or

(d) **Judgment default**

One or more judgments or orders or arbitration awards for the payment of an amount in excess of U.S.$50,000,000 (or the equivalent in other currencies) is rendered or granted against any member of the Group and continue(s) unsatisfied and unstayed for a period of 30 days after the date thereof or, if later, the date therein specified for payment; or

(e) **Security Enforced**

A secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any substantial part of the undertaking, assets and revenues of any member of the Group individually or in the aggregate in an amount in excess of U.S.$50,000,000 (or the equivalent in other currencies) which is not discharged within 30 days; or

(f) **Bankruptcy**

(i) Any Person shall have instituted a proceeding or entered a decree or order for the appointment of a receiver, administrator or liquidator in any insolvency, rehabilitation, readjustment of debt, marshalling of assets and liabilities, moratorium of payments or similar arrangements involving the Issuer or any Material Subsidiary or all or substantially all (in the opinion of the Trustee) of their respective properties and such proceeding, decree or order shall not have been vacated or shall have remained in force undischarged or unstayed for a period of 45 days; or

(ii) the Issuer or any Material Subsidiary shall institute proceedings under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect to be adjudicated a bankrupt or shall consent to the filing of a bankruptcy, insolvency or similar proceeding against it or shall file a petition or answer or consent seeking reorganisation under any such law or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver, administrator or liquidator or trustee or assignee in bankruptcy or liquidation of the Issuer or any Material Subsidiary, as the case may be, or in respect of its property, or shall make an assignment for the benefit of its creditors or shall otherwise be unable or admit its inability to pay its debts generally as they become due or the Issuer or any Material Subsidiary commences proceedings with a view to the general adjustment of its Indebtedness which event is, in the case of the Material Subsidiary, materially prejudicial (in the opinion of the Trustee) to the interests of the Noteholders; or

(g) **Invalidity or unenforceability**

(i) Any action, condition or thing at any time required to be taken, fulfilled or done in order (A) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Notes or the Agreements, (B) to ensure that those obligations are legal, binding and enforceable and (C) to make any Definitive Note Certificates and the Agreements admissible as evidence in the courts of Azerbaijan is not taken, fulfilled or done; or

(ii) it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Agreements; or

(h) **Maintenance of Business**

The Issuer fails to comply in any respect with any applicable laws or regulations (including any foreign exchange rules or regulations) of any governmental or other regulatory authority for any purpose to enable it to lawfully perform or comply with its obligations under the Notes or any Agreement or to ensure that those obligations are legally binding and enforceable or to ensure that all necessary agreements or other documents are entered into and that all necessary consents and approvals of, and registrations and filings with, any such authority in connection therewith are obtained and maintained in full force and effect or the Issuer or any Material Subsidiary fails to take any action to maintain any rights, privileges, titles to property, franchises or the like necessary or desirable in the normal conduct of its business, activities or operations and in the opinion of the Trustee such failure has had or is likely to have a Material Adverse Effect and is not remedied within

30 days (or such longer period as the Trustee may in its sole discretion determine) after notice thereof has been given to the Issuer or the relevant Material Subsidiary, as the case may be.

13. REPLACEMENT OF NOTES

If any Definitive Note Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the Specified Office of the Registrar or any Paying and Transfer Agent subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses Incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Definitive Note Certificates must be surrendered before replacements will be issued.

14. MEETINGS OF NOTEHOLDERS; MODIFICATION AND WAIVER

(a) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Trustee or the Issuer, or by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing a clear majority of the aggregate principal amount of the Notes for the time being outstanding, or, at any adjourned meeting, one or more persons being or representing Noteholders whatever the principal amount of the Notes for the time being outstanding so held or represented; provided, however, that certain proposals (including any proposal (i) to change any date fixed for payment of principal or interest in respect of the Notes, (ii) to reduce or cancel the amount of principal or interest or other amounts payable on any date in respect of the Notes or to reduce the rate of interest on the Notes, (iii) to change the currency of payment under the Notes, (iv) to amend this proviso or (v) to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one-quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present at the meeting(s) or not.

(b) Written resolution

A resolution in writing will take effect as if it were an Extraordinary Resolution if it is signed (i) by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed or (ii) if such Noteholders have been given at least 21 days' notice of such resolution, by or on behalf of persons holding three-quarters of the aggregate principal amount of the outstanding Notes. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(c) Modification without Noteholders' consent

The Trustee may agree, without the consent of the Noteholders, (a) to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and (b) to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or to correct a manifest error. In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby. Any such authorisation, waiver or modification shall be binding on the Noteholders and, if the Trustee so requires, shall be notified to the Noteholders as soon as practicable thereafter.

(d) **Entitlement of the Trustee**

In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

15. NOTICES

Notices to Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing. Notices to Noteholders will be valid if published, for so long as the Notes are admitted to trading on the Stock Exchange and the rules of such exchange so require, in a leading newspaper having general circulation in London (which is expected to be the *Financial Times* or, if, in the opinion of the Trustee, such publication is not practicable, in a leading English language daily newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

16. TRUSTEE

(a) **Indemnification**

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of its Subsidiaries.

(b) **Exercise of power and discretion**

In the exercise of its powers and discretion under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual holders of Notes as a result of such holders being connected in any way with a particular territory or taxing jurisdiction.

(c) **Enforcement; Reliance**

The Trustee may at any time after the Notes become due and payable, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Trust Deed and these Conditions in respect of the Notes, but it shall not be bound to do so unless:

(i) it has been so requested in writing by the holders of a least one-fifth in principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(ii) it has been indemnified or provided with security to its satisfaction.

The Trustee may, in making any determination under these Conditions, act on the opinion or advice of, or information obtained from, any expert and will not be responsible for any loss, liability, cost, claim, action, demand, expense or inconvenience which may result from it so acting.

The Trustee may rely without liability to Noteholders on any certificate or report prepared by any of the above mentioned experts, including specifically the Auditors (as defined in the Trust Deed), or any auditor, pursuant to the Conditions or the Trust Deed, whether or not the expert or auditor's liability in respect thereof is limited by a monetary cap or otherwise.

Until the Trustee has actual or express knowledge to the contrary, the Trustee may assume that no Event of Default or Potential Event of Default (as defined in the Trust Deed) has occurred.

The Trustee is not liable for any failure to monitor compliance by the Issuer with the Conditions (including Condition 12 (*Events of Default*)).

(d) **Failure to act**

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

(e) **Confidentiality**

Unless ordered to do so by a court of competent jurisdiction or unless required by the rules of the Stock Exchange, the Trustee shall not be required to disclose to any Noteholder any confidential financial or other information made available to the Trustee by the Issuer.

17. FURTHER ISSUES

The Issuer may from time to time, without notice to or the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the date for and amount of the first payment of interest) so as to be consolidated and form a single series with the Notes ("**Further Notes**"). The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed.

18. CURRENCY INDEMNITY

The Trust Deed provides that if any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Registrar or any Paying and Transfer Agent with its Specified Office in London against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof. This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

19. GOVERNING LAW; JURISDICTION AND ARBITRATION

(a) **Governing law**

The Trust Deed and the Notes, including any non-contractual obligations arising out of or in connection with the Notes, are governed by, and shall be construed in accordance with, English law.

(b) **Arbitration**

The Issuer has agreed with the Trustee in the Trust Deed that any claim, dispute or difference of whatever nature arising under, out of or in connection with the Trust Deed or the Notes (including a claim, dispute or difference regarding its existence, termination or validity or any non-contractual obligations arising out of or in connection with the Trust Deed or the Notes) (a "**Dispute**"), shall be referred to and finally settled by arbitration in accordance with the rules (the "**Rules**") of the London Court of International Arbitration (the "**LCIA**") as at present in force and as modified by this Condition, which Rules shall be deemed incorporated into this Condition. The number of arbitrators shall be three, one of whom shall be nominated by the Issuer, one by the Trustee and the third of whom, who shall act as Chairman, shall be nominated by the two party-nominated arbitrators, provided that if the third arbitrator has not been nominated within thirty days of the nomination of the second party-nominated arbitrator, such third arbitrator shall be appointed by the LCIA. The parties may nominate and the LCIA may appoint arbitrators from among the nationals of any country, whether or not a party is a national of that country. The seat of arbitration shall be London, England and the language of arbitration shall be English. Sections 45 and 69 of the Arbitration Act 1996 shall not apply.

(c) **Trustee's Option**

At any time before the Trustee has nominated an arbitrator to resolve any Dispute(s) pursuant to Condition 19(b) (*Arbitration*), the Trustee, at its sole option, may elect by notice in writing to the Issuer that such Dispute(s) shall instead be heard by the courts of England or by any other court of competent jurisdiction, as more particularly described in Condition 19(d) (*Jurisdiction*). Following any such election, no arbitral tribunal shall have jurisdiction in respect of such Dispute(s).

(d) **Jurisdiction**

In the event that the Trustee serves a written notice of election in respect of any Dispute(s) pursuant to Condition 19(c) (*Trustee's Option*), the Trustee has agreed in the Trust Deed for the benefit of the Trustee and the Noteholders that the courts of England shall have jurisdiction to hear and determine any such Dispute(s) and, for such purposes, irrevocably submits to the jurisdiction of such courts. Subject to Condition 19(b) (*Arbitration*), nothing in this Condition shall (or shall be construed so as to) limit the right of the Trustee to bring proceedings ("**Proceedings**") for the determination of any Dispute(s) in any other court of competent jurisdiction, nor shall the bringing of such Proceedings in any one or more jurisdictions preclude the bringing of Proceedings by the Trustee in any other jurisdiction (whether concurrently or not) if and to the extent permitted by law.

(e) **Appropriate Forum**

For the purposes of Condition 19(d) (*Jurisdiction*), the Issuer has irrevocably waived any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and agreed not to claim that any such court is not a convenient or appropriate forum.

(f) **Service of Process**

The Issuer has agreed in the Trust Deed that the process by which any Proceedings are commenced in England pursuant to Condition 19(d) (*Jurisdiction*) or by which any proceedings are commenced in the English courts in support of, or in connection with, an arbitration commenced pursuant to Condition 19(b) (*Arbitration*) may be served on it by being delivered to it at 7th Floor, 3 Shortlands, Hammersmith, London W6 8DA or, if different, its registered office for the time being or at any other address of the Issuer in the United Kingdom at which process may be served on it in accordance with Part 34 of the Companies Act 2006 or any successor provision thereto. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer, the Issuer shall, on the written demand of the Trustee, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Trustee shall be entitled to appoint such a person by written notice to the Issuer. Nothing in this paragraph shall affect the right of the Trustee and the Noteholders to serve process in any other manner permitted by law.

(g) **Waiver of Immunity**

To the extent that the Issuer may in respect of any Proceedings or Dispute be entitled to claim for itself or its assets immunity from jurisdiction, suit, execution, attachment (whether in aid of execution of a judgment, before judgment or award or otherwise) or other legal process, including in relation to the enforcement of any arbitration award, and to the extent that in any such jurisdiction there may be attributed to itself or its assets such immunity (whether or not claimed), the Issuer has in the Trust Deed irrevocably consented to the enforcement of any judgment or award, agreed not to claim and irrevocably waived such immunity subject to the provisions of the Trust Deed to the fullest extent permitted by the laws of the jurisdiction.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

Global Certificates

The Notes will be evidenced on issue by the Global Certificate (deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg).

Interests in the Global Certificate may be held only through Euroclear or Clearstream, Luxembourg at any time. See "—*Book Entry Procedures*". By acquisition of an interest in a Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is not a U.S. person, and that, if it determines to transfer such beneficial interest prior to the expiration of the 40 day distribution compliance period, it will transfer such interest only to a person whom the seller reasonably believes to be a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S.

Interests in the Global Certificate will be subject to certain restrictions on transfer set forth therein and in the Trust Deed, and the Notes will bear the legends set forth thereon regarding such restrictions substantially to the following effect:

> *"The Notes represented hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."*

Except in the limited circumstances described below, owners of interests in the Global Certificate will not be entitled to receive physical delivery of certificated Notes in definitive form (the "**Definitive Note Certificates**"). The Notes are not issuable in bearer form.

Amendments to the Terms and Conditions of the Notes

The Global Certificate contains provisions that apply to the Notes that it represents, some of which modify the effect of the Terms and Conditions of the Notes. The following is a summary of those provisions:

Payments

Payments of principal and interest in respect of Notes evidenced by the Global Certificate will be made against presentation for endorsement by the Principal Paying and Transfer Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of the Global Certificate to or to the order of the Principal Paying and Transfer Agent or such other Paying and Transfer Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Certificate, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant Notes.

Notices

So long as any Notes are represented by the Global Certificate and the Global Certificate is held on behalf of one or more clearing systems, notices to Noteholders required to be published in the *Financial Times* may be given by delivery of the relevant notice to such clearing systems for communication by it to entitled accountholders in substitution for delivery thereof as required by the Conditions of such Notes provided that for so long as the Notes are listed on the Official List and admitted to trading on the Market and the rules of that Exchange so require, notices shall also be published in a leading newspaper having general circulation in England (which is expected to be the *Financial Times*).

Meetings

The holder of the Global Certificate will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and, at any such meeting, as having one vote in respect of each U.S.$200,000 in principal amount of Notes for which the Global Certificate may be exchangeable.

Trustee Powers

In considering the interests of Noteholders while the Global Certificate is held on behalf of a clearing system, the Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Certificate and may consider such interests as if such accountholders were the holders of the Global Certificate.

Prescription

Claims against the Company in respect of principal and interest on the Notes while the Notes are represented by the Global Certificate will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in *Terms and Conditions of the Notes—Condition 10. Taxation*).

Redemption Upon a Change of Status

Any Change of Status Put Option provided for in the Conditions may be exercised by the holder of the Global Certificate (i) giving notice to the Issuer within the time limits relating to the deposit of Notes set out in the Conditions substantially in the form of the notice available from any Paying Agent, the Registrar or any Transfer Agent stating the nominal amount of Notes in respect of which the option is exercised and (ii) at the same time depositing the Global Certificate with the Registrar or any Transfer Agent at its specified office.

Purchase and Cancellation

Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Global Certificate.

Exchange for Definitive Note Certificates

A Global Certificate will become exchangeable, free of charge to the holder, in whole but not in part, for Definitive Note Certificates if: (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or does in fact do so, or (b) an Event of Default (as defined and set out in *Terms and Conditions of the Notes—Condition 12. Events of Default* occurs. In such circumstances, such Definitive Note Certificates will be registered in such names as Euroclear and Clearstream, Luxembourg shall direct in writing and the Issuer will procure that the Registrar notifies the Noteholders as soon as practicable after the occurrence of the relevant events specified.

Delivery

In such circumstances, a Global Certificate shall be exchanged in full for Definitive Note Certificates and the Issuer will, without charge to the holder or holders thereof, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange, cause sufficient Definitive Note Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Certificate must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes.

The holder of a Definitive Note Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Paying and Transfer Agent, together with the completed form of transfer thereon. The Registrar will not register the transfer of any Notes or exchange of interests in a Global Certificate for Definitive Note Certificates for a period of 15 calendar days ending on the due date for any payment of principal or interest in respect of the Notes.

Book Entry Procedures

Custodial and depository links are to be established between Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross market transfers of the Notes associated with secondary market trading. See "*—Book Entry Ownership*" and "*—Settlement and Transfer of Notes*".

Investors may hold their interests in a Global Certificate directly through Euroclear or Clearstream, Luxembourg if they are accountholders ("**Direct Participants**") or indirectly ("**Indirect Participants**" and together with Direct Participants, "**Participants**") through organisations which are accountholders therein.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

Book Entry Ownership

A Global Certificate representing the Notes will have an ISIN and a Common Code and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

The address of Euroclear is 1 Boulevard du Roi Albert 11, B 1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L 1855, Luxembourg.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of Euroclear and Clearstream, Luxembourg as the holder of a Note evidenced by a Global Certificate must look solely to Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of a Global Certificate and in relation to all other rights arising under a Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Certificate, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant Participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective interests in the principal amount of the Global Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of interests in a Global Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by a Global Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of a Global Certificate in respect of each amount so paid. None of the Issuer, the Trustee or any Paying and Transfer Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in a Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "**Beneficial Owner**") will in turn be recorded on the Direct Participants' and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be affected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in such Notes, unless and until interests in a Global Certificate held within a clearing system are exchanged for Definitive Note Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to

Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Certificate to such persons may be limited.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

SUBSCRIPTION AND SALE

The Joint Lead Managers have, pursuant to a Subscription Agreement dated 7 February 2012, jointly and severally agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Notes at 100% of their principal amount. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

General

No action has been or will be taken in any jurisdiction by the Issuer or any Joint Lead Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Prospectus comes are required by the Issuer and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

United States

The Notes have not been and will not be registered under the Securities Act and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions in reliance on Regulation S under the Securities Act.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons substantially to the following effect:

> *The Notes covered hereby have not been registered under the U.S. Securities Act of 1933 (the "**Securities Act**") and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S.*

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Joint Lead Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus to the public in that Relevant Member State other than:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Joint Lead Managers; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Notes shall require the Issuer or any Joint Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State. The expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

United Kingdom

Each Joint Lead Manager has represented, warranted and agreed that:

(a) (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell the Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act (the "**FSMA**") by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Azerbaijan

Each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold and will not offer or sell the Notes to any person in Azerbaijan other than as permitted under the laws of Azerbaijan.

GENERAL INFORMATION

Clearing Systems

The Notes have been accepted for clearance through the Clearstream, Luxembourg and Euroclear systems with a Common Code of 074412696. The International Securities Identification Number for the Notes is XS0744126961.

Admission to Trading

The admission of the Notes to the Official List will be expressed as a percentage of their principal amount (exclusive of accrued interest). It is expected that admission of the Notes to the Official List and to trading on the Market will be granted on or before 10 February 2012, subject only to the issue of the Global Certificate. Prior to official listing and admission to trading, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in U.S. Dollars and for delivery on the third calendar day after the day of the transaction. The expenses in connection with the listing and admission are expected to be £12,000.

Authorisations

The Company has obtained all necessary consents, approvals and authorisations in Azerbaijan in connection with the issue and performance of the Notes. The issue of the Notes was authorised by an order of the President of the Company dated 23 November 2011.

Material Adverse Change

There has been no significant change in the financial or trading position of the Company or of the Group since 30 June 2011 and no material adverse change in the financial position or prospects of the Company or of the Group since 31 December 2010.

Litigation

As at the date of this Prospectus, the Company is not a party to any material litigation. The Company is not, and has not been, involved in any governmental, legal or arbitration proceedings, including any such proceedings pending or threatened of which the Company is aware, during the last 12 months preceding the date of this Prospectus that may have, or have had in the recent past, significant effects on the financial position or profitability of the Company or the Group.

Documents on Display

For so long as any of the Notes is outstanding, copies of the following documents may be inspected in electronic format at the specified offices of each of the Paying and Transfer Agents during normal business hours:

(a) the Charter of the Company along with an extract from the state registry of commercial legal entities of Azerbaijan as respectively amended or replaced from time to time;

(b) the Financial Statements;

(c) the Trust Deed;

(d) the Paying Agency Agreement;

(e) this Prospectus and any supplements thereto; and

(f) the Petkim Annual Report.

English translations of the documents listed at (a) above are also available for inspection as described above. Such translations are accurate/direct translations. In the event of any discrepancy, the Azerbaijani version shall prevail.

Auditors

The 2010 Financial Statements and the 2009 Financial Statements contained in this Prospectus have been prepared in accordance with IFRS and have been audited by Ernst & Young Holdings (CIS) B.V. in accordance with ISA (without qualification) and Ernst & Young Holdings (CIS) B.V. rendered an unqualified audit report on such accounts of the Company for each of these years. The Interim Financial Statements were reviewed by Ernst & Young Holdings (CIS) B.V. The auditors of the Company have no material interest in the Company.

Certificates

Any certificate of the Auditors (as defined in the Trust Deed) or any other person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts set out therein notwithstanding that such certificate or report or any engagement letter or other document entered into by the Trustee in connection therewith contains a monetary or other limit on the liability of the Auditors or such other person in respect thereof and notwithstanding that the scope and basis of such certificate or report may be limited by any engagement or similar letter or by the terms of the certificate or report itself.

Conflicts of Interest

The Company believes there are no potential conflicts of interest between any duties owed to the Company by the president, vice-presidents, members of the Council and the Audit Committee and their private interests or other duties. The president of SOCAR and Mukhtar Babayev (chairman of the Supervisory Board of Azerikimya) are Members of the Parliament of the Republic. Under applicable Azerbaijani law, Members of Parliament are prohibited from receiving salaries or other remuneration tied to employment with a commercial entity, such as SOCAR. Accordingly, the president and Mr. Babayev are prohibited from receiving or accruing salaries from SOCAR. These individuals are paid in connection with their official responsibilities as Members of Parliament out of the state budget. The Company does not believe that these arrangements constitute a conflict of interest.

Enforcement by the Trustee

The Conditions provide for the Trustee to take action on behalf of the Noteholders in certain circumstances, but only if the Trustee is indemnified to its satisfaction. It may not be possible for the Trustee to take certain actions in relation to the Notes and accordingly in such circumstances the Trustee will be unable to take action, notwithstanding the provision of an indemnity to it, and it will be for Noteholders to take the action directly.

APPENDIX I – GLOSSARY OF FREQUENTLY USED DEFINED TERMS

"**2009 Financial Statements**"	The Company's consolidated financial statements as at and for the year ended 31 December 2009.
"**2010 Financial Statements**"	The Company's consolidated financial statements as at and for the year ended 31 December 2010.
"**ACG fields**"	The Azeri and Chirag fields and the deep water portion of the Gunashli field in the Azerbaijan sector of the Caspian Sea.
"**AzACG**"	Azerbaijan (ACG) Limited, the 100% subsidiary of the Company that holds an 11.65% share in the ACG PSA.
"**ACG PSA**"	The agreement on the joint development and production sharing for the Azeri and Chirag Fields and the deep water portion of the Gunashli field in the Azerbaijan sector of the Caspian sea.
"**AzBTC**"	Azerbaijan (BTC) Limited, a limited liability company that is the second largest shareholder in the BTC Pipeline project.
"**Azerbaijan**"	The Republic of Azerbaijan.
"**Azerigas**"	The Azerigas Production Union.
"**Azerikimya**"	The Azerikimya Production Union.
"**Azgerneft JV**"	The joint venture between the Company and Union Grand Energy PTE Ltc.
"**AZN**"	The Azerbaijan Manat, the lawful currency of Azerbaijan.
"**Azneft**"	The Azneft Production Union.
"**AzSCP**"	The subsidiary of the Company that holds a 10% share in the SCP.
"**AzSD**"	The subsidiary of the Company that holds a 10% share in the Shah Deniz PSA.
"**BTC Pipeline**"	The Baku-Tbilisi-Ceyhan pipeline which transports oil produced in the ACG fields to the Mediterranean passing through Azerbaijan, Georgia and Turkey.
"**Central Bank**"	The central bank of the Republic of Azerbaijan.
"**CHF**"	The Swiss Franc, the lawful currency of Switzerland.
"**Core Assets**"	The following assets of the Issuer and its Material Subsidiaries.
Issuer	*Core Assets*
	100% of equity in Azerbaijan (ACG) Limited
	100% of equity in Azerbaijan (Shah Deniz) Limited
	100% of equity in Azerbaijan (South Caucasus Pipeline) Limited
	100% of equity in the Azneft Production Union
	100% of equity in the Oil Pipelines Department
	100% of the equity in the Marketing and Economic Operations Department

Material Subsidiaries	*Core Assets*
—Azneft Production Union	The following fields which on the date of this Agreement account for at least 85% of 'proven' and 'proven *plus* probable' offshore oil reserves of the Azneft Production Union: (a) shallow-water Gunashli; (b) Neft Dashlari; and (c) Sangachal-Duvanni-Hara-Zirya. Infrastructure used in the operation and development of the above fields.
—Oil Pipelines Department	Pipelines network operated by the Oil Pipelines Department and related infrastructure.

"**CIS**" .... The Commonwealth of Independent States.

"**Company's production**" .... The crude oil and gas production of the Company and its subsidiaries and the Company's and the Company's subsidiaries proportionate share in their respective joint venture's crude oil and gas production, collectively, but not including AzACG or Shah Deniz.

"**Company**" .... The Company means, as the context requires, SOCAR itself or SOCAR together with its subsidiaries and joint ventures or SOCAR together with its subsidiaries, joint ventures and associates.

"**EIA**" .... The Energy Information Agency, an independent agency of the U.S. Department of Energy.

"**EUR**", "**Euros**" or "**€**"................................. The currency of the participating member states in the third stage of the Economic and Monetary Union of the Treaty establishing the European community.

"**GEL**" or "**Lari**"... The Georgian Lari, the lawful currency of Georgia.

"**Government**" .... The Government of Azerbaijan.

"**IBA**" .... The International Bank of Azerbaijan.

"**IFRS**" .... The International Financial Reporting Standards as promulgated by the International Accounting Standards Board.

"**Interim Financial Statements"** .... The Company's consolidated financial statements as at and for the six months ended 30 June 2011.

"**Issuer**" .... The Company.

"**LIBOR**"... The London Inter Bank Offered Rate.

"**LPG**" .... Liquefied petroleum gas.

"**Manat**" .... The Azerbaijani Manat, the lawful currency of Azerbaijan.

"Notes" .... The Notes of the Issuer offered pursuant to this Prospectus.

"**NRE Pipeline**" .... The Northern Route Export pipeline, which runs from the Company's Sangachal Terminal in Baku to the Black Sea Port of Novorossiysk in Russia.

"**OPEC**"... The Organisation of Petroleum Exporting Countries.

"**PRMS**" .... The internationally accepted reserve estimation standards under the Petroleum Resources Management System sponsored by the Society for Petroleum Engineers, the American Association of Petroleum Geologists, World Petroleum Council and the Society for Petroleum Evaluation Engineers.

"SCP".. The South Caucasus pipeline, constructed to transport gas from the Shah Deniz field from Baku to the border of Azerbaijan and the Republic of Turkey.

"**Securities Act**" .... The U.S. Securities Act of 1933, as amended.

"**Shah Deniz PSA**"..	The production sharing agreement in relation to the Shah Deniz field.
"**Shah Deniz**"	The Shah Deniz gas and condensate producing field.
"**SOFAZ**"	The State Oil Fund of Azerbaijan.
"**Turkish Lira**", "**Lira**" or "**YTL**"	The Turkish Lira, the lawful currency of the Republic of Turkey.
"**U.S.$**" or "**U.S. Dollar**"................................	The lawful currency of the United States of America.
"**WRE Pipeline**"	The Western Route Export pipeline, which runs from the Company's Sangachal Terminal near Baku through Azerbaijan and Georgia to the Supsa Terminal on the Georgian Black Sea coast.

APPENDIX II – GLOSSARY OF MEASUREMENT AND TECHNICAL TERMS

Certain Abbreviations and Related terms

bbl	barrels
bcm	billion cubic metres
bopd	barrels of oil per day
km	kilometre
km^2	square kilometres
m	metre
mcm	million cubic metres
mm	millimetres

Certain Terminology

2D seismic	Geophysical data that depicts the subsurface strata in two dimensions.
3D seismic	Geophysical data that depict the subsurface strata in three dimensions. 3D seismic typically provides a more detailed and accurate interpretation of the subsurface strata than 2D seismic.
API gravity	The industry standard method of expressing specific gravity of crude oils. Higher American Petroleum Institute ("**API**") gravities mean lower specific gravity and lighter oils.
CIF	"*Cost, Insurance and Freight.*" A shipping term used to quote a price for goods to a named overseas port including cost, insurance and freight. The seller quotes a price for the goods including insurance, all transportation, and miscellaneous charges to the point of debarkation from the vessel. The term is used only for ocean shipments.
Condensate	The heavier hydrocarbon fractions in a natural gas reservoir that condense into a liquid as they are produced. They are used as a chemical feedstock or for blending into gasoline.
Development well	A well drilled to obtain production from a proven oil or gas field. Development wells may be used either to extract hydrocarbons from a field or to inject water or gas into a reservoir in order to improve production.
Exploration well	A well drilled to find hydrocarbons in an unproven area or to extend significantly a known oil or natural gas reservoir.
Formation	A succession of sedimentary beds that were deposited under the same general geologic conditions.
Hydrocarbons	Compounds formed from the elements hydrogen and carbon and existing in solid, liquid or gaseous forms.

Hydrotreatment... The catalytic process in which hydrogen is contacted with petroleum intermediate or other product streams to remove impurities, such as oxygen, sulphur, nitrogen, or unsaturated hydrocarbons.

Mercaptans.. An organic compound containing sulphur.

Natural gas.. Hydrocarbons that are gaseous at one atmosphere of pressure at 20°C. Natural gas can be divided into lean gas, primarily methane, but often containing some ethane and smaller quantities of heavier hydrocarbons (also called sales gas), and wet gas, primarily ethane, propane and butane, as well as smaller amounts of heavier hydrocarbons that are partially liquid under atmospheric pressure.

Pyridines... Hygroscopic liquid with a characteristic odour used as a solvent and in preparing other organic chemicals.

Quality bank .... An arrangement whereby oil companies that supply lower quality (heavy and sour) crude oil to a pipeline system pay more for the use of pipelines than those who supply higher quality crude oil. Alternatively, suppliers of lower quality crude oil might directly compensate suppliers of higher quality crude oil for the deterioration in crude quality due to blending.

Reservoir... A porous and permeable underground formation containing a natural accumulation of producible natural gas and/or oil that is confined by impermeable rock or water filled rock layers.

Seismic survey.. A method by which an image of the earth's subsurface is created through the generation of shockwaves and analysis of their reflection from rock strata. Such surveys can he done in two or three-dimensional form.

Vacuum distillation... Distillation under reduced pressure (less than atmospheric), which lowers the boiling temperature of the liquid being distilled. This technique with its relatively low temperatures prevents cracking or decomposition of the charge stock.

Watercut.. The proportion of water produced, along with crude oil, from extracted reservoir liquids, usually expressed as a percentage.

Workover.. A maintenance or repair operation on a well after it has commenced production. Usually undertaken to maintain or increase production from the well.

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STATE OIL COMPANY OF THE AZERBAIJAN REPUBLIC

Interim Condensed Consolidated Financial Statements

30 June 2011

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Report on Review of Interim Condensed Consolidated Financial Statements to Management of the State Oil Company of the Azerbaijan Republic

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of the State Oil Company of the Azerbaijan Republic (the "Company") and its subsidiaries (the "Group") as at June 30, 2011, comprising of the interim consolidated statement of financial position as at June 30, 2011 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, "Interim Financial Reporting" (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young Holdings (CIS) B.V.

October 24, 2011

(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)

	Note	30 June 2011 unaudited	31 December 2010 audited
ASSETS			
Current assets			
Cash and cash equivalents	5	1,367,346	1,000,161
Restricted cash	6	60,539	617,793
Trade and other receivables	7	2,896,586	2,405,691
Corporate income tax prepayments		21,604	26,581
Inventories		850,069	808,572
Other current financial assets		11,014	12,312
Total current assets		**5,207,158**	**4,871,110**
Non-current assets			
Property, plant and equipment	8	8,580,099	8,244,627
Goodwill		117,896	123,448
Intangible assets other than goodwill		468,161	499,813
Investments in jointly controlled entities	10	386,076	265,894
Investments in associates		387,941	351,085
Loan receivable from jointly controlled entity	9	149,484	263,235
Deposit	6	955,841	399,011
Deferred tax asset		481,801	408,972
Other long-term financial assets		72,868	79,148
Other long-term assets		164,489	220,640
Total non-current assets		**11,764,656**	**10,855,873**
TOTAL ASSETS		**16,971,814**	**15,726,983**
EQUITY			
Charter capital	14	869,258	632,732
Additional paid-in capital	14	-	236,526
Retained earnings		7,097,476	6,691,653
Cumulative translation differences		(135,493)	(105,095)
Equity attributable to the Group's equity holders		**7,831,241**	**7,455,816**
Non-controlling interest		652,184	704,279
TOTAL EQUITY		**8,483,425**	**8,160,095**

State Oil Company of the Azerbaijan Republic
Interim Consolidated Statement of Financial Position (Continued)
(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)

	Note	30 June 2011 unaudited	31 December 2010 audited
LIABILITIES			
Current liabilities			
Trade and other payables	11	2,790,353	2,445,829
Short-term borrowings and current portion of long-term borrowings	12	503,062	996,832
Corporate income tax payable		228,089	90,892
Other taxes payable		263,703	190,233
Other provisions for liabilities and charges	13	194,652	199,077
Deferred acquisition consideration payable	15	-	272,935
Total current liabilities		**3,979,859**	**4,195,798**
Non-current liabilities			
Long-term borrowings	12	3,101,316	2,062,844
Asset retirement obligations	13	413,621	324,632
Other provisions for liabilities and charges	13	315,946	282,194
Deferred income		99,361	101,183
Deferred tax liability		495,754	509,140
Other non-current liabilities		82,532	91,097
Total non-current liabilities		**4,508,530**	**3,371,090**
TOTAL LIABILITIES		**8,488,389**	**7,566,888**
TOTAL LIABILITIES AND EQUITY		**16,971,814**	**15,726,983**

Approved for issue and signed on behalf of the Group on 24 October 2011.

Mr Rovnag Abdullayev
President

Mr Suleyman Gasymov
Vice-President for Economic Affairs

(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)

	Note	30 June 2011 unaudited	31 December 2010 audited
LIABILITIES			
Current liabilities			
Trade and other payables	11	2,790,353	2,445,829
Short-term borrowings and current portion of long-term borrowings	12	503,062	996,832
Corporate income tax payable		228,089	90,892
Other taxes payable		263,703	190,233
Other provisions for liabilities and charges	13	194,652	199,077
Deferred acquisition consideration payable	15	-	272,935
Total current liabilities		**3,979,859**	**4,195,798**
Non-current liabilities			
Long-term borrowings	12	3,101,316	2,062,844
Asset retirement obligations	13	413,621	324,632
Other provisions for liabilities and charges	13	315,946	282,194
Deferred income		99,361	101,183
Deferred tax liability		495,754	509,140
Other non-current liabilities		82,532	91,097
Total non-current liabilities		**4,508,530**	**3,371,090**
TOTAL LIABILITIES		**8,488,389**	**7,566,888**
TOTAL LIABILITIES AND EQUITY		**16,971,814**	**15,726,983**

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(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)

	Note	Six months ended 30 June 2011 unaudited	Six months ended 30 June 2010 unaudited
Revenue	16	3,434,316	2,720,683
Cost of sales		(2,114,351)	(1,898,912)
Gross profit		**1,319,965**	**821,771**
General and administrative expenses		(143,869)	(162,398)
Distribution expenses		(114,940)	(95,782)
Social expenses		(65,921)	(60,077)
Other operating expenses		(113,263)	(76,525)
Losses on disposals of property, plant and equipment and other losses, net		(9,034)	(22,623)
Exploration and evaluation expenses		(11,146)	(17,587)
Research and development		(4,285)	(7,455)
Other operating income		76,157	143,224
Operating profit		**933,664**	**522,548**
Finance income		33,517	29,664
Finance costs	17	(87,955)	(104,153)
Foreign exchange losses, net		(93,711)	(104,204)
Finance costs, net		**(148,149)**	**(178,693)**
Share of result of jointly controlled entities		5,747	708
Share of result of associates		61,631	62,855
Profit before income tax		**852,893**	**407,418**
Income tax expense		(182,287)	(280,279)
Profit for the period		**670,606**	**127,139**
Other comprehensive income:			
Currency translation differences		(62,424)	(24,677)
Total comprehensive income for the period		**608,182**	**102,462**
Profit attributable to:			
Equity holders of the Group		703,781	154,246
Non-controlling interest		(33,175)	(27,107)
		670,606	**127,139**
Total comprehensive income attributable to:			
Equity holders of the Group		673,383	168,377
Non-controlling interest		(65,201)	(65,915)
		608,182	**102,462**

(Amounts presented are in thousands of Azerbaijani Manats unless otherwise stated)

		Attributable to the equity holders of the parent						
	Note	**Additional paid-in capital**	**Charter capital**	**Retained earnings**	**Currency translation difference**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2010		-	**622,726**	**6,778,784**	**(143,258)**	**7,258,252**	**782,809**	**8,041,061**
Profit for the period		-	-	154,246	-	154,246	(27,107)	127,139
Other comprehensive income/(loss)		-	-	-	14,131	14,131	(38,808)	(24,677)
Total comprehensive income/(loss)		-	-	**154,246**	**14,131**	**168,377**	**(65,915)**	**102,462**
Acquisition of subsidiary	19	-	10,006	(228,356)	-	(218,350)	-	(218,350)
Distributions to the Government	14	-	-	(218,197)	-	(218,197)	-	(218,197)
Balance at 30 June 2010 (unaudited)		-	**632,732**	**6,486,477**	**(129,127)**	**6,990,082**	**716,894**	**7,706,976**
Balance at 1 January 2011		**236,526**	**632,732**	**6,691,653**	**(105,095)**	**7,455,816**	**704,279**	**8,160,095**
Profit for the period		-	-	703,781	-	**703,781**	(33,175)	670,606
Other comprehensive loss		-	-	-	(30,398)	**(30,398)**	(32,026)	(62,424)
Total comprehensive income/(loss)		-	-	**703,781**	**(30,398)**	**673,383**	**(65,201)**	**608,182**
Increase in charter capital	14	(236,526)	236,526	-	-	-	-	-
Contribution in charter capital of subsidiary		-	-	-	-	-	13,106	13,106
Distributions to the Government	14	-	-	(297,958)	-	(297,958)	-	(297,958)
Balance at 30 June 2011 (unaudited)		-	**869,258**	**7,097,476**	**(135,493)**	**7,831,241**	**652,184**	**8,483,425**

State Oil Company of the Azerbaijan Republic
Interim Consolidated Statement of Cash Flows
(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

	Note	Six months ended 30 June 2011 (unaudited)	Six month ended 30 June 2010 (unaudited)
Cash flows from operating activities			
Profit before income tax		852,893	407,418
Adjustments for:			
Depreciation of property, plant and equipment		292,736	313,493
Amortisation of intangible assets		6,532	7,569
Impairment of property, plant and equipment	8	93,033	233,776
Loss from impairment of trade and other receivables and receivables from jointly controlled entity / (Gain on a release of provision for trade and other receivables)		104,970	(17,396)
Change in provisions		58,777	151,802
Losses on disposals of property, plant and equipment and other losses, net		9,034	22,623
Finance income		(33,517)	(29,664)
Finance costs	17	87,955	104,153
Foreign exchange rate differences		54,600	55,671
Share of result of associates and joint ventures		(67,378)	(63,563)
Other non cash transactions		13,106	3,712
Operating cash flows before working capital changes		**1,472,741**	**1,189,594**
Increase in trade and other receivables		(480,671)	(303,924)
Increase in inventories		(41,497)	(63,375)
Increase in trade and other payables		344,524	191,290
Increase in taxes payable		71,648	101,694
Increase in other assets		(50,831)	(45,833)
Cash generated from operations		**1,315,914**	**1,069,446**
Income taxes paid		(115,105)	(123,921)
Interest paid		(78,375)	(68,827)
Net cash from operating activities		**1,122,434**	**876,698**
Cash flows from investing activities			
Acquisition of subsidiary Azerkimya, net of cash acquired		-	5,392
Purchase of property, plant and equipment		(793,310)	(526,658)
Purchase of intangible assets		(611)	(1,901)
Additional contribution in share capital of associates and jointly controlled entities		(65,578)	(31,605)
Deposits		424	(71,141)
Proceeds from loans issued to third parties		9,273	-
Loans issued to third parties		-	(36,843)
Interest received		30,379	23,664
Dividends received		24,781	27,377
Net cash used in investing activities		**(794,642)**	**(611,715)**
Cash flows from financing activities			
Proceeds from long-term borrowings		1,185,763	190,513
Proceeds from short-term borrowings		147,812	-
Repayment of long-term borrowings		(181,075)	(12,005)
Repayment of short-term borrowings		(593,400)	(167,964)
Distributions to the Government		(259,313)	(183,006)
Purchase consideration paid		(272,935)	(37,933)
Net cash provided by/(used in) by financing activities		**26,852**	**(210,395)**
Net foreign exchange translation differences		12,541	7,968
Net increase in cash and cash equivalents		**367,185**	**62,556**
Cash and cash equivalents at the beginning of period		**1,000,161**	**773,506**
Cash and cash equivalents at the end of period		**1,367,346**	**836,062**

1 The Group and its operations

The State Oil Company of the Azerbaijan Republic ("SOCAR") was established by the Presidential Decree on 13 September 1992 in accordance with Azerbaijani legislation and is domiciled in the Azerbaijan Republic. SOCAR is involved in upstream, midstream and downstream operations. SOCAR's main functions pertain to managing the extraction, refining, transportation and sale of oil, gas and gas condensates, and sale of gas and oil and gas products. SOCAR is 100 per cent owned by the government of the Azerbaijan Republic.

SOCAR's registered address is 73 Neftchiler Avenue, AZ 1000 Baku, Azerbaijan Republic.

2 Basis of preparation and significant accounting policies, critical accounting estimates and judgments

Basis of preparation. This interim condensed consolidated financial statements of SOCAR and its subsidiaries, associates and joint ventures (collectively referred to as "the Group") for the six-month period ended 30 June 2011 ("interim financial statements") have been prepared in accordance with IAS 34, "Interim Financial Reporting". These interim financial statements should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2010, which have been prepared in accordance with IFRS.

Accounting policies. The accounting policies are consistent with those of the annual financial statements for the year ended 31 December 2010, except as described below.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

a) Standards effective for annual periods beginning on or after 1 January 2011

Amendment to IAS 32 The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options and warrants as equity instruments. The amendment is applicable if the rights are given pro rate to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

Amendment to, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The adoption of the amendment did not have any material impact on the financial position or performance of the Group.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The adoption of the amendment did not have any material impact on the financial position or performance of the Group.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The adoption of the amendment did not have any material impact on the financial position or performance of the Group.

2 Basis of preparation and significant accounting policies, critical accounting estimates and judgments (continued)

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011) The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its financial statements, except the amendment to IAS 1 which was early adopted by the Group.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, *Financial Instruments: Disclosures.* This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The adoption of the amendment did not have any material impact on the financial position or performance of the Group.

Presentation currency. All amounts in these interim financial statements are presented in thousands of Azerbaijani Manats ("AZN thousands"), unless otherwise stated.

Exchange rates. The official rates of exchange of the US dollar ("USD") to the Azerbaijani Manat as at 30 June 2011 and 31 December 2010 used for translating foreign currency balances expressed in USD were USD 1 = AZN 0.7867 and USD 1 = AZN 0.7979, respectively. The official rate used for translating foreign currency balances expressed in Turkish Lira ("TL") as at 30 June 2011 and 31 December 2010 were TL 1 = AZN 0.4854 and TL 1 = AZN 0.5139 , respectively. The official rate used for translating foreign currency balances expressed in Georgian Lari ("GEL") as at 30 June 2011 and 31 December 2010 were GEL 1 = AZN 0.4710 and GEL 1 = AZN 0.4504 , respectively.

Reclassifications. Certain reclassification has been made to the prior year's consolidated statement of financial position and corresponding notes to conform to the current year presentation. There was no material impact on the Group's financial position and there was no impact on the Group's results of operations and equity as a result of this reclassification.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

2 Basis of preparation and significant accounting policies, critical accounting estimates and judgments (continued)

	Prior to reclassification	Reclassification	After reclassification
Reclassification of investments in a jointly controlled entity from "Loan receivable from jointly controlled entity" to "Investments in jointly controlled entities"			
Investments in jointly controlled entities	248,870	17,024	265,894
Loan receivable from jointly controlled entity	280,259	(17,024)	263,235

Critical accounting estimates and judgements.
The critical accounting estimates and judgements followed by the Group in the preparation of these interim financial statements are consistent with those disclosed in the audited consolidated financial statements for the year ended 31 December 2010. Estimates have principally been made in respect of useful lives of property, plant and equipment, fair values of assets and liabilities, deferred income tax asset recognition, estimations of oil and gas reserves, impairment of non-financial assets, impairment provision for trade receivables, asset retirement and environmental remediation obligations.

Management reviews these estimates and judgements on a continuous basis, by reference to past experiences and other factors considered as reasonable which form the basis for assessing the book values of assets and liabilities. Adjustments to accounting estimates are recognized in the period in which the estimate is revised. Actual results may differ from such estimates if different assumptions or circumstances apply; however, management considers that the effect of any changes in these estimates would not be significant unless otherwise disclosed in the accompanying interim financial statements.

Impairment of non-financial assets
Management assesses whether there are any indicators of possible impairment of all non-financial assets at each reporting date based on events or circumstances that indicate the carrying value of assets may not be recoverable. Such indicators include changes in the Group's business plans, changes in commodity prices leading to unprofitable performances, changes in product mixes, and for oil and gas properties, significant downward revisions of estimated proved reserves. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when impairment indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

As of June 30, 2011, as a result of underperformance of some cash generating units (CGU) the Group carried out a review of the recoverable amounts of those CGUs resulting in impairment charge amounting to AZN 93,033 (as of 30 June, 2010: AZN 233,776). These assets are used in the Group's Oil and Gas segment. In assessing whether impairment is required in the carrying value of a potentially impaired asset, its carrying value is compared with its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value-in-use. Given the nature of the Group's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers are taking place. Consequently, unless indicated otherwise, the recoverable amount used in assessing the impairment charges described below is value-in-use. The Group generally estimates value-in-use using a discounted cash flow model from financial budgets approved by management.

Key assumptions used in value-in-use calculations
The calculation of value-in-use for oil fields is most sensitive to the following assumptions:

Production volumes: Estimated production volumes are based on detailed data for the fields and take into account development plans for the fields agreed by management as part of the long-term planning process. It is estimated that, if all production were to be reduced by 10 per cent for the whole of the next 15 years, this would result in additional impairment charge in the amount AZN 6,874 (30 June 2010: AZN 86,672).

Capital expenditures: Capital expenditures necessary to maintain estimated production volumes are based on long term development plans for particular oil field.

2 Basis of preparation and significant accounting policies, critical accounting estimates and judgments (continued)

Crude oil price: Forecast commodity prices are publicly available.

Discount rate: The pre-tax discount rate applied to the cash flow projections is 19.5 per cent for six-month period ended 30 June 2011 (for six-month period ended 30 June 2010: 17.5 per cent). The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital (WACC). In calculating WACC the cost of equity was estimated using peer group data and the cost of debt is based on interest bearing borrowings, the Group is obliged to service. Specific risks are incorporated by applying individual beta factors, market risk and size of the Group. The beta factors are evaluated annually based on publicly available marked data. If the estimated WACC used in the calculation had been 1 per cent higher / lower than management's estimate, the aggregate amount of impairment loss would have not been changed (as of 30 June 2010: AZN 17,246 higher / no change).

Inflation rate estimates: Inflation rates used are International Monetary Fund's (IMF) forecasts as well as the Group management's projections based on the available information.

Excise tax rate and export duties: Excise tax and export duties on oil and petroleum products are an important factor for Oil and Gas properties and equipment.

3 Operating segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by management of the Group and for which discrete financial information is available.

The Group has four reportable segments:

- Oil and gas – representing extraction of oil and gas products;
- Refining – representing refining of crude oil and gas condensate;
- Construction – representing construction of administrative premises and assets for extraction of oil and gas condensate;
- Sales and distribution – representing transportation and marketing of crude oil, natural gas, oil products and gas condensate.

No operating segments have been aggregated to form the above reportable operating segments.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

3 Operating segment information (continued)

Information about reportable segment profit or loss, assets and liabilities

Management evaluates performance of each segment based on profit after tax, assets and liabilities.

The following table presents revenue and profit information regarding the groups operating segments for the six months ended 30 June 2011 and 2010, respectively.

Six months ended 30 June 2011	Oil and gas	Refining	Construction	Sales and distribution	Unallocated (*)	Eliminations (**)	Total
Revenues							
External customers	1,448,212	1,072,066	79,185	810,555	24,298	-	3,434,316
Inter-segment	335,909	217,902	263,959	129,844	109,515	(1,057,129)	-
Total Revenue	**1,784,121**	**1,289,968**	**343,144**	**940,399**	**133,813**	**(1,057,129)**	**3,434,316**
Segment Profit	**413,393**	**4,844**	**(6,591)**	**176,177**	**17,863**	**64,920**	**670,606**

Six months ended 30 June 2010	Oil and gas	Refining	Construction	Sales and distribution	Unallocated (*)	Eliminations (**)	Total
Revenues							
External customers	1,255,657	766,068	74,372	613,628	10,958	-	2,720,683
Inter-segment	294,523	144,344	246,062	131,648	103,888	(920,465)	-
Total Revenue	**1,550,180**	**910,412**	**320,434**	**745,276**	**114,846**	**(920,465)**	**2,720,683**
Segment Profit	**98,244**	**35,697**	**13,057**	**40,525**	**78,356**	**(138,740)**	**127,139**

(*) - These numbers include unallocated revenues and expenses related to research and development, IT, security and other functions that are managed at the group level.

(**) - Inter-segment revenues are eliminated on consolidation. Amounts shown as eliminations include intercompany transactions.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

3 Operating segment information (continued)

The following table represents segment assets, liabilities and capital expenditures of the Group's operating segments as at 30 June 2011 and 31 December 2010:

	Oil and gas	Refining	Construction	Sales and distribution	Unallocated (*)	Eliminations (**)	Consolidated
Segment Assets							
At 30 June 2011	6,243,494	3,487,891	1,135,374	4,103,329	5,446,713	(3,444,987)	**16,971,814**
At 31 December 2010	7,070,042	3,652,105	1,155,060	3,796,792	5,379,078	(5,326,094)	**15,726,983**
Segment Liabilities							
At 30 June 2011	(2,074,729)	(3,073,419)	(706,638)	(4,182,176)	(2,181,980)	3,730,553	**(8,488,389)**
At 31 December 2010	(1,982,439)	(3,226,653)	(706,685)	(4,064,071)	(2,292,653)	4,705,613	**(7,566,888)**
Capital Expenditures (***)							
Six months ended 30 June 2011	588,052	88,889	26,187	177,624	108,515	-	**989,267**
Six months ended 30 June 2010	288,698	84,560	37,662	170,980	109,887	-	**691,787**

(*) - These numbers include unallocated assets and liabilities related to research and development, IT, security and other functions that are managed at the group level.

(**) - Inter-segment balances are eliminated on consolidation. Amounts shown as eliminations include intercompany balances.

(***) - Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

4 Balances and transactions with related parties

Key management compensation. Key management of the Group includes the President of SOCAR and its ten Vice-Presidents. All of the Group's key management are appointed by the President of the Azerbaijan Republic. Key management individuals are entitled to salaries and benefits of SOCAR in accordance with the approved payroll matrix as well as to compensation for serving as members of the Boards of directors for certain Group companies. During six-month period ended 30 June 2011 compensation of key management personnel totalled to AZN 147 (2010: AZN 125).

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding are detailed below.

At 30 June 2011 and 31 December 2010, the outstanding balances with related parties were as follows:

	30 June 2011		31 December 2010	
	The Government and entities under government control	Associate, joint ventures	The Government and entities under government control	Associate, joint ventures
Gross amount of trade receivables	276,392	1,024,091	176,440	616,321
Impairment provisions for trade and other receivables	(45,176)	-	(44,229)	-
Cash and cash equivalents	346,050	-	176,935	-
Deposit	1,416,033	-	1,345,666	-
VAT and other taxes receivable	380,592	-	435,441	-
Prepayment for corporate income tax	19,616	-	26,581	-
Prepayment to suppliers	4,542	-	6,040	-
Loan receivable from jointly controlled entity	-	149,484	-	263,235
Borrowings from IBA (fixed interest rates varying from 3 to 3.5 per cent and floating interest rates varying from LIBOR plus 2 per cent to LIBOR plus 3.5 per cent)	(1,619,189)	-	(1,734,303)	-
Borrowings from the Ministry of Finance of the Azerbaijan Republic	(178,871)	-	(183,101)	-
Trade and other payables	(74,080)	(458,163)	(93,872)	(378,092)
Payable to the State Oil Fund of the Azerbaijan Republic (SOFAZ)	(1,524,382)	-	(1,109,362)	-
Other taxes payable	(246,547)	-	(177,478)	-
Corporate income tax payable	(223,818)	-	(88,913)	-

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

4 Balances and transactions with related parties (continued)

The transactions with related parties for the six-month period ended 30 June 2011 and 30 June 2010 were as follows:

	30 June 2011		30 June 2010	
	The Government and entities under government control	Associate, joint ventures	The Government and entities under government control	Associate, joint ventures
Sales of natural gas	102,217	-	50,272	-
Sales of oil products	102,523	124,904	113,526	77,418
Services rendered	21,527	33,202	55,123	21,716
Interest income on deposits	14,893	-	11,566	-
Interest income on loans from related parties	-	6,300	-	5,720
Corporate income tax	(175,093)	-	(278,325)	-
Excise tax	(202,530)	-	(175,892)	-
Price margin tax	(218,092)	-	(140,564)	-
Mining tax	(59,372)	-	(61,146)	-
Other taxes	(70,833)	-	(65,412)	-
Utilities costs	(30,098)	-	(27,367)	(18)
Other operating expenses	(5,045)	(5,455)	(15,125)	(61,723)
Interest expense on loans from related parties	(24,886)	-	(26,545)	-
Social security deductions	(59,292)	-	(48,132)	-
Social expenses	(302,909)	-	(244,381)	-
Transportation expenses	(607)	-	(353)	(507)
Ecology service and environmental security	(1,004)	(7,573)	(1,094)	(18,133)
Purchases of property, plant and equipment and inventory	(12,159)	(550,352)	(14,252)	(496,868)
Dividends received from jointly controlled entities	-	857	-	2,237
Dividends received from associates	-	23,924	-	25,140

Terms and conditions of transactions with related parties. The sales to related parties are made at prices regulated by the Government. Outstanding balances at the year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or receivable for any related party receivables or payables, except for guarantee received for loan receivable from a jointly controlled entity which is more fully discussed in Note 9.

5 Cash and cash equivalents

	30 June 2011	31 December 2010
USD denominated bank balances	1,172,422	710,148
AZN denominated bank balances	134,642	178,333
EUR denominated bank balances	33,244	46,644
TL denominated bank balances	15,017	56,182
Other currency denominated bank balances	11,400	7,849
Cash on hand	621	1,005
Total cash and cash equivalents	**1,367,346**	**1,000,161**

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

5 Cash and cash equivalents (continued)

Included in USD denominated bank balances as at 30 June 2011 is a call deposit of AZN 329,678 placed with International Bank of Azerbaijan ("IBA") (31 December 2010: to deposits of AZN 240,513 and AZN 47,874). Interest rate of these deposits during the six-month period ended 30 June 2011 and year ended 31 December 2010 were based on overnight rate less bank margin varying from 0.5 per cent to 1.5 per cent. In addition, USD denominated bank balances at 30 June 2011 included call deposit of AZN 78,670 placed with IBA, bearing interest rate of 2.85 per cent per annum (2010: 79,790).

All the bank balances and deposits are neither past due nor impaired.

6 Restricted cash and long-term deposits

Restricted cash

	30 June 2011	31 December 2010
Deposit account with IBA in USD	31,468	578,478
Letter of credit for purchase of fixed assets	2,284	21,026
Other restricted cash	26,787	18,289
Total restricted cash	**60,539**	**617,793**

Long-term deposits

At 30 June 2011 and 31 December 2010 long-term deposits with the carrying value of AZN 955,841 and AZN 399,011, respectively, were represented by the Group's deposits with IBA. At 30 June 2011 total short-term and long-term deposits are represented by time deposits in total amount of AZN 987,309 with IBA (2010: AZN 977,489) to collateralize the Group's obligations to IBA under the loan facilities obtained from IBA in May 2008 and May 2010 (Note 12). The deposits bear annual interest rate of LIBOR plus margin varying from 1.5 per cent to 3.35 per cent. The deposits will mature on 27 July 2014.

7 Trade and other receivables

	30 June 2011	31 December 2010
Trade receivables	2,392,225	1,912,523
Less impairment loss provision	(149,134)	(127,332)
Total trade receivables, net	**2,243,091**	**1,785,191**
VAT recoverable	417,115	375,433
Prepayments	171,729	138,405
Other receivables	93,811	54,049
Receivables for underlift of oil	15,014	16,566
Other taxes receivable	10,727	89,442
Less impairment loss provision (other receivables)	(54,901)	(53,395)
Total trade and other receivables	**2,896,586**	**2,405,691**

Receivables mainly represent receivables for crude oil, oil products and natural gas sold to customers of the Group. The Group does not hold any collateral as security.

At 30 June 2011 trade receivables of AZN 31,669 (31 December 2010: AZN 32,068) were past due, however the Group holds guarantee letters and letters of credits in total amount of AZN 29,156 (31 December 2010: AZN 28,790).

At 30 June 2011 trade receivables of AZN 1,861,629 (31 December 2010: AZN 1,656,439) were denominated in foreign currencies, mainly in USD.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

7 Trade and other receivables (continued)

Movements on the provision for impairment of trade and other receivables are as follows:

	2011	2010
At 1 January	**180,727**	**1,601,199**
Additional provision provided during the period	30,510	17,181
Receivables written off during the period as uncollectible	(1,056)	(2,877)
Reversal of impairment for receivables	(6,146)	(114,591)
At 30 June	**204,035**	**1,500,912**

The impaired receivables mainly relate to overdue debts (in excess of 360 days) for oil, natural gas and oil products supplied primarily to state-owned entities.

8 Property, plant and equipment

Movements in the carrying amount of property, plant and equipment were as follows:

	Oil and gas properties and equipment	Other	Construction in progress	Total
Carrying amount at 1 January 2010	**3,838,997**	**3,403,504**	**704,055**	**7,946,556**
Additions	125,319	207,978	310,175	**643,472**
Disposals	(97,206)	(10,181)	(79,895)	**(187,282)**
Acquisition of subsidiary	-	48,202	114	**48,316**
Transfers	32,176	21,920	(54,096)	**-**
Depreciation charge	(210,643)	(131,013)	-	**(341,656)**
Impairment charge	(145,195)	(1,171)	(87,410)	**(233,776)**
Translation to presentation currency	8,329	(86,187)	(3,957)	**(81,815)**
Carrying amount at 30 June 2010	**3,551,777**	**3,453,052**	**788,986**	**7,793,815**
Carrying amount at 1 January 2011	**3,852,675**	**3,598,636**	**793,316**	**8,244,627**
Additions	367,684	170,344	449,199	**987,227**
Disposals	(63,198)	(16,497)	(41,762)	**(121,457)**
Acquisition of subsidiary	-	2,041	-	**2,041**
Transfers	110,846	44,683	(155,529)	**-**
Depreciation charge	(174,662)	(152,223)	-	**(326,885)**
Impairment charge	(26,802)	(557)	(65,674)	**(93,033)**
Translation to presentation currency	(34,616)	(73,845)	(3,960)	**(112,421)**
Carrying amount at 30 June 2011	**4,031,927**	**3,572,582**	**975,590**	**8,580,099**

Included in the disposed property, plant and equipment for six months 2011 were assets with net book value of AZN 38,645 (2010: AZN 35,191) which were transferred to governmental entities as part of a program approved by the Government and recognized in the distributions to the Government.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

9 Loan receivable from jointly controlled entity

Loan receivable from jointly controlled entity represents balances due from Carlina Overseas Corp. At 30 June 2011 the carrying value of the receivable equaled to AZN 149,484 (31 December 2010: AZN 263,235). The loan bears an annual interest rate of LIBOR plus 2.5 per cent payable on a quarterly basis. The maturity date of the loan is 28 December 2014. In accordance with the Share Pledge and Retention Agreement dated 28 December 2006 and Share Charge and Retention Agreement dated 12 April 2007 between the owners of Carlina Overseas Corp. and AzACG, the owners of Carlina Overseas Corp. pledged in favour of AzACG all of their rights and interests in all proceeds and funds received or receivable by Carlina Overseas Corp. and all of their shares and any other equity interests in Carlina Overseas Corp. Management of the Group believes that the value of the collateral provides an adequate security for the carrying value of this receivable.

Under the terms of the loan agreement, if Carlina Overseas Corp. fails to repay accrued interest at the end of quarter interest is charged at default rate of LIBOR plus 4.5 per cent. Interest income accrued during the six-month period ended 30 June 2011 and 2010 equaled to AZN 6,300 and AZN 5,720, respectively.

Loan receivable from Carlina Overseas Corp. is past due as no interest payments have been received by the Group from Carlina Overseas Corp. at 30 June 2011 and 31 December 2010. As a result, default interest rate of LIBOR plus 4.5 per cent was charged on the unpaid principal loan balance during six-month period ended 30 June 2011 and six-month period ended 30 June 2010. At 30 June 2011 the impairment provision related to this receivable is AZN 210,942 (31 December 2010: AZN 95,748).

10 Investments in jointly controlled entities

During six-months period ended 30 June 2011, the Group has made additional contributions in share capital of its jointly controlled entities, SOCAR Umid LLC and SOCAR Petroleum LLC, in the amount of AZN 31,940 and AZN 30,263, respectively. In addition during six-months period ended 30 June 2011 the Group together with the Azerbaijan Investment Company and KV Enterprises established a jointly controlled entity, Baku Shipyard LLC, where the Group owns 65 per cent interest. The core business of the newly established entity is implementation of general marine engineering, construction and repair of new ships and vessels. The Group has contributed AZN 15,440 in the charter capital of this new company.

Investment in Carlina Overseas Corp
The carrying value of the Group's investments in Carlina Overseas Corp. is nil as of 30 June 2011 and 31 December 2010. At 30 June 2011 the Group's share in unrecognized losses of Carlina Overseas Corp. that exceeds the Group's interest in this investee is AZN 64,128 (31 December 2010: AZN 74,041).

11 Trade and other payables

	30 June 2011	31 December 2010
Trade payables	2,573,129	2,191,712
Accrued liabilities	67,527	111,272
Other payables	15,015	15,965
Total financial payables	**2,655,671**	**2,318,949**
Liabilities for over-lift of oil	38,482	39,796
Advances from customers	56,838	48,163
Payable to employees	39,362	38,921
Total trade and other payables	**2,790,353**	**2,445,829**

At 30 June 2011 trade payables of AZN 1,778,440 (31 December 2010: AZN 1,670,226) are denominated in foreign currencies, mainly in USD. Trade payables mainly represent payables for drilling, transportation and utilities provided by vendors of the Group.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

11 Trade and other payables (continued)

Accrued liabilities represents Group's share in the respective accrued liabilities reported by the operator of Azeri-Chirag-Guneshli Production Sharing Agreement ("ACG PSA") where the Group has 10 per cent participating interest and Shah Deniz Production Sharing Agreement ("Shah Deniz PSA") where the Group has 10 per cent participating interest ("Shah Deniz PSA").

Liabilities for overlift relate to the oil lifted by the Group in excess of its participating interests in ACG PSA and Shah Deniz PSA and thus, represents the Group's obligation to deliver physical quantities of oil out of its share of future production.

12 Borrowings

As at 30 June 2011, the Group's debt is as follows:

	30 June 2011	31 December 2010
Short-term borrowings		
Xalqbank loan	113,867	50,000
Deutsche Bank loan	112,498	77,962
Akbank T.A.Ş/Turkiye Garanti Bankasi A. Ş loan	40,198	27,807
International Bank of Azerbaijan loan	38,348	585,353
HSBC	23,121	-
Ministry of Finance loan	21,800	21,800
Bank of Georgia loan	11,293	14,014
Turkiye Garanti Bankasi A. Ş loan	-	15,890
Export – Import Bank of Japan loan	-	4,483
YapiKredi loan	3,265	-
Other short-term borrowings	3,138	12,246
Accrued interest payable	3,129	15,553
Current portion of long-term borrowings	132,405	171,724
Total short-term borrowings and current portion of long-term	**503,062**	**996,832**
Long-term borrowings		
International Bank of Azerbaijan loan	1,580,841	1,148,950
Akbank T.A.Ş loan	484,440	500,528
Credit Suisse	295,013	-
ING Bank	157,340	-
BNP Paribas loan	157,340	152,852
Ministry of Finance loan	157,071	161,301
YapiKredi loan	106,204	111,048
Deutsche Bank loan	102,271	-
Natixis S.A loan	93,967	56,484
West LB loan	59,003	58,626
Societe Generale loan	39,335	39,096
Other long-term borrowings	896	5,683
Less:		
Current portion of long-term borrowings	(132,405)	(171,724)
Total long-term borrowings	**3,101,316**	**2,062,844**
Total borrowing and other debt	**3,604,378**	**3,059,676**

12 Borrowings (continued)

Deutsche Bank loan. On 29 October 2009 the Deutsche Bank provided a loan to the Group for a 12 month period. The total amount of financing available under this facility agreement was USD 80,000 thousand (AZN 62,936). The loan bears an annual interest rate of LIBOR plus 2 per cent. In October 2010 the Group fully repaid the loan and entered into a new loan agreement with the bank for a 12 month period. The total amount of this facility is USD 100,000 thousand (AZN 78,670) and bears an annual interest rate of LIBOR plus 1.5 per cent. At 30 June 2011 the total outstanding balance under this facility was AZN 78,670 (31 December 2010: AZN 77,962).

In April 2011 Deutsche Bank provided a loan to the Group for a 36 month period. The total amount of financing available under this facility agreement was USD 130,000 thousand (AZN 102,271). The loan bears an annual interest rate of LIBOR plus 2.6 per cent. At 30 June 2011 the total outstanding balance under this facility was AZN 102,271 (31 December 2010: nil).

On 15 June 2011 the Group obtained another loan from Deutsche Bank with maturity date of 15 December 2011. The total amount of financing available under this facility agreement was USD 43 million (AZN 33,828). The loan bears an annual interest rate of LIBOR plus 1.65 per cent. At 30 June 2011 the total outstanding balance under this facility was AZN 33,828 (31 December 2010: nil).

Akbank T.A.Ş loan. On 4 December 2009 Akbank T.A.Ş. provided a loan to the Group with maturity date of 6 April 2011. The total amount of financing available under this facility agreement was USD 35,000 thousand (AZN 27,535). The loan bears an annual interest rate of 2.4 per cent. In April 2011, the maturity date of the loan was prolonged till 1 August 2011. The amount outstanding under this facility as at 30 June 2011 was AZN 27,535 (31 December 2010: AZN 27,807).

On 4 April 2011 Akbank T.A.Ş provided another loan to the Group amounting USD 15,500 thousand (AZN 12,194) maturing on 4 August 2011. The loan bears an annual rate of 2.4 per cent. The amount outstanding under this facility as at 30 June 2011 was AZN 12,193 (31 December 2010: nil).

Akbank T.A.Ş./Turkiye Garanti Bankasi A.Ş loan. In May 2008, the Group obtained a syndicated loan from Turkiye Garanti Bankasi A.Ş. and Akbank T.A.Ş. acting as lead arrangers for a total amount of USD 625 million bearing annual interest of LIBOR plus 3 per cent for the period from May 2008 through May 2012, and LIBOR plus 4 per cent for the period from May 2012 through in May 2017. The loan is repayable in 7 (seven) pre-defined annual installments commencing in 2011. Loan maturity date is 30 June 2017. In accordance with the terms of the loan, the funds were made available to the Group to finance the acquisition of Petkim. The Group pledged its 99.75 per cent interest in STEAŞ, a subsidiary holding the Group's 51 per cent voting interest in Petkim Petrokimya Holding A.Ş. as collateral for the amounts due under this facility. The amount outstanding under this facility as at 30 June 2011 was AZN 475,265 (31 December 2010: AZN 500,528). The loan was fully repaid by the Group on August 17, 2011 (Note 20).

With respect to the aforementioned credit facility obtained for the acquisition of Petkim shares, there are certain restrictions on the Group related to the distribution of cash and non-cash dividends and related to investment of the dividends received from Petkim. In addition, the Group has to meet several financial and non-financial covenants. These financial covenants are mainly related with company gearing, consolidated debt cover, consolidated interest cover and debt-service coverage ratios. In the event that these covenants are not fulfilled, the aforementioned banks have the right to recall the outstanding borrowing. The Group has obtained waiver for consolidated debt cover and consolidated interest cover. Another requirement brought by the same credit facility is that the Group has committed to identify and complete the necessary work at Petkim in order to provide compliance of Petkim with the currently effective environmental regulations.

On 23 February 2011 Akbank T.A.Ş provided a loan to the Group with a maturity of 36 months. The total amount of financing available under this facility agreement was USD 7 million (AZN 5,507). The loan bears an annual interest rate of LIBOR plus 3.75 per cent. The amount outstanding under this facility as at 30 June 2011 was AZN 5,507 (31 December 2010: nil).

On 2 May 2011 Akbank T.A.Ş provided a loan to the Group with a maturity of 36 months. The total amount of financing available under this facility agreement was USD 5,260 thousand (AZN 4,138). The loan bears an annual interest rate of LIBOR plus 3.75 per cent. The amount outstanding under this facility as at 30 June 2011 was AZN 4,138 (31 December 2010: nil).

12 Borrowings (continued)

Turkiye Garanti Bankasi A. Ş loan. On 4 December 2009 Turkiye Garanti Bankasi A.Ş provided a loan to the Group with maturity date of 4 April 2011. The total amount of financing available under this facility agreement was USD 20,000 thousand (AZN 15,734). The loan bears an annual interest rate of 1.95 per cent. The loan was fully repaid by the Group as of 30 June 2011 (31 December 2010: AZN 15,890).

International Bank of Azerbaijan loan. On 22 May 2008, IBA provided a loan to the Group of USD 665 million (AZN 523,156) for the period of 36 months until 22 May 2011. The loan bears an annual interest of LIBOR plus 2 per cent. The loan was fully repaid by the Group as of 30 June 2011. The amount outstanding under this facility at 31 December 2010 was AZN 528,335.

On 1 July 2010, the Group obtained another loan from IBA amounting to USD 20 million (AZN 15,958) for the period of 9 month till April 2011. The loan bears an annual interest rate of 1.65 per cent. The proceeds from this facility were directed towards implementation of gasification program in the Azerbaijan Republic. The loan was fully repaid by the Group as of 30 June 2011. The amount outstanding under this facility at 31 December 2010 was AZN 10,639.

On 21 July 2009, IBA provided a loan to the Group of AZN 750 million for the period of 84 months until July 2016 for the purposes of refinancing of existing loans and finance the Group's investment activities. The loan bears an annual interest rate of 3 per cent. The amount outstanding under this facility as at 30 June 2011 was AZN 625,000, including AZN 125,000 related to current portion of long term borrowings (31 December 2010: AZN 750,000).

On 4 August 2010, the Group obtained a loan from IBA amounting to USD 30,000 thousand (AZN 23,937) with an interest rate of 14 per cent maturing on 4 April 2011. In April 2011, the maturity date of the loan was prolonged till March 2012. As of 30 June 2011 the outstanding loan amount is AZN 7,548 (31 December 2010: AZN 7,979).

On 27 July 2009, the Group obtained another loan from IBA amounting to USD 420 million (AZN 337,302) with a fixed rate of 3.5 percent maturing on 22 July 2014. With the proceeds of this new loan, the Group fully paid the debt to Viani amounting to USD 227 million (AZN 182,304) in 2009. As of 30 June 2011 the outstanding loan amount is AZN 330,414 (31 December 2010: AZN 335,118). This borrowing was collateralized by a special cash deposit of USD 420 million (AZN 330,414) placed with IBA.

On 20 May 2010, the Group obtained a loan from IBA amounting to USD 80,000 thousand (AZN 62,936) with an interest rate of LIBOR plus 3.5 per cent maturing on 20 May 2013. As of 30 June 2011 the outstanding loan amount is AZN 62,936 (31 December 2010: 63,832). This borrowing was collateralized by a special cash deposit of USD 80 million (AZN 62,936) placed with IBA.

During the period from 29 December 2008 through 30 September 2009 the Group's subsidiary Azerikimya PU before its acquisition by the Group obtained several loans from IBA in total amount of AZN 39,200. After combination with the Group the terms of these loans were renegotiated with the IBA. According to the revised terms these loans bear annual interest rate of 3 per cent and mature on 16 May 2011. In May 2011 the maturity date of the loan was prolonged till 16 May 2012. The amount outstanding under this facility as at 30 June 2011 was AZN 30,800 (31 December 2010: AZN 38,400).

On 23 May 2011 IBA provided another loan facility to the Group amounting USD 715 million (AZN 562,491) with a maturity period of 36 months. Interest rate under this facility is 3.5 per cent. As of 30 June 2011 outstanding amount was AZN 562,491 (31 December 2010: nil).

Ministry of Finance loan. In April 2000, the Azerigaz CJSC, which became a part of the Group since 1 July 2009, entered into a loan agreement with the Ministry of Finance of the Azerbaijan Republic for a total amount of JPY 15,462,232 thousand bearing an annual interest rate of 1.5 per cent and repayable in 60 semi-annual installments commencing on 20 September 2009. This facility was provided to the Ministry of Finance of the Azerbaijan Republic by the Japanese Bank for International Cooperation. Loan maturity date is 20 September 2039. The proceeds from this facility were directed towards implementation of gasification program in the Azerbaijan Republic. The amount outstanding under this facility as at 30 June 2011 was AZN 141,331, including AZN 2,469 related to current portion (31 December 2010: AZN 143,825).

12 Borrowings (continued)

On 17 February 2003, Ministry of Finance provided loan facility for AZN 12,400 to the AzeriKimya state-owned company for the period of 3 years until 1 January 2008, however it was not repaid on due date, and no penalty was applied on it by the Ministry of Finance. The loan bears annual interest rate of 1 per cent. The amount outstanding under this facility as at 30 June 2011 was AZN 12,400 (31 December 2010: AZN 12,400).

On 20 November 2003, Ministry of Finance provided loan facility for AZN 9,400 to the AzeriKimya state-owned company for the period of 4 year until 20 November 2007, however it was not repaid on due date, and no penalty was applied on it by the Ministry of Finance. The loan bears annual interest rate of nil per cent. The amount outstanding under this facility as at 30 June 2011 was AZN 9,400 (31 December 2010: AZN 9,400).

The Group is negotiating with the Ministry of Finance for restructuring of these loans facilities, including their possible cancellation. Management of the Group expects positive outcome of the negotiation.

On 15 July 2009, Ministry of Finance provided loan facility for AZN 8,584 to the AzeriKimya state-owned company for the period of 4 year until 1 December 2013. The loan bears a nominal annual interest rate of nil per cent and discounted using 2.5 per cent effective discount rates regarded as a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability as of the reporting date. The amount outstanding under this facility as at 30 June 2011 was AZN 6,946 (31 December 2010: AZN 8,021).

On 19 April 2010, Ministry of Finance provided loan facility for AZN 4,204 to the Group for the period of 4 year until 1 June 2014. The loan bears annual interest rate of nil per cent and was discounted using 2.5 per cent effective discount rates regarded as a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability as of the reporting date. The amount outstanding under this facility as at 30 June 2011 is AZN 4,087 (31 December 2010: AZN 4,204).

In July 1996 the Azerigaz CJSC entered into a loan agreement with the Ministry of Finance of the Azerbaijan Republic for a total amount of USD 17,234 thousand bearing annual interest rate applicable for World Bank Currency Pool Loans with interest rate of 7.79 per cent in the reporting period and repayable in 29 semi-annual installments commencing on 15 December 2001. This facility was provided to the Ministry of Finance of the Azerbaijan Republic by the International Development Association. Loan maturity date is 15 June 2016. The proceeds from this facility were directed towards implementation of gasification program in the Azerbaijan Republic. The amount outstanding under this facility as at 30 June 2011 was AZN 4,707 including AZN 471 related to current portion (31 December 2010: AZN 5,251).

Export – Import Bank of Japan loan. In 26 February 1998, Azerikimya, which was acquired by the Group on 2 April 2010, entered into a loan agreement with Export – Import Bank of Japan for a total amount of JPY 9,150,250 thousand bearing annual interest rate of 2.5 per cent and repayable in 20 semi-annual installments commencing in 21 July 2001. Loan maturity date is 21 January 2011. The proceeds from this facility were directed towards installation of steam generation facility. The loan was fully repaid by the Group as of 30 June 2011. The amount outstanding under this facility at 31 December 2010 was AZN 4,483.

Natixis S.A Bank loan. On 16 December 2009, Natixis S.A Bank (France) provided a loan to the Group in the amount of USD 30 million for the period of 36 months. The loan is repayable in pre-determined installments starting from 2010. The loan bears an annual interest of LIBOR plus 5 per cent. At 30 June 2011 the amount of the facility was fully settled (31 December 2010: AZN 17,409).

In May 2010 Group entered in a loan agreement with Natixis S.A Bank for a total amount of USD 50 million for the period of 36 month until 31 May 2013. The loan bears an annual interest rate of LIBOR plus 3.75 per cent. The amount outstanding under this facility as at 30 June 2011 was AZN 34,964, including AZN 8,741 related to current portion (31 December 2010: AZN 39,075).

In May 2011 Group entered in another loan agreement with Natixis S.A Bank for a total amount of USD 75 million for the period of 36 month until 31 May 2014. The loan bears an annual interest rate of LIBOR plus 2.3 per cent. The amount outstanding under this facility as at 30 June 2011 was AZN 59,003, including AZN 4,214 related to current portion (31 December 2010: nil).

12 Borrowings (continued)

BNP Paribas loan. On 19 March 2010 the Group entered into a credit line agreement with BNP Paribas with USD 250 million limit maturing in March 2013. Total drawn amount as per 30 June 2011 constitutes USD 200 million (AZN 157,340). The interest rate for this loan is LIBOR plus 4 per cent per annum. The Group took this loan for general corporate purposes. The amount outstanding under this facility as at 30 June 2011 was AZN 157,340 (31 December 2010: AZN 152,852).

WEST LB loan. In July 2010 the Group entered into a loan agreement with WEST LB Bank for the amount of USD 75 million maturing in July 2013. The interest rate on this loan is LIBOR plus 3.85 per cent per annum. The amount outstanding under this facility as at 30 June 2011 was AZN 59,003 (31 December 2010: AZN 58,626).

YapiKredi Bank loan. In July 2010 the Group entered into a loan agreement with YapiKredi Bank for the amount of USD 100 million maturing in July 2013. The interest rate for this loan is LIBOR plus 3.65 per cent per annum. The amount outstanding under this facility as at 30 June 2011 was AZN 78,670 (31 December 2010: AZN 79,790).

In August 2010 the Group borrowed another loan in the amount of USD 4,150 thousand from YapiKredi bank maturing in January 2012. The interest rate on the loan is 5.5 per cent per annum. The amount outstanding under this facility as at 30 June 2011 was AZN 3,265 (31 December 2010: AZN 3,311).

In December 2010 the Group entered into another loan agreement for the amount of USD 35 million maturing in December 2013. The interest rate for this loan is LIBOR plus 4 per cent per annum. The amount outstanding under this facility as at 30 June 2011 was AZN 27,534 (31 December 2010: AZN 27,947).

Societe Generale loan. In December 2010 Societe Generale provided a loan of USD 50 million for the period of 36 months until December 2013. The loan bears an annual interest of 4 per cent. The Group took this loan for general corporate purposes. The amount outstanding under this facility as at 30 June 2011 was AZN 39,335 (31 December 2010: AZN 39,096).

Credit Suisse loan. In May 2011 the Group entered into a loan agreement with Credit Suisee for the amount of USD 375 million maturing in June 2019. The interest rate for this loan is LIBOR plus1.85 per cent per annum. The amount outstanding under this facility as at 30 June 2011 was AZN 295,013 (31 December 2010: AZN nil).

Bank of Georgia loan. In December 2010 the Group entered into a loan agreement with Bank of Georgia for the amount of USD 23,574 thousand maturing in December 2011. The interest rate for this loan is 13 per cent per annum. The amount outstanding under this facility as at 30 June 2011 was AZN 11,293 (31 December 2010: AZN 14,014).

HSBC loan. In May 2011 the Group entered into a loan agreement with HSBC Bank for the amount of USD 20 million maturing in November 2011. The interest rate on this loan is LIBOR plus 2.3 per cent per annum. The amount outstanding under this facility as at 30 June 2011 was AZN 15,647 (31 December 2010: nil).

In April 2011 the Group entered into another loan agreement with HSBC for the amount of USD 9,500 thousand maturing in October 2011. The interest rate for this loan is 2.4 per cent per annum. The amount outstanding under this facility as at 30 June 2011 was AZN 7,474 (31 December 2010: nil).

ING bank loan. In April 2011 the Group entered into a loan agreement with ING Bank for the amount of USD 200 million maturing in April 2014. The interest rate on this loan is LIBOR plus 2.55 per cent per annum. The amount outstanding under this facility as at 30 June 2011 was AZN 157,340 (31 December 2010: nil).

Xalqbank loan. In March 2011 the Group entered into a loan agreement with Xalqbank for a total amount of USD 100,000 maturing in March 2012. The amount outstanding under this facility as at 30 June 2011 was AZN 63,867 (31 December 2010: nil). This loan bears an annual interest rate of 5 per cent.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

12 Borrowings (continued)

In July 2010 the Group entered into a loan agreement with Xalqbank for a total amount of AZN 50,000 for the period of 8 month until March 2011. In March 2011, the maturity date of loan was prolonged till March 2012. The loan bears an annual interest rate of 3.15 per cent. The amount outstanding under this facility as at 30 June 2011 was AZN 50,000 (31 December 2010: AZN 50,000).

The Group's borrowings and other debt is denominated in currencies as follows:

	30 June 2011	31 December 2010
Borrowings and other debt denominated in:		
- US Dollar (USD)	2,722,832	2,036,591
- Azerbaijani Manat (AZN)	738,633	872,543
- Japanese Yen (JPY)	141,331	148,308
- Georgian Lari (GEL)	-	461
- Turkish Lira (TL)	1,582	1,773
Total borrowings	**3,604,378**	**3,059,676**

13 Asset retirement obligation and other provisions for liabilities and charges

Asset retirement obligation

The Group has a legal and constructive obligation with respect to decommissioning of oil and gas production and storage facilities and environmental clean-up. Movements in provisions for the related asset retirement obligations are as follows:

	Note	2011	2010
Carrying amount at 1 January		**324,632**	**170,727**
Change in estimated decommissioning and site restoration costs		62,037	21,165
Unwinding of the present value discount	17	7,214	3,487
Effect of change in discount rate		22,649	124,292
Exchange differences		(2,911)	(897)
Carrying amount at 30 June		**413,621**	**318,774**

The Group makes full provision for the future cost of oil and natural gas production facilities retirement and related pipelines based on the present value of the decomissioning of those facilities. The provision has been estimated using existing technology, at current prices and discounted using pre-tax discount rates that reflects current market assessments of the time value of money and the risks specific to the liability as of the reporting date. These costs are expected to be incurred over the useful life of the fields and properties ranging between 13 and 71 years from the reporting date.

Included within the asset retirement obligation at 30 June 2011 was AZN 118,354 (31 December 2010: AZN 53,034) relating specifically to estimated site restoration liabilities. Estimated costs of dismantling oil and gas production facilities, pipelines and related processing and storage facilities, including decommissioning and site restoration costs amounting to AZN 207,919 at 30 June 2011 (31 December 2010: AZN 241,819) are included in the cost of oil and gas properties and equipment.

The following inflation rates were applied in calculation of discounted cash flows:

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020 and later
Inflation rate	7.5%	5.0%	5.0%	5.0%	5.0%	4.5%	4.0%	3.5%	3.0%

While the provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines, there is uncertainty regarding both the amount and timing of incurring these costs.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

13 Asset retirement obligation and other provisions for liabilities and charges (continued)

Asset retirement obligation related to the PSAs is determined with reference to capital costs incurred by contractor parties. It is limited to 10 per cent the capital costs incurred by contractor parties and their payments are linked to maturities of respective PSAs. Governmental authorities are continually reviewing regulations and their enforcement. Consequently, the Group's ultimate liabilities may differ from the recorded amounts.

Other provisions for liabilities and charges
Movements in provisions for liabilities and charges are as follows:

	Note	Environmental obligations	Disability payments	Unused vacation	Total
Carrying amount at 1 January 2010		**416,544**	**39,421**	**2,833**	**458,798**
Change in estimate		(13,473)	12,130	10,494	9,151
Utilisation		(19,781)	(4,837)	-	(24,618)
Unwinding of the present value discount	17	17,495	1,607	-	19,102
Discount rate change		13,800	11,772	159	25,731
Carrying amount at 30 June 2010		**414,585**	**60,093**	**13,486**	**488,164**
of which:					
Current		70,679	13,552	13,327	97,558
Non-current		343,906	46,541	159	390,606
Carrying amount at 1 January 2011		**416,419**	**56,546**	**8,306**	**481,271**
Change in estimate		4,425	19,420	2,555	26,400
Utilisation		(6,160)	(5,816)	(1,803)	(13,779)
Unwinding of the present value discount	17	12,836	1,954	-	14,790
Discount rate change		340	1,576	-	1,916
Carrying amount at 30 June 2011		**427,860**	**73,680**	**9,058**	**510,598**
of which:					
Current		173,282	12,312	9,058	194,652
Non-current		254,578	61,368	-	315,946

Under the Presidential Decree number 1697 dated 28 September 2006 the Group prepared and approved the Action Plan for Environmental Restoration with respect to the damage caused to the environment as a result of the Group's activities within the Apsheron area. In 2009 the Group amended the Action Plan in accordance with the Presidential Decree dated 14 April 2009. Corresponding provision is recognised at the present value of future costs to be incurred for the environmental remediation. The Group estimates that the related costs will be incurred from 2011 through 2013.

The Group has an obligation to compensate its employees for the damage caused to their health during their employment, as well as to compensate the families of the employees died at work. The compensation provided is linked to the salaries paid to the affected employees. The Group calculated the present value of the disability payments to employees using a discount rate of 6.76 per cent. For the purpose of calculation of the lifetime payments to injured employees, the Group estimated a life expectancy as 71 and 76 for men and women, respectively. The inflation rates presented above were applied to match the escalation in average salaries.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

14 Charter capital and distributions to the Government

Charter capital
Parent company of the Group, SOCAR, has a legal status of a state enterprise. At the date of incorporation of the Group, the Government of the Azerbaijan Republic contributed AZN 22,726 to the charter capital. Under the Decree of the Cabinet of Ministers of the Azerbaijan Republic number 436s dated 11 December 2008, the Group's charter capital was increased by AZN 600,000.

During 2010 the Group's charter capital increased by AZN 246,532. This increase partially relates to the acquisition of another state-owned entity Azerikimya SC as a result of which AZN 10,006 of Azerikimya SC charter capital was combined with the Group's charter capital (see Note 19 for more details). The remaining increase of AZN 236,526 was made under the Decree of the Cabinet of Ministers number 186 dated 22 October 2010. The Group's increased charter capital has been registered in January 2011.

Distributions to the Government
Based on decisions of the Government, the Group is periodically mandated to make direct cash contributions or finance construction and repair works for the Government (including transfer of assets), various government agencies and projects administered by the Government. During the six-month period ended 30 June 2011, such direct cash transfers to the Government and financing (made in the form of payments to sub-contractors of governmental entities and transfer of assets constructed by the Group) amounted to AZN 117,689 and AZN 180,269, respectively (2010: AZN 93,156 and AZN 125,041, respectively), mainly for repair and reconstruction of existing, as well as construction of new recreational, transport, educational and medical infrastructure of the Azerbaijan Republic.

15 Deferred acquisition consideration payable

On 30 May 2008 the Group, through its subsidiary STEAŞ, acquired 51 per cent of the voting share capital of Petkim Petrokimya Holding A.Ş ("Petkim"), a leading petrochemical concern primarily involved in production and marketing of a variety of petrochemical products in the Turkish as well as international markets.

Upon acquisition of Pektim the Group deferred cash consideration in the amount of USD 380 million (AZN 317,832) payable to the Republic of Turkey Ministry Privatization Administration (the "Administration") for this acquisition.

Deferred consideration of USD 40 million (AZN 32,992) was paid on 30 May 2010. The remaining amount was paid to the Administration on May 30, 2011.

16 Analysis of revenue by categories

	Six months ended 30 June 2011	Six months ended 30 June 2010
Petrochemicals	1,072,580	765,109
Oil products, net	1,058,324	952,592
Crude oil, net	628,807	499,706
Natural gas	563,247	389,162
Other revenue	111,358	114,114
Total revenue	**3,434,316**	**2,720,683**

Revenue from crude oil sales is stated net of price margin tax which is levied on the margins between the international market price and internal state-regulated price on crude oil. The difference between the market price and the internal state-regulated price is taxed at the rate of 30 per cent and the amount of tax is transferred to the State Budget.

Revenue from oil product sales is stated net of excise tax of AZN 202,530 (30 June 2010: AZN 175,892).

Revenue from sales of crude oil produced under ACG PSA and condensate produced under Shah Deniz PSA is not subject to excise and price margin taxes mentioned above.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

17 Finance costs

	Note	Six months ended 30 June 2011	Six months ended 30 June 2010
Interest expense		65,951	81,564
Environmental provision: unwinding of the present value discount	13	12,836	17,495
Provisions for asset retirement obligations: unwinding of the	13	7,214	3,487
Provision for disability payments: unwinding of the present value	13	1,954	1,607
Total finance costs recognised in the interim consolidated statement of comprehensive income		**87,955**	**104,153**

18 Contingences, commitments and operating risks

Operating environment. The Group's operations are conducted in the Azerbaijan Republic. As an emerging market, at the present time the Azerbaijan Republic does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy.

Whilst there have been improvements in economic trends in the Azerbaijan Republic, the country continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Azerbaijan Republic. The tax, currency and customs legislation within the Azerbaijan Republic is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Azerbaijan Republic is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments. Management is unable to predict all developments in the economic environment which would have an impact on the Group's operations and consequently what effect, if any, they could have on the financial position of the Group.

The Azerbaijani economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. While the Azerbaijan Government has introduced a range of stabilization measures, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects. While Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

These interim financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the period when they become known and estimable.

Tax legislation. Azerbaijan tax, currency and customs legislation is subject to varying interpretations, and changes, which may occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

Fiscal periods remain open to review by the tax authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances such reviews may cover longer periods.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained and potential tax liabilities of the Group will not exceed the amounts recorded in these financial statements. Accordingly, at 30 June 2011 and 31 December 2010 no provision for potential tax liabilities had been recorded.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

18 Contingences, commitments and operating risks (continued)

Environmental matters. The enforcement of environmental regulation in the Azerbaijan Republic is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage above environmental obligation provision currently made by the Group. See Note 13.

The Group is subject to various national and local environmental laws and regulations concerning its products, operations and other activities. These laws and regulations may require the group to take future action to remediate the effects on the environment of prior disposal or release of chemicals or petroleum substances by the Group or other parties. Such contingencies may exist for various sites including refineries, chemical plants, oil fields, service stations, terminals and waste disposal sites. In addition, the Group may have obligations relating to prior asset sales or closed facilities. The ultimate requirement for remediation and its cost are inherently difficult to estimate. However, the estimated cost of known environmental obligations has been provided in the consolidated financial statements in accordance with the Group's accounting policies.

The Group also has obligations to decommission oil and natural gas production facilities and related pipelines. Provision is made for the estimated costs of these activities, however there is uncertainty regarding both the amount and timing of these costs, given the long-term nature of these obligations. The Group believes that the impact of any reasonably foreseeable changes to these provisions on the Group's results of operations, financial position or liquidity will not be material.

Guarantees received and given. The following table demonstrate guarantees received and given by the Group at 30 June 2011 and 31 December 2010

	30 June 2011	31 December 2010
Guarantees received		
Letters of guarantee received	136,808	145,543
Bank guarantees within context of direct order collection system (DOCS)	128,329	106,392
Other	971	1,028
Total guarantees received	**266,108**	**252,963**

	30 June 2011	31 December 2010
Guarantees given		
Letter of guarantee given for Petkim acquisition	-	296,778
Guarantee cheques given	33,978	35,973
Letters of guarantee given	26,343	22,303
Bank guarantees within the context of DOCS	-	28,008
Total guarantees given	**60,321**	**383,062**

At 30 June 2011 the Group had loan payable in the amount of AZN 475,265 (Note 12) received for the acquisition of Petkim. According to these loan agreements 51 per cent of the shares of Petkim belonging to the Group have been pledged in favor of the creditor banks (Note 12).

18 Contingences, commitments and operating risks (continued)

Based on the Share Sales Agreement, the Group has accepted and committed to take the Administration's approval for any kind of stock transfer that will result in change in controlling interest of Petkim for the following three years after signing the Share Sales Agreement.

The Group has accepted and committed to make investments over a certain amount for infrastructure and services for Petkim harbour, increase production capacities of factories and establish new factories for the following three years after the Share Sales Agreement. The Group also has accepted and committed to continue production in the Ethylene Factory and produce a certain amount for at least three years after signing the Share Sales Agreement unless there are unforeseen situations that do not involve the Group.

The Group is responsible for all operations, all unrecorded receivables, payables and liabilities that are related to the period prior to the acquisition of Petkim. The Group has accepted and committed that it has no right of application or rescinding that may result in binding of Administration or Petkim about aforementioned matters. This liability will be valid for continuing share transfers.

Commitment of Azerigaz CJSC. Based on Presidential decree number 80 dated 14 April 2009, directed to social-economical development of Baku area and regions of the Azerbaijan Republic, Azerigaz CJSC had certain commitments with respect to improvement of gasification options in mentioned areas. According to this decree, Azerigaz CJSC would be engaged in restoration of old magisterial and local gas pipelines, gasification of new residential communities/regions/far locations, and renewal of old gas meters on magisterial gas traffic control points, industrial and personal meters for physical customers.

Management estimates that the Group will incur expenditures for implementation of this program during the years 2011-2013 in the amount of AZN 1,016,128. As of 30 June 2011 expenditures amounting AZN 161,044 has been spent and outstanding amount is AZN 855,084.

Gas purchase commitment. At 30 June 2011 and 31 December 2010 the Group holds 8 per cent interest in the Azerbaijan Gas Supply Company ("AGSC"). AGSC was established together with the Ministry of Fuel and Energy of the Azerbaijan Republic and contractor parties of Shah Deniz PSA. Based on the Gas sales and purchase agreement signed on 27 February 2003 between AGSC and the Ministry of Fuel and Energy of the Azerbaijan Republic (currently purchase rights under this agreement are executed by the Group), the Group has obligation to purchase seller's minimum annual quantity as indicated in the agreement. Monetary amount of commitment to purchase seller's minimum annual quantity is USD 109,550 thousand (AZN 86,182).

Participating interest in Shah Deniz PSA. BP Exploration Shah Deniz Limited, the Operator of the Shah Deniz PSA, has entered into a number of capital commitments as at 30 June 2011. The Group estimated its 10 per cent share of these commitments to be AZN 50,608.

Participating interest in ACG PSA
Azerbaijan International Operating Company, the Operator of ACG PSA, has entered into a number of capital commitments and operating leases as of June 30, 2011. The Group estimated its 10 per cent share of these commitments and operating leases to be AZN 640,000 and AZN 9,360, respectively.

18 Contingences, commitments and operating risks (continued)

Commitments related to participating interest in AGSC. The Group holds 8 per cent interest in AGSC. In accordance with the agreements of AGSC the Group has the following commitments relating to AGSC's activity:

- *Gas contract.* AGSC is obliged under the agreement signed with BOTAS Petroleum Pipeline Corporation to make available a maximum of approximately 6.3 bcm from 2010 and onwards at a price calculated based on a formula established by the Gas Contract.

- *Georgian gas obligation.* AGSC is obliged under an agreement signed with Georgian Oil and Gas Corporation and the government of Georgia to make available 0.3 bcm in 2010, rising to 0.5 bcm in 2011 and onwards, at a price which is calculated based on a formula established in the contract.

- *Sale and purchase agreement with Baku-Tbilisi-Ceyhan Pipeline Company ("BTC").* AGSC is obliged under an agreement signed with BTC to make available approximately 0.23 bcm in the contract year starting in 2010 and during the following three years which is the Plateau period, at a price which is calculated based on a formula established in the contract.

The performance of AGSC under the Gas Contract is guaranteed under the Agreement between the Republic of Turkey and the Azerbaijan Republic Concerning the "Delivery of Azerbaijan Natural Gas to the Republic of Turkey" signed on 12 March 2001 ("Azerbaijan-Turkey IGA"), by the Government. Commitments indicated above in respect of gas volumes to be delivered by AGSC are covered by the Upstream Purchase Agreements ("UPA") signed with the Shah Deniz PSA contractor parties and the SOCAR (for and on behalf of the Azerbaijan Republic).

The Shah Deniz PSA contractor parties and the Group are obliged to deliver and sell to AGSC the necessary volumes of gas to fulfill AGSC's obligations listed above at a price resulting in neither a gain nor a loss to AGSC.

In addition to the above, the Shah Deniz PSA contractor parties and the Group are obliged to pay to AGSC all transportation charges and third party liabilities as stipulated in the UPAs.

Sale and purchase agreement with South Caucasus Pipeline Option Gas Company Limited ("Option Co"). AGSC is obliged under the agreement signed with Option Co to make available 0.22 bcm in the second contract year starting on 1 October 2009. In the third contract year starting on 1 October 2010 AGSC is obliged to make available 0.24 bcm of gas. Thereafter, AGSC is obliged to deliver during a contract year, which starts on 1 October a maximum of five percent of the volumes transported by AGSC through Georgia via the South Caucasus pipeline in the previous calendar year, at a price which is calculated based on a formula established in the contract.

Azerbaijan gas obligation. AGSC is obliged under the agreement signed with SOCAR to make available a maximum of approximately 1.5 bcm in 2010 and onwards at a price calculated based on the formula established in the agreement. During 2010, SOCAR has taken all volumes made available and even partially exercised its make-up gas right by taking additional 0.3 bcm of gas. SOCAR has a right to take the remaining make-up gas volumes accumulated in 2008 and 2009 during next succeeding three delivery years, therefore AGSC is required to use reasonable endeavours to make available the gas in excess of Minimum Daily Quantity during 2011 and 2012 subject to SOCAR's ability to take full Buyer Maximum Annual Quantities for those years.

Oil shipment commitment. On 1 August 2002 the Group and other participants under the ACG PSA (the "Shipper Group") have entered into the ACG Field Production Transportation Agreement ("ACG TA") with the BTC Company which was amended on 3 February 2004. Under this Agreement, the Shipper Group (including the Group) have committed to ship through the BTC pipeline all of their crude oil entitlement from the ACG field, other than any production which each participant may ship through the Western Export Route. The Group has agreed to transport its crude oil by rail unless Baku-Tbilisi-Ceyhan pipeline is operating at its full capacity. However, in accordance with ACG TA the Group has agreed not to use other transportation options if capacity of the BTC is sufficient.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

18 Contingences, commitments and operating risks (continued)

The BTC pipeline was put into operation in May 2006. A total of 10 million barrels of oil from the ACG fields was used to fill the pipeline and the first tanker loaded with oil which had flowed through the BTC sailed away from the Ceyhan terminal on the Mediterranean coast of Turkey on 4 June 2006. The BTC pipeline, with a throughput capacity of more than 1,000,000 barrels per day, is used as the Shipper Group's main export route.

In accordance with the Transportation Agreement, Direct Agreement entered into on 3 February 2004 by BTC, the Shipper Group, the Group Representative, the lenders and security trustee to BTC, and the lenders and security trustee to certain of the ACG Shipper Group, the parties have agreed that payment of BTC tariff has a first priority claim on oil and oil sale proceeds.

19 Business Combination

Azerikimya state-owned company On 2 April 2010 the Group acquired 100 per cent of the share capital of Azerikimya state-owned company. According to the Presidential Decree dated 2 April 2010 "On improvement of management framework in the petrochemicals industry" Azerikimya state-owned company, which is involved in production of petrochemicals in the Azerbaijan Republic was transferred to SOCAR. Based on the results of analysis of acquired rights SOCAR management concluded that 2 April 2010 should be considered as a date of transition of control over Azerikimya state-owned company. Following this acquisition, Azerikimya state-owned company was transformed into Azerikimya PU within SOCAR structure.

Fair values of identifiable assets and liabilities related to Azerikimya PU acquisition are as follows:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	5,382
Restricted cash	10
Trade and other receivables	63,364
Corporate income tax prepayments	-
Inventories	49,693
Property, plant and equipment	48,316
	166,765
Liabilities	
Trade and other payables	(254,739)
Short-term and current portion of long-term borrowings	(71,193)
Corporate income tax payable	(27,571)
Other taxes payable	(17,714)
Other provisions	(1,384)
Long-term borrowings	(12,514)
	(385,115)
Total identifiable net liabilities at fair value	**(218,350)**

SOCAR obtained control over Azerikimya in the transaction under common control of the Government of the Azerbaijan Republic by increase of charter capital of the Group by AZN 10,006 without transfer of any consideration. According to accounting policy of the Group, transactions under common control are accounted for using the purchase method of accounting. For this purpose the Group estimated the fair value of business transferred.

19 Business combination (continued)

It has been concluded that the fair value of the business transferred is negative and equals to the fair value of net assets. The reasons for negative value of the business are the following facts that:

- Key production equipment is outdated, highly amortized, characterized by low productivity, high energy consumption rates and potential ecological problems;
- Some outputs do not find strong demand on the market or represent products with low added value;
- Azerikimya has poorer position from the point of regional transport infrastructure as opposed to a number of competitors which impose considerable restrictions on the supply channels and export routes.

Due to the fact that transaction was under common control the difference between the fair value of business acquired and consideration transferred (which is zero) was accounted for in equity.

20 Events after reporting date

Acquisition of the share from minority shareholder
Subsequent to 30 June 2011 SOCAR has acquired a 23.98 per cent share of the minority shareholder in one of its subsidiaries, STEAS. As a result of this acquisition SOCAR's share in STEAS has increased to 74.98 per cent.

Acquisition of an additional interest in ACG PSA
On 6 July 2011 SOCAR acquired 1.6461 per cent interest in ACG PSA. As a result SOCAR's participating interest in this project increased to 11.6461 per cent.

Transfer of Azerbaijan BTC Limited
According to the Presidential Decree dated 22 July 2011 77.4 per cent share in one of the Group's associates, Azerbajan BTC Limited, which previously belonged to the Ministry of Economic Development of the Azerbaijan Republic, was transferred to SOCAR. As a result SOCAR became a 100 per cent owner of this company. The Group is currently in the process of performing a purchase price allocation related to this business combination.

Akbank Loan repayment
On 17 August 2011 the Group has early repaid the remaining portion of the loan from Akbank T.A.Ş/Turkiye Garanti Bankasi A. Ş loan in the amount of USD 604,125 thousand (AZN 475,265).

Increase in charter capital of Azerigaz Production Union
According to the Presidential Decree dated 5 September 2011 Azerigaz Production Union's charter capital was increased by AZN 150,000 by the cash transfer.

Establishment of "Karbamid" plant
According to the Presidential Decree dated 1 September 2011 a new "Karbamid" plant was established which is 100 per cent owned by the Group. For this purpose according to the decree 156s issued by Cabinet of Ministers dated 16 June 2011 the Group's charter capital was further increased by AZN 40,000.

STATE OIL COMPANY OF THE AZERBAIJAN REPUBLIC

International Financial Reporting Standards Consolidated Financial Statements

31 December 2010

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Independent Auditors' Report to Management of the State Oil Company of the Azerbaijan Republic

We have audited the accompanying consolidated financial statements of the State Oil Company of the Azerbaijan Republic (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Holdings (CIS) B.V.

30 June 2011

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

	Note	31 December 2010	31 December 2009
ASSETS			
Current assets			
Cash and cash equivalents	8	1,000,161	773,506
Restricted cash	9	617,793	53,844
Trade and other receivables	10	2,405,691	2,110,644
Corporate income tax prepayments		26,581	28,921
Inventories	11	808,572	707,458
Other current financial assets	13	12,312	7,178
Total current assets		**4,871,110**	**3,681,551**
Non-current assets			
Property, plant and equipment	14	8,244,627	7,946,556
Goodwill	36	123,448	106,905
Intangible assets other than goodwill	15	499,813	521,237
Investments in jointly controlled entities	16	248,870	103,061
Investments in associates	17	351,085	315,353
Loans receivable from jointly controlled entities	18	280,259	311,891
Deposits	9	399,011	873,169
Deferred tax asset	33	408,972	645,623
Other long-term financial assets	13	79,148	74,068
Other long-term assets	12	220,640	254,147
Total non-current assets		**10,855,873**	**11,152,010**
TOTAL ASSETS		**15,726,983**	**14,833,561**
EQUITY			
Charter capital	27	632,732	622,726
Additional-paid-in-capital	27	236,526	-
Retained earnings		6,691,653	6,778,784
Cumulative translation differences		(105,095)	(143,258)
Equity attributable to equity holders of the Group		**7,455,816**	**7,258,252**
Non-controlling interest		704,279	782,809
TOTAL EQUITY		**8,160,095**	**8,041,061**

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

	Note	31 December 2010	31 December 2009
LIABILITIES			
Current liabilities			
Trade and other payables	19	2,445,829	2,087,755
Short-term and current portion of long-term borrowings	20	996,832	388,080
Corporate income tax payable		90,892	102,503
Other taxes payable	21	190,233	187,295
Other provisions for liabilities and charges	23	199,077	102,292
Deferred acquisition consideration payable	26	272,935	36,687
Total current liabilities		**4,195,798**	**2,904,612**
Non-current liabilities			
Long-term borrowings	20	2,062,844	2,463,894
Deferred acquisition consideration payable	26	-	272,267
Asset retirement obligations	22	324,632	170,727
Other provisions for liabilities and charges	23	282,194	356,506
Deferred income	24	101,183	105,778
Deferred tax liability	33	509,140	478,027
Other non-current liabilities	25	91,097	40,689
Total non-current liabilities		**3,371,090**	**3,887,888**
TOTAL LIABILITIES		**7,566,888**	**6,792,500**
TOTAL LIABILITIES AND EQUITY		**15,726,983**	**14,833,561**

Approved for issue and signed on behalf of the Group on 30 June 2011.

Mr Rovnag Abdullayev
President

Mr Suleyman Gasymov
Vice-President for Economic Affairs

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

	Note	2010	2009
Revenue	28	5,527,265	4,195,981
Cost of sales	29	(3,293,415)	(2,078,209)
Gross profit		**2,233,850**	**2,117,772**
Distribution expenses	29	(198,031)	(155,230)
General and administrative expenses	29	(302,687)	(229,871)
Losses on disposal of property, plant and equipment		(23,915)	(8,511)
Social expenses		(199,904)	(159,479)
Exploration and evaluation expenses	29	(6,742)	(11,298)
Research and development	29	(21,917)	(15,279)
Other operating expenses	29	(326,270)	(313,883)
Other operating income	30	178,578	204,708
Operating profit		**1,332,962**	**1,428,929**
Finance income	31	67,175	67,678
Finance costs	32	(175,191)	(163,211)
Foreign exchange losses, net		(91,510)	(958)
Share of result of jointly controlled entities	16	6,390	(12,887)
Share of result of associates	17	99,080	89,854
Loss on disposal of joint ventures and associates		(902)	(40,062)
Profit before income tax		**1,238,004**	**1,369,343**
Income tax expense	33	(582,264)	(475,765)
Profit for the year		**655,740**	**893,578**
Other comprehensive income:			
Currency translation differences		(16,363)	(17,771)
Total comprehensive income for the year		**639,377**	**875,807**
Profit is attributable to:			
Equity holders of the Group		670,987	890,307
Non-controlling interest		(15,247)	3,271
		655,740	**893,578**
Total comprehensive income attributable to:			
Equity holders of the Group		709,150	862,670
Non-controlling interest		(69,773)	13,137
		639,377	**875,807**

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

		Attributable to equity holders of the parent						
	Note	Additional paid-in-capital	Charter capital	Retained earnings	Currency translation difference	Total	Non-controlling interest	Total equity
Balance at 1 January 2009		**-**	**622,726**	**6,432,136**	**(115,621)**	**6,939,241**	**747,045**	**7,686,286**
Profit for the year		-	-	890,307	-	890,307	3,271	893,578
Other comprehensive income / (loss)		-	-	-	(27,637)	(27,637)	9,866	(17,771)
Total comprehensive income /(loss) for 2009		**-**	**-**	**890,307**	**(27,637)**	**862,670**	**13,137**	**875,807**
Acquisition of non-controlling interest in subsidiary		-	-	-	-	-	(6,327)	(6,327)
Acquisition of subsidiary	36	-	-	(257,621)	-	(257,621)	-	(257,621)
Increase in charter capital of subsidiary		-	-	-	-	-	28,954	28,954
Distribution to the Government	27	-	-	(286,038)	-	(286,038)	-	(286,038)
Balance at 31 December 2009		**-**	**622,726**	**6,778,784**	**(143,258)**	**7,258,252**	**782,809**	**8,041,061**
Profit for the year		-	-	670,987	-	670,987	(15,247)	655,740
Other comprehensive income / (loss)		-	-	-	38,163	38,163	(54,526)	(16,363)
Total comprehensive income / (loss) for 2010		**-**	**-**	**670,987**	**38,163**	**709,150**	**(69,773)**	**639,377**
Acquisition of subsidiary	36	-	10,006	(228,356)	-	(218,350)	-	(218,350)
Increase in charter capital	27	236,526	-	(114,060)	-	122,466	-	122,466
Distribution to the Government	27	-	-	(415,702)	-	(415,702)	-	(415,702)
Dividends declared by subsidiary		-	-	-	-	-	(8,757)	(8,757)
Balance at 31 December 2010		**236,526**	**632,732**	**6,691,653**	**(105,095)**	**7,455,816**	**704,279**	**8,160,095**

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

	Note	2010	2009
Cash flows from operating activities			
Profit before income tax		**1,238,004**	**1,369,343**
Adjustments for:			
Depreciation of property, plant and equipment	29	649,641	590,655
Amortisation on intangible assets	15	16,006	13,744
Impairment of property, plant and equipment	14	360,047	241,639
Gain on release of provision for trade and other receivables	29	(288,435)	(523,671)
Change in provisions		53,240	(62,939)
Change in asset retirement obligations recognised in profit and loss		110,565	77,568
Losses on disposals of property, plant and equipment		66,915	74,712
Losses on de-recognition of jointly controlled entities	16	-	39,114
Finance income	31	(67,175)	(67,678)
Finance costs	32	175,191	163,211
Foreign exchange rate differences		(34,236)	8,126
Share of result of associates and joint ventures	16,17	(105,470)	(76,967)
Other non-cash transactions		(38,946)	-
Operating cash flows before working capital changes		**2,135,347**	**1,846,857**
Decrease in trade and other receivables		152,500	625,666
(Increase)/decrease in inventories		(51,421)	41,889
Increase/(decrease) in trade and other payables		103,335	(375,677)
Increase/(decrease) in taxes payable		4,912	(185,624)
Decrease in provisions	23	(64,820)	(82,285)
Increase in other assets		(40,844)	(23,730)
Cash generated from operations		**2,239,009**	**1,847,096**
Income taxes paid		(341,594)	(478,009)
Interest paid		(106,356)	(105,504)
Net cash from operating activities		**1,791,059**	**1,263,583**
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		5,393	(36,688)
Purchase of property, plant and equipment		(1,419,838)	(1,142,261)
Purchase of intangible assets		(10,577)	(20,151)
Contribution in associates and jointly controlled entities	16,17	(42,942)	(19,221)
Deposits	9	(104,320)	(338,986)
Financing provided to third parties		(15,459)	(161,636)
Interest received		55,125	57,642
Dividends received		63,440	64,659
Net cash used in investing activities		**(1,469,178)**	**(1,596,642)**
Cash flows from financing activities			
Proceeds from long-term borrowings		485,762	1,052,021
Proceeds from short-term borrowings		87,104	155,865
Repayment of long-term borrowings		(361,354)	(337,713)
Repayment of short-term borrowings		(65,890)	(174,608)
Increase in charter capital		99,986	200,000
Change in restricted cash related to borrowings		35,301	68,366
Distribution to the Government	27	(374,530)	(242,577)
Purchase consideration paid	26	(32,992)	-
Net cash (used in) / provided by financing activities		**(126,613)**	**721,354**
Net foreign exchange translation differences		31,387	(134,959)
Net increase in cash and cash equivalents		**226,655**	**253,336**
Cash and cash equivalents at the beginning of the year	8	**773,506**	**520,170**
Cash and cash equivalents at the end of the year	8	**1,000,161**	**773,506**

1 The Group and its Operations

The State Oil Company of the Azerbaijan Republic ("SOCAR") was established by the Presidential Decree on 13 September 1992 in accordance with Azerbaijani legislation and is domiciled in the Azerbaijan Republic. In order to improve its operational efficiency SOCAR has been restructured several times and now comprises of 20 business units dealing with their particular areas of business. SOCAR and the business units are involved in upstream, midstream and downstream operations. SOCAR's main functions pertain to the extraction, refining, transportation of oil, gas and gas condensates, and sale of gas and oil and gas products. SOCAR is 100 per cent owned by the Government of the Azerbaijan Republic (the "Government").

On 2 April 2010, SOCAR acquired 100 per cent of the share capital of Azerikimya state-owned company, which is involved in production of petrochemicals in the Azerbaijan Republic. Following this acquisition, Azerikimya state-owned company was transformed into Azerikimya Production Union ("Azerikimya PU") within SOCAR structure. For further details please refer to Note 36.

On 1 July 2009, SOCAR acquired 100 per cent of the share capital of Azerigaz Closed Joint Stock Company ("Azerigaz CJSC"), a state-owned gas utility company in the Azerbaijan Republic. Following this acquisition, Azerigaz CJSC was transformed into Azerigaz Production Union ("Azerigaz PU") within SOCAR structure. For further details please refer to Note 36.

SOCAR's registered address is 73 Neftchiler avenue, AZ 1000 Baku, the Azerbaijan Republic.

2 Basis of Preparation and Significant Accounting Policies

Basis of preparation. These consolidated financial statements of SOCAR and its subsidiaries, associates and joint ventures (collectively referred to as "the Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

Basis for consolidation. Subsidiaries are all entities (including special-purpose entities) over which the Group has control, being the power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Business combinations from 1 January 2010. Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Business combinations from 1 January 2010 (continued). Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with International Accounting Standard ("IAS") 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Business combinations prior to 1 January 2010. Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquire were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Transactions with non-controlling interest – after 1 January 2010
Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (ie transactions with owners in their capacity as owners). In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in equity and attributed to the owners of the Group.

Transactions with non-controlling interest - "parent company model" - prior to 1 January 2010
The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the group. Purchase of non-controlling interest result in goodwill, being the excess of the cost of consideration paid over the carrying value of non-controlling interest acquired. If the carrying value of the net assets of the subsidiaries exceeds the cost of consideration paid, the difference is recognised in the profit or loss. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Business combinations with entities under common control
The Group applies purchase method of accounting for business combinations with entities under the common control.

Investments in associates. Associates are all entities over which the Group has significant influence but not control. Investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate less accumulated impairment of investments. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Investments in associates (continued). The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, the Group's share of changes in net assets recognised in other comprehensive income or loss is recognised in other comprehensive income or loss. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any receivables, regarded to be in substance the extension of the Group's investment in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates related to transfer of assets are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Interests in joint ventures. A joint venture is a contractual arrangement whereby two or more parties (venturers) undertake an economic activity that is subject to joint control. Joint control exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers. A jointly controlled entity is a joint venture that involves the establishment of a company, partnership or other entity to engage in economic activity that the Group jointly controls with its fellow venturers.

The results, assets and liabilities of a jointly controlled entity are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, the investment in a jointly controlled entity is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the jointly controlled entity, less distributions received and less any impairment in value of the investment. The Group statement of comprehensive income reflects the Group's share of the profit or loss of the jointly controlled entity and any income and expense recognised by the jointly controlled entity in other comprehensive income or loss.

Financial statements of jointly controlled entities are prepared for the same reporting period as the Group. Where necessary, adjustments are made to those financial statements to bring the accounting policies used into line with those of the Group.

The Group ceases to use the equity method of accounting of the date from which it no longer has joint control over joint venture or significant influence in the associate, or when the interest becomes held for sale.

Certain of the Group's upstream activities which are governed by Production Sharing Agreements ("PSAs") are conducted through joint ventures where the venturers have a direct ownership interest in and jointly control the assets of the venture. Such activities are accounted for as jointly controlled assets. Accordingly, the Group recognises its share of the jointly controlled assets and its share in liabilities, income and expenses related to jointly controlled assets in proportion to the Group's interest.

PSA is the method to execute exploitation of mineral resources by taking advantage of the expertise of a commercial oil and gas entity. The Government retains title to the mineral resources (whatever the quantity that is ultimately extracted) and often the legal title to all fixed assets constructed to exploit the resources. The Government will take a percentage share of the output which may be delivered in product or paid in cash under an agreed pricing formula. The contracting parties may only be entitled to recover specified costs plus an agreed profit margin. It may have the right to extract resources over a specified period of time. Operating company is a legal entity created by one or more contracting parties to operate PSA.

As a contracting party to various PSAs the Group evaluates and accounts for the PSAs in accordance with the substance of the arrangement. It records only its own share of oil and gas under a PSA as revenue. Neither revenue nor cost is recorded by the Group for the oil and gas extracted and sold on behalf of the Government. The Group acts as the Government's agent to extract, deliver or sell the oil and gas and remit the proceeds.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Interests in joint ventures (continued). Costs that meet the recognition criteria as intangible or fixed assets in accordance with IAS 38 and IAS 16, respectively, are recognised where the entity is exposed to the majority of the economic risks and has access to the probable future economic benefits of the assets. Acquisition, development and exploration costs are accounted for in accordance with policies stated herein.

Assets subject to depreciation, depletion or amortisation are expensed using the appropriate depletion or depreciation method stipulated by the present accounting policies over the shorter of the PSA validity period or the expected useful life of the related assets.

Foreign currency translation. All amounts in these consolidated statements are presented in thousands of Azerbaijani manats ("AZN"), unless otherwise stated.

The functional currencies of the Group's consolidated entities are the currencies of the primary economic environments in which the entities operate. The functional currency of SOCAR and its 20 business units and the Group's presentation currency is the national currency of the Azerbaijan Republic, AZN. However, US Dollar ("USD") and Turkish Lira ("YTL") are considered the functional currency of the Group's certain subsidiaries, associates and investments in jointly controlled entities as majority of these investments' receivables, revenues, costs and debt liabilities are either priced, incurred, payable or otherwise measured in USD and YTL.

The transactions executed in foreign currencies are initially recorded in the functional currencies of respective Group entities by applying the appropriate rates of exchanges prevailing at the date of transaction.

Monetary assets and liabilities not already measured in the functional currency of respective Group entity are translated into the functional currency of that entity at the appropriate exchange rates prevailing at the statement of financial position date.

Foreign exchange gains and losses resulting from the re-measurement into the functional currencies of respective Group's entities are recognised in profit or loss.

The results and financial position of the Group entities which functional currency differs from the presentation currency of the Group and not already measured in the Group's presentation currency (functional currency of none of these entities is a currency of a hyperinflationary economy) are translated into the presentation currency of the Group as follows:

(i) assets and liabilities for each statement of financial position are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity – currency translation difference.

At 31 December 2010 the principal rate of exchange used for translating foreign currency balances was USD 1 = 0.7979 AZN, YTL 1 = 0.5139 AZN, JPY 100 = 0.9798 AZN (2009: USD 1 = AZN 0.8031, YTL 1 = AZN 0.5315, JPY 100 = 0.8713 AZN).

2 Basis of Preparation and Significant Accounting Policies (Continued)

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value, or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related statement of financial position items.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Financial assets. The Group classifies its financial assets in the following measurement categories: a) financial assets at fair value through profit or loss; b) loans and receivables; c) financial assets held-to-maturity and d) available-for–sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Financial assets (continued). The subsequent measurement of financial assets depends on their classification, as follows:

(a) Financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are financial assets held for trading (a financial asset is classified in this category if acquired principally for the purpose of selling in the short term) and financial assets designated upon initial recognition as at fair value through profit or loss. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the statement of financial position.

(c) Held-to-maturity financial assets. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held-to-maturity at their initial recognition and reassesses the appropriateness of that classification at each statement of financial position date. Investment securities held-to-maturity are carried at amortised cost.

(d) Available-for-sale financial assets. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the statement of financial position date.

Regular purchases and sales of financial assets are recognised on the trade date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within other gains/(losses), in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income as gains and losses from investment securities. Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Financial assets (continued). The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in other comprehensive income – is removed from equity and recognised in the profit or loss. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the profit or loss.

Financial liabilities. The Group classifies its financial liabilities into the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in the consolidated statement of comprehensive income in the period in which they arise. Other financial liabilities are carried at amortised cost.

Derecognition of financial assets. The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Derecognition of financial liabilities. The Group derecognises financial liability when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts, together with any costs or fees incurred are recognised in profit or loss.

Financial guarantee contracts. Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method. The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Trade and other receivables (continued). The amount of provision is recognised in profit or loss. The primary factors that the Group considers when determining whether a receivable is impaired is its overdue status and realisability or related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty;
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

Trade and other receivables are derecognised upon cash receipts from customers and borrowers or other similar settlement.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

Restricted cash. Restricted cash is presented separately from cash and cash equivalents. Restricted balances are excluded from cash and cash equivalents for the purposes of cash flow statement.

Trade payables. Trade payables are accrued when the counterparty performed its obligations under the contract. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings. All borrowings are initially recognised at fair value of the proceeds received net of issue costs associated with the borrowing. Borrowings are carried at amortised cost using the effective interest method.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Property, plant and equipment. The Group elected to measure property, plant and equipment at the date of transition to IFRS (1 January 2007) at their fair value and use that fair value as their deemed cost at that date. Fair value was determined by reference to market-based evidence and by using the depreciated replacement cost method. Subsequent to transition to IFRS, property, plant and equipment are stated at cost as described below, less accumulated depreciation and provision for impairment, where required.

The initial cost of an asset purchased after 1 January 2007 comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of decommissioning obligation, if any, and, for qualifying assets, borrowing costs. The assets held under finance lease are also included within property, plant and equipment.

Exploration and evaluation costs. Property leasehold acquisition costs are capitalised until the determination of reserves is evaluated. If a commercial discovery has not been achieved, these costs are charged to expense. Capitalisation is made within property, plant and equipment or intangible assets according to the nature of the expenditure.

The Group accounts for exploration and evaluation activities, capitalizing exploration and evaluation costs until such time as the economic viability of producing the underlying resources is determined. Exploration and evaluation costs related to resources determined to be not economically viable are expensed through operating expenses in the consolidated statement of comprehensive income.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Development tangible and intangible assets. Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells is capitalised within tangible and intangible assets according to nature. When development is completed on a specific field, it is transferred to production assets (oil and gas properties).

The present value of the estimated costs of dismantling oil and gas production facilities, including abandonment and site restoration costs, are recognised when the obligation is incurred and are included within the carrying value of property, plant and equipment, subject to depletion using unit-of-production method.

All minor repair and maintenance costs are expensed as incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalized and the replaced part is retired.

At each reporting date management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss, if any, is recognised in the statement of comprehensive income. An impairment loss recognised for an asset or cash generating unit in prior years is reversed if there are indicators that impairment loss may no longer exist or may have decreased.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. Gains and losses are recognised in profit or loss.

Depreciation. Property, plant and equipment related to oil and natural gas properties are depreciated using a unit-of-production method.

Depreciation of oil and gas assets is computed on a field-by-field basis over proved developed reserves or over total proved reserves, as appropriate. Shared oil and gas properties and equipment (e.g. internal delivery systems, processing units, etc.) are depleted over total proved reserves.

Land is not depreciated. Property, plant and equipment other than oil and gas properties and equipment, are depreciated on a straight-line basis over their estimated useful lives. Assets under construction are not depreciated.

The estimated useful lives of the Group's property, plant and equipment (other than oil and gas properties) are as follows:

Buildings and constructions	12 to 40 years
Plant and machinery	3 to 47 years
Vessels	25 years.

The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life unless scrap value is significant. The assets' residual values are reviewed, and adjusted if appropriate, at each statement of financial position date.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

When assets are leased out under an operating lease the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

Goodwill. Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible assets. Intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses. Intangible assets include rights and computer software, patents, licences, customer relationships, trade name, water rights and development projects.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

a) Rights and computer software
Software is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the estimated useful lives of such assets. Land property rights consist of rights over the dam, factory site, port site, site development, site and the water transmission line. Intangible assets obtained at the acquisition of Petkim Petrokimya Holding A.S. ("Petkim") (Note 26) were initially recognised at their fair values in accordance with IFRS 3 as of 30 May 2008 and amortised over their remaining useful lives commencing from the date of acquisition, except for the water transmission line which is not amortised as it is deemed to have an indefinite useful life.

b) Customer relationships
Customer relationships acquired as part of net assets of Petkim were initially recognised at their fair values in accordance with IFRS 3 as of 30 May 2008 and amortised over their remaining useful lives of 22 years commencing from the date of acquisition (Note 15).

2 Basis of Preparation and Significant Accounting Policies (Continued)

Intangible assets (continued).

c) Petkim trade name
Petkim trade name acquired at the Petkim acquisition was initially recognised at its fair value in accordance with IFRS 3 as of 30 May 2008. Petkim trade name is not amortised as it is deemed to have an indefinite useful life (Note 15).

d) Water rights
Water rights acquired with the Petkim acquisition were initially recognised at their fair value in accordance with IFRS 3 as of 30 May 2008 and amortised over their remaining useful lives of 47 years commencing from the date of acquisition (Note 15).

e) Development projects
Development projects acquired with the Petkim acquisition were initially recognised at their fair value in accordance with IFRS 3 as of 30 May 2008 and amortised on a straight-line basis over their remaining useful lives of 5 years commencing from the date of acquisition. Cost incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be operational considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other expenditures on research and development activities are recognised as expense in the period in which they incurred. When there is an impairment, the carrying values of the intangible assets are written down to their recoverable amounts.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Corporate income taxes. Corporate income taxes have been provided for in the consolidated financial statements in accordance with the applicable legislation enacted or substantively enacted by the statement of financial position date. The income tax charge comprises current tax and deferred tax and is recognised on the profit or loss unless it relates to transactions that are recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income taxes are provided in full on temporary differences arising on recognition and subsequent measurement of provision for asset retirement obligation and related adjustments to cost of property, plant and equipment.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Inventories. Inventories are stated at the lower of cost and net realizable value. Cost is assigned by the weighted average method. Cost comprises direct purchase costs, cost of production, transportation and manufacturing expenses (based on normal operating capacity).

Government grants. Grants from the Government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight line basis over the expected lives of the related assets.

Government grants relating to income are deferred and recognised in profit or loss over the period necessary to match the, with the costs that they are intended to compensate.

Asset retirement obligations. Liabilities for asset retirement obligation costs are recognised when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. Where an obligation exists for a new facility, such as oil and natural gas production or transportation facilities, this will be on construction or installation. An obligation for asset retirement may also crystallize during the period of operation of a facility through a change in legislation. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements.

The cost of property, plant and equipment is also adjusted for amounts of estimated liabilities for asset retirement obligations.

Any change in the present value of the obligation resulting from changes in estimates of the amounts or timing of future expenditures is reflected as an adjustment to the provision and the corresponding capitalized costs within property, plant and equipment. Changes in estimates of the amounts or timing of future expenditures to dismantle and remove fully depreciated plant or facility is recognised in the statement of comprehensive income. Changes in the present value of the obligation resulting from unwinding of the discount are recognised as finance costs in the statement of comprehensive income.

Provisions for liabilities and charges. Provisions for liabilities and charges are liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Distribution to the Government. Distribution to the Government represent cash distributions or financing which the Group may be required to make to the state budget, various government agencies and projects administered by the Government based on the particular decisions of the Government. Such distributions are recorded as a reduction of equity. Distributions in the form of transfers of non-monetary assets are recognised at the carrying value of transferred assets.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Value-added tax. The tax authorities permit the settlement of sales and purchases value-added tax ("VAT") on a net basis.

VAT payable: VAT payable represents VAT related to sales that is payable to tax authorities upon recognition of sales to customers, net of VAT on purchases which have been settled at the statement of financial position date. VAT related to sales which have not been settled at the statement of financial position date (VAT deferral) is also included in VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT where applicable. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

VAT recoverable: VAT recoverable relates to purchases which have not been settled at the statement of financial position date. VAT recoverable is reclaimable against VAT on sales upon payment for the purchases.

Revenue recognition. Revenue comprises the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of VAT, returns, discounts, and other sales-based taxes, if any, after eliminating sales within the Group.

Revenues from sales of crude oil are recognised at the point of transfer of risks and rewards of ownership of the crude oil, normally when the oil is loaded into the oil tanker or other transportation facilities. Revenues from sales of petroleum products are recognised at the point of transfer of risks and rewards of ownership of the petroleum products, normally when the products are shipped. Revenue from sales of natural gas are recorded on the basis of regular meter readings (monitored on monthly basis) and estimates of customer usage from the last meter reading to the end of the reporting period. Natural gas prices and gas transportation tariffs to the final consumers in the Azerbaijan Republic are established by the Tariff Council of the Azerbaijan Republic.

Revenues from sales of other goods are recognised at the point of transfer of risks and rewards of ownership of the goods.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is recognised on a time-proportion basis using the effective interest method.

Overlift/underlift of crude oil. Overlift or underlift of crude oil occurs when the volume of oil lifted by a partner in a joint venture differs from its participating interest in the production. Underlift is recognised as a sale of crude oil at the point of lifting by the underlifter to the overlifter. Overlift is recognised as a purchase of oil by the overlifter from the underlifter. The extent of underlift is reflected by the Group as an asset in the statement of financial position, and the extent of overlift is reflected as a liability. The initial measurement of the overlift liability or underlift asset is at the market price of crude oil at the date of lifting. Subsequent measurement of overlift/underlift liabilities and assets depends on the settlement terms of the related operating agreements. If such terms allow for a cash settlement of the overlift/underlift balances between the parties, the balances are remeasured at fair value at reporting dates subsequent to initial recognition. The overlift/underlift balances that are settled through delivery of physical quantities of crude oil are measured at the lower of carrying amount and fair value at reporting dates subsequent to initial recognition.

Employee benefits. Wages, salaries, contributions to the Social Protection Fund of the Azerbaijan Republic, paid annual leave and sick leave, bonuses, and non-monetary benefits (e.g. health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

2 Basis of Preparation and Significant Accounting Policies (Continued)

Related Parties. *Related parties are defined in IAS 24, Related Party Disclosures*

Governmental economic and social policies affect the Group's financial position, results of operations and cash flows. The Government imposed an obligation on the Group to provide an uninterrupted supply of oil and gas to customers in the Azerbaijan Republic at government controlled prices. Transactions with the state include taxes which are detailed in Note 33.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

It is the nature of transactions with related parties that they cannot be presumed to be carried out on an arm's length basis.

Carried interest arrangements. A carried interest arrangement where the Group participate as carried party is an agreement under which the carrying party agrees to pay for a portion or all of the pre-production costs of the carried party on a project in which both parties own participating interest. If the project is unsuccessful then the carrying party will not be reimbursed for the costs that it has incurred on behalf of the carried party. If the project is successful then the carrying party will be reimbursed either in cash out of proceeds of the share of production attributable to the carried party, or by receiving a disproportionately high share of the production until the carried costs have been recovered.

Depending on the terms of the carried interest agreements the Group recognises them either as financing-type arrangement or purchase/sale-type arrangement.

The finance-type arrangements presume that carrying party provides funding to the carried party and receives a lender's return on the funds provided, while the right to additional production acts as a security that underpins the arrangement.

In the purchase/sale-type arrangement, the carried party effectively sells an interest or a partial interest in a project to the carrying party. The carrying party will be required to fund the project in exchange for an increased share of any proceeds if the project succeeds, while the carried party retains a much reduced share of any proceeds.

During exploration stage of projects when the outcome of projects and probability of the carrying party to recover costs incurred on behalf of the carried party are not certain the Group does not recognise any carry related transactions and balances in the consolidated financial statements.

Reclassifications. Certain reclassifications have been made to the prior year's Consolidated Statement of Financial Position, Consolidated Statement of Comprehensive Income and corresponding notes to conform to the current year presentation. There was no material impact on the Group's financial position, results of operations and equity as a result of these reclassifications.

Consolidated Statement of Financial Position

	Prior to reclassification	Reclassification	After reclassification
Reclassification of cash and cash equivalents from restricted cash			
Cash and cash equivalents	698,600	74,906	773,506
Restricted cash	128,750	(74,906)	53,844
Reclassifications of trade receivables, other long-term assets, other short-term assets and other long-term financial assets			
Trade and other receivables	2,129,774	(19,130)	2,110,644
Other long-term assets	316,263	(62,116)	254,147
Other long-term financial assets	-	74,068	74,068
Other current financial assets	-	7,178	7,178

2 Basis of Preparation and Significant Accounting Policies (Continued)

Reclassifications (continued).

Consolidated Statement of Comprehensive Income

	Prior to reclassification	Reclassification	After reclassification
Reclassification of release of provision for doubtful debts from other operating income			
Cost of sales	(2,898,902)	820,693	(2,078,209)
Other operating income	1,025,401	(820,693)	204,708

3 Critical Accounting Estimates and Judgments

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in this consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities at reporting date include:

Estimation of oil and gas reserves. Oil and gas reserves are key elements in the Group's investment decision-making process. They are also an important element of testing for impairment. Changes in proved oil and gas reserves, particularly proved developed reserves, will affect unit-of-production depreciation charges in the statement of comprehensive income.

Proved oil and gas reserves are the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e. prices and costs as of the date the estimate is made. Proved developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Estimates of oil and gas reserves are inherently imprecise, require the application of judgment and are subject to future revision. Accordingly, financial and accounting measures (such as depletion and amortization charges and provision for asset retirement obligations) that are based on proved developed or proved reserves are also subject to change.

Proved reserves are estimated by reference to available reservoir and well information. All proved reserves estimates are subject to revision, either upward or downward, based on new information, such as from drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, changes in the technical maturity or hydrocarbon reserves resulting from new information becoming available from development plans. In general, changes in the technical maturity of hydrocarbon reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions.

3 Critical Accounting Estimates and Judgments (Continued)

In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are developed and being depleted. As a field goes into production, the amount of proved reserves will be subject to future revision once additional information becomes available through, for example, the drilling of additional wells or the observation of long-term reservoir performance under producing conditions. As those fields are further developed, new information may lead to revisions.

Proved reserves of the SOCAR as of 1 January 2010 were based on reports prepared by independent reservoir engineers in accordance with Society of Petroleum Engineers rules. For subsequent year end, the Company updated its reserves information based on work performed by its in-house geologists.

Asset retirement obligations. As further discussed in Note 22, management makes provision for the future costs of decommissioning oil and gas production and storage facilities, pipelines and related support equipment and site restoration based on the estimates of future cost and economic lives of those assets. Estimating future asset retirement obligations is complex and requires management to make estimates and judgements with respect to removal obligations that will occur many years in the future. Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The Group assesses its asset retirement obligation liabilities in accordance with the guidelines of IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities.* The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the statement of financial position date based on current applicable legislation and regulations, and is also subject to changes because of modifications, revisions and changes in laws and regulations and respective interpretations thereof. Governmental authorities are continually considering applicable regulations and their enforcement. Consequently, the Group's ultimate asset retirement liabilities may differ from the recorded amounts. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of incurring such costs. Estimated liability of dismantling oil and gas production and storage facilities, including abandonment and site restoration costs, amounted to AZN 324,632 at 31 December 2010 (2009: 170,727). Changes in any of these conditions may result in adjustments to provisions recorded by the Group.

Management determines discount rates used for discounting abandonment and site restoration costs as a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. The discount rate used as at 31 December 2010 was 6.91 per cent (2009: 8.4 per cent). Management believes that this discount rate appropriately reflected all risks and uncertainties pertaining to oil and gas exploration, evaluation, development and distribution in Azerbaijan as of the reporting date.

If the estimated discount rate used in the calculation had been 1 per cent higher / lower than management's estimate, the carrying amount of the provision would have been AZN 89,252 lower / AZN 151,395 higher, respectively.

BOTAS contract price. Natural gas entitled to the Group under Shah Deniz PSA (Note 17) is sold to BOTAS Company. As a result of price review settlement with BOTAS based on the Letter Agreement dated on 4 June 2010 the contract price formula was changed. One of the components for gas sale price calculation is an average price of "Gasoil 0.2" reference indicator officially published in monthly Platt's Oil gram Price Report during six consecutive months immediately preceding the month of gas delivery. Gasoil reference indicator ceased to be published from 31 December 2009 and consequently the contract price could no longer be calculated in the manner specified in the Gas Contract from 31 March 2010. Whilst there is no agreement on a replacement for the Gasoil indicator which is no longer published, the last published Gasoil indicator continues to be used to calculate a provisional contract price in accordance with the terms of the Gas Contract.

3 Critical Accounting Estimates and Judgments (Continued)

Environmental obligations. As further discussed in Note 23, the Group records a provision in respect of estimated costs of remediation of the damage historically caused to the natural environment primarily in the Absheron area both by the activities of the Group and its legacy operations in periods preceding the formation of the Group. The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the statement of financial position date based on current applicable legislation and regulations, and is also subject to changes because of modifications, revisions and changes in laws and regulations and respective interpretations thereof. Governmental authorities are continually considering applicable regulations and their enforcement. Consequently, the Group's ultimate liability for environmental remediation may differ from the recorded amounts. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of incurring such costs. Estimated liability for environmental remediation as of 31 December 2010 amounted to AZN 416,419 (2009: AZN 416,544). Changes in any of these conditions may result in adjustments to provisions recorded by the Group.

Management determines discount rate used for discounting environmental remediation costs as pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability as of the reporting date. The discount rate used as at 31 December 2010 was 6.91 per cent (2009: 8.4 per cent). Management believes that this discount rate appropriately reflects all risks and uncertainties pertaining to oil and gas exploration, evaluation and development industry in Azerbaijan. Changes in any of these conditions may result in adjustments to provisions recorded by the Group.

If the estimated discount rate used in the calculation had been 1 per cent higher / lower than management's estimate, the carrying amount of the provision would have been AZN 7,091 lower / AZN 7,307 higher, respectively.

Useful lives of property, plant and equipment and intangible assets. Management determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and intangible assets. This estimate is based on projected period over which the Group expects to consume economic benefits from the asset. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete assets that have been abandoned or sold. The useful lives are reviewed at least at each financial year-end. Changes in any of the above conditions or estimates may result in adjustments to future depreciation rates.

Deferred income tax asset recognition. The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgements and applies estimation based on last three years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Impairment of non-financial assets. Management assesses whether there are any indicators of possible impairment of all non-financial assets at each reporting date based on events or circumstances that indicate the carrying value of assets may not be recoverable. Such indicators include changes in the Group's business plans, changes in commodity prices leading to unprofitable performances, changes in product mixes, and for oil and gas properties, significant downward revisions of estimated proved reserves. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when impairment indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

3 Critical Accounting Estimates and Judgments (Continued)

In 2010, as the result of underperformance of some cash generating units (CGU) the Group carried out a review of the recoverable amounts of those CGUs resulting in impairment charge amounting to AZN 360,047 (2009: AZN 241,639). These assets are used in the Group's Oil and Gas segment. In assessing whether impairment is required in the carrying value of a potentially impaired asset, its carrying value is compared with its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value-in-use. Given the nature of the Group's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers are taking place. Consequently, unless indicated otherwise, the recoverable amount used in assessing the impairment charges described below is value-in-use. The Group generally estimates value-in-use using a discounted cash flow model from financial budgets approved by management.

Key assumptions used in value-in-use calculations
The calculation of value-in-use for oil fields is most sensitive to the following assumptions:

Production volumes: Estimated production volumes are based on detailed data for the fields and take into account development plans for the fields agreed by management as part of the long-term planning process. It is estimated that, if all production were to be reduced by 10 per cent for the whole of the next 15 years, this would result in additional impairment charge in the amount AZN 95,984.

Gross margins: Gross margins are based on previous year's actual figures. These are increased over the budget period for anticipated inflation rate.

Capital expenditures: Capital expenditures necessary to maintain estimated production volumes are based on long term development plans for particular oil field.

Crude oil price: Forecast commodity prices are publicly available.

Discount rate: The post-tax discount rate applied to the cash flow projections is 12.81 per cent (2009: 13.55 per cent). The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital (WACC). In calculating WACC the cost of equity was estimated using peer group data and the cost of debt is based on interest bearing borrowings, the Group is obliged to service. Specific risks are incorporated by applying individual beta factors, market risk and size of the Group. The beta factors are evaluated annually based on publicly available marked data. If the estimated WACC used in the calculation had been 1 per cent higher / lower than management's estimate, the aggregate amount of impairment loss would have been AZN 26,054 higher / AZN 11,899 lower, respectively.

Inflation rate estimates: Rates used are International Monetary Fund's (IMF) forecasts.

Excise tax rate and export duties: Excise tax and export duties on oil and petroleum products are an important factor for Oil and Gas properties and equipment.

Impairment provision for trade receivables. The impairment provision for trade receivables is based on management's assessment of the probability of collection of individual customer accounts receivable. Significant financial difficulties of the customer, probability that the customer will suffer bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is potentially impaired. Actual results could differ from these estimates if there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates.

When there is no expectation of recovering additional cash for an amount receivable, amount receivable is written off against associated provision.

3 Critical Accounting Estimates and Judgments (Continued)

Impairment provision for trade receivables (continued). Future cash flows of trade receivables that are evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

4 Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements

a) Standards effective for annual periods beginning on or after 1 January 2010

The following new standards and interpretations became effective for the Group from 1 January 2010:

IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets should be recognised in profit or loss when the entity settles the dividend payable. The Group concluded that the revised standard does not have material effect on its consolidated financial statements.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interest interests (previously "minority interest") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary has to be measured at its fair value.

Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets. The Group has applied the new accounting policies prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

4 Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements (Continued)

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the previous IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group concluded that the revised standard does not have material effect on its consolidated financial statements.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its consolidated financial statements.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Group's consolidated financial statements.

4 Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements (Continued)

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards,* which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's consolidated financial statements.

(b) Amendments to standards adopted before their effective date

The Group adopted the amendment to IAS 1, *Presentation of Financial Statements,* which was issued in May 2010 as part of the Annual Improvements to International Financial Reporting Standards. The amendment clarifies the requirements for the presentation and content of the statement of changes in equity. A reconciliation between the carrying amount at the beginning and the end of the period for each component of equity must be presented in the statement of changes in equity, but its content is simplified by allowing an analysis of other comprehensive income by item for each component of equity to be presented in the notes.

(c) Standards issued but not yet effective and not early adopted by the Group

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods and which the Group has not early adopted:

4 Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements (Continued)

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Classification of Rights Issues - Amendment to IAS 32 (issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Amendment to, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

4 Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements (Continued)

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011) The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group does not expect the amendments to have any material effect on its financial statements, except the amendment to IAS 1 which was early adopted by the Group.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, *Financial Instruments: Disclosures.* This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The Group does not expect the amendments to have any effect on its financial statements.

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011) The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's statement of financial position. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

4 Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements (Continued)

IFRS 10 Consolidated Financial Statements IFRS 10 Consolidated Financial Statements provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. The standard sets out requirements for situations when control is difficult to assess, including cases involving potential voting rights, agency relationships, control of specified assets and circumstances in which voting rights are not the dominant factor in determining control. In addition IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation—Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Group evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.

IFRS 11 Joint Arrangements IFRS 11 Joint Arrangements improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognise its rights and obligations arising from the arrangement. The classification of a joint arrangement is determined by assessing the rights and obligations of the parties arising from that arrangement. There are only two types of arrangements provided in the standard - joint operation and joint venture. IFRS 11 also eliminates proportionate consolidation as a method to account for joint ventures. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by Venturers and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Group evaluates possible effect of the adoption of IFRS 11 on its financial position and performance.

IFRS 12 Disclosure of Interests in Other Entities IFRS 12 Disclosure of Interests in Other Entities issued in May 2011 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Adoption of the standard will require new disclosures to be made in the financial statements of the Group but will have no impact on its financial position or performance.

IFRS 13 Fair Value Measurement IFRS 13 Fair Value Measurement defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect on the measurement of the Group's assets and liabilities accounted for at fair value. Currently the Group evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's financial statements.

Amendment to IAS 12 In December 2010 the IASB issued amendment to IAS 12 Deferred Tax: Recovery of Underlying Assets.These amendments address the determination of deferred tax on investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recovered through sale. The amendments also incorporate SIC 21 Income Taxes - Recovery of Revalued Non-Depreciable Assets into IAS 12. The amendment is effective for annual periods beginning on or after 1 January 2012 with earlier application permitted.

5 Segment Information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the management of the Group and for which discrete financial information is available.

The Group is organised into business units based on their products and services and has five reportable segments as follows:

- Oil and gas– representing extraction of oil and gas products
- Refining – representing refining of crude oil and gas condensate
- Construction – representing construction of administrative premises and assets for extraction of oil and gas condensate
- Sales and distribution – representing transportation and marketing of crude oil, natural gas, oil products and gas condensate.

No operating segments have been aggregated to form the above reportable operating segments.

The Group's segments are strategic business units that focus on different customers. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Management evaluates performance of each segment based on profit after tax.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

5 Segment Information (Continued)

Information about reportable segment profit or loss, assets and liabilities

Segment information for the reportable segments for the year ended 31 December 2010 is set out below:

	Oil and Gas	Refining	Construction	Sales and Distribution	Unallocated (*)	Eliminations (**)	Total
2010							
Revenues							
External customers	2,641,923	1,653,144	151,241	1,079,421	1,536	-	**5,527,265**
Inter-segment	605,728	20,617	551,754	263,430	(2,132)	(1,439,397)	-
Total revenue	**3,247,651**	**1,673,761**	**702,995**	**1,342,851**	**(596)**	**(1,439,397)**	**5,527,265**
Finance income	28,163	20,187	10	1,886	55,198	(38,269)	**67,175**
Other operating income	15,550	352,589	74,067	802,219	693,250	(1,759,097)	**178,578**
Changes in inventories of finished goods and work in progress	20,007	843	17,760	6,019	402	-	**45,031**
Raw materials and consumables used	(584,806)	(1,272,576)	(312,992)	(804,281)	(47,758)	1,356,749	**(1,665,664)**
Staff costs	(180,066)	(145,735)	(143,484)	(87,192)	(128,597)	129,984	**(555,090)**
Depreciation of property, plant and equipment	(322,505)	(131,342)	(57,651)	(144,194)	(62,861)	68,912	**(649,641)**
Impairment of property, plant and equipment	(360,047)	-	-	-	-	-	**(360,047)**
Impairment of trade and other receivables	32,100	(26,260)	(501)	196,579	(1,665)	(15,127)	**185,126**
Gains less losses on disposals of property, plant and equipment	207,015	86	(18,314)	(2,114)	(210,588)	-	**(23,915)**
Utilities expense	(1,956)	(167,669)	(3,909)	(220)	(3,993)	6,199	**(171,548)**
Transportation and vehicle maintenance	(124,481)	(2,575)	(55,880)	(25,026)	(12,555)	105,369	**(115,148)**
Mining tax	(121,559)	-	-	(24)	-	-	**(121,583)**
Taxes other than on income	(29,234)	(7,220)	(3,343)	(6,943)	(15,582)	-	**(62,322)**
Repairs and maintenance expenses	(145,190)	(29,858)	(68,318)	(38,608)	(31,078)	67,087	**(245,965)**
Fuel expenses	(1,245)	(4,455)	(3,934)	(683)	(78)	3,681	**(6,714)**
Energy expenses	(17,493)	(19,577)	(1,174)	(2,617)	(1,290)	1,322	**(40,829)**
Other	(505,213)	(480,366)	(11,012)	(221,378)	(403,339)	1,236,640	**(384,668)**
Finance cost	(56,440)	(83,905)	(1,625)	(12,622)	(20,599)	-	**(175,191)**
Foreign exchange losses, (net)	(11,168)	(49,364)	(59)	(21,813)	(10,008)	-	**(92,412)**
Social expenses	(10,383)	(14,995)	(2,762)	(42)	(171,722)	-	**(199,904)**
Share of result of jointly controlled entities	-	-	-	-	43,077	(36,687)	**6,390**
Share of result of associates	-	-	-	6,271	92,809	-	**99,080**
Income tax expense	(251,110)	31,530	(16,826)	(285,441)	(60,417)	-	**(582,264)**
Segment result	**827,590**	**(356,901)**	**93,048**	**702,627**	**(297,990)**	**(312,634)**	**655,740**

(*) - These numbers include unallocated revenues and expenses related to research and development, IT, security and other functions that are not managed at the group level.

(**) - Inter-segment revenues and expenses are eliminated on consolidation. Amounts shown as eliminations include intercompany transactions.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

5 Segment Information (Continued)

	Oil and Gas	Refining	Construction	Sales and Distribution	Unallocated (*)	Eliminations (**)	Total
Investment in associates	13	-	-	97,094	253,978	-	351,085
Investment in joint ventures	221	133	2	1,787	246,727	-	248,870
Other reportable segment assets	7,069,808	776,256	1,155,059	6,541,487	4,910,515	(5,326,097)	15,127,028
Total reportable segment assets	**7,070,042**	**776,389**	**1,155,061**	**6,640,368**	**5,411,220**	**(5,326,097)**	**15,726,983**
Other reportable segment liabilities	(1,982,439)	(917,933)	(706,685)	(6,372,791)	(2,292,653)	4,705,613	(7,566,888)
Total reportable segment liabilities	**(1,982,439)**	**(917,933)**	**(706,685)**	**(6,372,791)**	**(2,292,653)**	**4,705,613**	**(7,566,888)**
Capital expenditure (***)							
Additions – SOCAR	615,260	43,422	125,761	397,152	136,730	-	**1,318,325**
Additions -Subsidiaries	194,539	52,831	359	53,955	-	-	**301,684**
Acquisitions through business combination	-	48,316	-	327	11,919	-	**60,562**
Total capital expenditures	**809,799**	**144,569**	**126,120**	**451,434**	**148,649**	**-**	**1,680,571**

(*) - These numbers include unallocated assets and liabilities related to research and development, IT, security and other functions that are not managed at the group level.

(**) - Inter-segment balances are eliminated on consolidation. Amounts shown as eliminations include intercompany balances.

(***) - Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

5 Segment Information (Continued)

Segment information for the reportable segments for the year ended 31 December 2009 is set out below:

	Oil and Gas	Refining	Construction	Sales and Distribution	Unallocated (*)	Eliminations (**)	Total
2009							
Revenues							
External customers	2,440,400	1,071,361	51,591	515,051	117,578	-	**4,195,981**
Inter-segment	182,046	256,553	474,083	443,892	132,390	(1,488,964)	-
Total revenue	**2,622,446**	**1,327,914**	**525,674**	**958,943**	**249,968**	**(1,488,964)**	**4,195,981**
Finance income	23,423	22,601	464	(775)	21,965	-	**67,678**
Other operating income	179,050	40,851	58,521	118,476	344,340	(536,530)	**204,708**
Changes in inventories of finished goods and work in progress	8,615	(320)	13,412	-	(1,005)	-	**20,702**
Raw materials and consumables used	(541,362)	(897,564)	(221,988)	(566,439)	(70,879)	1,035,827	**(1,262,405)**
Staff costs	(194,635)	(38,087)	(125,684)	(126,898)	(130,385)	159,913	**(455,776)**
Depreciation of property, plant and equipment	(275,672)	(122,677)	(49,086)	(140,907)	(56,872)	54,559	**(590,655)**
Impairment of property, plant and equipment	(228,981)	-	-	-	(13,000)	342	**(241,639)**
Impairment of trade and other receivables	533,321	(28,736)	(3,009)	31,318	(4,759)	(4,465)	**523,670**
Gains less losses on disposals of property, plant and equipment	257,738	7,739	(22,131)	(277,913)	26,056	-	**(8,511)**
Utilities expense	(2,587)	(31,072)	(2,414)	(501)	2,800	2,316	**(31,458)**
Transportation and vehicle maintenance	(129,249)	(327)	(47,306)	(12,036)	(10,037)	89,807	**(109,148)**
Mining tax	(120,508)	-	(11)	-	-	-	**(120,519)**
Taxes other than on income	(24,632)	(37,317)	(4,161)	(6,865)	(4,592)	-	**(77,567)**
Repairs and maintenance expenses	(105,985)	(12,875)	(52,510)	(17,715)	(19,704)	65,511	**(143,278)**
Fuel expenses	(1,530)	(2,575)	(343)	(52)	(81)	323	**(4,258)**
Energy expenses	(17,456)	(488)	(110)	(744)	(1,178)	514	**(19,462)**
Other	(205,606)	(101,569)	(55,288)	(93,297)	(636,534)	760,255	**(332,039)**
Finance cost	(53,530)	(88,334)	(2,443)	(8,211)	(19,483)	8,790	**(163,211)**
Foreign exchange losses, (net)	(2,582)	7,192	(74)	(7,995)	2,501	-	**(958)**
Social expenses	(11,386)	(12,764)	(1,190)	(74)	(134,065)	-	**(159,479)**
Share of result of jointly controlled entities	-	-	(23,730)	-	10,843	-	**(12,887)**
Share of result of associates	71	-	-	10,649	79,134	-	**89,854**
Income tax expense	(265,120)	11,246	(6,713)	(78,589)	(9,397)	(127,192)	**(475,765)**
Segment result	**1,443,843**	**42,838**	**(20,120)**	**(219,625)**	**(374,364)**	**21,006**	**893,578**

(*) - These numbers include unallocated revenues and expenses related to research and development, IT, security and other functions that are not managed at the group level.

(**) - Inter-segment revenues and expenses are eliminated on consolidation. Amounts shown as eliminations include intercompany transactions.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

5 Segment Information (Continued)

	Oil and Gas	Refining	Construction	Sales and Distribution	Unallocated (*)	Eliminations (**)	Total
Investment in associates	13	-	-	107,516	207,824	-	315,353
Investment in joint ventures	-	133	1	601	102,326	-	103,061
Other reportable segment assets	6,133,190	4,781,670	1,156,616	2,969,379	4,603,005	(5,228,713)	14,415,147
Total reportable segment assets	**6,133,203**	**4,781,803**	**1,156,617**	**3,077,496**	**4,913,155**	**(5,228,713)**	**14,833,561**
Other reportable segment liabilities	(2,259,113)	(3,985,358)	(785,999)	(4,015,704)	(1,594,577)	5,848,251	(6,792,500)
Total reportable segment liabilities	**(2,259,113)**	**(3,985,358)**	**(785,999)**	**(4,015,704)**	**(1,594,577)**	**5,848,251**	**(6,792,500)**
Capital expenditure (***)							
Additions - SOCAR	505,011	69,275	124,365	95,175	124,821	-	918,647
Additions –subsidiaries	239,765	37,151	-	18,111	-	-	295,027
Acquisitions through business combination	-	-	1,048	785,996	-	-	787,044
Total capital expenditures	**744,776**	**106,426**	**125,413**	**899,282**	**124,821**	**-**	**2,000,718**

(*) - These numbers include unallocated assets and liabilities related to research and development, IT, security and other functions that are not managed at the group level.

(**) - Inter-segment balances are eliminated on consolidation. Amounts shown as eliminations include intercompany balances.

(***) - Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

5 Segment Information (Continued)

Geographical information

Revenues for each individual country for which the revenues are material are reported separately as follows:

	2010	2009
Azerbaijan	3,484,201	2,764,292
Turkey	1,583,968	1,113,186
Georgia	459,096	318,503
Total consolidated revenues	**5,527,265**	**4,195,981**

The analysis is based on domicile of the customer. Revenues from off-shore companies of Azerbaijani customers are reported as revenues from Azerbaijan. Revenues comprise revenues from core activities, interest income and other operating income.

Capital expenditure for each individual country for which it is material is reported separately as follows:

	2010	2009
Azerbaijan	1,616,361	1,934,972
Turkey	11,498	37,151
Georgia	33,168	26,119
Other	19,544	2,476
Total capital expenditures	**1,680,571**	**2,000,718**

The analysis is based on location of assets. Capital expenditure represents additions to non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

6 Financial Risk Management

Financial risk factors. In the ordinary course of business, the Group is exposed to market risks from fluctuating prices on commodities purchased and sold, prices of other raw materials, currency exchange rates and interest rates. Depending on degree of price volatility, such fluctuations in market prices may create volatility in the Group's financial position. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. To effectively manage the variety of exposures that may impact financial results, the Group's overriding strategy is to maintain a strong financial position. Although there are no structured formal management procedures, management of the Group identifies and evaluates financial risks with reference to the current market position.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

6 Financial Risk Management (Continued)

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various exposures in the normal course of business, primarily with respect to USD. Foreign exchange risk arises primarily from future commercial transactions, recognised assets and liabilities when assets and liabilities are denominated in a currency other than the functional currency.

The majority of the Group's borrowings and sales as well as receivables from foreign customers are denominated in USD. There has been no significant devaluation of USD against AZN during the year ended 31 December 2010. However, due to significant USD denominated borrowings of the Group's subsidiary, STEAŞ, the Group experienced net foreign exchange loss recognised in the statement of comprehensive income of the Group for the year ended 31 December 2010 in the amount of AZN 92,412 (2009: AZN 958).

Management does not hedge the Group's foreign exchange risk.

The following table demonstrates the sensitivity to a reasonably possible change in the USD, JPY exchange rates, with all other variables held constant, of the Group's post-tax profit:

2010	**Change in rates(+/-)**	**Effect on post- tax profit**
USD/AZN	8.35%	53,544 / (53,544)
JPY/AZN	10%	(11,865) / 11,865
USD/YTL	10%	(140,318) / 140,318

2009	**Change in rates(+/-)**	**Effect on post- tax profit**
USD/AZN	15.6%	140,574 / (140,574)
JPY/AZN	10%	(10,327) / 10,327
USD/YTL	10%	(138,596) / 138,596

The Group's exposure to foreign currency changes for all other currencies is not material.

(ii) Commodity price risk

Although significant portion of the sales of the Group are regulated by the Azerbaijani Government, the Group is still exposed to certain price risk due to volatility of oil market prices. Presently, the Group does not use commodity derivative instruments for trading purposes to mitigate price volatility.

(iii) Interest rate risk

The Group is subject to interest rate risk on financial liabilities with variable interest rates. To mitigate this risk, the Group's management performs periodic analysis of the current interest rate environment and depending on that analysis management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In case where the change in the current market fixed or variable interest rates is considered significant management may consider refinancing a particular debt on more favorable interest rate terms.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

6 Financial Risk Management (Continued)

Changes in interest rates impact primarily debt by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new debts management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable over the expected period until maturity.

The floating rate for majority of interest bearing liabilities and assets exposes the Group to fluctuation in interest payments and receipts due to changes in LIBOR. The Group's variable interest bearing assets include loan receivable from Carlina Overseas Corp., a jointly controlled entity, which exposes the Group to fluctuation in LIBOR.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on loans and borrowings payable and receivable.

Loans and borrowings, net of loans receivable	Increase/decrease in basis points	Effect on post- tax profit
2010	+100/-25	9,100 / (2,275)
2009	+100/-25	8,549 / (2,137)

Credit risk and concentration of credit risk. Credit risk refers to the risk exposure that a potential financial loss to the group may occur if counterparty defaults on its contractual obligations.

The Group's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, including restricted cash, trade receivables and loans receivable.

The Group's maximum exposure to credit risk is represented by carrying amounts of financial assets and is presented by class of assets as shown in the table below:

	2010	2009
Cash and cash equivalents (Note 8)	1,000,161	773,506
Restricted cash (Note 9)	617,793	53,844
Deposits (Note 9)	399,011	873,169
Trade receivables (Note 10)	1,785,191	1,617,092
Loans receivable from jointly-controlled entities (Note 18)	280,259	311,891
Other receivables (Note 10)	654	80,951
Other current financial assets (Note 13)	12,312	7,178
Other long-term financial assets (Note 13)	79,148	74,068
Financial guarantees given (Note 35)	383,062	460,111
Total maximum exposure to credit risk	**4,557,591**	**4,251,810**
Financial guarantees–amounts of guarantees of indebtedness of others	(244,854)	(200,268)
Total exposure to credit risk net of guarantees received	**4,312,737**	**4,051,542**

The Group places its cash with reputable financial institutions in the Azerbaijan Republic. Overwhelming majority of the Group's cash is placed with the International Bank of Azerbaijan ("IBA") which is controlled by the Azerbaijani Government. The balance of cash and cash equivalents and restricted cash held with the IBA at 31 December 2010 was AZN 1,516,928 (2009: AZN 1,371,451). The Group continually monitors the status of the banks where its accounts are maintained.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

6 Financial Risk Management (Continued)

Trade receivables consist primarily of balances with local and foreign customers, including related parties, for crude oil, oil products and natural gas sold. SOCAR has an obligation to secure uninterrupted supply of crude oil, oil products and natural gas to certain customers under control of the Azerbaijani Government, including such companies as Azerenerji JSC and Azal JSC, which operate important public infrastructure facilities in the Azerbaijan Republic. Actual settlement terms applicable to the Group's relationships with these customers are affected to a large extent by the social and economic policies of the Government of the Azerbaijan Republic. The Group's credit risk arising from its trade balance with private sector and other third-party unrelated customers is mitigated by continuous monitoring of their creditworthiness. The Group does not believe that it is exposed to high credit risk as the impairment provision has already been accrued in the accompanying consolidated financial statements for all debtors which are not expected to be recovered in a future.

As at 31 December 2010, letters of guarantee and bank guarantees in total amount of AZN 244,854 (YTL 476,461,417) (2009: AZN 200,268 (YTL 376,797,795) were received from domestics and foreign customers of STEAŞ for sales of thermoplastics and fiber materials.

As fully described in Note 18, at 31 December 2010 the Group has loans receivable from SOCAR Petroleum in the amount AZN 17,024 (2009: AZN 8,749) and Carlina Overseas Corp., a jointly controlled entity in the amount of AZN 263,235 (2009: AZN 303,142). In accordance with the Share Pledge and Retention Agreement dated 28 December 2006 and Share Charge and Retention Agreement dated 12 April 2007 between the other owners of Carlina Overseas Corp. and the Group's subsidiary Azerbaijan (ACG) Limited ("AzACG"), the other owners of Carlina Overseas Corp. pledged in favour of AzACG all of their rights and interest in all proceeds and funds received or receivable by Carlina Overseas Corp. and all of their shares and any other equity interests in Carlina Overseas Corp.

Balances with major state-controlled, private and other category customers are as follows:

	Trade and other receivables, gross		Impairment loss provision		Trade and other receivables, net	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
State-controlled customers						
Azerenerji JSC	45,043	1,279,498	(15,225)	(1,251,184)	29,818	28,314
Azal JSC	-	195,469	-	(154,108)	-	41,361
Azerikimya SC	-	74,917	-	(74,917)	-	-
Other	131,397	184,822	(29,004)	(19,294)	102,393	165,528
Total state-controlled customers	**176,440**	**1,734,706**	**(44,229)**	**(1,499,503)**	**132,211**	**235,203**
Private and other	**1,790,132**	**1,564,536**	**(136,498)**	**(101,696)**	**1,653,634**	**1,462,840**
Total trade receivables	**1,966,572**	**3,299,242**	**(180,727)**	**(1,601,199)**	**1,785,845**	**1,698,043**

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

6 Financial Risk Management (Continued)

Liquidity risk. Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. In managing liquidity risk, the Group maintains adequate cash reserves and debt facilities, continuously monitors forecast and actual cash flows.

Prudent liquidity risk management includes maintaining sufficient working capital and the ability to close out market positions. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows.

All of the Group's financial liabilities represent non-derivative financial instruments. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months approximate their carrying values, as the impact of discounting is not significant.

At 31 December 2010	less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Total financial payables	2,318,949	272,935	-	-	2,591,884
Interest bearing borrowings	98,347	977,443	1,856,868	464,577	3,397,235
Other financial liabilities	-	15,606	10,620	23,776	50,002
Total future payments, including future principal and interest payments	**2,417,296**	**1,265,984**	**1,867,488**	**488,353**	**6,039,121**

The maturity analysis of financial liabilities as of 31 December 2009 is as follows:

At 31 December 2009	less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Total financial payables	1,894,009	36,687	272,267	-	2,202,963
Interest bearing borrowings	120,632	387,820	2,136,333	595,430	3,240,215
Total future payments, including future principal and interest payments	**2,014,641**	**424,507**	**2,408,600**	**595,430**	**5,443,178**

Capital management. The primary objective of the Group's capital management policy is to ensure a strong capital base to fund and sustain its business operations through prudent investment decisions and to maintain government, investor and creditor confidence to support its business activities.

The Group considers total capital under management to be as follows:

	2010	2009
Total borrowings (Note 20)	3,059,676	2,851,974
Total equity attributable to the Group's equity holders	7,455,816	7,258,252
Less: cash and cash equivalents	(1,000,161)	(773,506)
Total capital under management	**9,515,331**	**9,336,720**

The Group is periodically mandated to contribute to the state budget and finance various projects undertaken by the Government of the Azerbaijan Republic.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

6 Financial Risk Management (Continued)

There were no changes to the Group's approach to capital management during the year.

Fair value of financial instruments. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Azerbaijan Republic continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

(i) Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables approximate fair values due to their short-term maturities.

(ii) Liabilities carried at amortised cost. Carrying amounts of trade payables and due to related parties approximate fair values due to their short-term maturities. Carrying values of long-term borrowings approximate their fair values as virtually all debt has been obtained under market conditions, which were still applicable at period end.

7 Balances and Transactions with Related Parties

Key management of the Group includes the President of SOCAR and its ten Vice-Presidents. All of the Group's key management are appointed by the President of the Azerbaijan Republic. Key management individuals are entitled to salaries and benefits of SOCAR in accordance with the approved payroll matrix as well as to compensation for serving as members of the Boards of directors for certain Group companies. During 2010 compensation of key management personnel totalled to AZN 268 (2009: AZN 168).

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding are detailed below.

At 31 December 2010, the outstanding balances with related parties were as follows:

	Note	The Government and entities under government control	Associates and joint ventures
Gross amount of trade receivables	6	176,440	617,232
Impairment provisions for trade and other receivables	6	(44,229)	-
Cash and cash equivalents	8	176,935	-
Deposit	8,9	1,345,666	-
VAT and other taxes receivable		435,441	-
Prepayment for corporate income tax		26,581	-
Prepayment to suppliers		6,040	-
Loans receivable from jointly controlled entities	18	-	280,259
Borrowings from IBA (fixed interest rates varying from 3 to 3.5 per cent and floating interest rates varying from LIBOR plus 2 per cent to LIBOR plus 3.5 per cent)	20	(1,734,303)	-
Borrowings from the Ministry of Finance of the Azerbaijan Republic	20	(34,025)	-
Borrowings from Japan Bank for International Cooperation loan through Ministry of Finance of the Azerbaijan Republic	20	(143,825)	-
Trade and other payables		(93,872)	(418,536)
Payable to the State Oil Fund of the Azerbaijan Republic (SOFAZ)		(1,109,362)	-
Other taxes payable		(177,478)	-
Corporate income tax payable		(88,913)	-

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

7 Balances and Transactions with Related Parties (Continued)

The transactions with related parties for the year ended 31 December 2010 were as follows:

		The Government and entities under government control	Associates and joint ventures
Sales of natural gas		210,622	-
Sales of oil products		243,487	186,901
Services rendered		19,647	65,142
Interest income on deposits	8,9	24,737	-
Interest on loans from related parties	18	-	11,590
Corporate income tax	33	(301,758)	-
Excise tax	28	(389,549)	-
Price margin tax	28	(315,467)	-
Mining tax	29	(121,583)	-
Other taxes		(202,595)	-
Utilities costs		(65,972)	-
Other operating expenses		(62,227)	(655,721)
Social security deductions		(105,380)	-
Social expenses	27	(454,297)	-
Transportation expenses		(6,487)	(8)
Ecology service and environmental security		(2,896)	(17,388)
Purchases of property, plant and equipment and inventory		(34,098)	(166,512)
Dividends received from jointly controlled entities	16	-	5,692
Dividends received from associates	17	-	57,748

At 31 December 2009, the outstanding balances with related parties were as follows:

	Note	The Government and entities under government control	Associates, joint ventures and operating companies
Gross amount of trade receivables	6	1,734,706	818,730
Impairment provisions for trade and other receivables	6	(1,499,503)	-
Cash and cash equivalents	8	185,093	-
Deposit	8,9	1,200,072	-
VAT and other taxes receivable		307,078	-
Prepayment for corporate income tax		25,813	-
Loans receivable from jointly controlled entities	18	-	311,891
Borrowings from IBA (contractual interest rates varying from LIBOR plus 2 per cent to LIBOR plus 3 per cent)	20	(1,743,663)	-
Borrowings from Japan Bank for International Cooperation loan through Ministry of Finance of the Azerbaijan Republic	20	(132,403)	-
Trade and other payables		(63,780)	(198,980)
Payable to SOFAZ		(1,098,830)	-
Other taxes payable		(187,295)	-
Corporate income tax payable		(102,503)	-

At 31 December 2010 and 2009 amounts due to SOFAZ were represented by proceeds transferred to the Group by third parties for sale of crude oil on behalf of SOFAZ and taxes related to differences in crude oil prices (Note 21).

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

7 Balances and Transactions with Related Parties (Continued)

The transactions items with related parties for the year ended 31 December 2009 were as follows:

		The Government and entities under government control	Associates, joint ventures and operating companies
Sales of natural gas		298,809	25
Sales of oil products		231,336	85,178
Services rendered		29,094	39,480
Interest income on deposits	8,9	21,951	-
Interest on loans from related parties	18	-	20,033
Corporate income tax	33	(361,123)	-
Excise tax	28	(362,209)	-
Price margin tax	28	(196,268)	-
Mining tax	29	(120,519)	-
Other taxes		(104,537)	-
Utilities costs		(52,761)	(3,194)
Other operating expenses		(94,671)	(173,898)
Social security deductions		(79,692)	-
Social expenses	27	(318,298)	-
Transportation expenses		(15,588)	-
Purchases of property, plant and equipment and inventory		(57,116)	(99,438)
Dividends received from jointly controlled entities	16	-	(6,178)
Dividends received from associates	17	-	(58,481)

Terms and conditions of transactions with related parties.
The sales to and purchases from the Government and entities under government control are made at market prices regulated by the Azerbaijani Government. The sales to and purchases from other related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured and settlement occurs in cash. There have been no guarantees provided for any related party receivables or payables. Also, see Note 18 for collateral received from jointly controlled entity.

8 Cash and Cash equivalents

	2010	2009
USD denominated bank balances	710,148	618,971
AZN denominated bank balances	178,333	83,055
YTL denominated bank balances	56,182	28,267
EUR denominated bank balances	46,644	36,848
Other denominated bank balances	7,849	4,660
Cash on hand	1,005	1,705
Total cash and cash equivalents	**1,000,161**	**773,506**

Included in USD denominated bank balances as at 31 December 2010 are two call deposits of AZN 240,513 and AZN 47,874 placed with IBA (2009: AZN 214,469 and AZN 112,434, respectively). Interest rates of these deposits during the years ended 31 December 2010 and 2009 were based on overnight rate less bank margin varying from 0.5 per cent to 1.5 per cent. In addition, USD denominated bank balances at 31 December 2010 included call deposit of AZN 79,790 placed with IBA, bearing interest rate of 2.85 per cent per annum (2009: nil).

At 31 December 2010 YTL denominated bank balances included time deposit of AZN 42,663 (2009: nil) placed with Halkbank maturing less than a month and bearing interest rate of 8.2 per cent per annum.

Call deposits have original maturities of less than three months. All the bank balances and deposits are neither past due nor impaired.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

8 Cash and Cash equivalents (Continued)

At 31 December 2009 USD denominated bank balances includes current account with BNP Paribas in the amount of AZN 60,233 which is used to accumulate proceeds received by the Group from its customers from the sales of cost recovery petroleum (CRP) in accordance with the relevant Accounts Agreement signed between AzACG, BNP Paribas and SG on 23 December 2005 and syndication credit agreement signed with BNP Paribas. In accordance with this agreement, disbursements from the Group's current account with BNP Paribas are limited mainly to the expenditures related to the Group's participation in Azeri-Chirag-Guneshli ("ACG") PSA. See Note 20.

In addition at 31 December 2009 USD denominated bank balances included funds held on Lalaben account in the amount of AZN 14,673 representing proceeds received directly from customers of the Group from the sale of the Reserved Profit Petroleum (RPP) (7,000 barrels of profit petroleum per day attributable to the Group) on the Group's account with BNP Paribas. In accordance with Advance Payment Agreement with Lalaben LLC ("Lalaben") the Group uses these proceeds from crude oil sales to repay Lalaben loan. The funds held on Lalaben account with BNP Paribas under the terms of the respective agreements, are limited to the payments of profit petroleum tariffs, operating expenses, and profit taxes.

During the year ended 31 December 2010 the Group fully repaid BNP Paribas and Lalaben loans.

9 Restricted Cash and Deposits

Short-term restricted cash and deposits

	2010	2009
Deposit account with IBA in USD	578,478	-
Letter of credit for purchase of fixed assets	21,026	21,210
Other restricted cash	18,289	32,634
Total short-term restricted cash and deposits	**617,793**	**53,844**

Long-term deposits
At 31 December 2010 and 2009 long-term deposits with the carrying value of AZN 399,011 and AZN 873,169, respectively, were represented by the Group's deposits with IBA.

At 31 December 2010 total short-term and long-term deposits are represented by time deposits in total amount of AZN 977,489 with IBA (2009: AZN 873,169) to collateralize the Group's obligations to IBA under the loan facilities obtained from IBA in May 2008 and May 2010 (Note 20). The deposits bear annual interest rate of LIBOR plus margin varying from 1.5 per cent to 3.35 per cent. The deposits will mature on 27 July 2014.

10 Trade and Other Receivables and Prepayments

	2010	2009
Trade receivables	1,912,523	3,167,702
Less impairment loss provision	(127,332)	(1,550,610)
Total trade receivables	**1,785,191**	**1,617,092**
VAT recoverable	375,433	295,706
Prepayments	138,405	97,005
Receivables for underlift of oil	16,566	-
Other tax receivable	89,442	19,890
Other receivables	54,049	131,540
Less impairment loss provision (other receivables)	(53,395)	(50,589)
Total trade and other receivables	**2,405,691**	**2,110,644**

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

10 Trade and Other Receivables and Prepayments (Continued)

Receivables mainly represent receivables for crude oil, oil products and natural gas sold to customers of the Group. The Group does not hold any collateral as security, except as described below.

At 31 December 2010 trade receivables of AZN 1,656,439 (2009: AZN 1,580,660) were denominated in foreign currencies, mainly in USD.

VAT recoverable relates to purchases which have not been settled at the statement of financial position date. VAT recoverable is reclaimable against VAT on sales upon payment for the purchases.

Movements on the provision for impairment of trade receivables are as follows:

	2010	2009
At 1 January	**1,601,199**	**2,462,576**
Additional provision provided during the year	60,543	297,022
Receivables written off during the year as uncollectible	(1,233,296)	(337,706)
Reversal of impairment for receivables	(247,719)	(820,693)
At 31 December	**180,727**	**1,601,199**

The impaired receivables mainly relate to overdue debts (in excess of 360 days) for oil, natural gas and oil products supplied primarily to state-owned entities.

An analysis of the age of financial assets that are past due, but not impaired:

	2010	2009
1-30 days overdue	18,356	1,675
1-3 months overdue	2,813	2,118
Over 3 months overdue	10,899	8,308
Total overdue receivables	**32,068**	**12,101**

At 31 December 2010 trade receivables of AZN 32,068 (2009: AZN 12,101) were past due, however the Group holds guarantee letters and letters of credits in total amount of AZN 28,790 (2009: AZN 10,705).

11 Inventories

	2010	2009
Raw materials and spare parts	469,201	441,955
Finished goods	153,664	109,054
Goods in transit	67,642	37,353
Work in progress	56,027	55,606
Crude oil	53,142	51,151
Other	8,896	12,339
Total inventories	**808,572**	**707,458**

12 Other Long-Term Assets

At 31 December 2010 other long-term assets were mainly represented by long-term prepayments for purchase of property, plant and equipment in the amount of AZN 186,676 (2009: AZN 231,263) and receivables from carry arrangement in the amount of AZN 13,527 (2009: AZN 11,952).

13 Other Financial Assets

In accordance with the loan agreement with Palmali dated 5 October 2009 the Group provided a loan dated 5 October 2009 in the amount of USD 75 million (AZN 59,843) bearing annual interest rate of LIBOR plus 4 per cent and maturing on 30 September 2013. The loan and principal are payable on a quarterly basis.

On 6 November 2009 the Group signed an amendment to the loan agreement according to which, the amount of facility was increased to USD 100 million (AZN 80,310). On 30 March 2010 the amount of facility was further increased to USD 120 million (AZN 95,748) and the maturity extended to 30 September 2015.

At 31 December 2010 and 2009 the carrying value of loan receivable from Palmali equaled to AZN 91,460 and AZN 81,246, respectively.

In accordance with the Share Pledge Agreement and Corporate Guarantee dated 7 October 2009, signed between the Group and owners of Palmali, the latter pledged 340 shares out of total authorized and issued 514 shares and any related equity interests in Palmali as a security for its obligations under the above-mentioned loan agreement. In addition, Palmali has assigned in favor of the Group all of its rights and interests in all proceeds and funds received or receivable by Palmali under the transportation services agreement signed with one of the Group subsidiaries on 20 March 2008 in relation to transportation of crude oil and oil products. The above security arrangements shall remain in force until Palmali fully repays its liabilities to the Group.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

14 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment ("PPE") were as follows:

	Buildings and construction	Oil and gas properties and equipment	Plant and machinery	Vessels	Other	Construction in progress	Total
Cost:							
At 1 January 2009	**991,312**	**3,896,943**	**1,648,496**	**398,598**	**875,058**	**672,361**	**8,482,768**
Additions	14,678	456,593	91,245	25,304	38,791	566,912	**1,193,523**
Acquisition through business combination	196,852	517,774	9,504	-	7,711	55,203	**787,044**
Disposals	(47,305)	(25,693)	(26,316)	(97)	(4,618)	(66,630)	**(170,659)**
Transfers	(107,929)	401,240	43,652	81	7,955	(344,999)	**-**
Translation to presentation currency	5,240	2,676	9,363	-	6,188	(6,525)	**16,942**
At 31 December 2009	**1,052,848**	**5,249,533**	**1,775,944**	**423,886**	**931,085**	**876,322**	**10,309,618**
Additions	45,463	588,916	80,955	34,515	127,264	732,500	**1,609,613**
Acquisition through business combination	8,000	327	42,830	-	99	9,305	**60,561**
Disposals	(1,438)	(186,556)	(16,033)	(2,234)	(8,365)	(122,525)	**(337,151)**
Transfers	62,949	297,032	89,609	61	8,755	(458,406)	**-**
Translation to presentation currency	(3,232)	(83,794)	(35,141)	-	51,108	(4,758)	**(75,817)**
At 31 December 2010	**1,164,590**	**5,865,458**	**1,938,164**	**456,228**	**1,109,946**	**1,032,438**	**11,566,824**
Depreciation and impairment:							
At 1 January 2009	**(183,709)**	**(835,194)**	**(244,227)**	**(54,875)**	**(49,332)**	**(141,364)**	**(1,508,701)**
Depreciation charge for the year	(67,311)	(385,466)	(153,575)	(28,456)	(28,013)	-	**(662,821)**
Disposals	26,341	10,335	14,621	97	1,186	307	**52,887**
Transfers	6,181	(68,156)	3,026	(37)	(8,253)	67,239	**-**
Impairment	(158)	(131,965)	1,933	(13,000)	-	(98,449)	**(241,639)**
Translation to presentation currency	(355)	(90)	(1,950)	-	(393)	-	**(2,788)**
At 31 December 2009	**(219,011)**	**(1,410,536)**	**(380,172)**	**(96,271)**	**(84,805)**	**(172,267)**	**(2,363,062)**
Depreciation charge for the year	(68,726)	(410,921)	(166,519)	(28,816)	(45,037)	-	**(720,019)**
Disposals	3,429	79,744	10,340	1,002	5,582	11,822	**111,919**
Transfers	(723)	(83,374)	(2,617)	-	(2,596)	89,310	**-**
Impairment	-	(190,133)	(1,924)	-	-	(167,990)	**(360,047)**
Translation to presentation currency	299	2,437	5,939	-	334	3	**9,012**
At 31 December 2010	**(284,732)**	**(2,012,783)**	**(534,953)**	**(124,085)**	**(126,522)**	**(239,122)**	**(3,322,197)**
Net book value:							
At 31 December 2010	**879,858**	**3,852,675**	**1,403,211**	**332,143**	**983,424**	**793,316**	**8,244,627**
At 31 December 2009	**833,837**	**3,838,997**	**1,395,772**	**327,615**	**846,280**	**704,055**	**7,946,556**
At 1 January 2009	**807,603**	**3,061,749**	**1,404,269**	**343,723**	**825,726**	**530,997**	**6,974,067**

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

14 Property, Plant and Equipment (Continued)

Included in the disposed property, plant and equipment as of 31 December 2010 were assets with net book value of AZN 54,049 (2009: AZN 43,451) which were transferred to governmental entities as part of social program approved by the Government and recognised in the distribution to the Government (Note 27). Due to the fact that the assets are constructed/acquired and disposed to the Government within the same year, management believe that their fair value at the date of transfer to the Government approximate cost of construction/acquisition.

Acquisition through business combination represents property, plant and equipment acquired through acquisition of Azerikimya SC state-owned company on 2 April 2010 (Note 36) and SOCAR Bosphorus Energy on 25 February 2010 in the amounts of AZN 48,316 and AZN 12,245, respectively.

15 Intangible Assets other than Goodwill

The movement of intangible assets other than goodwill and related accumulated amortisation for the year ended 31 December 2010 was as follows:

	Land and property rights	Water rights	Trade name	Customer relationship	Other intangible assets	Total
Cost:						
At 1 January 2009	**167,381**	**200,794**	**38,339**	**101,766**	**13,813**	**522,093**
Additions	-	-	-	-	20,151	20,151
Translation to presentation currency	1,351	1,630	335	755	16	4,087
At 31 December 2009	**168,732**	**202,424**	**38,674**	**102,521**	**33,980**	**546,331**
Additions	-	-	-	-	10,577	10,577
Disposals	-	-	-	-	(8)	(8)
Translation to presentation currency	(5,237)	(6,310)	(1,281)	(2,973)	(189)	(15,990)
At 31 December 2010	**163,495**	**196,114**	**37,393**	**99,548**	**44,360**	**540,910**
Amortization and impairment:						
At 1 January 2009	**(2,578)**	**(2,874)**	**-**	**(3,106)**	**(2,792)**	**(11,350)**
Amortization charge for the year	(3,769)	(4,203)	-	(3,770)	(2,002)	(13,744)
At 31 December 2009	**(6,347)**	**(7,077)**	**-**	**(6,876)**	**(4,794)**	**(25,094)**
Amortization charge for the year	(3,869)	(4,383)	-	(4,662)	(3,092)	(16,006)
Disposals	-	-	-	-	3	3
At 31 December 2010	**(10,216)**	**(11,460)**	**-**	**(11,538)**	**(7,883)**	**(41,097)**
Net book value:						
At 31 December 2010	**153,279**	**184,654**	**37,393**	**88,010**	**36,477**	**499,813**
At 31 December 2009	**162,385**	**195,347**	**38,674**	**95,645**	**29,186**	**521,237**
At 1 January 2009	**164,803**	**197,920**	**38,339**	**98,660**	**11,021**	**510,743**

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

15 Intangible Assets other than Goodwill (Continued)

At 31 December 2010 included in the carrying value of intangible assets was AZN 37,393 (2009: AZN 38,674) trade name of Petkim acquired through business combination in May 2008 (Note 26). The carrying value of Petkim trade name at December 31, 2010 has been tested for impairment through comparison with its recoverable amount. Recoverable amount has been determined based on the relief from royalty approach. In applying this methodology, the Group estimated the value of the trade name by capitalizing the royalties saved due to Petkim owning the trade name. The royalty rate of 0.2 per cent was used in the calculation and the discount rate of 10.6 per cent was applied in the impairment study based on the WACC for 11 years. As a result of the test performed, no impairment on the Petkim trade name has been identified.

During 2010, total amortization expense amounting to AZN 16,006 (2009: AZN 13,744) have been allocated to cost of sales by AZN 7,474 (2009: AZN 6,910), marketing, selling and distribution expenses by AZN 5,300 (2009: AZN 4,395) and general administrative expenses by AZN 3,232 (2009: AZN 2,439).

16 Investments in Jointly Controlled Entities

The table below summarises the movements in the carrying amount of the Group's investment in jointly controlled entities.

	Note	2010	2009
Carrying amount at 1 January 2010		**103,061**	**113,685**
Additions to investments in jointly controlled entities		104,113	18,920
Share of after tax results of jointly controlled entities		6,390	(12,887)
Dividends received from jointly controlled entities	7	(5,692)	(6,178)
Loss offset with receivables from jointly controlled entity		-	18,788
De-recognition of jointly controlled entities		-	(39,114)
Exchange differences		154	(78)
Other		40,844	9,925
Carrying amount at 31 December 2010		**248,870**	**103,061**

On 1 July 2009, Caspian Drilling Company (CDC) repurchased 45 per cent of outstanding shares held by the other member of joint venture and the Group effectively became the sole owner of CDC. Accordingly, CDC is classified as subsidiary effective from 1 July 2009. In October 2009 Anshad Petrol and Shirvan Oil were closed. In 2010 Caspian Offshore Fabricators was liquidated.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

16 Investments in Jointly Controlled Entities (Continued)

At 31 December 2010, the Group's interests in its principal jointly controlled entities and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (loss)	Interest held	Country of incorporation
Carlina Overseas Corp.	61,573	137,596	(147,181)	(227,983)	32,835	(53,373)	51%	British Virgin Islands
Azgerneft	18,365	22,644	(19,799)	-	26,640	6,692	40%	Azerbaijan
Azeri Fugro	406	112	(339)	(37)	551	(255)	60%	Azerbaijan
Azfen	16,575	6,340	(9,072)	-	36,008	207	60%	Azerbaijan
Bosshelf LLC	13,788	460	(13,766)	(74)	34,297	204	50%	Azerbaijan
Azturqaz	297	872	(953)	-	594	(171)	50%	Azerbaijan
Azeri M.I. Drilling Fluids	51,407	3,614	(41,463)	-	95,812	10,419	51%	Azerbaijan
SOCAR – KPS	555	620	(1,107)	-	3,442	-	50%	Azerbaijan
Oil and Gas Proservice	4,390	132	(763)	(613)	3,424	1,316	30%	Azerbaijan
Ekol Engineering Services	3,727	11,460	(6,856)	(287)	14,736	(99)	51%	Azerbaijan
Caspian Shipyard Company	13,517	1,450	(259)	-	17,501	1,974	20%	Azerbaijan
Socar Petroleum CJSC	13,098	47,899	(5,551)	(34,569)	185,856	136	51%	Azerbaijan
SOCAR-UGE	422	13,023	(1,445)	-	-	(1,756)	97%	Azerbaijan
SOCAR Umid	2,028	129,629	(18,123)	-	-	-	80%	Azerbaijan
Sarmatia	1,224	-	(15)	-	70	(275)	25%	Poland
SOCAR Baglan LLC	5,984	2,820	(522)	(8,868)	-	(687)	51%	Azerbaijan
SOCAR AQS	226,638	3,542	(38,590)	(46,308)	144,028	71,396	51%	Azerbaijan
Total	**433,994**	**382,213**	**(305,804)**	**(318,739)**	**595,794**	**35,728**		

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

16 Investments in Jointly Controlled Entities (Continued)

At 31 December 2009, the Group's interests in its principal jointly controlled entities and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Profit/ (loss)	Interest held	Country of incorporation
Carlina Overseas Corp.	15,109	200,615	(112,841)	(262,150)	18,812	(36,842)	51%	British Virgin Islands
Azgerneft	15,520	18,023	(11,920)	-	18,530	3,080	40%	Azerbaijan
Azeri Fugro	760	42	(404)	-	886	(18)	60%	Azerbaijan
Azfen	20,703	3,581	(10,644)	-	25,371	128	60%	Azerbaijan
Bosshelf LLC	8,217	404	(8,379)	(38)	9,576	54	50%	Azerbaijan
Azturqaz	380	859	(827)	-	732	(129)	50%	Azerbaijan
Caspian Offshore Fabricators	1,120	17	(104)	-	571	(15)	50%	Azerbaijan
Azeri M.I. Drilling Fluids	40,883	2,938	(33,541)	-	68,215	6,654	51%	Azerbaijan
SOCAR – KPS	324	289	(545)	-	3,269	(37)	50%	Azerbaijan
Oil and Gas Proservice	2,194	222	(133)	(80)	3,244	1,509	30%	Azerbaijan
Ekol Engineering Services	4,462	7,156	(8,608)	-	9,509	278	51%	Azerbaijan
Caspian Shipyard Company	17,774	2,201	(721)	-	52,812	10,556	20%	Azerbaijan
Energy Solutions Group	59	3	(507)	-	-	(15)	51%	Azerbaijan
Socar Petroleum CJSC	9,965	24,773	(13,997)	-	81,928	144	51%	Azerbaijan
SOCAR-UGE	124	12,605	(242)	-	-	(1,405)	97%	Azerbaijan
SOCAR Umid	1,848	8,505	(2,165)	-	-	(204)	80%	Azerbaijan
Sarmatia	451	-	(290)	-	79	(1,524)	25%	Poland
SOCAR AQS	111,366	2,783	(20,851)	(19,411)	118,468	46,530	51%	Azerbaijan
Total	**251,259**	**285,016**	**(226,719)**	**(281,679)**	**412,002**	**28,744**		

In March 2010 the Group entered into joint agreement with other participant to establish a jointly controlled entity named SOCAR CSCR. Total equity of the entity is AZN 0.1 and the Group's share is 51 per cent. The entity was established in April 2011. There were no operations of this entity in 2010.

In June 2010 the Group entered into joint agreement with other participant to establish a jointly controlled entity named SOCAR CAPE. Total equity of the entity is AZN 100 and the Group's share is 51 per cent. There were no operations of this entity in 2010.

In September 2010 the Group entered into joint agreement with other participants to establish a jointly controlled entity named AGRI LNG Project Company. Total equity of the entity is AZN 76 and the Group's share is 33.33 per cent. There were no operations of this entity in 2010.

The carrying value of the Group's investments in Carlina Overseas Corp. and Energy Solutions Group is nil both at 31 December 2010 and 2009. At 31 December 2010 the Group's share in unrecognised losses of Carlina Overseas Corp. that exceeds the Group's interest in this investee is AZN 74,041 (2009: AZN 46,821). At 31 December 2010 Energy Solutions Group was in the process of liquidation.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

17 Investments in Associates

The table below summarises the movements in the carrying amount of the Group's investment in associates.

	Note	2010	2009
Carrying amount at 1 January 2010		**315,353**	**292,732**
Additions to investments in associates		3,829	301
Share of after tax results of associates		99,080	89,854
Dividends received from associates	7	(57,748)	(58,481)
Derecognition of associates		(902)	(948)
Exchange differences		(8,527)	(8,105)
Carrying amount at 31 December 2010		**351,085**	**315,353**

In 2010 SOCAR Rodan and SOCAR ASM were liquidated.

At 31 December 2010, the Group's interests in its principal associates and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/ (loss)	Interest held	Country of incorporation
Azerbaijan BTC Ltd	764,572	(535,896)	273,569	240,480	23%	Cayman Islands
Caspian Geophysical	4,544	(80)	6,123	(1,351)	45%	Azerbaijan
AzLab	918	(2)	733	61	50%	Azerbaijan
Azeri Drilling Company	11,523	(89)	20,037	7,890	35%	Azerbaijan
Azerbaijan John Brown	128	(2)	414	16	40%	Azerbaijan
Cross Caspian Oil and Gas Logistics	12,788	(100)	108,224	126	34%	Azerbaijan
SOCAR – ASM	4,305	(85)	14,750	2,344	30%	Azerbaijan
Ateshgah Insurance Company	20,465	(3,699)	16,734	326	10%	Azerbaijan
Caspian Pipe Coatings LLC	7,712	(10)	3,024	47	50%	Azerbaijan
Supra Holding	2,442,178	(10,211)	15,775,048	68,290	50%	Malta
South Caspian Pipeline Company	1,054,694	(997,512)	169,213	60,475	10%	Cayman Islands
South Caspian Pipeline Company Holding Company	19,820	(19,189)	1,209	1,176	10%	Cayman Islands
Azerbaijan Gas Supply Company	68,193	(68,181)	145,967	-	8%	Cayman Islands
Total	**4,411,840**	**(1,635,056)**	**16,535,045**	**379,880**		

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

17 Investments in Associates (Continued)

At 31 December 2009, the Group's interests in its principal associates and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/ (loss)	Interest held	Country of incorporation
Azerbaijan BTC Ltd	710,130	(52,815)	266,223	241,033	23%	Cayman Islands
Caspian Geophysical	3,923	(1,926)	8,891	1,916	45%	Azerbaijan
AzLab	914	(237)	741	154	50%	Azerbaijan
Azerbaijan John Brown	65	(8)	236	(39)	40%	Azerbaijan
Cross Caspian Oil and Gas Logistics	5,290	(5,208)	65,493	(176)	34%	Azerbaijan
SOCAR – ASM	8,353	(7,814)	30,309	118	30%	Azerbaijan
Ateshgah Insurance Company	18,646	(11,905)	14,359	870	10%	Azerbaijan
Caspian Pipe Coatings LLC	7,482	(677)	795	(2,232)	50%	Azerbaijan
Supra Holding	1,489,456	(1,387,350)	8,359,374	49,777	50%	Malta
South Caspian Pipeline Company	1,096,686	(66,891)	169,173	107,986	9.8%	Cayman Islands
South Caspian Pipeline Company Holding Company	21,091	(614)	1,403	1,370	10%	Cayman Islands
Azerbaijan Gas Supply Company	9,396	(9,383)	50,013	-	8%	Cayman Islands
Total	**3,371,432**	**(1,544,828)**	**8,967,010**	**400,777**		

At 31 December 2010 and 2009 the Group holds 8 per cent interest in the Azerbaijan Gas Supply Company ("AGSC"). AGSC was established together with the Ministry of Fuel and Energy of the Azerbaijan Republic and contractor parties of Shah Deniz Production Sharing Agreement ("Shah Deniz PSA") related to the Exploration, Development and Production of gas field on Caspian Sea where the Group has 10 per cent participating interest. AGSC is established for marketing, accounting, billing, payment and reporting of other administrative activities related to the sales of Shah Deniz gas and operates on no gain / no loss basis. The Group exercises a significant influence over AGSC.

18 Loans Receivable from Jointly Controlled Entities

Loans receivable from jointly controlled entities represents balances due from SOCAR Petroleum and Carlina Overseas Corp. At 31 December 2010 the carrying value of the receivable from Carlina Overseas Corp. equals to AZN 263,235 (2009: AZN 303,142). The loan bears an annual interest rate of LIBOR plus 2.5 per cent payable on a quarterly basis. The maturity date of the loan is 28 December 2014. In accordance with the Share Pledge and Retention Agreement dated 28 December 2006 and Share Charge and Retention Agreement dated 12 April 2007 between the owners of Carlina Overseas Corp. and AzACG, the owners of Carlina Overseas Corp. pledged in favour of AzACG all of their rights and interests in all proceeds and funds received or receivable by Carlina Overseas Corp. and all of their shares and any other equity interests in Carlina Overseas Corp. Management of the Group believes that the value of the collateral provides an adequate security for the carrying value of this receivable.

Under the terms of the loan agreement, if Carlina Overseas Corp. fails to repay accrued interest at the end of quarter interest is charged at default rate of LIBOR + 4.5 per cent. Interest income accrued during the year ended 31 December 2010 and 2009 equalled to AZN 11,590 and AZN 20,033, respectively.

Receivable from Carlina Overseas Corp. is past due as no interest payments have been received by the Group from Carlina Overseas Corp. at 31 December 2010 and 2009. As a result, default interest rate of LIBOR plus 4.5 per cent was charged on the unpaid principal loan balance during 2010 and 2009. At 31 December 2010 and 2009 the overdue amount under this loan is AZN 64,504 and AZN 52,914, respectively. See Note 37 for the event after reporting date related to Carlina loan. In 2010 the Group has recognized impairment provision related to this receivable in the amount of AZN 95,748 (2009: nil).

Loan receivable from SOCAR Petroleum in the amount of AZN 17,024 (2009: AZN 8,749) is on demand and does not bear any interest rate.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

19 Trade and Other Payables

	2010	2009
Trade payables	2,191,712	1,604,814
Accrued liabilities	111,272	289,195
Other payables	15,965	-
Total financial payables	**2,318,949**	**1,894,009**
Liabilities for overlift of oil	39,796	120,453
Advances from customers	48,163	31,603
Payable to employees	38,921	41,690
Total trade and other payables	**2,445,829**	**2,087,755**

Trade payables of AZN 1,670,226 (2009: AZN 1,513,741) are denominated in foreign currencies, mainly in USD. Trade payables mainly represent payables for drilling, transportation and utilities provided by vendors of the Group.

Accrued liabilities represents Group's share in the respective accrued liabilities reported by the operator of ACG PSA and Shah Deniz PSA.

Liabilities for overlift relate to the oil lifted by the Group in excess of its participating interests in ACG PSA and Shah Deniz PSA and thus, represents the Group's obligation to deliver physical quantities of oil out of its share of future production.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

20 Borrowings

	2010	2009
Short-term borrowings		
International Bank of Azerbaijan loan	585,353	16,065
Deutsche Bank loan	77,962	64,248
Xalqbank loan	50,000	93,002
Akbank T.A.Ş loan	27,807	28,010
Ministry of Finance loan	21,800	-
Turkiye Garanti Bankasi A. Ş loan	15,890	16,005
Bank of Georgia loan	14,014	-
Export – Import Bank of Japan loan	4,483	-
Other short-term borrowings	12,246	6,883
Accrued interest payable	15,553	16,773
Current portion of long-term borrowings	171,724	147,094
Total short-term borrowings and current portion of long-term borrowings	**996,832**	**388,080**
Long-term borrowings		
International Bank of Azerbaijan loans	1,148,950	1,727,598
Akbank T.A.Ş/Turkiye Garanti Bankasi A. Ş loan	500,528	500,175
BNP Paribas loan	152,852	-
Japan Bank for International Cooperation (JBIC) loan	143,825	132,403
YapiKredi loan	111,048	-
ABN Amro/Citibank loan	-	163,297
West LB loan	58,626	-
Natixis loan	56,484	24,093
Societe Generale loan	39,096	-
Ministry of Finance loan	12,225	-
Lalaben loan	-	49,454
International Development Association (IDA) loan	5,251	6,926
Other long term borrowings	5,683	7,042
Less:		
Current portion of long-term borrowings	(171,724)	(147,094)
Total long-term borrowings	**2,062,844**	**2,463,894**
Total borrowings	**3,059,676**	**2,851,974**

Deutsche Bank loan. On 29 October 2009 the Deutsche Bank provided a loan to the Group for a 12 month period. The total amount of financing available under this facility agreement was USD 80,000 thousand (AZN 64,000). The loan bears an annual interest rate of LIBOR plus 2 per cent. In October 2010 the Group fully repaid the loan and entered into a new loan agreement with the bank for a 12 month period. The total amount of this facility is USD 100,000 thousand (AZN 79,790) and bears an annual interest rate of LIBOR+ 1.5 per cent. At 31 December 2010 the total outstanding balance under this facility was AZN 77,962 (2009: AZN 64,248).

International Bank of Azerbaijan loan. On 21 May 2007, IBA provided a credit line with a USD 50,000 thousand (AZN 39,895) limit to the Group for the period of 36 months until 21 May 2010. The loan bears annual interest rate of LIBOR plus 2 per cent. The loan was fully repaid by the Group as of 31 December 2010.

20 Borrowings (Continued)

On 24 October 2007, IBA provided a credit line with a USD 60,000 thousand (AZN 47,874) limit to the Group for the period of 36 months until 24 October 2010. The loan bears annual interest rate of LIBOR plus 3 per cent. The loan was fully repaid by the Group as of 31 December 2010.

On 6 December 2007, IBA provided an additional credit line to the Group for a total amount of up to USD 40,000 thousand (AZN 31,196) for the period of 36 months until 6 December 2010. The loan bears annual interest rate of LIBOR plus 3 per cent. The loan was fully repaid by the Group as of 31 December 2010.

On 22 May 2008, IBA provided a loan to the Group of USD 665 million (AZN 530,604) for the period of 36 months until 22 May 2011. The loan bears an annual interest of LIBOR plus 2 per cent. This borrowing is collateralized by a special cash deposit of USD 665 million (AZN 530,604) placed with IBA (Note 9). The amount outstanding under this facility as at 31 December 2010 was AZN 528,335 (2009: AZN 532,186).

During the period from 29 December 2008 through 30 September 2009 the Group's subsidiary Azerikimya PU before its acquisition by the Group obtained several loans from IBA in total amount of AZN 39,000. After combination with the Group the terms of these loans were negotiated with the IBA. According to the revised terms these loans bear annual interest rate of 3 per cent and mature on 16 May 2011. At 31 December 2010 total carrying value of these loans was AZN 38,400.

On 21 July 2009, IBA provided a loan to the Group of AZN 750 million for the period of 84 months until July 2016 for the purposes of refinancing of existing loans and finance the Group's investment activities. The loan bears an annual interest rate of 3 per cent. The amount outstanding under this facility as at 31 December 2010 was AZN 750,000, including AZN 125,000 related to current portion of long term borrowings (2009: AZN 750,000).

On 27 July 2009, the Group obtained a new loan from IBA amounting to USD 420 million (AZN 337,302) with a fixed rate of 3.5 percent maturing on 22 July 2014. With the proceeds of this new loan, the Group fully paid the debt to Viani amounting to USD 227 million (AZN 182,304) in 2009. As of 31 December 2010 the outstanding loan amount is AZN 335,118 (2009: AZN 337,302). This borrowing is collateralized by a special cash deposit of USD 420 million (AZN 335,118) placed with IBA (Note 9).

On 20 May 2010, the Group obtained a new loan from IBA amounting to USD 80 million (AZN 64,288) with an interest rate of LIBOR plus 3.5 per cent maturing on 20 May 2013. As of 31 December 2010 the outstanding loan amount is AZN 63,832 (2009: nil). This borrowing is collateralized by a special cash deposit of USD 80 million (AZN 63,832) placed with IBA (Note 9).

On 1 July 2010, the Group obtained a new loan from IBA amounting to USD 20 million (AZN 15,958) with an interest rate of 1.65 per cent maturing in April 2011. The proceeds from this facility were directed towards implementation of gasification program in the Azerbaijan Republic. The amount outstanding under this facility as at 31 December 2010 was AZN 10,639 (2009: nil). This borrowing is collateralized by a special cash deposit of USD 20 million (AZN 16,019) placed with IBA (Note 9).

On 4 August 2010, the Group obtained a new loan from IBA amounting to USD 30 million (AZN 23,937) with an interest rate of 14 per cent maturing on 4 April 2011. As of 31 December 2010 the outstanding loan is AZN 7,979 (2009: nil).

On 14 May 2010, IBA provided a credit line to the Group amounting to USD 40 million (AZN 31,916) which was collateralised by the Group's deposit with IBA in the amount of USD 40 million (AZN 31,916). At 31 December 2010 this credit line was not used by the Group.

Akbank T.A.Ş loan. On 4 December 2009 Akbank T.A.Ş. provided a loan to the Group with maturity date of 6 April 2011. The total amount of financing available under this facility agreement was USD 35,000 thousand (AZN 27,927). The loan bears an annual interest rate of 2.1 per cent. The amount outstanding under this facility as at 31 December 2010 was AZN 27,807 (2009: AZN 28,010)

20 Borrowings (Continued)

Akbank T.A.Ş./Turkiye Garanti Bankasi A.Ş loan. In May 2008, the Group obtained a syndicated loan from Turkiye Garanti Bankasi A.Ş. and Akbank T.A.Ş. acting as lead arrangers for a total amount of USD 625 million bearing annual interest of LIBOR plus 3 per cent from May 2008 through May 2012, and LIBOR plus 4 per cent from May 2012 through maturity in May 2017. The loan is repayable in 7 (seven) pre-defined annual installments commencing in 2011. Loan maturity date is 30 June 2017. In accordance with the terms of the loan, the funds were made available to the Group to finance the acquisition of Petkim (Note 26). The Group pledged its 99.75 per cent interest in STEAŞ, a subsidiary holding the Group's 51 per cent voting interest in Petkim as collateral for the amounts due under this facility. The amount outstanding under this facility as at 31 December 2010 was AZN 500,528, including AZN 16,585 related to current portion of long term borrowings (2009: AZN 500,175).

Turkiye Garanti Bankasi A. Ş loan. On 4 December 2009 Turkiye Garanti Bankasi A.Ş provided a loan to the Group with maturity date of 4 April 2011. The total amount of financing available under this facility agreement was USD 20,000 thousand (AZN 16,005). The loan bears an annual interest rate of 1.95 per cent. The amount outstanding under this facility as at 31 December 2010 was AZN 15,890 (2009: AZN 16,005).

ABN Amro/Citibank loan. In February 2008 the Group entered into a loan agreement with a bank syndicate led by ABN AMRO Bank N.V. London Branch and Citibank N.A. London Branch for a total amount of USD 610 million (AZN 486,719) bearing annual interest of LIBOR plus 1.75 per cent and repayable in three semi-annual instalments commencing in February 2010. Loan maturity date is 1 April 2011. The proceeds from this facility were directed towards the acquisition of Petkim. The Group has fully repaid the loan facility as at 31 December 2010 (2009: AZN 163,297).

Japan Bank for International Cooperation loan. In April 2000, the Azerigaz CJSC, which became a part of the Group since 1 July 2009, entered into a loan agreement with Japan Bank for International Corporation for a total amount of JPY 15,462,232 thousand bearing an annual interest rate of 1.5 per cent and repayable in 60 semi-annual installments commencing on 20 September 2009. Loan maturity date is 20 September 2039. The proceeds from this facility were directed towards implementation of gasification program in the Azerbaijan Republic. The amount outstanding under this facility as at 31 December 2010 was AZN 143,825, including AZN 4,866 related to current portion of long term borrowings (2009: AZN 132,403).

In 26 February 1998, Azerikimya, which was acquired by the Group on 2 April 2010, entered into a loan agreement with Japan Bank for International Corporation for a total amount of JPY 9,150,250 thousand bearing annual interest of 2.5 per cent and repayable in 20 semi-annual installments commencing in 21 July 2001. Loan maturity date is 21 January 2011. The proceeds from this facility were directed towards installation of steam generation facility. The amount outstanding under this facility as at 31 December 2010 was AZN 4,483.

Lalaben loan. On 20 July 2007, the Group entered into an RPP Advance Payment Agreement with Lalaben LLC ("Lalaben"). Total amount of financing provided to the Group in 2007 under the RPO Advance Payment Agreement was USD 300 million (AZN 240,930) ("the RPO facility") for the purpose of financing upgrade and refurbishment of SOCAR's gas production assets. Lalaben in turn obtained a USD 300 million (AZN 239,370) loan from a syndicate of banks and financial institutions led by BNP Paribas, ABN Amro Bank N.V. and Societe Generale. The facility provided to the Group under the RPP Advance Payment Agreement bears annual interest of LIBOR plus 0.6 per cent for the period from 20 July 2007 through 20 July 2010, LIBOR plus 0.75 per cent for the period from 20 July 2010 through 20 July 2011, LIBOR plus 0.9 per cent for the period from 20 July 2011 through 20 July 2012, and LIBOR plus 0.975 per cent for the period from 20 July 2012 until the maturity of the agreement. Interest and principal are payable at the end of each quarter. The RPP facility was due to mature on 20 July 2013.

20 Borrowings (Continued)

According to the terms of the RPP Advance Payment Agreement all proceeds from the sale of the RPP are transferred by customers directly to Lalaben's current accounts with BNP Paribas until the Group's obligations to Lalaben under the RPP facility are fully settled.

Amount due to Lalaben under the RPP facility was fully repaid as of 31 December 2010 (31 December 2009: AZN 49,454).

Natixis S.A Bank loan. On 16 December 2009, Natixis S.A Bank provided a loan to the Group in the amount of USD 30 million for the period of 36 months. The loan is repayable in pre-determined instalments starting from 2010. The loan bears an annual interest of LIBOR plus 5 per cent. At 31 December 2010 the amount outstanding under this loan was AZN 17,409, including AZN 8,704 related to current portion of long term borrowings (2009: AZN 24,093).

In May 2010 Group entered in a new loan agreement with Natixis S.A Bank for a total amount of USD 50 million for the period of 36 month until 31 May 2013. The loan bears an annual interest rate of LIBOR plus 3.75 per cent. The amount outstanding under this facility as at 31 December 2010 was AZN 39,075, including AZN 13,298 related to current portion of long-term borrowings (31 December 2009: nil).

International Development Association loan. In July 1996 the Azerigaz CJSC entered into a loan agreement with International Development Association for a total amount of USD 17,234 thousand bearing annual interest rate applicable for World Bank Currency Pool Loans with interest rate of 7.79 per cent in the reporting period and repayable in 29 semi-annual instalments commencing on 15 December 2001. Loan maturity date is 15 June 2016. The proceeds from this facility were directed towards implementation of gasification program in the Azerbaijan Republic. The amount outstanding under this facility as at 31 December 2010 was AZN 5,251, including AZN 131 related to current portion of long term borrowings (2009: AZN 6,926).

BNP Paribas loan. On 19 March 2010 the Group entered into a new credit line agreement with BNP Paribas of USD 250 million limit maturing in March 2013. Total drawn amount as per 31 December 2010 constitutes USD 200 million. The interest rate for this loan is LIBOR plus 4 per cent per annum. The Group borrowed this loan for general corporate purposes. The amount outstanding under this facility as at 31 December 2010 was AZN 152,852 (2009: nil).

WEST LB loan. In July 2010 the Group entered into new loan agreement with WEST LB Bank for the amount of USD 75 million maturing in July 2013. The interest rate on this loan is LIBOR plus 3.85 per cent per annum. The amount outstanding under this facility as at 31 December 2010 was AZN 58,626 (2009: nil).

YapiKredi Bank loan. In July 2010 the Group entered into a loan agreement with YapiKredi Bank for the amount of USD 100 million maturing in July 2013. The interest rate for this loan is LIBOR plus 3.65 per cent per annum. The amount outstanding under this facility as at 31 December 2010 was AZN 79,790 (2009: nil).

In August 2010 the Group borrowed another loan in the amount of USD 4,150 thousand from YapiKredi bank maturing in January 2012. The loan bears interest rate of 5.5 percent per annum. The amount outstanding under this facility as at 31 December 2010 was AZN 3,311 (2009: nil).

In December 2010 the Group entered into a new loan agreement for the amount of USD 35 million maturing December 2013. The interest rate for this loan is LIBOR plus 4 per cent per annum. The amount outstanding under this facility as at 31 December 2010 was AZN 27,947 (2009: nil).

Societe Generale loan. In December 2010 Societe Generale provided a loan of USD 50 million for the period of 36 months until December 2013. The loan bears an annual interest rate of 4 per cent. The Group took this loan for general corporate purposes. The amount outstanding under this facility as at 31 December 2010 was AZN 39,096 (2009: nil).

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

20 Borrowings (Continued)

Ministry of Finance loan. On 17 February 2003, the Ministry of Finance of the Azerbaijan Republic provided loan facility of AZN 12,400 to Azerikimya for the period of 3 years until 1 January 2008, however it was not repaid on due date, and no penalty was applied on it by the Ministry of Finance. The loan bears an annual interest rate of 1 per cent. The amount outstanding under this facility as at 31 December 2010 is AZN 12,400.

On 20 November 2003, the Ministry of Finance provided loan facility for AZN 9,400 to the Azerikimya for the period of 4 years until 20 November 2007, however it was not repaid on due date, and no penalty was applied on it by the Ministry of Finance. The loan bears annual interest rate of nil per cent. The amount outstanding under this facility as at 31 December 2010 is AZN 9,400.

The Group is negotiating with the Ministry of Finance a restructuring of these loan facilities, including their possible cancellation. The management of the Group expects positive outcome of the negotiation.

On 15 July 2009, the Ministry of Finance provided loan facility for AZN 8,584 to the Azerikimya for the period of 4 years until 1 December 2013. The loan bears a nominal annual interest rate of nil per cent and discounted using 2.5 per cent effective discount rates regarded as a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability as of the reporting date. The amount outstanding under this facility as at 31 December 2010 was AZN 8,021.

On 19 April 2010, the Ministry of Finance provided loan facility for AZN 4,204 to the Group for the period of 4 years until 1 June 2014. The loan bears an annual interest rate of nil per cent and was discounted using 2.5 per cent effective discount rates regarded as a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability as of the reporting date. The amount outstanding under this facility as at 31 December 2010 was AZN 4,204.

Bank of Georgia loan. In July 2010 the Group entered into a loan agreement with the Bank of Georgia for the amount of USD 23,574 thousand maturing in December 2011. The interest rate for this loan is 13 per cent per annum. The amount outstanding under this facility as at 31 December 2010 was AZN 14,014 (31 December 2009: AZN nil).

Xalqbank loan. In December 2009 the Group entered in a loan agreement with Xalqbank for a total amount of AZN 93,002 for the period of 1 month until 28 January 2010. In January 2010 Group fully repaid its commitment under this facility.

In July 2010 the Group entered in a new loan agreement with Xalqbank in the amount of AZN 50,000 for the period of 8 month until March 2011. The loan bears an annual interest rate of 3.15 per cent. The amount outstanding under this facility as at 31 December 2010 is AZN 50,000 (2009: nil). Amount due to Xalqbank was fully repaid in 2011.

	2010	2009
Borrowings denominated in:		
- USD	2,036,591	1,863,207
- AZN	872,543	845,752
- JPY	148,308	132,403
- YTL	1,773	2,537
- GEL	461	8,075
Total borrowings	**3,059,676**	**2,851,974**

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

21 Other Taxes Payable

		2010	2009
Payable to SOFAZ	7	122,834	122,981
Price margin tax payable		18,317	12,984
VAT payable		12,809	10,176
Property taxes and duties		10,895	8,326
Payroll tax		4,851	2,690
Tax penalties and interests		2,255	1,104
Social security deductions		1,211	2,632
Other taxes payable		17,061	26,402
Total other taxes payable		**190,233**	**187,295**

In 2008 apart from regular export tax the Group was liable to transfer a certain share of proceeds from sales of crude oil priced at the level exceeding the price determined by the state budget (USD 50 per barrel for 2009) to the SOFAZ. No such taxes were imposed on the Group in 2010 and 2009.

22 Asset Retirement Obligations

The Group has a legal and constructive obligation with respect to decommissioning of oil and gas production and storage facilities and environmental clean-up. Movements in provisions for the related asset retirement obligations are as follows:

	Note	2010	2009
Carrying amount at 1 January		**170,727**	**86,201**
Additions		16,162	(2,064)
Unwinding of the present value discount	32	14,252	6,865
Effect of change in discount rate		124,402	79,911
Exchange differences		(911)	(186)
Carrying amount at 31 December		**324,632**	**170,727**

The Group makes full provision for the future cost of oil and natural gas production facilities retirement and related pipelines based on the present value of the installation of those facilities. The provision has been estimated using existing technology, at current prices and discounted using pre-tax discount rates that reflects current market assessments of the time value of money and the risks specific to the liability as of the reporting date. These costs are expected to be incurred over the useful life of the fields and properties ranging between 14 and 72 years from the reporting date.

Included within the asset retirement obligations at 31 December 2010 was AZN 53,034 (2009: AZN 34,582) relating specifically to estimated site restoration liabilities. Estimated costs of dismantling oil and gas production facilities, pipelines and related processing and storage facilities, including abandonment and site restoration costs amounting to AZN 241,819 at 31 December 2010 (2009: AZN 102,579) are included in the cost of oil and gas properties and equipment.

The following inflation rates were applied in calculation of discounted cash flows:

Year	2011	2012	2013	2014	2015 and later
Inflation rate	6.0%	4.0%	3.0%	3.0%	3.0%

While the provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines, there is uncertainty regarding both the amount and timing of incurring these costs.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

22 Asset Retirement Obligations (Continued)

Asset retirement obligations related to the PSAs are determined with reference to capital costs incurred by contractor parties. They are limited to 10 per cent the capital costs incurred by contractor parties and their payments are linked to maturities of respective PSAs. Governmental authorities are continually reviewing regulations and their enforcement. Consequently, the Group's ultimate liabilities may differ from the recorded amounts.

23 Other Provisions for Liabilities and Charges

Movements in other provisions for liabilities and charges are as follows:

	Note	Environmental obligations	Disability Payments	Unused vacation	Total
Carrying amount at 1 January 2009		**446,925**	**49,543**	**6,990**	**503,458**
Change in estimate		(51,172)	4,320	19,264	(27,588)
Utilisation		(50,118)	(8,564)	(23,421)	(82,103)
Unwinding of the present value discount	32	35,754	3,960	-	39,714
Discount rate change		35,155	(9,838)	-	25,317
Carrying amount at 31 December 2009		**416,544**	**39,421**	**2,833**	**458,798**
of which:					
Current		*89,665*	*9,794*	*2,833*	*102,292*
Non-current		*326,879*	*29,627*	-	*356,506*
Carrying amount at 1 January 2010		**416,544**	**39,421**	**2,833**	**458,798**
Change in estimate		(12,284)	11,013	28,836	27,565
Utilisation		(33,810)	(7,647)	(23,363)	(64,820)
Unwinding of the present value discount	32	34,990	3,215	-	38,205
Discount rate change		10,979	10,544		21,523
Carrying amount at 31 December 2010		**416,419**	**56,546**	**8,306**	**481,271**
of which:					
Current		*179,879*	*10,892*	*8,306*	*199,077*
Non-current		*236,540*	*45,654*	-	*282,194*

Under the Presidential Decree number 1697 dated 28 September 2006 the Group prepared and approved the Action Plan for Environmental Restoration with respect to the damage caused to the environment as a result of the Group's activities within the Apsheron area. In 2009 the Group amended the Action Plan in accordance with the Presidential Decree dated 14 April 2009. Corresponding provision is recognised at the present value of future costs to be incurred for the environmental remediation. The Group estimates that the related costs will be incurred from 2011 through 2013.

The Group has an obligation to compensate its employees for the damage caused to their health during their employment, as well as to compensate the families of the employees died at work. The compensation provided is linked to the salaries paid to the affected employees. The Group calculated the present value of the disability payments to employees using a discount rate of 6.91 per cent. For the purpose of calculation of the lifetime payments to injured employees, the Group estimated a life expectancy as 70 and 75 for men and women, respectively. The inflation rates in Note 22 were applied to match the escalation in average salaries.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

24 Deferred Income

The Group obtained government grants aimed at gasification of Baku suburban area and regions of the Azerbaijan Republic and recognised them as deferred income:

	2010	2009
Carrying amount at 1 January	**105,778**	**-**
Acquisitions through business combinations	-	110,178
Amortisation of deferred income to match related depreciation	(4,595)	(4,400)
Carrying amount at 31 December	**101,183**	**105,778**

25 Other Non-current Liabilities

Other non-current liabilities comprise the following:

	2010	2009
Provision for employment termination benefits	39,529	39,095
Provision for seniority incentive bonus	1,730	1,594
Other liabilities	49,838	-
Total non-current liabilities	**91,097**	**40,689**

Under the Turkish Labour Law, the Group is required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, or who is called up for military service, dies or retires after completing 25 years of service (20 years for women). The amount payable consists of one month's salary limited to a maximum of AZN 1 for each year of service as of December 31, 2010 and 2009.

The liability is not funded, as there is no funding requirement. The provision is calculated by estimating the present value of the future probably obligation of the Group arising from the retirement of the employees. IAS 19 requires actuarial valuation methods to be developed to estimate the enterprises' obligation under defined benefit plan. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

	2010	2009
Discount rate (%)	4.66	5.92
Probability of retirement (%)	100	100

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

25 Other Non-current Liabilities (Continued)

Movement of the provision for employment termination benefits were as follows:

	2010	2009
Carrying amount at 1 January	**39,095**	**44,233**
Actuarial loss and service cost	5,998	4,032
Payments during the year	(6,031)	(11,789)
Other	467	2,619
Carrying amount at 31 December	**39,529**	**39,095**

The total of actuarial loss and the service cost amounting to AZN 5,998 (2009: AZN 4,032) was included in general administrative expenses.

Other liabilities mainly relate to the Group's payable to its partners under various oil and gas projects.

26 Deferred Acquisition Consideration Payable

On 30 May 2008 the Group, through its subsidiary STEAŞ, acquired 51 per cent of the voting share capital of Petkim Petrokimya Holding A.Ş ("Petkim"), a leading petrochemical concern primarily involved in production and marketing of a variety of petrochemical products in the Turkish as well as international markets.

Upon acquisition of Pektim the Group deferred cash consideration in the amount of USD 380 million (AZN 317,832) payable to the Republic of Turkey Ministry Privatization Administration for this acquisition. Deferred consideration of USD 40 million (AZN 32,992) was paid on 30 May 2010. The remaining amount is payable to the administration on 30 May 2011. The amount due to the administration bears annual interest rate of LIBOR plus 1 per cent.

The carrying value of deferred purchase consideration at 31 December 2010 and 2009 amounted to AZN 272,935 and AZN 308,954, respectively.

27 Charter Capital and Retained Earnings

Charter capital
Parent company of the Group, SOCAR, has a legal status of a state enterprise. At the date of incorporation of the Group, the Government of the Azerbaijan Republic contributed AZN 22,726 to the charter capital. Under the Decree of the Cabinet of Ministers of the Azerbaijan Republic number 436s dated 11 December 2008, the Group's charter capital was increased by AZN 600,000, of which AZN 400,000 was received by the Group in 2008 and the remaining amount has been received in 2009.

During 2010 the Group's charter capital increased by AZN 246,532. This increase partially relates to the acquisition of another state-owned entity Azerikimya SC (Note 36) as a result of which AZN 10,006 of Azerikimya SC charter capital was combined with the Group's charter capital. The remaining increase of AZN 236,526 was made under the Decree of the Cabinet of Ministers number 186 dated 22 October 2010. According to this Decree, AZN 99,986 was contributed in 2010 by the Government of Azerbaijan Republic in cash, AZN 22,480 offset with payables to the state budget and AZN 114,060 was transferred from retained earnings. The Group's increased charter capital has been registered in January 2011.

Distribution to the Government
Based on decisions of the Government, the Group is periodically mandated to make direct cash contributions or finance construction and repair works for the state budget, various government agencies and projects administered by the Government. In 2010, such cash transfers and financing amounted to AZN 190,712 and AZN 224,990, respectively (2009: AZN 143,698 and AZN 142,340, respectively), mainly for repair and reconstruction of existing, as well as construction of new recreational, transport, educational and medical infrastructure of the Azerbaijan Republic.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

28 Analysis of Revenue by Categories

	2010	2009
Oil products, net	1,748,931	1,524,504
Petrochemicals	1,651,468	1,068,525
Crude oil, net	1,160,595	939,154
Natural gas	766,735	549,963
Other revenue	199,536	113,835
Total revenue	**5,527,265**	**4,195,981**

Revenue from crude oil sales is stated net of price margin tax which is levied on the margins between the international market price and internal state-regulated price on crude oil. The difference between the market price and the internal state-regulated price is taxed at the rate of 30 per cent and the amount of tax is transferred to the State Budget.

Revenue from oil product sales is stated net of excise tax of AZN 389,549 (2009: AZN 362,209).

Revenue from sales of crude oil produced under ACG PSA and condensate produced under Shah Deniz PSA is not subject to excise and price margin taxes mentioned above.

29 Analysis of Expenses by Nature

	Note	2010	2009
Raw materials and consumables used		1,672,378	1,266,663
Depreciation of property, plant and equipment		649,641	590,655
Wages, salaries and social security costs		555,090	455,776
Repairs and maintenance expenses		245,965	143,278
Impairment of property, plant and equipment	14	360,047	241,639
Utilities expense		212,377	50,920
Mining tax		121,583	120,519
Transportation and vehicle maintenance		115,148	109,148
Taxes other than on income		62,322	77,567
Amortization expense	15	16,006	13,744
Recovery of previously recognised impairment for accounts receivable, net		(288,435)	(523,671)
Other		426,940	257,532
Total cost of sales, exploration and evaluation, distribution, general and administrative, research and development and other operating expenses		**4,149,062**	**2,803,770**

In 2010 the Group collected trade receivables of AZN 197,007 from various customers which were written off in 2009, partially by collecting cash and partially by offsetting with trade payables of the Group to the customers. In addition, during 2010 the Group recognised impairment loss provision in the amount of AZN 95,748 related to the loans receivable from jointly controlled entities (Note 18).

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

30 Other Operating Income

	2010	2009
Sales of other goods and services rendered	138,956	204,708
Insurance proceeds	10,996	-
Other	28,626	-
Total other operating income	**178,578**	**204,708**

31 Finance Income

	2010	2009
Interest income on deposits and bank accounts	45,100	44,664
Interest on loans to related parties	11,590	20,033
Other	10,485	2,981
Total finance income	**67,175**	**67,678**

32 Finance Costs

	Note	2010	2009
Interest expense		122,734	117,460
Provisions for asset retirement obligations: unwinding of the present value discount	22	14,252	6,865
Environmental provision: unwinding of the present value discount	23	34,990	35,754
Provision for disability payments: unwinding of the present value discount	23	3,215	3,960
Less capitalised borrowing costs		-	(828)
Total finance costs recognised in the consolidated statement of comprehensive income		**175,191**	**163,211**

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

33 Income Taxes

Income tax expense comprises the following:

	2010	2009
Current tax expense	301,758	361,123
Deferred tax charge	280,506	114,642
Income tax expense for the year	**582,264**	**475,765**

A reconciliation between the expected and the actual taxation charge is provided below:

	2010	2009
Profit before tax	**1,238,004**	**1,369,343**
Theoretical tax charge at statutory rate of 20 per cent (2009: 22 per cent)	247,601	301,255
Effects of different tax rates for certain subsidiaries (25 per cent)	18,931	7,104
Dividends income taxable at 10 per cent	(12,173)	-
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(71,714)	(79,008)
- Non-deductible expenses	325,555	199,440
Carry-forward loss on which no deferred income tax asset was recognised in prior years	(18,713)	-
Unrecognised deferred tax asset	88,654	13,238
Correction of previous years current tax	3,097	(1,518)
Impact of change in tax rate to 20 per cent	-	41,514
Other	1,026	(6,260)
Income tax expense for the year	**582,264**	**475,765**

Non-deductible expenses are mainly comprised of the expenses related to non-deductible operations including social and employee-related expenses, as well as the provision for impaired receivables which are not expected to be deductible from taxable income in future. Unrecognized deferred tax assets mainly relates to the accumulated tax losses of the Group's subsidiaries which are not expected to utilize these losses.

At 31 December 2010 and 2009 cumulative balance of unrecognized deferred tax asset is AZN 163,187 and AZN 74,533, respectively.

In accordance with Tax Code of Azerbaijan Republic, effective 1 January 2010 the enacted income tax rate decreased from 22 per cent to 20 per cent.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

33 Income Taxes (Continued)

Differences between IFRS and applicable domestic tax regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below:

	1 January 2010	Credited / (charged) to profit or loss	Translation difference	31 December 2010
Tax effect of deductible/(taxable) temporary differences				
Accrued revenue	8,250	(7,301)	-	949
Carry forward tax losses	-	129,686	-	129,686
Impairment provision for receivables	430,253	(377,901)	-	52,352
Inventories	14,303	2,861	(3)	17,161
Property, Plant and Equipment	130,890	14,649	128	145,667
Provisions for liabilities and charges	81,104	(43,623)	692	38,173
Trade and other payables	-	4,229	-	4,229
Other	(19,177)	38,223	1,709	20,755
Deferred tax asset	**645,623**	**(239,177)**	**2,526**	**408,972**

	1 January 2010	Credited/ (charged) to profit or loss	Translation difference	31 December 2010
Tax effect of deductible/(taxable) temporary differences				
Accruals	(2,648)	9,490	(32)	6,810
Investments in associates and jointly controlled entities	-	(47,186)	-	(47,186)
Impairment provision for receivables	(74,821)	56,271	117	(18,433)
Inventory	14,702	(15,152)	-	(450)
Property, Plant and Equipment	(469,250)	(38,425)	9,708	(497,967)
Provisions for liabilities and charges	30,979	(24,653)	(52)	6,274
Carry forward losses	23,022	(13,233)	(283)	9,506
Employment termination benefits	8,449	295	(290)	8,454
Other	(8,460)	31,264	1,048	23,852
Deferred tax liability	**(478,027)**	**(41,329)**	**10,216**	**(509,140)**

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

33 Income Taxes (Continued)

Differences between IFRS and applicable domestic tax regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below:

	1 January 2009	Acquired through business combination	Credited / (charged) to profit or loss	31 December 2009
Tax effect of deductible/(taxable) temporary differences				
Accrued revenue	46,095	-	(37,845)	8,250
Impairment provision for receivables	441,019	99,816	(110,582)	430,253
Inventories	11,652	1,504	1,147	14,303
Property, plant and equipment	53,472	(33,047)	110,465	130,890
Provisions for liabilities and charges	106,602	18,025	(43,523)	81,104
Other	52	13,094	(32,323)	(19,177)
Deferred tax asset	**658,892**	**99,392**	**(112,661)**	**645,623**

	1 January 2009	Credited/ (charged) to profit or loss	Translation difference	31 December 2009
Tax effect of deductible/(taxable) temporary differences				
Accruals	(5,970)	15,461	(12,139)	(2,648)
Investments in associates and jointly controlled entities	(16,315)	16,315	-	-
Impairment provision for receivables	(30,459)	(5,107)	(39,255)	(74,821)
Inventory	12,872	1,830	-	14,702
Property, plant and equipment	(475,005)	(4,639)	10,394	(469,250)
Provisions for liabilities and charges	20,851	(8,133)	18,261	30,979
Carry forward losses	14,479	8,543	-	23,022
Employment termination benefits	9,432	(983)	-	8,449
Other	(8,485)	(25,268)	25,293	(8,460)
Deferred tax liability	**(478,600)**	**(1,981)**	**2,554**	**(478,027)**

The Group does not file a consolidated tax return. In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

In accordance with the tax legislation of the Azerbaijan Republic, tax losses arising in one period can be carried forward for five years.

The Group is a participant to ACG PSA through its subsidiary AzACG. However, AzACG is not explicitly defined as a contractor party in the ACG PSA. As a result, its tax-payer status is not clearly determinable. Based on current negotiations with relevant tax authorities, management believes that the status of the contractor party will be granted retrospectively and therefore AzACG has already assumed a tax-payer status. At the moment AzACG accrues and pays its income tax at the rate of 25 per cent in accordance with ACG PSA provisions. AzACG is charged with zero per cent VAT effective in the Azerbaijan Republic for a contractor party under the ACG PSA according to a VAT certification issued by tax authorities to AzACG and effective until 19 September 2019.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

33 Income Taxes (Continued)

In addition, the Group is a participant to Shah Deniz PSA through its subsidiary Azerbaijan (Shah Deniz) Limited ("AzSD"). According to the provisions of Shah Deniz PSA, respective government entity of the Azerbaijan Republic is liable for profit taxes of each contractor party. AzSD is exempt from certain ordinary operational taxes in the Azerbaijan Republic. AzSD is charged at zero per cent VAT effective in the Azerbaijan Republic for a contractor party under the Shah Deniz PSA according to a VAT certification issued to AzSD and effective until 3 June 2026.

The Group operates in the tax environment of Turkey through its subsidiary, STEAŞ (Note 26). Income tax rate in Turkey is 20 per cent. In accordance with the tax legislation of the Turkey Republic dividends paid to non-resident corporations, which have a place of business in Turkey are not subject to withholding tax that is 15 per cent. Corporate income taxes are payable quarterly. Besides that there are many exemptions in Corporate Tax Law of Turkey regarding corporations including deduction of investment incentives from fiscal gains during determination of tax base up to 25 per cent.

34 Significant Non-Cash Investing and Financing Activities

Investing and financing transactions that did not require the use of cash and cash equivalents and were excluded from the cash flow statement are as follows:

	2010	2009
Non-cash investing activities		
Transfer of property, plant and equipment to the Government	54,049	43,451
Contribution of property, plant and equipment to investee	65,000	-
Transfer of property, plant and equipment to third parties	250	-
Non-cash investing activities	**119,299**	**43,451**

35 Contingences, Commitments and Operating Risks

Operating environment. The Group's operations are conducted in the Azerbaijan Republic. As an emerging market, at the present time the Azerbaijan Republic does not possess a well-developed business and regulatory infrastructure that would generally exist in a more mature market economy.

Whilst there have been improvements in economic trends in the Azerbaijan Republic, the country continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Azerbaijan Republic. The tax, currency and customs legislation within the Azerbaijan Republic is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Azerbaijan Republic is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments. Management is unable to predict all developments in the economic environment which would have an impact on the Group's operations and consequently what effect, if any, they could have on the financial position of the Group.

The Azerbaijani economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. While the Azerbaijan Government has introduced a range of stabilization measures, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects. While Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

These financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the period when they become known and estimable.

35 Contingences, Commitments and Operating Risks (Continued)

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in this consolidated financial statements.

Tax legislation. Azerbaijan tax, currency and customs legislation is subject to varying interpretations, and changes, which may occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

Fiscal periods remain open to review by the tax authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances such reviews may cover longer periods.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained and potential tax liabilities of the Group will not exceed the amounts recorded in these financial statements. Accordingly, at 31 December 2010 and 2009 no provision for potential tax liabilities had been recorded.

Environmental matters. The enforcement of environmental regulation in the Azerbaijan Republic is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage above environmental obligation provision currently made by the Group. See Note 23.

The Group is subject to numerous national and local environmental laws and regulations concerning its products, operations and other activities. These laws and regulations may require the group to take future action to remediate the effects on the environment of prior disposal or release of chemicals or petroleum substances by the Group or other parties. Such contingencies may exist for various sites including refineries, chemical plants, oil fields, service stations, terminals and waste disposal sites. In addition, the Group may have obligations relating to prior asset sales or closed facilities. The ultimate requirement for remediation and its cost are inherently difficult to estimate. However, the estimated cost of known environmental obligations has been provided in the consolidated financial statements in accordance with the Group's accounting policies. While the amounts of future costs could be significant and could be material to the Group's results of operations in the period in which they are recognised, it is not practical to estimate the amounts involved. The Group does not expect these costs to have a material effect on the Group's financial position or liquidity.

The Group also has obligations to decommission oil and natural gas production facilities and related pipelines. Provision is made for the estimated costs of these activities, however there is uncertainty regarding both the amount and timing of these costs, given the long-term nature of these obligations. The Group believes that the impact of any reasonably foreseeable changes to these provisions on the Group's results of operations, financial position or liquidity will not be material.

Compliance with financial covenants. The Group is subject to certain financial covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. Management believes that, as of 31 December 2010 and 2009 the Group was in compliance with all applicable financial covenants.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

35 Contingences, Commitments and Operating Risks (Continued)

Guarantees received and given. The following table demonstrate guarantees received and given by the Group at 31 December.

	2010	2009
Guarantees received		
Letters of guarantee received	145,543	186,991
Bank guarantees within context of direct order collection system (DOCS)	106,392	21,695
Other	1,028	5
Total guarantees received	**252,963**	**208,691**

	2010	2009
Guarantees given		
Letter of guarantee given for Petkim acquisition	296,778	363,103
Guarantee cheques given	35,973	37,205
Letters of guarantee given	22,303	30,836
Bank guarantees within the context of DOCS	28,008	28,967
Total guarantees given	**383,062**	**460,111**

At 31 December 2010 the Group had loan payable in the amount of AZN 500,528 (Note 20) received for the acquisition of Petkim (Note 26). According to these loan agreements 51 per cent of the shares of Petkim belonging to the Group have been pledged in favor of the creditor banks (Note 20).

With respect to the aforementioned credit facility obtained for the acquisition of Petkim shares, there are certain restrictions on the Group related to the distribution of cash and non-cash dividends and related to investment of the dividends received from Petkim. In addition, the Group has to meet several financial and non-financial covenants. These financial covenants are mainly related with company gearing, consolidated debt cover, consolidated interest cover and debt-service coverage ratios. In the event that these covenants are not fulfilled, the aforementioned banks have the right to recall the outstanding borrowing. The Group has obtained waiver for consolidated debt cover and consolidated interest cover. Another requirement brought by the same credit facility is that the Group has committed to identify and complete the necessary work at Petkim in order to provide compliance of Petkim with the currently effective environmental regulations.

Based on the Share Sales Agreement, the Group has accepted and committed to take the Administration's approval for any kind of stock transfer that will result in change in controlling interest of Petkim for the following three years after signing the Share Sales Agreement.

The Group has accepted and committed to make investments over a certain amount for infrastructure and services for Petkim harbour, increase production capacities of factories and establish new factories for the following three years after the Share Sales Agreement. The Group also has accepted and committed to continue production in the Ethylene Factory and produce a certain amount for at least three years after signing the Share Sales Agreement unless there are unforeseen situations that do not involve the Group.

35 Contingences, Commitments and Operating Risks (Continued)

The Group is responsible for all operations, all unrecorded receivables, payables and liabilities that are related to the period prior to the acquisition of Petkim. The Group has accepted and committed that it has no right of application or rescinding that may result in binding of Administration or Petkim about aforementioned matters. This liability will be valid for continuing share transfers.

Commitment of Azerigaz CJSC. Based on Presidential decree #80 dated 14 April 2009, directed to social-economical development of Baku area and regions of the Azerbaijan Republic, Azerigaz CJSC has certain commitments with respect to improvement of gasification options in mentioned areas. According to this decree, Azerigaz CJSC would be engaged in restoration of old magisterial and local gas pipelines, gasification of new residential communities/regions/far locations, and renewal of old gas meters on magisterial gas traffic control points, industrial and personal meters for physical customers.

Management estimates that the Group will incur expenditures for implementation of this program during the years 2011-2013 in the amount of AZN 1,071,000.

Gas purchase commitment. Based on the Gas sales and purchase agreement signed on 27 February 2003 between AGSC and the Ministry of Fuel and Energy of the Azerbaijan Republic (currently purchase rights under this agreement are executed by the Group), the Group has obligation to purchase seller's minimum annual quantity as indicated in the agreement. Monetary amount of commitment to purchase seller's minimum annual quantity is USD 86,840 thousand (AZN 69,290).

Participating interest in ACG PSA. Azerbaijan International Operating Company, the Operator of the ACG PSA has entered into a number of capital commitments and operating leases as of 31 December 2010. The Group estimated its 10 per cent share of these commitments and operating leases to be USD 820,162 thousand equivalent to AZN 654,407 (2009: USD 480,815 thousand equivalent to AZN 386,143) and USD 13,988 thousand equivalent to 11,234 (2009: USD 64,585 thousand equivalent to 51,532), respectively.

Participating interest in Shah Deniz PSA. BP Exploration Shah Deniz Limited, the Operator of the Shah Deniz PSA has entered into a number of capital commitments as at 31 December 2010. The Group estimated its 10 per cent share of these commitments to be USD 54,041 thousand equivalent to AZN 43,400 (in 2009: USD 15,559 thousand equivalent to AZN 12,415).

Commitments related to participating interest in AGSC. As discussed in Note 17, the Group holds 8 per cent interest in AGSC. In accordance with the agreements of AGSC the Group has the following commitments relating to AGSC's activity:

- *Gas contract.* AGSC is obliged under the agreement signed with BOTAS Petroleum Pipeline Corporation to make available a maximum of approximately 6.3 bcm from 2010 and onwards at a price calculated based on a formula established by the Gas Contract.

- *Georgian gas obligation.* AGSC is obliged under an agreement signed with Georgian Oil and Gas Corporation and the government of Georgia to make available 0.3 bcm in 2010, rising to 0.5 bcm in 2011 and onwards, at a price which is calculated based on a formula established in the contract.

35 Contingences, Commitments and Operating Risks (Continued)

- *Sale and purchase agreement with Baku-Tbilisi-Ceyhan Pipeline Company ("BTC").* AGSC is obliged under an agreement signed with BTC to make available approximately 0.23 bcm in the contract year starting in 2010 and during the following three years which is the Plateau period, at a price which is calculated based on a formula established in the contract.

  The performance of AGSC under the Gas Contract is guaranteed under the Agreement between the Republic of Turkey and the Azerbaijan Republic Concerning the "Delivery of Azerbaijan Natural Gas to the Republic of Turkey" signed on 12 March 2001 ("Azerbaijan-Turkey IGA"), by the Government. Commitments indicated above in respect of gas volumes to be delivered by AGSC are covered by the Upstream Purchase Agreements ("UPA") signed with the Shah Deniz PSA contractor parties and the SOCAR (for and on behalf of the Azerbaijan Republic).

  The Shah Deniz PSA contractor parties and the Group are obliged to deliver and sell to AGSC the necessary volumes of gas to fulfill AGSC's obligations listed above at a price resulting in neither a gain nor a loss to AGSC.

  In addition to the above, the Shah Deniz PSA contractor parties and the Group are obliged to pay to AGSC all transportation charges and third party liabilities as stipulated in the UPAs.

Oil shipment commitment. On 1 August 2002 the Group and other participants under the ACG PSA (the "Shipper Group") have entered into the ACG Field Production Transportation Agreement ("ACG TA") with the BTC Company which was amended on 3 February 2004. Under this Agreement, the Shipper Group (including the Group) have committed to ship through the BTC pipeline all of their crude oil entitlement from the ACG field, other than any production which each participant may ship through the Western Export Route. The Group has agreed to transport its crude oil by rail unless Baku-Tbilisi-Ceyhan pipeline is operating at its full capacity. However, in accordance with ACG TA the Group has agreed not to use other transportation options if capacity of the BTC is sufficient.

The BTC pipeline was put into operation in May 2006. A total of 10 million barrels of oil from the ACG fields was used to fill the pipeline and the first tanker loaded with oil which had flowed through the BTC sailed away from the Ceyhan terminal on the Mediterranean coast of Turkey on 4 June 2006. The BTC pipeline, with a throughput capacity of more than 1,000,000 barrels per day, is used as the Shipper Group's main export route.

In accordance with the Transportation Agreement, Direct Agreement entered into on 3 February 2004 by BTC, the Shipper Group, the Group Representative, the lenders and security trustee to BTC, and the lenders and security trustee to certain of the ACG Shipper Group, the parties have agreed that payment of BTC tariff has a first priority claim on oil and oil sale proceeds.

35 Contingences, Commitments and Operating Risks (Continued)

RPP. As discussed in Note 20, pursuant to the terms of the RPP Advance Payment Agreement signed with Lalaben on 20 July 2007 all proceeds from the sale of the RPP should be transferred by customers directly to Lalaben's current accounts at BNP Paribas, until the RPP Release Date.

Project expenses reserve. During the effective period of the Intercreditor Deed signed signed on 20 July 2007 between Lalaben, Blueprint Trading, ABN Amro Bank N.V, BNP Paribas (including its branches in London and Geneva), Societe Generale and the Group, if the balances on the BNP Paribas CRP collection accounts are insufficient to finance the Group's share in ACG PSA, the Group must apply the proceeds from sale of profit petroleum to finance its share in ACG PSA. For this purpose, the Group shall maintain a float balance of USD 28,000 thousand equivalent to AZN 22,341 for financing of its project expenses and such reserve can be funded by both the available profit petroleum (APP) and RPP proceeds with the RPP release date. Project expenses reserves could also be used for payment transportation tariffs and AzACG's commission fees. As discussed in Note 8, during the year ended 31 December 2010 the Group fully settled its obligations to Lalaben under RPP Advance Payment Agreement. Starting from that date the Intercreditor Deed is ceased to have effect.

Profit tax reserve. Under the terms of the Intercreditor Deed and until the Intercreditor Release Date AzACG's profits taxes are payable out of the proceeds of profit oil. The proceeds of cost recovery petroleum cannot be used to pay profits tax. For this purpose, AzACG and Lalaben are required to ensure that 110 per cent of the quarterly projected profit tax of the AzACG in respect of the RPP and the APP is maintained in the respective tax reserve sub-accounts on the Lalaben's RPP and AzACG's APP accounts at BNP Paribas.

Tariff reserves. Under the terms of the Intercreditor Deed and until the Intercreditor Release Date, the Group and Lalaben have to maintain a balance of 110 per cent of the projected transportation tariffs for the next month related to the Profit Oil on the respective accounts at BNP Paribas.

Limitation of disbursements from APP and RPP accounts ("Profit Petroleum Accounts"). During the effective period of Advance Payment Agreements (Note 20) and related Intercreditor Deed the funds held on Profit Oil Accounts shall be used in priority to funds held on the cost recovery petroleum proceeds account at BNP Paribas to meet the following payment obligations of the Group:

- profit oil tariffs;
- operating expenses; and
- profit taxes.

Direct Agreements relating to the RPP Advance Payment Agreement. During the effective period of the RPP Advance Payment Agreement the Group have entered into the Direct Agreement dated 20 July 2007 with Lalaben, BNP Paribas (Suisse) SA and BNP Paribas London Branch. According to this agreement Lalaben has assigned to BNP Paribas (Suisse) SA all rights in respect of the RPP Advance Payment Agreement until RPP Release Date.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

36 Business Combination

Azerikimya state-owned company On 2 April 2010 the Group acquired 100 per cent of the share capital of Azerikimya state-owned company. According to the Presidential Decree dated 2 April 2010 "On improvement of management framework in the petrochemicals industry" Azerikimya state-owned company, which is involved in production of petrochemicals in the Azerbaijan Republic was transferred to SOCAR. Based on the results of analysis of acquired rights SOCAR management concluded that 2 April 2010 should be considered as a date of transition of control over Azerikimya state-owned company. Following this acquisition, Azerikimya state-owned company was transformed into Azerikimya PU within SOCAR structure.

Fair values of identifiable assets and liabilities related to Azerikimya PU acquisition are as follows:

	Fair value recognised on acquisition
Assets	
Cash and cash equivalents	5,382
Restricted cash	10
Trade and other receivables	63,364
Corporate income tax prepayments	-
Inventories	49,693
Property, plant and equipment	48,316
	166,765
Liabilities	
Trade and other payables	(254,739)
Short-term and current portion of long-term borrowings	(71,193)
Corporate income tax payable	(27,571)
Other taxes payable	(17,714)
Other provisions	(1,384)
Long-term borrowings	(12,514)
	(385,115)
Total identifiable net liabilities at fair value	**(218,350)**

36 Business Combination (Continued)

SOCAR obtained control over Azerikimya in the transaction under common control of the Government of the Azerbaijan Republic without transfer of any consideration. According to accounting policy of the Group, transactions under common control are accounted for using the purchase method of accounting. For this purpose the Group estimated the fair value of business transferred.

It has been concluded that the fair value of the business transferred is negative and equals to the fair value of net assets. The reasons for negative value of the business are the following facts that:

- Key production equipment is outdated, highly amortized, characterized by low productivity, high energy consumption rates and potential ecological problems;
- Some outputs do not find strong demand on the market or represent products with low added value;
- Azerikimya has poorer position from the point of regional transport infrastructure as opposed to a number of competitors which impose considerable restrictions on the supply channels and export routes.

Due to the fact that transaction was under common control the difference between the fair value of business acquired and consideration transferred (which is zero) was accounted for in equity as a distribution to owner.

From the date of acquisition, Azerikimya has contributed AZN 88,785 of revenue and AZN 37,474 of loss to the net profit before tax of the Group. If the combination had taken place at the beginning of the year, the net profit from the continuing operations for the period would have been AZN 37,318 less and revenue from continuing operations would have been AZN 114,722 more that the respective amount recognised in the consolidated statement of comprehensive income.

Azerigaz CJSC On 1 July 2009 the Group acquired 100 per cent of the share capital of Azerigaz CJSC. According to the Presidential Decree number 366 dated 1 July 2009 "On improvement of management framework in the oil and gas industry" Azerigaz CJSC was transferred to SOCAR. Based on the results of analysis of acquired rights SOCAR management concluded that 1 July 2009 should be considered as a date of transition of control over Azerigaz CJSC. The entity is involved in transportation of gas via gas pipelines between manufacturers, consumers and gas storages in the Azerbaijan Republic as well as transit of gas for export to Russia, Georgia and Iran. Following this acquisition, Azerigaz CJSC was transformed into Azerigaz PU within SOCAR structure.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

36 Business Combination (Continued)

Fair values of identifiable assets and liabilities related to Azerigaz CJSC acquisition are as follows:

	IFRS carrying amount immediately before business combination	Attributed fair value
Cash and cash equivalents	3,398	3,398
Restricted cash	403	403
Trade and other receivables	684,998	545,186
Corporate income tax prepayments	32	32
Inventories	72,756	69,507
Property, plant and equipment	601,283	787,044
Intangible assets	14	14
Other non-current assets	5	5
Trade and other payables	(1,291,498)	(1,265,163)
Short-term and current portion of long-term borrowings	(17,209)	(11,734)
Corporate income tax payable	(29,677)	(43,835)
Other taxes payable	(164,915)	(185,957)
Other provisions	(808)	(15,371)
Deferred income	(110,178)	(110,178)
Long-term borrowings	(130,034)	(130,034)
Asset retirement obligations	(330)	(330)
Deferred tax asset	-	99,392
Net liabilities of subsidiary	**(381,760)**	**(257,621)**

SOCAR obtained control over Azerigaz CJSC in the transaction under common control of the Government of the Azerbaijan Republic without transfer of any consideration. According to accounting policy of the Group, transactions under common control are accounted for using the purchase method of accounting. For this purpose the Group estimated the fair value of business transferred.

It has been concluded that the fair value of the business transferred is negative and equals to the fair value of net assets. The reasons for negative value of the business are the following facts that:

- Azerigaz PU is obliged to maintain and expand its pipeline network due to its monopoly nature which requires significant capital expenditures;
- Transportation tariffs used by Azerigaz PU for revenue calculation are regulated by the Government and expected to be regulated for indefinite period of time. The liberalization of the market is not expected in a foreseeable future;
- The management of Azerigaz PU does not expect quick improvement of the collectability of revenue and its own paying capacity.

Due to the fact that transaction was under common control the difference between the fair value of business acquired and consideration transferred (which is zero) was accounted for in equity as a distribution to owner.

Other acquisitions. During 2010 the Group has also acquired subsidiary in Turkey, SOCAR Bosphorus Energy (during 2009 the Group has also acquired a number of subsidiaries in Georgia, Ukraine as well as controlling interest in Caspian Drilling Company). These acquisitions did not have a material impact on the Group's consolidated IFRS financial statements.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

36 Business Combination (Continued)

Goodwill
Movement in the carrying amount of goodwill is as follows:

	2010	2009
Carrying amount at 1 January	**106,905**	**82,837**
Acquisition of subsidiaries	16,543	24,068
Carrying amount at 31 December	**123,448**	**106,905**

At 31 December 2010 and 2009 goodwill mainly relates to the acquisition of Petkim (Note 26). As a result of purchase of Petkim shares, the excess of consideration paid over the acquirer's interest in the fair value of assets, liabilities and contingent liabilities acquired in the business combination has been accounted as goodwill in the consolidated financial statements.

The carrying value of the goodwill at 31 December 2010 has been tested for impairment through comparison with its recoverable amount. Recoverable amount has been determined based on the value-in-use calculations of Petkim. Pre-tax cash flows projections used for this purpose are based on financial budgets approved by management covering 11-year period. Cash flows for 11-year period are based on existing long-term projects with duration until 2021. Management believes that these cash flows projections which represent more accurate and reliable forecast. Cash flow projections beyond 11-year period are extrapolated by expected growth rates and then discounted to their net present value. The following key assumptions were used for impairment test of the goodwill:

- The valuation exercises are highly sensitive to the range of EBITDA/Net Sales and WACC, which were taken into account by the Group, as 8 per cent – 16 per cent and 12.8 per cent, respectively.
- The EBITDA/Net Sales ratio is in line with the Group's budget for the year 2011 and onwards; whereas the WACC (12.81 per cent) is based on macroeconomic and sector specific parameters.
- Terminal growth rate used in the cash flow projections is 3 per cent.

As a result of the test performed, no impairment has been identified.

If the estimated discount rate used in the calculation had been 1 per cent higher / lower than management's estimate, the amount of estimated value in use would have been AZN 230 lower / higher, respectively.

37 Events after Reporting Date

Agreement regarding sales of gas to Iran
In January 2011 SOCAR agreed with National Iranian Gas Export Company the main terms of the contract on Azerbaijani natural gas supply. Under the contract, which is expected to be signed for the period of 5 years, Azerbaijan will supply to Iran 0.75 in 2011 and 1 billion cubic meters in each subsequent year.

Borrowings
In April 2011 the Group obtained a loan in the amount of USD 130 million (AZN 104,000) from Deutsche Bank and USD 200 million (AZN 160,000) from ING Bank A.S. In March 2011 the Group obtained a loan from Xalqbank in the amount of USD 100 million (AZN 80,000).

In May 2011 the duration of the Loan Agreement between IBA and STEAŞ in the amount of USD 665 million (AZN 530,600) has been extended until 23 May 2014. Also, the Group received additional USD 50 million (AZN 39,895) loan under the same terms.

37 Events after Reporting Date (Continued)

The maturity date of the loan payable to Xalqbank by Azerigaz PU was extended from 30 March 2011 to 30 March 2012.

In May 2011 the Group extended the term of the deposit with IBA in the amount of USD 665 million (AZN 530,600) for the period of 3 years and increased it to USD 715 million (AZN 570,495). This deposit serves as collateral for the loan agreement between STEAŞ and IBA.

In May 2011 the Group opened new deposit account at IBA in the amount of USD 40 million (AZN 32,000) with the maturity period of 1 year. This deposit serves as collateral for the credit line agreement between Azerikimya PU and IBA.

Newly signed PSA
In 2011 the Parlament of the Azerbaijan Republic has ratified the PSA between SOCAR and BP on the joint exploration and development of the Shafag-Asiman structure in the Azerbaijan sector of the Caspian Sea.

Investments
In March 2011 SOCAR with other partners established "Baku Shipyard LLC" with the charter capital of USD 30 million (AZN 24,000). SOCAR's participating interest in this entity is 65 per cent.

Default of Carlina Overseas Corp.
As a result of Carlina's failure to make repayments under the loan agreement AzACG has declared the Event of Default to Carlina on 11 April 2011, and intends to sell shares of Carlina in order to recover the amount due from this joint venture.

Increase in Charter Capital
Under the Decree of the Cabinet of Ministers of the Azerbaijan Republic number 156s dated 16 June 2011 the Group's charter capital was increased in the amount of AZN 190,000.

STATE OIL COMPANY OF THE AZERBAIJAN REPUBLIC

International Financial Reporting Standards Consolidated Financial Statements

31 December 2009

Contents

ERNST & YOUNG

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Independent Auditors' Report

To the Management of the State Oil Company of the Azerbaijan Republic:

We have audited the accompanying financial statements of the State Oil Company of the Azerbaijan Republic (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Holdings (CIS) B.V.

30 June 2010

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

	Note	31 December 2009	31 December 2008
ASSETS			
Current assets			
Cash and cash equivalents	7	698,600	520,170
Restricted cash	8	128,750	97,898
Trade and other receivables	9	2,129,774	1,666,562
Corporate income tax prepayments		28,921	12,187
Inventories	10	707,458	600,597
Total current assets		**3,693,503**	**2,897,414**
Non-current assets			
Property, plant and equipment	12	7,946,556	6,974,067
Goodwill	32	106,905	82,837
Intangible assets	13	521,237	510,743
Investments in jointly controlled entities	14	103,061	113,685
Investments in associates	15	315,353	292,732
Receivable from jointly controlled entity	16	311,891	301,855
Deposits	8	873,169	534,183
VAT receivable		-	26,755
Deferred tax asset	29	645,623	658,892
Other long-term assets	11	316,263	127,985
Total non-current assets		**11,140,058**	**9,623,734**
TOTAL ASSETS		**14,833,561**	**12,521,148**
EQUITY			
Charter capital	23	622,726	422,726
Retained earnings		6,778,784	6,432,136
Cumulative translation differences		(143,258)	(115,621)
Equity attributable to the Group's equity holders		**7,258,252**	**6,739,241**
Non-controlling interest		782,809	747,045
TOTAL EQUITY		**8,041,061**	**7,486,286**

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

	Note	31 December 2009	31 December 2008
LIABILITIES			
Current liabilities			
Trade and other payables	17	2,087,755	1,144,525
Short-term and current portion of long-term borrowings	18	388,080	407,970
Corporate income tax payable		102,503	152,956
Other taxes payable	19	187,295	213,206
Other provisions for liabilities and charges	21	102,292	156,018
Deferred acquisition consideration payable	32	36,687	-
Total current liabilities		**2,904,612**	**2,074,675**
Non-current liabilities			
Long-term borrowings	18	2,463,894	1,702,883
Deferred acquisition consideration payable	32	272,267	308,170
Asset retirement obligations	20	170,727	86,201
Other provisions for liabilities and charges	21	356,506	347,440
Deferred income	22	105,778	-
Deferred tax liability	29	478,027	478,600
Other non-current liabilities		40,689	36,893
Total non-current liabilities		**3,887,888**	**2,960,187**
TOTAL LIABILITIES AND EQUITY		**14,833,561**	**12,521,148**

Approved for issue and signed on behalf of the Group on 30 June 2010.

AZƏRBAYCAN RESPUBLİKASI DÖVLƏT NEFT ŞİRKƏTİ
REPUBLIC STATE OIL COMPANY
ARDNŞ
SOCAR

Mr Rovnag Abdullayev
President

Mr Suleyman Gasymov
Vice-President for Economic Affairs

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

	Note	2009	2008
Revenue	24	4,195,981	4,710,845
Cost of sales	25	(2,898,902)	(2,906,918)
Gross profit		**1,297,079**	**1,803,927**
Distribution expenses	25	(155,230)	(135,147)
General and administrative expenses	25	(229,871)	(185,376)
Losses on transfers of property, plant and equipment and other		(8,511)	(71,515)
Social expenses		(159,479)	(272,557)
Exploration and evaluation expenses	25	(11,298)	(6,900)
Research and development	25	(15,279)	(4,022)
Other operating expenses	25	(313,883)	(108,379)
Other operating income	26	1,025,401	222,294
Operating profit		**1,428,929**	**1,242,325**
Finance income	27	67,678	55,524
Finance costs	28	(163,211)	(147,789)
Foreign exchange losses, net	5	(958)	(407,676)
Share of result of jointly controlled entities	14	(12,887)	1,875
Share of result of associates	15	89,854	70,542
Other expenses		(40,062)	-
Profit before income tax		**1,369,343**	**814,801**
Income tax expense	29	(475,765)	(327,985)
Profit for the year		**893,578**	**486,816**
Profit is attributable to:			
Equity holders of the Group		890,307	733,545
Non-controlling interest		3,271	(246,729)
Other comprehensive income:			
Currency translation differences		(17,771)	(333,683)
Total comprehensive income for the year		**875,807**	**153,133**
Total comprehensive income attributable to:			
Equity holders of the Group		862,670	653,051
Non-controlling interest		13,137	(499,918)
		875,807	**153,133**

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

		Attributable to the equity holders of the parent					
	Note	Charter capital	Retained earnings	Currency translation difference	Total	Non-controlling interest	Total Equity
Balance at 1 January 2008		**22,726**	**6,174,303**	**(35,127)**	**6,161,902**	**3,909**	**6,165,811**
Profit for the year		-	733,545	-	733,545	(246,729)	486,816
Other comprehensive income		-	-	(80,494)	(80,494)	(253,189)	(333,683)
Total recognised income and expense for 2008		**-**	**733,545**	**(80,494)**	**653,051**	**(499,918)**	**153,133**
Non-controlling interest arising on business combination		-	-	-	-	1,243,054	1,243,054
Increase in charter capital		400,000	-	-	400,000	-	400,000
Withdrawals by the Government	23	-	(475,712)	-	(475,712)	-	(475,712)
Balance at 31 December 2008		**422,726**	**6,432,136**	**(115,621)**	**6,739,241**	**747,045**	**7,486,286**
Profit for the year		-	890,307	-	890,307	3,271	**893,578**
Other comprehensive income		-	-	(27,637)	(27,637)	9,866	**(17,771)**
Total recognised income and expense for 2009		**-**	**890,307**	**(27,637)**	**862,670**	**13,137**	**875,807**
Purchase of share from non-controlling interest		-	-	-	-	(6,327)	(6,327)
Acquisition of subsidiary		-	(257,621)	-	(257,621)	-	(257,621)
Increase in charter capital		200,000	-	-	200,000	-	200,000
Increase in charter capital of subsidiary		-	-	-	-	28,954	28,954
Withdrawals by the Government	23	-	(286,038)	-	(286,038)	-	(286,038)
Balance at 31 December 2009		**622,726**	**6,778,784**	**(143,258)**	**7,258,252**	**782,809**	**8,041,061**

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

	Note	2009	2008
Cash flows from operating activities			
Profit before income tax		**1,369,343**	**814,801**
Adjustments for:			
Depreciation of property, plant and equipment	25	590,655	529,094
Amortisation on intangible assets	13	13,744	10,499
Impairment of property, plant and equipment	12	241,639	354,122
Gain on release of provision for trade and other receivables		(523,671)	181,935
Provisions		14,629	(162,228)
Net losses on disposals of property, plant and equipment		90,096	71,515
Transfer of property, plant and equipment from joint ventures		(18,920)	-
Finance income	27	(67,678)	(55,524)
Finance costs	28	163,211	147,789
Foreign exchange rate differences		8,126	421,238
Proceeds from sale of profit oil received from Lalaben and Caspian King	30	(150,994)	(198,010)
Share of result of associates and joint ventures	14,15	(76,967)	(72,417)
Non-controlling interest in earnings of subsidiaries		(3,271)	(246,729)
Operating cash flows before working capital changes		**1,649,942**	**1,796,085**
Decrease/(increase) in trade and other receivables		606,536	(289,113)
Decrease/(increase) in inventories		41,889	(83,034)
(Decrease)/ increase in trade and other payables		(457,848)	69,519
(Decrease)/ increase in taxes payable		(185,624)	165,876
Cash generated from operations		**1,654,895**	**1,659,333**
Income taxes paid		(474,851)	(750,208)
Interest paid		(105,504)	(88,890)
Net cash from operating activities		**1,074,540**	**820,235**
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		(36,688)	(1,335,419)
Purchase of property, plant and equipment		(1,204,378)	(1,129,485)
Purchase of intangible assets		(20,151)	(7,219)
Acquisition of interest in associates and jointly controlled entities		(301)	(14,081)
Deposits	8	(338,986)	(528,962)
Financing provided to third parties		(80,390)	-
Interest received		57,642	55,524
Dividends received		64,659	41,816
Net cash used in investing activities		**(1,558,593)**	**(2,917,826)**
Cash flows from financing activities			
Proceeds from long-term borrowings		1,119,433	1,951,487
Proceeds from short-term borrowings		239,448	332,836
Repayment of long-term borrowings		(337,713)	(166,949)
Repayment of short-term borrowings		(174,608)	(24,613)
Increase in charter capital		200,000	400,000
Change in restricted cash related to borrowings		(6,540)	(7,286)
Withdrawals by Government	23	(242,577)	(420,417)
Net cash from financing activities		**797,443**	**2,065,058**
Net foreign exchange translation differences		(134,960)	(50,781)
Net increase/(decrease) in cash and cash equivalents		**178,430**	**(83,314)**
Cash and cash equivalents at the beginning of the year	7	**520,170**	**603,484**
Cash and cash equivalents at the end of the year	7	**698,600**	**520,170**

1 The Group and its Operations

The State Oil Company of the Azerbaijan Republic ("SOCAR") was established by the Presidential Decree on 13 September 1992 in accordance with Azerbaijani legislation and is domiciled in the Azerbaijan Republic. In order to improve its operational efficiency SOCAR has been restructured several times and now is comprised of 19 business units dealing with their particular areas of business. SOCAR and the business units are involved in upstream, midstream and downstream operations. SOCAR's main functions pertain to managing the extraction, refining, transportation of oil, gas and gas condensates, and sale of gas and oil and gas products. SOCAR is 100 per cent owned by the government of the Azerbaijan Republic ("the Government").

On 1 July 2009, SOCAR acquired 100 per cent of the share capital of Azerigaz Closed Joint Stock Company ("Azerigaz CJSC"), a monopolist gas utility company in the Azerbaijan Republic. Following this acquisition, Azerigaz CJSC was transformed into Azerigaz Production Union ("Azerigaz PU") within SOCAR structure. For further details please refer to Note 32.

SOCAR's registered address is 73 Neftchiler avenue, AZ 1000 Baku, the Azerbaijan Republic.

2 Basis of Preparation and Significant Accounting Policies

Basis of preparation. These consolidated financial statements of SOCAR and its subsidiaries, associates and joint ventures (collectively referred to as "the Group") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

Basis for consolidation. Subsidiaries are all entities (including special-purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Business combinations. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Non-controlling interest is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Transactions with non-controlling interest - "parent company model"

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the group. Purchase of equity share from non-controlling interest result in goodwill, being the excess of the cost of consideration paid over the carrying value of the net assets of the subsidiaries. If the carrying value of the net assets of the subsidiaries exceeds the cost of consideration paid, the difference is recognized in the consolidated statement of comprehensive income.

The Group applies purchase method of accounting for business combinations with entities under the common control.

Investments in associates. Associates are all entities over which the Group has significant influence but not control. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognized in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any receivables, regarded to be in substance the extension of the Group's investment in the associate, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates related to transfer of assets are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Interests in joint ventures. A joint venture is a contractual arrangement whereby two or more parties (venturers) undertake an economic activity that is subject to joint control. Joint control exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers. A jointly controlled entity is a joint venture that involves the establishment of a company, partnership or other entity to engage in economic activity that the Group jointly controls with its fellow venturers.

The results, assets and liabilities of a jointly controlled entity are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, the investment in a jointly controlled entity is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the jointly controlled entity, less distributions received and less any impairment in value of the investment. The Group statement of comprehensive income reflects the Group's share of the results after tax of the jointly controlled entity. The Group statement of equity changes reflects the Group's share of any income and expense recognised by the jointly controlled entity outside profit and loss.

Financial statements of jointly controlled entities are prepared for the same reporting period as the Group. Where necessary, adjustments are made to those financial statements to bring the accounting policies used into line with those of the Group.

The Group ceases to use the equity method of accounting on the date from which it no longer has joint control over, or significant influence in the joint venture, or when the interest becomes held for sale.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Certain of the Group's upstream activities which are governed by Production Sharing Agreements ("PSAs") are conducted through joint ventures where the venturers have a direct ownership interest in and jointly control the assets of the venture. Such activities are accounted for as jointly controlled assets. Accordingly, the Group recognises its share of the jointly controlled assets, liabilities, income, and expenses of these jointly controlled assets in proportion to the Group's interest in the consolidated IFRS financial statements.

PSA is the method to execute exploitation of mineral resources by taking advantage of the expertise of a commercial oil and gas entity. The Government retains title to the mineral resources (whatever the quantity that is ultimately extracted) and often the legal title to all fixed assets constructed to exploit the resources. The Government will take a percentage share of the output which may be delivered in product or paid in cash under an agreed pricing formula. The contracting parties may only be entitled to recover specified costs plus an agreed profit margin. It may have the right to extract resources over a specified period of time. Operating company is a legal entity created by one or more contracting parties to operate PSA.

As a contracting party to various PSAs the Group evaluates and accounts for the PSAs in accordance with the substance of the arrangement. It records only its own share of oil under a PSA as revenue. Neither revenue nor cost is recorded by the Group for the oil extracted and sold on behalf of the Government. The Group acts as the Government's agent to extract and deliver the oil or sell the oil and remit the proceeds.

Costs that meet the recognition criteria as intangible or fixed assets in accordance with IAS 38 and IAS 16, respectively, are recognised where the entity is exposed to the majority of the economic risks and has access to the probable future economic benefits of the assets. Acquisition, development and exploration costs are accounted for in accordance with policies stated herein irrespective of whether such costs are recoverable or not from future cost oil and profit oil under the terms of the PSAs.

Assets subject to depreciation, depletion or amortisation are expensed using the appropriate depletion or depreciation method stipulated by the present accounting policies over the shorter of the PSA validity period or the expected useful life of the related assets.

Foreign currency translation. All amounts in these consolidated statements are presented in thousands of Azerbaijani manats ("AZN"), unless otherwise stated.

The functional currency of the majority of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of SOCAR and its 19 business units and the Group's presentation currency is the national currency of the Azerbaijan Republic, AZN. However, US Dollar ("USD") and Turkish Lira ("YTL") are considered the functional currency of the Group's certain subsidiaries, associates and investments in jointly controlled entities and jointly controlled assets as majority of these investments' receivables, revenues, costs and debt liabilities are either priced, incurred, payable or otherwise measured in USD.

The transactions executed in foreign currencies are initially recorded in the functional currencies of respective Group entities by applying the appropriate rates of exchanges prevailing at the date of transaction.

Monetary assets and liabilities not already measured in the functional currency of respective Group entity are translated into the functional currency of that entity at the appropriate exchange rates prevailing at the statement of financial position date.

Foreign exchange gains and losses resulting from the re-measurement into the functional currencies of respective Group's entities are recognised in profit or loss.

2 Basis of Preparation and Significant Accounting Policies (Continued)

The results and financial position of the Group entities which functional currencies differ from the presentation currency of the Group and not already measured in the Group's presentation currency (functional currency of none of these entities is a currency of a hyperinflationary economy) are translated into the presentation currency of the Group as follows:

(i) assets and liabilities for each statement of financial position are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity – currency translation difference.

At 31 December 2009 the principal rate of exchange used for translating foreign currency balances was USD 1 = AZN 0.8031, YTL 1 = AZN 0.5315 (2008: USD 1 = AZN 0.8010, YTL 1 = AZN 0.5269).

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value, cost, or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition and includes transaction costs. Measurement at cost is only applicable to investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related statement of financial position items.

2 Basis of Preparation and Significant Accounting Policies (Continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest re-pricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Financial assets. The Group classifies its financial assets in the following measurement categories: a) financial assets at fair value through profit or loss; b) loans and receivables; c) financial assets held-to-maturity and d) available-for–sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The subsequent measurement of financial assets depends on their classification, as follows:

(a) Financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are financial assets held for trading (a financial asset is classified in this category if acquired principally for the purpose of selling in the short term) and financial assets designated upon initial recognition as at fair value through profit or loss. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the statement of financial position.

(c) Held-to-maturity financial assets. This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held-to-maturity at their initial recognition and reassesses the appropriateness of that classification at each statement of financial position date. Investment securities held-to-maturity are carried at amortised cost.

(d) Available-for-sale financial assets. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the statement of financial position date.

Regular purchases and sales of financial assets are recognized on the trade date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are presented in the statement of comprehensive income within other (losses)/gains – net, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the statement of comprehensive income as part of other income when the Group’s right to receive payments is established.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit or loss; translation differences on non-monetary securities are recognized in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the statement of comprehensive income as gains and losses from investment securities. Interest on available-for-sale securities calculated using the effective interest method is recognized in the statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognized in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized in the statement of comprehensive income on equity instruments are not reversed through the comprehensive income.

Financial liabilities. The Group classifies its financial liabilities into the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in the consolidated statement of comprehensive income in the period in which they arise. Other financial liabilities are carried at amortised cost.

Derecognition of financial assets. The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Derecognition of financial liabilities. The Group derecognises financial liability when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts, together with any costs or fees incurred are recognized in profit or loss.

Property, plant and equipment. The Group elected to measure property, plant and equipment at the date of transition to IFRS (1 January 2007) at their fair value and use that fair value as their deemed cost at that date. Fair value was determined by reference to market-based evidence and by using the depreciated replacement cost method. Subsequent to transition to IFRS, property, plant and equipment are stated at cost as described below, less accumulated depreciation and provision for impairment, where required.

2 Basis of Preparation and Significant Accounting Policies (Continued)

The initial cost of an asset purchased after 1 January 2007 comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of decommissioning obligation, if any, and, for qualifying assets, borrowing costs. The capitalized value of a finance lease is also included within property, plant and equipment.

Exploration and evaluation costs. Property leasehold acquisition costs are capitalised until the determination of reserves is evaluated. If a commercial discovery has not been achieved, these costs are charged to expense. Capitalisation is made within property, plant and equipment or intangible assets according to the nature of the expenditure.

The Group accounts for exploration and evaluation activities, capitalizing exploration and evaluation costs until such time as the economic viability of producing the underlying resources is determined. Exploration and evaluation costs related to resources determined to be not economically viable are expensed through operating expenses in the consolidated statement of comprehensive income.

Development tangible and intangible assets. Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells is capitalised within tangible and intangible assets according to nature. When development is completed on a specific field, it is transferred to production assets (oil and gas properties).

The Group's principal reserves have been independently estimated by internationally recognized petroleum engineers. Other oil and gas reserves of the Group have been determined based on estimates of mineral reserves prepared by management in accordance with internationally recognized definitions. The present value of the estimated costs of dismantling oil and gas production facilities, including abandonment and site restoration costs, are recognized when the obligation is incurred and are included within the carrying value of property, plant and equipment, subject to depletion using unit-of-production method.

All minor repair and maintenance costs are expensed as incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalized and the replaced part is retired.

At each reporting date management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the statement of comprehensive income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. Gains and losses are recognised within total recognized income or loss.

Depreciation. Property, plant and equipment related to oil and natural gas properties are depreciated using a unit-of-production method.

Depreciation of oil and gas assets is computed on a field-by-field basis over proved developed reserves or over total proved reserves, as appropriate. Shared oil and gas properties and equipment (e.g. internal delivery systems, processing units, etc.) are depleted over total proved reserves.

Land is not depreciated. Property, plant and equipment other than oil and gas properties and equipment, are depreciated on a straight-line basis over their estimated useful lives. Assets under construction are not depreciated.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

2 Basis of Preparation and Significant Accounting Policies (Continued)

The estimated useful lives of the Group's property, plant and equipment (other than oil and gas properties) are as follows:

Buildings and constructions	12 to 40 years
Plant and machinery	1 to 47 years
Vessels	25 years.

The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life unless scrap value is significant. The assets' residual values are reviewed, and adjusted if appropriate, at each statement of financial position date.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

When assets are leased out under an operating lease the lease payments receivable are recognized as rental income on a straight-line basis over the lease term.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Intangible assets. Intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses. Intangible assets include rights and computer software, patents, licences, customer relationships, trade name, water rights and development projects

a) Rights and computer software
Software is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the estimated useful lives of such assets. Land property rights consist of rights over the dam, factory site, port site, site development, site and the water transmission line. Intangible assets obtained at the acquisition of Petkim were initially recognised at their fair values in accordance with IFRS 3 as of 30 May 2008 and amortised over their remaining useful lives commencing from the date of acquisition, except for the water transmission line which is not amortised as it is deemed to have an indefinite useful life.

b) Customer relationships
As further disclosed in Note 32, customer relationships acquired with the Petkim Petrokimya Holding A.S. ("Petkim") acquisition were initially recognised at their fair value in accordance with IFRS 3 as of 30 May 2008 and amortised over their remaining useful lives of 22 years commencing from the date of acquisition (Note 13).

2 Basis of Preparation and Significant Accounting Policies (Continued)

c) Petkim trade name
As further disclosed in Note 32, Petkim trade name acquired at the Petkim acquisition was initially recognised at its fair value in accordance with IFRS 3 as of 30 May 2008. Petkim trade name is not amortised as it is deemed to have an indefinite useful life (Note 13).

d) Water rights
As further disclosed in Note 32, water rights acquired with the Petkim acquisition were initially recognised at their fair value in accordance with IFRS 3 as of 30 May 2008 and amortised over their remaining useful lives of 47 years commencing from the date of acquisition (Note 13).

e) Development projects
As further disclosed in Note 32, development projects acquired with the Petkim acquisition were initially recognised at their fair value in accordance with IFRS 3 as of 30 May 2008 and amortised on a straight-line basis over their remaining useful lives of 5 years commencing from the date of acquisition. Cost incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be operational considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other expenditures on research and development activities are recognised as expense in the period in which they incurred. When there is an impairment, the carrying values of the intangible assets are written down to their recoverable amounts.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Corporate income taxes. Corporate income taxes have been provided for in the consolidated financial statements in accordance with the applicable legislation enacted or substantively enacted by the statement of financial position date. The income tax charge comprises current tax and deferred tax and is recognised in the statement of comprehensive income unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income taxes are provided in full on temporary differences arising on recognition and subsequent measurement of provision for asset retirement obligation and related adjustments to cost of property, plant and equipment.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the statement of comprehensive income. The primary factors that the Group considers whether a receivable is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty;
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

Trade and other receivables are derecognised upon cash payments receipts from customers and borrowers or other similar settlements.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

Restricted cash. Restricted cash is presented separately from cash and cash equivalents. Restricted balances are excluded from cash and cash equivalents for the purposes of cash flow statement.

Inventories. Inventories are stated at the lower of cost and net realizable value. Cost is assigned by the weighted average method. Cost comprises direct purchase costs, cost of production, transportation and manufacturing expenses (based on normal operating capacity).

Trade payables. Trade payables are accrued when the counterparty performed its obligations under the contract. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings. All borrowings are initially recognized at fair value of the proceeds received net of issue costs associated with the borrowing. Borrowings are carried at amortised cost using the effective interest method.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Government grants. Grants from the Government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight line basis over the expected lives of the related assets.

Government grants relating to costs are deferred and recognised in profit or loss for the over the period necessary to match them with the costs that they are intended to compensate.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Asset retirement obligations. Liabilities for asset retirement obligation costs are recognized when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. Where an obligation exists for a new facility, such as oil and natural gas production or transportation facilities, this will be on construction or installation. An obligation for asset retirement may also crystallize during the period of operation of a facility through a change in legislation. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements.

The cost of property, plant and equipment is also adjusted for amounts of estimated liabilities for asset retirement obligations.

Any change in the present value of the obligation resulting from changes in estimates of the amounts or timing of future expenditures is reflected as an adjustment to the provision and the corresponding capitalized costs within property, plant and equipment. Changes in estimates of the amounts or timing of future expenditures to dismantle and remove fully depreciated plant or facility is recognized in the statement of comprehensive income. Changes in the present value of the obligation resulting from unwinding of the discount are recognized as finance costs in the statement of comprehensive income.

Provisions for liabilities and charges. Provisions for liabilities and charges are liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Withdrawals by the Government. Withdrawals by the Government represent ad-hoc cash contributions which the Group may be required to make to the state budget, various government agencies and projects administered by the government based on the particular decisions of the Government. Such withdrawals are recorded as a reduction of equity.

Value-added tax. The tax authorities permit the settlement of sales and purchases value-added tax ("VAT") on a net basis.

VAT payable: VAT payable represents VAT related to sales that is payable to tax authorities upon collection of receivables from customers, net of VAT on purchases which have been settled at the statement of financial position date. In addition, VAT related to sales which have not been settled at the statement of financial position date (VAT deferral) is also included in VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT where applicable. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

2 Basis of Preparation and Significant Accounting Policies (Continued)

VAT recoverable: VAT recoverable relates to purchases which have not been settled at the statement of financial position date. VAT recoverable is reclaimable against VAT on sales upon payment for the purchases.

Revenue recognition. Revenue comprises the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of VAT, returns, discounts, and other sales-based taxes, if any, after eliminating sales within the Group.

Revenues from sales of crude oil are recognised at the point of transfer of risks and rewards of ownership of the crude oil, normally when the oil is loaded into the oil tanker or other transportation facilities. Revenues from sales of petroleum products are recognised at the point of transfer of risks and rewards of ownership of the petroleum products, normally when the products are shipped. Revenue from sales of natural gas are recorded on the basis of regular meter readings and estimates of customer usage from the last meter reading to the end of the reporting period. Natural gas prices and gas transportation tariffs to the final consumers in the Azerbaijan Republic are established by the Tariff Council of the Azerbaijan Republic.

Revenues from sales of other goods are recognised at the point of transfer of risks and rewards of ownership of the goods.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income is recognised on a time-proportion basis using the effective interest method.

Overlift/underlift of crude oil. Overlift or underlift of crude oil occurs when the volume of oil lifted by a partner in a joint venture differs from its participating interest in the production. Overlift is recognized as a sale of crude oil at the point of lifting by the underlifter to the overlifter. Overlift is recognized as a purchase of oil by the overlifter from the underlifter. The extent of underlift is reflected by the Group as an asset in the statement of financial position, and the extent of overlift is reflected as a liability. The initial measurement of the overlift liability or underlift asset is at the market price of crude oil at the date of lifting. Subsequent measurement of overlift/underlift liabilities and assets depends on the settlement terms of the related operating agreements. If such terms allow for a cash settlement of the overlift/underlift balances between the parties, the balances are remeasured at fair value at reporting dates subsequent to initial recognition. The overlift/underlift balances that are settled through delivery of physical quantities of crude oil are measured at the lower of carrying amount and fair value at reporting dates subsequent to initial recognition.

Employee benefits. Wages, salaries, contributions to the Social Protection Fund of the Republic of Azerbaijan, paid annual leave and sick leave, bonuses, and non-monetary benefits (e.g. health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

Related parties. Related parties are defined in IAS 24, *Related Party Disclosures*. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group's ultimate controlling party is the Government of the Azerbaijan Republic. The President of the Group, Vice-Presidents of the Group as well as structure of SOCAR are approved directly by the President of the Azerbaijan Republic. The President of SOCAR may consult on significant matters pertaining to the operations of SOCAR with the Advisory Council which includes eight Vice-Presidents of SOCAR and some other management representatives from SOCAR. All decisions adopted by the Advisory Council of SOCAR have to be approved by the President of SOCAR before they become mandatory.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Governmental economic and social policies affect the Group's financial position, results of operations and cash flows. The Government imposed an obligation on the Group to provide an uninterrupted supply of oil and gas to customers in the Azerbaijan Republic at government controlled prices. Transactions with the State include taxes which are detailed in Note 19.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

It is the nature of transactions with related parties that they cannot be presumed to be carried out on an arm's length basis.

Reclassifications. Certain reclassifications have been made to the prior year's amounts in Statement of Financial Position, Statement of Comprehensive Income, Statement of Cash Flows and corresponding notes to conform to the current year presentation. There was no material impact on the Group's financial position, results of operations and equity as a result of these reclassifications.

Consolidated Statement of Financial Position	**Amount**
Investments in jointly controlled entities were reclassified from Investments in associates	12,981
Cash and Cash Equivalents were reclassified from Restricted cash	7,998
Other non-current liabilities were reclassified from Trade and other payables	36,893
Consolidated Statement of Comprehensive Income	
Share of result of jointly controlled entities were reclassified from Share of result of associates	12,981
Consolidated Statement of Cash Flows	
Cash and Cash Equivalents were reclassified from Restricted cash	7,998

3 Critical Accounting Estimates and Judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in this consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities at reporting date include:

Estimation of oil and gas reserves. Oil and gas reserves are key elements in the Group's investment decision-making process. They are also an important element of testing for impairment. Changes in proved oil and gas reserves, particularly proved developed reserves, will affect unit-of-production depreciation charges in the statement of comprehensive income.

Proved oil and gas reserves are the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e. prices and costs as of the date the estimate is made. Proved developed reserves are reserves that can be expected to be recorded through existing wells with existing equipment and operating methods. Estimates of oil and gas reserves are inherently imprecise, require the application of judgment and are subject to future revision. Accordingly, financial and accounting measures (such as depletion and amortization charges and provision for asset retirement obligations) that are based on proved developed or proved reserves are also subject to change.

3 Critical Accounting Estimates and Judgements (Continued)

Proved reserves are estimated by reference to available reservoir and well information. All proved reserves estimates are subject to revision, either upward or downward, based on new information, such as from drilling and production activities of from changes in economic factors, including product prices, contract terms or development plans. In general, changes in the technical maturity of hydrocarbon reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions.

In general, estimates of reserves for undeveloped or partially developed fields are subject to greater uncertainty over their future life than estimates of reserves for fields that are developed and being depleted. As a field goes into production, the amount of proved reserves will be subject to future revision once additional information becomes available through, for example, the drilling of additional wells or the observation of long-term reservoir performance under producing conditions. As those fields are further developed, new information may lead to revisions.

Proved reserves of SOCAR as of 31 December 2009 were based on reports prepared by independent reservoir engineers in accordance with the Society of Petroleum Engineers rules.

Asset retirement obligations. As further discussed in Note 20, management makes provision for the future costs of decommissioning oil and gas production and storage facilities, pipelines and related support equipment and site restoration based on the estimates of future cost and economic lives of those assets. Estimating future asset retirement obligations is complex and requires management to make estimates and judgements with respect to removal obligations that will occur many years in the future. Changes in the measurement of existing obligations can result from changes in estimated timing, future costs or discount rates used in valuation.

The Group assesses its asset retirement obligation liabilities in accordance with the guidelines of IFRIC 1, *Changes in Existing Decommissioning, Restoration and Similar Liabilities.* The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the statement of financial position date based on current applicable legislation and regulations, and is also subject to changes because of modifications, revisions and changes in laws and regulations and respective interpretations thereof. Governmental authorities are continually considering applicable regulations and their enforcement. Consequently, the Group's ultimate asset retirement liabilities may differ from the recorded amounts. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of incurring such costs. Estimated liability of dismantling oil and gas production and storage facilities, including abandonment and site restoration costs, as of 31 December 2009 amounted to AZN 170,727 (2008: AZN 86,201). Changes in any of these conditions may result in adjustments to provisions recorded by the Group.

Management determines discount rates used for discounting abandonment and site restoration costs as a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. The discount rate used as at 31 December 2009 was 8.4 per cent (2008: 8 per cent). Management believes that this discount rate appropriately reflected all risks and uncertainties pertaining to oil and gas exploration, evaluation, development and distribution in the Azerbaijan Republic as of the reporting date.

Environmental obligations. As further discussed in Note 21, the Group records a provision in respect of estimated costs of remediation of the damage historically caused to the natural environment primarily in the Absheron area both by the activities of the Group and its legacy operations in periods preceding the formation of the Group. The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the statement of financial position date based on current applicable legislation and regulations, and is also subject to changes because of modifications, revisions and changes in laws and regulations and respective interpretations thereof. Governmental authorities are continually considering applicable regulations and their enforcement. Consequently, the Group's ultimate liability for environmental remediation may differ from the recorded amounts. As a result of the subjectivity of these provisions there is uncertainty regarding both the amount and estimated timing of incurring such costs. Estimated liability for environmental remediation as of 31 December 2009 amounted to AZN 416,544 (2008: AZN 446,925). Changes in any of these conditions may result in adjustments to provisions recorded by the Group.

3 Critical Accounting Estimates and Judgements (Continued)

Management determines discount rate used for discounting environmental remediation costs as pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability as of the reporting date. The discount rate used as at 31 December 2009 was 8.4 per cent (2008: 8 per cent), a nominal rate. Management believes that this discount rate appropriately reflects all risks and uncertainties pertaining to oil and gas exploration, evaluation and development industry in Azerbaijan.

Useful lives of property, plant and equipment and intangible assets. Management determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and intangible assets. This estimate is based on projected period over which the Group expects to consume economic benefits from the asset. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete assets that have been abandoned or sold. The useful lives are reviewed at least at each financial year-end. Changes in any of the above conditions or estimates may result in adjustments to future depreciation rates.

Deferred income tax asset recognition. The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future management makes judgements and applies estimation based on last three years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Impairment of non-financial assets. Management assesses whether there are any indicators of possible impairment of all non-financial assets at each reporting date based on events or circumstances that indicate the carrying value of assets may not be recoverable. Such indicators include changes in the Group's business plans, changes in commodity prices leading to unprofitable performances, changes in product mixes, and for oil and gas properties, significant downward revisions of estimated proved reserves. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when impairment indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

In 2009 the Group recognized an impairment of property, plant and equipment for AZN 241,639 (2008: AZN 354,122) in the consolidated statement of comprehensive income (Note12).

Impairment provision for trade receivables. The impairment provision for trade receivables is based on management's assessment of the probability of collection of individual customer accounts receivable. Significant financial difficulties of the customer, probability that the customer will suffer bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is potentially impaired. Actual results could differ from these estimates if there is deterioration in a major customer's creditworthiness or actual defaults are higher than the estimates.

When there is no expectation of recovering additional cash for an amount receivable, amount receivable is written off against associated provision.

Future cash flows of trade receivables that are evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

4 Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements

Certain new standards and interpretations became effective for the Group from 1 January 2009:

IFRS 8, Operating Segments. The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their consolidated financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. This amendment had no impact on the consolidated financial statements of the Group.

IAS 1, Presentation of Financial Statements, revised in September 2007. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present a single statement.

IAS 23, Borrowing Costs, revised in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group's accounting policy prior to the amendment to the standard was to capitalise borrowing costs relating to such assets, and therefore the amendment did not impact the Group's consolidated financial statements.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2008, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendments. The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities. The amendment did not have an impact on these consolidated financial statements.

Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment. The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment did not have an impact on these consolidated financial statements.

4 Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements (Continued)

IFRIC 13, Customer Loyalty Programmes. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The amendment did not have an impact on these consolidated financial statements as the customer loyalty incentives are not applicable for the Group.

IFRIC 15, Agreements for the Construction of Real Estate. The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The amendment did not have any material impact on these consolidated financial statements.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment. The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate consolidated financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments did not have an impact on the Group's consolidated financial statements.

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures, issued in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these consolidated financial statements.

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009. The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. The amendment did not have an impact on these consolidated financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation. The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the currency translation gain or loss reclassified from other comprehensive income to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 did not have an impact on these consolidated financial statements.

Unless otherwise stated above, the amendments and interpretations did not have any significant effect on the Group's consolidated financial statements.

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods and which the Group has not early adopted:

4 Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements (Continued)

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. The Group is currently assessing the impact of the new interpretation on its consolidated financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any significant impact on the Group's consolidated financial statements.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have any impact on the Group's consolidated financial statements as the Group does not apply hedge accounting.

IFRS 1, First-time Adoption of International Financial Reporting Standards (effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its consolidated financial statements.

4 Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements (Continued)

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Group does not expect the amendments to have any material effect on its consolidated financial statements.
Classification of Rights Issues - Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

4 Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements (Continued)

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets.

Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Group's consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group's consolidated financial statements.

5 Financial Risk Management

Financial risk factors. In the ordinary course of business, the Group is exposed to market risks from fluctuating prices on commodities purchased and sold, prices of other raw materials, currency exchange rates and interest rates. Depending on degree of price volatility, such fluctuations in market prices may create volatility in the Group's financial position. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. To effectively manage the variety of exposures that may impact financial results, the Group's overriding strategy is to maintain a strong financial position. Although there are no structured formal management procedures, management of the Group identifies and evaluates financial risks with reference to the current market position.

5 Financial Risk Management (Continued)

Market risk. Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices, will affect the Group's financial results or the value of its holdings of financial instruments. The primary objective of mitigating these market risks is to manage and control market risk exposures, while optimizing the return on risk.

The Group is exposed to market price movements relating to changes in commodity prices such as crude oil, oil condensate, natural gas and oil products (commodity price risk), foreign currency exchange rates, interest rates, equity prices and other indices that could adversely affect the value of the Group's financial assets, liabilities and expected future cash flows.

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various exposures in the normal course of business, primarily with respect to USD. Foreign exchange risk arises primarily from future commercial transactions, recognised assets and liabilities when assets and liabilities are denominated in a currency other than the functional currency.

The majority of the Group's borrowings and sales as well as receivables from foreign customers are denominated in USD. There has been no significant devaluation of USD against AZN during the year ended 31 December 2009 and 2008. However, due to significant USD denominated borrowings of the Group's subsidiary, STEAŞ, the Group experienced net foreign exchange loss recognised in the statement of comprehensive income of the Group for the year ended 31 December 2009 in the amount of AZN 958 (2008: AZN 407,676).

Management does not hedge the Group's foreign exchange risk.

At 31 December 2009, if the AZN had weakened/strengthened by 10 per cent against the USD with all other variables held constant, after-tax profit for the year ended 31 December 2009 would have been 34,310 lower/higher (2008: AZN 102,141 higher/lower), mainly as a result of foreign exchange gains/losses on translation of USD denominated borrowings, bank balances, trade receivables and trade payables.

(ii) Commodity price risk

Although significant portion of the sales of the Group are regulated by the Azerbaijani Government, the Group is still exposed to certain price risk due to volatility of oil market prices. Presently, the Group does not use commodity derivative instruments for trading purposes to mitigate price volatility.

(iii) Cash flow and fair value interest rate risk

The Group is subject to interest rate risk on financial liabilities with variable interest rates. To mitigate this risk, the Group's management performs periodic analysis of the current interest rate environment and depending on that analysis management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In case where the change in the current market fixed or variable interest rates is considered significant management may consider refinancing a particular debt on more favorable interest rate terms.

Changes in interest rates impact primarily debt by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of raising new debts management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable over the expected period until maturity.

The floating rate for majority of interest bearing liabilities exposes the Group to fluctuation in interest payments and receipts due to changes in LIBOR. At 31 December 2009, if LIBOR had been 10 basis points lower/higher with all other variables held constant, post-tax profit would have been AZN 977 (2008: AZN 8,743 – change in LIBOR by 100 basis points had been used) higher/lower.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

5 Financial Risk Management (Continued)

The Group's variable interest bearing assets include loan receivable from Carlina Overseas Corp., a jointly controlled entity, which exposes the Group to fluctuation in LIBOR. If LIBOR had been 10 basis points lower/higher with all other variables held constant, post-tax profit for the year ended 31 December 2009 would have been AZN 156 (2008: AZN 7,928 – change in LIBOR by 100 basis points had been used) lower/higher.

Credit risk and concentration of credit risk. Credit risk refers to the risk exposure that a potential financial loss to the group may occur if counterparty defaults on its contractual obligations.
The Group's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, including restricted cash, trade receivables and loans receivable.

The Group's maximum exposure to credit risk is represented by carrying amounts of financial assets and is presented by class of assets as shown in the table below:

	2009	2008
Cash and cash equivalents (Note 7)	698,600	520,170
Restricted cash (Note 8)	128,750	97,898
Trade receivables, net (Note 9)	1,585,633	1,270,328
Other receivables	131,540	118,780
Receivable from jointly-controlled entity (Note 16)	311,891	301,855
Deposits (Note 8)	873,169	534,183
Total exposure on statement of financial position	**3,729,583**	**2,843,214**
Financial guarantees–amounts of guarantees of indebtedness of others	(200,268)	(164,606)
Total maximum exposure to credit risk	**3,529,315**	**2,678,608**

The Group places its cash with reputable financial institutions in the Azerbaijan Republic. Overwhelming majority of the Group's cash is placed with the International Bank of Azerbaijan ("IBA") which is controlled by the Government. The balance of cash and cash equivalents and restricted cash held with the IBA at 31 December 2009 was AZN 1,200,072 (2008: AZN 844,242). The Group continually monitors the status of the banks where its accounts are maintained.

Trade receivables consist primarily of balances with local and foreign customers, including related parties, for crude oil, oil products and natural gas sold. SOCAR has an obligation to secure uninterrupted supply of crude oil, oil products and natural gas to certain customers under control of the Government, including such companies as Azerenerji JSC and Azal JSC operating important public infrastructure facilities in the Azerbaijan Republic. Actual settlement terms applicable to the Group's relationships with these customers are affected to a large extent by the social and economic policies of the Government. The Group's credit risk arising from its trade balance with private sector and other third-party unrelated customers is mitigated by continuous monitoring of their creditworthiness. The Group does not believe that it is exposed to high credit risk as far as the existing debtors are concerned beyond the impairment provision amounts already accrued in the accompanying consolidated financial statements.

As at 31 December 2009, letters of guarantee in the amount of AZN 200,268 (YTL 376,797,795) (2008: AZN 164,606 (YTL 312,404,610) were received from domestics and foreign customers of STEAŞ for sales of thermoplastics and fiber materials.

As more fully described in Note 16, at 31 December 2009 the Group has receivable from SOCAR Petroleum in the amount of AZN 8,749 and a loan receivable of AZN 349,963 (31 December 2008: AZN 329,889) due from Carlina Overseas Corp., a jointly controlled entity offset against Group's share in losses of Carlina Overseas Corp that exceeds the Group's interest in Carlina Overseas Corp. in the amount of AZN 46,821 (2008: AZN 28,034). In accordance with the Share Pledge and Retention Agreement dated 28 December 2006 and Share Charge and Retention Agreement dated 12 April 2007 between the other owners of Carlina Overseas Corp. and the Group's subsidiary Azerbaijan (ACG) Limited ("AzACG"), the other owners of Carlina Overseas Corp. pledged in favour of AzACG all of their rights and interest in all proceeds and funds received or receivable by Carlina Overseas Corp. and all of their shares and any other equity interests in Carlina Overseas Corp.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

5 Financial Risk Management (Continued)

Balances with major state-controlled and private and other category customers are as follows:

	Trade receivables, gross		Impairment loss provision		Trade receivables, net	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
State-controlled customers						
Azerenerji JSC	1,279,498	1,215,381	(1,251,184)	(1,027,912)	28,314	187,469
Azerigaz PU	-	871,055	-	(820,693)	-	50,362
Azal	195,469	142,199	(154,108)	(138,541)	41,361	3,658
Ethylene Plant	74,917	73,734	(74,917)	(73,734)	-	-
Other	184,822	750,225	(19,294)	(180,367)	165,528	569,858
Total state-controlled customers	**1,734,706**	**3,052,594**	**(1,499,503)**	**(2,241,247)**	**235,203**	**811,347**
Private and other customers	**1,583,666**	**799,091**	**(101,696)**	**(221,329)**	**1,481,970**	**577,762**
Total trade receivables and other receivables without prepayments and taxes	**3,318,372**	**3,851,685**	**(1,601,199)**	**(2,462,576)**	**1,717,173**	**1,389,109**

Liquidity risk. Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. In managing liquidity risk, the Group maintains adequate cash reserves and debt facilities, continuously monitors forecast and actual cash flows.

Prudent liquidity risk management includes maintaining sufficient working capital and the ability to close out market positions. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows.

All of the Group's financial liabilities represent non-derivative financial instruments. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months approximate their carrying values, as the impact of discounting is not significant.

At 31 December 2009	**less than 3 months**	**3-12 months**	**1-5 years**	**more than 5 years**	**Total**
Total financial payables	2,122,994	-	-	-	2,122,994
Interest bearing borrowings	120,632	387,820	2,136,333	595,430	3,240,215
Total future payments, including future principal	**2,243,626**	**387,820**	**2,136,333**	**595,430**	**5,363,209**

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

5 Financial Risk Management (Continued)

The maturity analysis of financial liabilities as of 31 December 2008 is as follows:

At 31 December 2008	less than 3 months	3-12 months	1-5 years	more than 5 years	Total
Total financial payables	997,592	-	-	-	997,592
Interest bearing borrowings	238,375	212,763	1,623,030	330,820	2,404,988
Total future payments, including future principal and interest payments	**1,235,967**	**212,763**	**1,623,030**	**330,820**	**3,402,580**

Capital management. The primary objective of the Group's capital management policy is to ensure a strong capital base to fund and sustain its business operations through prudent investment decisions and to maintain government, investor and creditor confidence to support its business activities.

The Group considers total capital under management to be as follows:

	2009	2008
Total borrowing	2,851,974	2,110,853
Total equity attributable to the Group's equity holders	7,258,252	6,739,241
Less: cash and cash equivalents	(698,600)	(520,170)
Total capital under management	**9,411,626**	**8,329,924**

The Group is occasionally mandated to contribute to the state budget and financing of various projects undertaken by the Government of the Azerbaijan Republic.

There were no changes to the Group's approach to capital management during the year.

Fair value of financial instruments. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Azerbaijan Republic continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

5 Financial Risk Management (Continued)

As at 31 December 2009, the Group measured the provision for asset retirement obligations of its associates, environmental obligations and disability payments at fair value. The following table shows an analysis of its associates financial instrument recorded at fair value by level of the fair value hierarchy:

Year ended 31 December 2009	Level 1	Level 2	Level 3	Total
Asset Retirement Obligations (per ACG and SD PSA)	-	-	106,851	106,851
Environmental obligations	-	-	416,544	416,544
Disability payments	-	-	39,421	39,421
	-	-	562,816	562,816

Refer to Note 20 for description of the determination of fair value for asset retirement obligations and Note 21 for environmental obligations and disability payments as well as for reconciliation of opening and closing balances.

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the maximum impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions:

	31 December 2009	
	Carrying amount	Effect of reasonably possible alternative assumptions Increase/(decrease)
Asset Retirement Obligations (per ACG and SD PSA)	106,851	56,110 / (35,433)
Environmental obligations	416,544	31,148 / (27,872)
Disability payments	39,421	29,567 / (13,873)

In order to determine reasonably possible alternative assumptions the Group adjusted key unobservable inputs as follows: increase / decrease of discount rate by 3 per cent and increase / decrease of long-term inflation rate by 1 per cent.

(i) Financial assets carried at amortised cost. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables approximate fair values due to their short-term maturities.

(ii) Liabilities carried at amortised cost. Carrying amounts of trade payables and due to related parties approximate fair values due to their short-term maturities. Carrying values of long-term borrowings approximate their fair values as virtually all debt has been obtained under market conditions, which were still applicable at period end.

6 Balances and Transactions with Related Parties

Key management compensation. Key management of the Group includes the President of SOCAR and its eight Vice-Presidents. All of the Group's key management are appointed by the President of the Azerbaijan Republic. Key management individuals are entitled to salaries and benefits of SOCAR in accordance with the approved payroll matrix as well as to compensation for serving as members of the Boards of directors for certain Group companies. During 2009 compensation of key management personnel totaled to AZN 168 (2008: AZN 183).

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

6 Balances and Transactions with Related Parties (Continued)

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding are detailed below.

At 31 December 2009, the outstanding balances with related parties were as follows:

	Note	The government and entities under government control	Associates and joint ventures
Gross amount of trade receivables		1,734,706	818,730
Impairment provisions for trade and other receivables		(1,148,284)	-
Cash and cash equivalents		495,933	-
Deposit and restricted cash		890,499	-
VAT and other taxes receivable		338,971	-
Prepayment for corporate income tax		3,628	-
Receivable from a jointly controlled entity	16	-	311,891
Borrowings from IBA (contractual interest rates varying from LIBOR plus 2 per cent to LIBOR plus 3 per cent)		-	(868,303)
Trade and other payables		(63,780)	(198,980)
Payable to State Oil Fund of Azerbaijan Republic (SOFAZ)		(1,139,186)	-
Other taxes payable		(298,431)	-
Corporate income tax payable		(51,856)	-
Fair value of net assets of associates acquired	15	-	301
Fair value of net assets of jointly controlled entities acquired	14	-	18,920

The income and expense items with related parties for the year ended 31 December 2009 were as follows:

		The government and entities under government control	Associates and joint ventures
Sales of natural gas		298,809	25
Sales of oil products		231,336	85,178
Services rendered		29,094	39,480
Corporate income tax		(285,010)	-
Excise tax		(362,209)	-
Price margin tax		(50,360)	-
Mining tax		(122,861)	-
Other taxes		(248,087)	-
Utilities costs		(52,761)	(3,194)
Other operating expenses		(94,671)	(173,898)
Social security deductions		(79,692)	-
Transportation expenses		(15,588)	-
Purchases of property, plant and equipment and inventory		(57,116)	(99,438)
Share of after tax results of jointly controlled entities	14	-	(12,887)
Dividends received from jointly controlled entities	14	-	(6,178)
Share of after tax results of associates	15	-	89,854
Dividends received from associates	15	-	(58,481)

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

6 Balances and Transactions with Related Parties (Continued)

At 31 December 2008, the outstanding balances with related parties were as follows:

	Note	The government and entities under government control	Associates and joint ventures
Gross amount of trade receivables		3,037,844	14,750
Impairment provisions for trade and other receivables		(2,235,963)	(5,284)
Cash and cash equivalents		465,882	-
Deposit and restricted cash		534,183	-
VAT and other taxes receivable		257,230	-
Prepayment for corporate income tax		12,187	-
Receivable from a jointly controlled entity	16	-	301,855
Corporate income tax payable		152,956	-
Borrowings from IBA (contractual interest rates varying from LIBOR plus 2 per cent to LIBOR plus 3 per cent)		655,850	-
Payable to State Oil Fund of Azerbaijan Republic (SOFAZ)		122,981	-
Trade and other payables		440,917	53,877
Other taxes payable		90,225	-
Fair value of net assets of associates acquired	15	-	17
Fair value of net assets of jointly controlled entities acquired	14	-	14,064

The income and expense items with related parties for the year ended 31 December 2008 were as follows:

		The government and entities under government control	Associates and joint ventures
Sales of natural gas		342,217	-
Sales of oil products		141,211	9,444
Construction contract revenue		-	3,682
Sales of crude oil		-	-
Services rendered		11,630	5,162
Operational lease income		-	271
Other operating income		19,847	22,177
Corporate income tax		570,595	-
Excise tax		367,266	-
Price margin tax		108,110	-
Mining tax		126,748	-
Utilities costs		93,569	574
Other operating expenses		109,669	54,437
Social security deductions		76,138	-
Transportation expenses		31,407	3,240
Purchases of property, plant and equipment		3	85,427
Share of after tax results of jointly controlled entities	14	-	1,875
Dividends received from jointly controlled entities	14	-	(6,714)
Share of after tax results of associates	15	-	70,542
Dividends received from associates	15	-	(35,102)

Terms and conditions of transactions with related parties. The sales to and purchases from related parties are made at market prices regulated by the Government. Outstanding balances at the year-end are unsecured and settlement occurs in cash. There have been no guarantees provided or receivable for any related party receivables or payables, except for guarantee received for receivable from a jointly-controlled entity which is more fully discussed in Note 16.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

7 Cash and Cash equivalents

	2009	2008
USD denominated bank balances	544,065	378,273
AZN denominated bank balances	83,055	71,272
EUR denominated bank balances	36,848	41,177
YTL denominated bank balances	28,267	24,219
Other denominated bank balances	4,660	4,902
Cash on hand	1,705	327
Total cash and cash equivalents	**698,600**	**520,170**

Included in USD denominated bank balances as at 31 December 2009 are two call deposits of AZN 112,434 and AZN 214,469 placed with IBA (2008: AZN 120,150 and AZN 181,607, respectively). The interest rate on these deposits during the years ended 31 December 2009 and 2008 is 3.5 per cent per annum.

Term deposits have original maturities of less than three months. All the bank balances and term deposits are neither past due nor impaired.

8 Restricted Cash and Deposits

	2009	2008
Deposit account with IBA in USD	873,169	534,183
Current accounts with BNP Paribas in USD	60,233	24,883
Letter of credit for purchase of fixed assets	21,210	5,253
Funds held on Lalaben account with BNP Paribas in USD	14,673	8,230
Funds held on Caspian King account with Societe Generale in USD	-	36,417
Restricted account with IBA in USD	-	8,302
Funds held on SOCAR Energy Georgia account with Bank of Georgia	-	7,743
Other restricted cash	32,634	7,070
Total restricted cash and deposits	**1,001,919**	**632,081**

Deposits
As discussed in Note 18, SOCAR maintains a AZN 873,169 deposit with IBA as at 31 December 2009 (2008: AZN 534,183) to collateralize the Group's obligations to IBA under the loan facility obtained from IBA in May 2008. The deposit bears interest at an annual rate of LIBOR plus 2 per cent.

Restricted cash
Current accounts with BNP Paribas are used to accumulate proceeds received by the Group from its customers from the sales of cost recovery petroleum in accordance with the relevant Accounts Agreement signed between AzACG, BNP Paribas and Societe Generale ("SG") on 23 December 2005 and syndication credit agreement signed with BNP Paribas. In accordance with this agreement, disbursements from the Group's current account with BNP Paribas are limited mainly to the expenditures related to the Group's participation in Azeri-Chirag-Guneshli ("ACG") PSA.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

8 Restricted Cash and Deposits (Continued)

Funds held on Lalaben account represent proceeds received directly from customers of the Group from the sale of the Reserved Profit Petroleum (7,000 barrels of profit petroleum per day attributable to the Group) on the Group's account with BNP Paribas. In accordance with Advance Payment Agreement with Lalaben LLC ("Lalaben") the Group uses these proceeds from crude oil sales to repay Lalaben loan. The funds held on Lalaben account with BNP Paribas under the terms of the respective agreements, are limited to the following payments:

- profit petroleum tariffs;
- operating expenses; and
- profit taxes.

As discussed in Note 33 the Group fully repaid Lalaben loan subsequent to year-end 2009.

On 18 December 2008 the Group signed an Asset Purchase Agreement with Caspian King Ltd. in accordance with which the financing facility was provided to the Group in the amount of USD 100 millions (AZN 80,199). According to the terms of this agreement all proceeds from the sale of the applicable condensate and applicable gas (petroleum) are transferred by customers directly to the Caspian King Ltd.'s current account with SG, until the Group's obligations to the Caspian King Ltd. under this agreement are fully settled.

9 Trade and Other Receivables

	2009	2008
Trade receivables	3,186,832	3,732,904
Less impairment loss provision	(1,601,199)	(2,462,576)
Total trade receivables	**1,585,633**	**1,270,328**
VAT recoverable	295,706	230,475
Prepayments	97,005	46,686
Other tax receivable	19,890	292
Other receivables	131,540	118,781
Total trade and other receivables	**2,129,774**	**1,666,562**

Trade receivables mainly represent receivables for crude oil, oil products and natural gas sold to customers of the Group.

At 31 December 2009 trade receivables and other receivables in the amount of AZN 1,592,612 (2008: AZN 378,973) were denominated in foreign currencies, mainly in USD.

Trade receivables of AZN 1,601,199 (2008: AZN 2,462,576) were impaired and provided for in full. These impaired receivables mainly relate to overdue debts (in excess of 360 days) for oil, natural gas and oil products supplied primarily to state-owned entities. There are no other past due receivables.

VAT recoverable relates to purchases which have not been settled at the statement of financial position date. VAT recoverable is reclaimable against VAT on sales upon payment for the purchases.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

9 Trade and Other Receivables (Continued)

Movements on the provision for impairment of trade receivables are as follows:

	2009	2008
At 1 January	**2,462,576**	**2,307,678**
Receivables written off during the year as uncollectible	(337,706)	(27,037)
Additional provision provided during the year (Note 25)	297,022	181,935
Gain on settlement of pre-existing business relationship with Azerigaz PU (Note 26)	(820,693)	-
At 31 December	**1,601,199**	**2,462,576**

Before the business combination with Azerigaz CJSC (Note 32) the Group recognized impairment loss provision for receivables from Azerigaz CJSC as of 31 December 2008 in the amount of AZN 820,693. As a result of acquisition of Azerigaz CJSC, inter-company balances with Azerigaz PU, the successor of Azerigaz CJSC, were eliminated as at 31 December 2009 and consequently, related impairment provision for inter-company receivable in the amount of AZN 820,693 was reversed and credited to the consolidated statement of comprehensive income.

10 Inventories

	2009	2008
Raw materials and spare parts	455,036	476,010
Finished goods	95,973	41,497
Work in progress	55,606	35,310
Crude oil	51,151	20,061
Goods in transit	37,353	18,953
Other	12,339	8,766
Total inventories	**707,458**	**600,597**

11 Other long-term assets

At 31 December 2009 other long-term assets were represented by long-term prepayments for purchase of property, plant and equipment and materials in the amount of AZN 231,263 (2008: AZN 127,985) and loan receivable from third party in the amount of AZN 85,000 (2008: nil) bearing the annual interest rate of LIBOR plus four percent and with the maturity date of September 30, 2015. The loan and principal are payable on a quarterly basis. This loan is secured by the 340 shares out of total 514 shares of the borrower.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

12 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment ("PPE") were as follows:

	Buildings and constructions	Oil and gas properties and equipment	Plant and machinery	Vessels	Other	Construction in progress	Total
Cost:							
At 1 January 2008	**964,196**	**3,397,954**	**719,452**	**204,607**	**118,607**	**493,736**	**5,898,552**
Additions	50,674	557,758	90,527	24,238	48,693	344,093	**1,115,983**
Acquisition through business combination	88,531	-	1,342,794	-	876,696	16,486	**2,324,507**
Disposals	(11,016)	(22,704)	(12,350)	(208)	(7,169)	(89,619)	**(143,066)**
Transfers	(14,927)	99,560	(105,041)	485	18,450	1,473	**-**
Translation to presentation currency	(21,023)	(69,631)	(298,506)	-	(201,023)	(15,574)	**(605,757)**
At 31 December 2008	**1,056,435**	**3,962,937**	**1,736,876**	**229,122**	**854,254**	**750,595**	**8,590,219**
Additions	14,678	450,794	97,044	25,304	38,791	509,100	**1,135,711**
Acquisition through business combination	200,619	491,753	35,235	-	4,280	55,157	**787,044**
Disposals	(47,305)	(25,488)	(26,521)	(97)	(4,618)	(8,818)	**(112,847)**
Transfers	(107,929)	355,207	89,685	81	7,955	(344,999)	**-**
Translation to presentation currency	4,885	2,586	7,413	-	5,795	(6,525)	**14,154**
At 31 December 2009	**1,121,383**	**5,237,789**	**1,939,732**	**254,410**	**906,457**	**954,510**	**10,414,281**
Depreciation and impairment:							
At 1 January 2008	(168,738)	(309,916)	(103,562)	(16,287)	(73,902)	(63,762)	**(736,167)**
Depreciation charge for the year	(62,865)	(271,096)	(152,715)	(29,297)	(26,146)	-	**(542,119)**
Impairment	(13)	(191,038)	(5,576)	-	-	(157,495)	**(354,122)**
Disposals	3,541	2,818	5,843	150	3,904	-	**16,256**
Transfers	3,765	(48,478)	51,024	(148)	(6,163)	-	**-**
At 31 December 2008	**(224,310)**	**(817,710)**	**(204,986)**	**(45,582)**	**(102,307)**	**(221,257)**	**(1,616,152)**
Depreciation charge for the year	(67,476)	(361,879)	(179,842)	(28,456)	(25,168)	-	**(662,821)**
Disposals	26,341	10,335	14,621	97	1,186	307	**52,887**
Transfers	6,181	(68,313)	3,183	(37)	(8,253)	67,239	**-**
Impairment	(158)	(127,687)	(2,345)	(13,000)	-	(98,449)	**(241,639)**
At 31 December 2009	**(259,422)**	**(1,365,254)**	**(369,369)**	**(86,978)**	**(134,542)**	**(252,160)**	**(2,467,725)**
Net book value:							
At 1 January 2008	**795,458**	**3,088,038**	**615,890**	**188,320**	**44,705**	**429,974**	**5,162,385**
At 31 December 2008	**832,125**	**3,145,227**	**1,531,890**	**183,540**	**751,947**	**529,338**	**6,974,067**
At 31 December 2009	**861,961**	**3,872,535**	**1,570,363**	**167,432**	**771,915**	**702,350**	**7,946,556**

Included in the disposed property, plant and equipment as of 31 December 2009 were assets with net book value of AZN 43,451 (2008: AZN 55,295) which were transferred to governmental entities as part of social program approved by the Government and recognized in the withdrawals of government (See Note 23).

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

12 Property, Plant and Equipment (Continued)

Capitalised interest included in oil and gas properties as of 31 December 2009 amounted to AZN 828 (2008: AZN 11,906). The capitalization rates used during 2009 to determine the amount of borrowing costs eligible for capitalization were in the range from LIBOR plus 2 per cent p.a. to LIBOR plus 3 per cent p.a. (2008: LIBOR plus 2 per cent p.a. to LIBOR plus 3 per cent p.a.).

13 Intangible Assets

The movement of intangible assets and related accumulated amortisation for the year ended 31 December 2008 was as follows:

	Land and Property rights	Water rights	Trade name	Customer relationships	Other intangible assets	Total
Carrying amount at 1 January 2008	**-**	**-**	**-**	**-**	**4,460**	**4,460**
Acquisitions through business combinations (Note 32)	216,424	259,666	49,676	131,316	1,887	**658,969**
Additions	-	-	-	-	7,219	**7,219**
Amortisation charge	(2,578)	(2,874)	-	(3,106)	(1,941)	**(10,499)**
Translation difference	(49,043)	(58,872)	(11,337)	(29,550)	(604)	**(149,406)**
Carrying amount at 31 December 2008	**164,803**	**197,920**	**38,339**	**98,660**	**11,021**	**510,743**

The movement of intangible assets and related accumulated amortisation for the year ended 31 December 2009 was as follows:

	Land and Property rights	Water rights	Trade name	Customer relationships	Other intangible assets	Total
Carrying amount at 1 January 2009	**164,803**	**197,920**	**38,339**	**98,660**	**11,021**	**510,743**
Additions	-	-	-	-	20,151	**20,151**
Amortisation charge	(3,769)	(4,203)	-	(3,770)	(2,002)	**(13,744)**
Translation difference	1,351	1,630	335	755	16	**4,087**
Carrying amount at 31 December 2009	**162,385**	**195,347**	**38,674**	**95,645**	**29,186**	**521,237**

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

13 Intangible Assets (Continued)

During 2009, total amortization expense amounting to AZN 13,744 (2008: AZN 10,499) have been allocated to cost of sales by AZN 6,910, marketing (2008: AZN 5,452), selling and distribution expenses by AZN 4,395 (2008: AZN 3,150) and general administrative expenses by AZN 2,439 (2008: AZN 1,897).

14 Investments in Jointly Controlled Entities

The table below summarises the movements in the carrying amount of the Group's investment in jointly controlled entities.

	Note	2009	2008
Carrying amount at 1 January		**113,685**	**75,724**
Fair value of net assets of jointly controlled entities acquired	6	18,920	14,064
Share of after tax results of jointly controlled entities	6	(12,887)	1,875
Dividends received from jointly controlled entities	6	(6,178)	(6,714)
Loss offset with receivables from jointly controlled entity		18,788	28,034
Derecognition of jointly controlled entities		(39,114)	-
Exchange differences		(78)	702
Other		9,925	-
Carrying amount at 31 December		**103,061**	**113,685**

On 1 July 2009, Caspian Drilling Company (CDC) repurchased 45 per cent of outstanding shares held by the other investor and the Group effectively became the sole owner of CDC. Accordingly, CDC is classified as subsidiary effective from 1 July 2009. In October 2009 Anshad Petrol and Shirvan Oil were closed.

At 31 December 2009, the Group's interests in its principal jointly controlled entities and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/ (loss)	% interest held	Country of incorporation
Carlina Overseas Corp.	215,724	374,991	18,812	(23,572)	51%	British Virgin Islands
Azgerneft	33,543	11,920	18,530	3,080	40%	Azerbaijan
Azeri Fugro	802	404	886	(18)	60%	Azerbaijan
Azfen	24,284	10,644	25,371	128	60%	Azerbaijan
Bosshelf LLC	8,621	8,417	9,576	54	50%	Azerbaijan
Azturqaz	1,239	827	732	(129)	50%	Azerbaijan
Caspian Offshore Fabricators	1,137	104	571	(15)	50%	Azerbaijan
Azeri M.I. Drilling Fluids	43,821	33,541	68,215	6,654	51%	Azerbaijan
SOCAR – KPS	613	545	3,269	(37)	50%	Azerbaijan
Oil and Gas Proservice	2,416	213	3,244	1,509	30%	Azerbaijan
Ekol Engineering Services	11,618	8,608	9,509	278	51%	Azerbaijan
Caspian Shipyard Company	19,976	721	52,812	10,556	20%	Azerbaijan
Energy Solutions Group	62	507	-	(15)	51%	Azerbaijan
Socar Petroleum CJSC	34,738	13,997	81,928	144	51%	Azerbaijan
SOCAR-UGE	12,729	242	-	(1,405)	97%	Azerbaijan
SOCAR Umid	10,353	2,165	-	(204)	80%	Azerbaijan
Sarmatia	451	290	79	(1,524)	25%	Poland
SOCAR Baglan LLC	-	-	-	-	51%	Azerbaijan
SOCAR AQS	114,148	40,262	118,468	46,530	51%	Azerbaijan
Total	**536,275**	**508,398**	**412,002**	**42,014**		

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

14 Investments in Jointly Controlled Entities (Continued)

At 31 December 2008, the Group's interests in its principal jointly controlled entities and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/ (loss)	% interest held	Country of incorporation
Carlina Overseas Corp.	199,522	348,297	10,256	(54,967)	51%	British Virgin Islands
Anshad Petrol	32,995	1,984	15,905	2,834	51%	Azerbaijan
Azgerneft	25,421	6,879	22,726	7,997	40%	Azerbaijan
Shirvan Oil	58,353	7,515	42,421	2,254	49%	Azerbaijan
Azeri Fugro	903	477	6,331	89	60%	Azerbaijan
Azfen	25,064	4,304	46,781	(2,806)	60%	Azerbaijan
Bosshelf LLC	6,021	5,109	15,591	744	50%	Azerbaijan
Azturqaz	1,382	646	957	32	50%	Azerbaijan
Caspian Offshore Fabricators	1,731	684	2,554	626	50%	Azerbaijan
Azeri M.I. Drilling Fluids	63,236	48,717	114,927	10,996	51%	Azerbaijan
SOCAR - KPS	939	834	6,881	70	50%	Azerbaijan
Oil and Gas Proservice	181	232	990	526	34%	Azerbaijan
Ekol Engineering Services	11,935	9,204	16,887	911	51%	Azerbaijan
Caspian Shipyard Company	22,618	7,525	63,318	10,288	20%	Azerbaijan
Energy Solutions Group	64	505	-	(16)	51%	Azerbaijan
Sarmatia	1,884	271	100	(242)	25%	Poland
Caspian Drilling Company	28,945	7,746	40,625	6,968	55%	Azerbaijan
SOCAR AQS	58,452	25,455	48,623	28,331	51%	Azerbaijan
Total	**539,646**	**476,384**	**455,873**	**14,635**		

Carrying value of the Group's investments in Carlina Overseas Corp. and Energy Solutions Group is nil both at 31 December 2009 and 2008.

15 Investments in Associates

The table below summarises the movements in the carrying amount of the Group's investment in associates.

	Note	2009	2008
Carrying amount at 1 January		**292,732**	**265,509**
Fair value of net assets of associates acquired	6	301	17
Share of after tax results of associates	6	89,854	70,542
Dividends received from associates	6	(58,481)	(35,102)
Derecognition of associates		(948)	-
Exchange differences		(8,105)	(8,234)
Carrying amount at 31 December		**315,353**	**292,732**

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

15 Investments in Associates (Continued)

At 31 December 2009, the Group's interests in its principal associates and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/ (loss)	% interest held	Country of incorporation
Azerbaijan BTC Ltd	710,130	52,815	266,223	241,033	23%	Cayman Islands
Caspian Geophysical	3,923	1,926	8,891	1,916	45%	Azerbaijan
AzLab	914	237	741	154	50%	Azerbaijan
Azerbaijan John Brown	65	8	236	(39)	40%	Azerbaijan
Cross Caspian Oil and Gas Logistics	5,290	5,208	65,493	(176)	34%	Azerbaijan
SOCAR – ASM	8,353	7,814	30,309	118	30%	Azerbaijan
Ateshgah Insurance Company	18,646	11,905	14,359	870	10%	Azerbaijan
Caspian Pipe Coatings LLC	7,482	677	795	(2,232)	50%	Azerbaijan
Supra Holding	1,489,456	1,387,350	8,359,374	49,777	50%	Malta
South Caspian Pipeline Company	1,096,686	66,891	169,173	107,986	9.8%	Cayman Islands
South Caspian Pipeline Company Holding Company	21,091	614	1,403	1,370	10%	Cayman Islands
Total	**3,362,036**	**1,535,445**	**8,916,997**	**400,777**		

At 31 December 2008, the Group's interests in its principal associates and their summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/ (loss)	% interest held	Country of incorporation
Azerbaijan BTC Ltd	653,711	33,948	180,981	160,751	22.56%	Cayman Islands
Caspian Geophysical	9,541	2,817	12,950	4,549	45%	Azerbaijan
AzLab	864	271	837	(18)	50%	Azerbaijan
Cross Caspian Oil and Gas Logistics	5,308	5,208	42,201	(262)	34%	Azerbaijan
SOCAR – ASM	4,492	4,034	18,382	116	30%	Azerbaijan
Azerineftgaztikinti	348	296	2,751	(10)	25%	Azerbaijan
Ateshgah Insurance Company	16,440	(11,512)	17,203	170	10%	Azerbaijan
Azeri Drilling Company	51,025	54,449	23,763	2,709	35%	Azerbaijan
Caspian Pipe Coatings LLC	9,601	593	8,027	(742)	50%	Azerbaijan
Supra Holding	277,820	226,122	8,381,847	49,351	50%	Malta
South Caspian Pipeline Company	1,125,796	(50,102)	155,694	49,917	9.8%	Cayman Islands
South Caspian Pipeline Company Holding Company	22,040	(779)	1,035	1,007	10%	Cayman Islands
Total	**2,176,986**	**265,345**	**8,845,671**	**267,538**		

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

16 Receivable from Jointly Controlled Entity

Receivable from jointly controlled entity represents receivable balance from SOCAR Petroleum in the amount of AZN 8,749 (2008: nil) and a loan provided by the Group to Carlina Overseas Corp. in accordance with terms of the loan agreement signed on 28 December 2006 between Carlina Overseas Corp. and AzACG. Outstanding balance of the receivable as of 31 December 2009 comprised AZN 349,963 (2008: AZN 329,889) offset against Group's share in losses of Carlina Overseas Corp. that exceeds the Group's interest in Carlina Overseas Corp. in the amount of AZN 46,821 (2008: AZN 28,034). The loan bears an annual interest rate of LIBOR plus 2.5 per cent payable on a quarterly basis. The maturity date of the loan is 28 December 2014. In accordance with the Share Pledge and Retention Agreement dated 28 December 2006 and Share Charge and Retention Agreement dated 12 April 2007 between the other owners of Carlina Overseas Corp. and AzACG, the other owners of Carlina Overseas Corp. pledged in favour of AzACG all of their rights and interest in all proceeds and funds received or receivable by Carlina Overseas Corp. and all of their shares and any other equity interests in Carlina Overseas Corp. Management of the Group believes that the value of the collateral provides an adequate security for this receivable.

Under the terms of the loan agreement, if Carlina fails to repay accrued interest at the end of quarter interest is charged at default rate of LIBOR + 4.5 per cent.

Receivable from Carlina Overseas Corp. is past due as no interest payments have been received by the Group from Carlina Overseas Corp. as of 31 December 2009 and 2008. As a result, default interest rate of LIBOR plus 4.5 per cent was charged on the unpaid principal loan balance during 2009 and 2008. The receivable is not considered impaired as management of the Group believes that they will be able to recover the value of this loan in full.

17 Trade and Other Payables

	2009	2008
Trade payables	1,604,814	900,911
Accrued liabilities	289,195	96,681
Total financial payables	**1,894,009**	**997,592**
Liabilities for overlift of oil	120,453	47,326
Advances from customers	31,603	53,732
Payable to employees	41,690	45,875
Total trade and other payables	**2,087,755**	**1,144,525**

Trade payables of AZN 1,513,741 (2008: AZN 493,649) are denominated in foreign currencies, mainly in USD. Trade payables mainly represent payables for drilling, transportation and utilities provided by vendors of the Group.

Accrued liabilities represent Group's share in the respective accrued liabilities reported by the operators of ACG PSA and Shah Deniz PSA.

Liabilities for overlift relate to the oil lifted by the Group in excess of its participating interest in ACG PSA and Shah Deniz PSA and thus, represent the Group's obligation to deliver physical quantities of oil out of its share of future production.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

18 Borrowings

	2009	2008
Short-term borrowings		
Xalqbank loan	93,002	62,000
Deutsche Bank loan	64,248	-
Viani loan	-	180,881
Caspian King Ltd. loan	-	80,199
Akbank T.A.Ş loan	28,010	-
Turkiye Garanti Bankasi A. Ş loan	16,005	-
International Bank of Azerbaijan loan	16,065	27,696
Accrued interest payable	16,773	20,546
Current portion of long-term borrowings	147,094	21,578
Prepaid borrowing commission	(1,396)	(1,384)
Other short-term borrowings	8,279	16,454
Total short-term borrowings and current portion of long-term borrowings	**388,080**	**407,970**
Long-term borrowings		
International Bank of Azerbaijan loans	1,727,598	628,154
Akbank T.A.Ş/Turkiye Garanti Bankasi A. Ş loan	500,175	498,019
ABN Amro/Citibank loan	163,297	489,468
Japan Bank for International Cooperation (JBIC) loan	132,403	-
Lalaben loan	49,454	115,866
Natixis S.A loan	24,093	-
International Development Association (IDA) loan	6,926	-
Other long-term borrowings	12,755	-
Less:		
Current portion of long-term borrowings	(147,094)	(21,578)
Prepaid borrowing commission	(5,713)	(7,046)
Total long-term borrowings	**2,463,894**	**1,702,883**
Total borrowings	**2,851,974**	**2,110,853**

Xalqbank loan. In December 2008 the Group entered into a loan agreement with Xalqbank for a total amount of AZN 62,000 for the period of 12 months until 31 December 2009. In December 2009 Group repaid fully its commitment under this facility and entered in a new loan agreement with Xalqbank for a total amount of AZN 93,002 for the period of 1 month until 28 January 2010. The loan bears an annual interest rate of 3.15 per cent. The amount outstanding under this facility as at 31 December 2009 is AZN 93,002. This loan was subsequently repaid.

Deutsche Bank loan. On 29 October 2009 the Deutsche Bank provided a loan to the Group for a 12 month period. The total amount of financing available under this facility agreement was USD 80 million (AZN 64 thousand). The loan bears an annual interest rate of LIBOR plus 2 per cent. At 31 December 2009 the total outstanding balance under this facility was AZN 64,248.

18 Borrowings (Continued)

Viani loan. On 23 May 2008, the Group entered into a convertible loan facility agreement with Viani Holdings Limited ("Viani loan facility" or "loan facility"). The Group received USD 400 million (AZN 320.5 thousand) under the Viani loan facility. The necessary financing for Viani Holdings Limited ("Viani") had been arranged by Credit Suisse ("the Funding Party") representing a syndicate of financial institutions. In accordance with the terms of the loan facility, the funds were made available to the Group to finance the acquisition of Petkim (Note 32). The loan is repayable on demand but no later than 54 (fifty-four) months following the date of the agreement and bears an annual interest rate of 5 per cent. While the loan remains outstanding, Viani has a conditional option to convert the amount owed under the facility into 38 per cent of ordinary share capital of SOCAR & Turcas Petrokimya A.Ş, a subsidiary holding the Group's 51 per cent voting interest in Petkim Petrokimya Holding A.Ş. The conversion option is exercisable only if Viani's liability to the Funding Party and other financing providers is fully discharged and the Funding Party consents to the exercise of the option. In December 2008 based on the agreement signed by the Group with Viani, the conversion option mentioned above initially granted to Viani, was cancelled and the Group prepaid USD 175 million (AZN 140,543) to Viani. During 2009, the Group has repaid the remaining USD 227 million (AZN 180,881) to Viani.

Caspian King Ltd loan. As discussed in Note 8, on 18 December 2008 the Group obtained financing from Caspian King Ltd. in the amount of AZN 80,199. This loan bears annual interest of LIBOR plus 3 per cent and matures on 31 December 2009. Interest and principal are payable on 31 March 2009 and thereafter at the end of each quarter. The loan was fully repaid by the Group as of 31 December 2009.

Akbank T.A.Ş loan. On 4 December 2009 Akbank T.A.Ş. provided a loan to the Group with maturity date of 6 April 2010. The total amount of financing available under this facility agreement was USD 35 million (AZN 28 thousand). The loan bears an annual interest rate of 2.2 per cent. At 31 December 2009 the total outstanding balance under this facility was AZN 28,010.

Akbank T.A.Ş./Turkiye Garanti Bankasi A.Ş loan. In May 2008, the Group obtained a syndicated loan from Turkiye Garanti Bankasi A.Ş. and Akbank T.A.Ş. acting as lead arrangers for a total amount of USD 625 million bearing annual interest of LIBOR plus 3 per cent from May 2008 through May 2012, and LIBOR plus 4 per cent from May 2012 through maturity in May 2017. The loan is repayable in 7 (seven) pre-defined annual installments commencing in 2011. Loan maturity date is 30 June 2017. In accordance with the terms of the loan, the funds were made available to the Group to finance the acquisition of Petkim (Note 32). The Group pledged its 99.75 per cent interest in STEAŞ, a subsidiary holding the Group's 51 per cent voting interest in Petkim Petrokimya Holding A.Ş. ("Petkim") as collateral for the amounts due under this facility. The amount outstanding under this facility as at 31 December 2009 was AZN 500,175 (2008: AZN 498,019).

Turkiye Garanti Bankasi A. Ş loan. On 4 December 2009 Turkiye Garanti Bankasi A.Ş provided a loan to the Group with maturity date of 5 April 2010. The total amount of financing available under this facility agreement was USD 20 million (AZN 16 thousand). The loan bears an annual interest rate of 2.1 per cent. At 31 December 2009 the total outstanding balance under this facility was AZN 16,005.

International Bank of Azerbaijan loan. On 21 May 2007, IBA provided a credit line with a USD 50 million (AZN 40,155) limit to the Group for the period of 36 months until 21 May 2010. The loan bears annual interest rate of LIBOR plus 2 per cent. During the year ended 31 December 2009, the Group repaid USD 16.7 million (AZN 13,412) on this facility. The amount outstanding under this facility as at 31 December 2009 is AZN 6,692 (2008: AZN 20,025).

On 24 October 2007, IBA provided a credit line with a USD 60 million (AZN 48,186) limit to the Group for the period of 36 months until 24 October 2010. The loan bears annual interest rate of LIBOR plus 3 per cent. During the year ended 31 December 2009, the Group did not draw down any amount on this credit line. The amount outstanding under this facility as at 31 December 2009 is AZN 46,300 (2008: AZN 46,196).

On 6 December 2007, IBA provided an additional credit line to the Group for a total amount of up to USD 40 million (AZN 32,124) for the period of 36 months until 6 December 2010. The loan bears annual interest rate of LIBOR plus 3 per cent. The amount outstanding under this facility as at 31 December 2009 is AZN 32,124 (2008: AZN 32,040).

18 Borrowings (Continued)

On 22 May 2008, IBA provided a loan to the Group of USD 665 million (AZN 534,062) for the period of 36 months until 22 May 2011. The loan bears an annual interest of LIBOR plus 2 per cent. This borrowing is collateralized by a special cash deposit of USD 665 million (AZN 534,062) placed with IBA (Note 8). The amount outstanding under this facility as at 31 December 2009 was AZN 532,186 (2008: AZN 529,893).

On 21 July 2009, IBA provided a loan to the Group of AZN 750 million for the period of 84 months until July 2016 for the purposes of refinancing of existing loans and finance the Group's investment activities. The loan bears an annual interest rate of 3 per cent. The amount outstanding under this facility as at 31 December 2009 was AZN 750,000.

On 27 July 2009, the Group obtained a new loan from IBA amounting USD 420 million (AZN 337,302) with a fixed rate 3.5 per cent maturing on 22 July 2014. With the proceeds of this new loan, the Group fully paid the debt to Viani amounting to USD 227 million (AZN 182,304) in 2009.

At 31 December 2009 the Group had other loans from IBA in the total amount of AZN 22,994.

ABN Amro/Citibank loan. In February 2008 the Group entered into a loan agreement with a bank syndicate led by ABN AMRO Bank N.V., London Branch and Citibank N.A., London Branch for a total amount of USD 610 million (AZN 489,891) bearing annual interest of LIBOR plus 1.75 per cent and repayable in three semi-annual instalments commencing in February 2010. Loan maturity date is 1 April 2011. The proceeds from this facility were directed towards the acquisition of Petkim. The terms of the facility contain certain financial and nonfinancial covenants, including a minimum interest cover requirement and a total indebtedness cap. The amount outstanding under this facility as at 31 December 2009 was AZN 163,297 (2008: AZN 489,468).

Japan Bank for International Cooperation loan. In April 2000, the Azerigaz CJSC, which became a part of the Group since 1 July 2009, entered into a loan agreement with Japan Bank for International Corporation for a total amount of JPY 15,462,232 thousand bearing an annual interest rate of 1.5 per cent and repayable in 60 semi-annual instalments commencing on 20 September 2009. Loan maturity date is 20 September 2039. The proceeds from this facility were directed towards implementation of gasification program in the Azerbaijan Republic. The amount outstanding under this facility as at 31 December 2009 was AZN 132,403 (2008: AZN Nil).

Lalaben loan. On 20 July 2007, the Group entered into an RPO Advance Payment Agreement with Lalaben LLC ("Lalaben"). Total amount of financing provided to the Group in 2007 under the RPO Advance Payment Agreement was USD 300 million (AZN 240,930) ("the RPO facility") for the purpose of financing upgrade and refurbishment of SOCAR's gas production assets. Lalaben in turn obtained a USD 300 million (AZN 240,930) loan from a syndicate of banks and financial institutions led by BNP Paribas, ABN Amro Bank N.V. and Societe Generale.

The facility provided to the Group under the RPO Advance Payment Agreement bears annual interest of LIBOR plus 0.6 per cent for the period from 20 July 2007 through 20 July 2010, LIBOR plus 0.75 per cent for the period from 20 July 2010 through 20 July 2011, LIBOR plus 0.9 per cent for the period from 20 July 2011 through 20 July 2012, and LIBOR plus 0.975 per cent for the period from 20 July 2012 until the maturity of the agreement. Interest and principal are payable at the end of each quarter. The RPO facility matures on 20 July 2013.

At 31 December 2009 the loan balance due to Lalaben under the RPO facility was AZN 49,454 (2008: AZN 115,866) and it was included in the long-term borrowings.

According to the terms of the RPO Advance Payment Agreement all proceeds from the sale of the Reserved Profit Petroleum are transferred by customers directly to Lalaben's current accounts with BNP Paribas until the Group's obligations to Lalaben under the RPO facility are fully settled (Note 8).

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

18 Borrowings (Continued)

Natixis S.A Bank loan. On 16 December 2009, Natixis S.A Bank (France) provided a loan to the Group in the amount of USD 30 million for the period of 36 months. The loan is repayable in pre-determined instalments starting from 2010. The loan bears an annual interest of LIBOR plus 5 per cent. At 31 December 2009 the amount outstanding under this loan was AZN 24,093, including AZN 6,571 related to current portion.

International Development Association loan. In July 1996 the Azerigaz CJSC entered into a loan agreement with International Development Association for a total amount of USD 17,234 thousand bearing annual interest rate applicable for World Bank Currency Pool Loans with interest rate of 7.79 per cent in the reporting period and repayable in 29 semi-annual instalments commencing on 15 December 2001. Loan maturity date is 15 June 2016. The proceeds from this facility were directed towards implementation of gasification program in the Azerbaijan Republic. The amount outstanding under this facility as at 31 December 2009 was AZN 6,926 (2008: nil).

The Group's borrowings are denominated in currencies as follows:

	2009	2008
Borrowings denominated in:		
- USD	1,863,207	2,004,713
- AZN	845,752	62,000
- JPY	132,403	-
- Georgian Lari	8,075	30,914
- YTL	2,537	13,226
Total borrowings	**2,851,974**	**2,110,853**

19 Other Taxes Payable

	2009	2008
Payable to SOFAZ	122,981	122,981
Export charges	12,984	3,959
VAT payable	10,176	37,828
Property taxes and duties	8,326	9,412
Tax penalties and interests	1,104	384
Social security deductions	2,632	6,337
Personal income tax	2,690	3,328
Payable to budget	1,188	1,229
Excise tax	-	23,088
Other taxes payable	25,214	4,660
Total other taxes payable	**187,295**	**213,206**

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

20 Asset Retirement Obligations

The Group has legal and constructive obligation with respect to decommissioning of oil and gas production and storage facilities and environmental clean-up. Movements in provisions for the related asset retirement obligations are as follows:

	Note	2009	2008
Carrying amount at 1 January		**86,201**	**146,688**
Additions		(2,064)	27,689
Unwinding of the present value discount	28	6,865	12,098
Effect of change in discount rate		79,911	(97,337)
Exchange differences		(186)	(2,937)
Carrying amount at 31 December		**170,727**	**86,201**

The Group makes full provision for the future cost of oil and natural gas production facilities retirement and related pipelines on a discounted basis on the installation of those facilities. The provision has been estimated using existing technology, at current prices and discounted using nominal discount rates regarded as a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability as of the reporting date. These costs are expected to be incurred over the useful life of the fields and properties ranging between 15 and 73 years from the reporting date. Included within the asset retirement obligations at 31 December 2009 was AZN 34,582 (2008: AZN 9,948) relating specifically to estimated site restoration liabilities. The following inflation rates were applied in calculation of discounted cash flows:

Year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015 and later**
Inflation rate	4.7%	3.5%	3.4%	3.3%	3.1%	3.0%

While the provision is based on the best estimate of future costs and the economic lives of the facilities and pipelines, there is uncertainty regarding both the amount and timing of incurring these costs.

Estimated costs of dismantling oil and gas production facilities, pipelines and related processing and storage facilities, including abandonment and site restoration costs amounting to AZN 102,579 at 31 December 2009 (2008: AZN 53,079) are included in the cost of oil and gas properties and equipment. Asset retirement obligations related to the PSAs are determined with reference to capital costs incurred by contractor parties and they are limited to the maturities of respective PSAs. Governmental authorities are continually reviewing regulations and their enforcement. Consequently, the Group's ultimate liabilities may differ from the recorded amounts.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

21 Other Provisions for Liabilities and Charges

Movements in other provisions for liabilities and charges are as follows:

	Note	Environmental obligations	Disability payments	Unused vacation	Total
Carrying amount at 1 January 2008		**505,761**	**42,177**	**6,856**	**554,794**
Charge to profit or loss		-	14,723	17,621	32,344
Utilisation		(42,571)	(9,233)	(17,487)	(69,291)
Unwinding of the present value discount	28	36,431	1,876	-	38,307
Discount rate change		(52,696)	-	-	(52,696)
Carrying amount at 31 December 2008		**446,925**	**49,543**	**6,990**	**503,458**
of which:					
Current		*139,347*	*9,681*	*6,990*	*156,018*
Non-current		*307,578*	*39,862*	-	*347,440*
Charge to profit or loss		(51,172)	4,320	19,264	(27,588)
Utilisation		(50,118)	(8,564)	(23,421)	(82,103)
Unwinding of the present value discount	28	35,754	3,960	-	39,714
Discount rate change		35,155	(9,838)	-	25,317
Carrying amount at 31 December 2009		**416,544**	**39,421**	**2,833**	**458,798**
of which:					
Current		*89,665*	*9,794*	*2,833*	*102,292*
Non-current		*326,879*	*29,627*	-	*356,506*

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

21 Other Provisions for Liabilities and Charges (Continued)

Under the Presidential Decree number 1697 dated 28 September 2006 the Group prepared and approved Action Plan for Environmental Restoration with respect to the damage caused to the environment as a result of the Group's activities within Apsheron area. In 2009 the Group amended the Action Plan in accordance with the Presidential Decree dated 14 April 2009. Corresponding provision is recognised at the present value of future costs to be incurred for the environmental remediation. The Group estimates that the related costs will be incurred from 2010 through 2013.

The Group has an obligation to compensate its employees for the damage caused to their health during their employment, as well as to compensate the families of the employees died at work. The compensation provided is linked to the salaries paid to the affected employees. The Company calculated the present value of the disability payments to employees using a discount rate of 8.4 per cent. For the purpose of calculation of the lifetime payments to injured employees, the Company estimated a life expectancy as 75 and 70 for men and women, respectively. The inflation rates in Note 20 were applied to match the escalation in average salaries.

Management expects that the related injury payments will occur until 31 December 2066.

22 Deferred income

The Group obtained government grants aimed at gasification of Baku suburban area and regions of the Azerbaijan Republic recognised them in deferred income as follows:

	2009	2008
Deferred income at 1 January	-	-
Acquisitions through business combinations (Note 32)	110,178	-
Amortisation of deferred income to match related depreciation	(4,400)	-
Deferred income at 31 December	**105,778**	-

23 Charter Capital

Parent company of the Group, SOCAR, has a legal status of a state enterprise. At the date of incorporation of the Group, the Government of the Azerbaijan Republic contributed property with net book value of AZN 22,726 at the date of contribution which was assigned to the charter capital. Under the Decree of the Cabinet of Ministers number 436s dated 11 December 2008, the Group's charter capital was increased by AZN 600,000, of which AZN 400,000 was received by the Group in 2008 and the remaining amount has been received in 2009.

Withdrawals by the Government

Based on ad-hoc decisions of the Government, the Group is mandated to make direct cash contributions or finance construction and repair works for the state budget, various government agencies and projects administered by the Government. In 2009, direct cash contributions and financing amounted to AZN 143,698 and AZN 142,340, respectively (2008: AZN 313,922 and AZN 161,790, respectively), mainly for repair and reconstruction of existing, as well as construction of new recreational, transport, educational and medical infrastructure of the Azerbaijan Republic.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

24 Analysis of Revenue by Categories

	2009	2008
Oil products, net	1,524,504	2,203,789
Crude oil, net	939,154	1,119,004
Petrochemicals	1,068,525	785,407
Natural gas	549,963	515,065
Other revenue	113,835	87,580
Total revenue	**4,195,981**	**4,710,845**

Revenue from crude oil sales is stated net of price margin tax which is levied on the margins between the international market price and internal state-regulated price on crude oil. The difference between the market price and the internal state-regulated price is taxed at the rate of 30 per cent and the amount of tax is transferred to the State Budget.

Revenue from oil product sales is stated net of excise tax of AZN 362,209 (2008: AZN 367,266).

Revenue from sales of crude oil produced under ACG PSA and condensate produced under Shah Deniz PSA is not subject to excise and price margin taxes mentioned above.

25 Analysis of Expenses by Nature

	Note	2009	2008
Raw materials and consumables used		1,266,663	976,047
Wages, salaries and social security costs		455,776	516,881
Depreciation of property, plant and equipment		590,655	529,094
Transportation and vehicle maintenance		109,148	213,681
Impairment of trade and other receivables	9	297,022	181,935
Impairment of property, plant and equipment	12	241,639	354,122
Repairs and maintenance expenses		143,278	64,376
Mining tax		120,519	126,748
Taxes other than on income		77,567	53,121
Utilities expense		50,920	90,507
Amortization expense		13,744	10,499
Other		257,532	229,731
Total cost of sales, exploration and evaluation, distribution, general and administrative, research and development and other operating expenses		**3,624,463**	**3,346,742**

Social expenses are comprised of expenditures related to medical, utilities, recreational and cultural services provided to SOCAR employees as well as expenditures of Treatment and Diagnostics Centers which provide free medical services to citizens in the regions of the Azerbaijan Republic.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

26 Other Operating Income

	Note	2009	2008
Gain on settlement of pre-existing business relationship with Azerigaz PU (Note 9)		820,693	-
Sales of other goods and services rendered		204,708	73,865
Change in asset retirement and environmental provision		-	148,429
Total other operating income		**1,025,401**	**222,294**

27 Finance Income

	2009	2008
Interest income on deposits and bank accounts	44,664	18,336
Interest on loans from related parties	20,033	20,966
Other	2,981	16,222
Total finance income	**67,678**	**55,524**

28 Finance Costs

	Note	2009	2008
Interest expense		117,460	109,290
Environmental provision: unwinding of the present value discount	21	35,754	36,431
Provisions for asset retirement obligations: unwinding of the present value discount	21	6,865	12,098
Provision for disability payments: unwinding of the present value discount	21	3,960	1,876
Less capitalised borrowing costs		(828)	(11,906)
Total finance costs recognised in the consolidated statement of comprehensive income		**163,211**	**147,789**

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

29 Income Taxes

Income tax expense comprises the following:

	2009	2008
Current tax expense	361,123	570,595
Deferred tax charge/(benefit)	114,642	(242,610)
Income tax expense for the year	**475,765**	**327,985**

A reconciliation between the expected and the actual taxation charge is provided below:

	2009	2008
Profit before tax	**1,369,343**	**814,801**
Theoretical tax charge at statutory rate of 22 per cent (2008: 22 per cent)	301,255	179,256
Effects of different tax rates for certain subsidiaries (25 per cent)	7,104	22,182
Effects of different tax rates for certain subsidiaries (20 per cent)	895	9,316
Dividends income taxable at 10 per cent	-	(3,792)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(79,008)	(14,315)
- Non-deductible expenses	199,440	61,996
Unrecognised deferred tax assets	-	45,340
Carryforward loss on which no deferred income tax asset was recognized	13,238	19,492
Correction of previous years current tax	(1,518)	12,985
Impact of change in tax rate to 20 per cent	41,514	-
Other	(7,155)	(4,475)
Income tax expense for the year	**475,765**	**327,985**

Non-deductible expenses mainly comprise social and employee-related expenses.

Differences between IFRS and applicable domestic tax regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below:

	1 January 2009	Acquired through business combination	Charged/ (credited) to profit or loss	31 December 2009
Tax effect of deductible/(taxable) temporary differences				
Accrued revenue	46,095	-	(37,845)	8,250
Impairment provision for receivables	441,019	99,816	(170,070)	370,765
Inventories	11,652	1,504	1,147	14,303
PPE	53,472	(33,047)	169,953	190,378
Provisions for liabilities and charges	106,602	18,025	(43,523)	81,104
Other	52	13,094	(32,323)	(19,177)
Deferred tax asset	**658,892**	**99,392**	**(112,661)**	**645,623**

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

29 Income Taxes (continued)

	2009	Credited/ (charged) to profit or loss	Translation difference	31 December 2009
Tax effect of deductible/(taxable) temporary differences				
Accruals	(5,970)	15,461	202	9,693
Investments in associates and jointly controlled entities	(16,315)	16,315	-	-
Impairment provision for receivables	(30,459)	(5,107)	-	(35,566)
Inventory	12,872	1,830	-	14,702
PPE	(475,005)	(4,639)	10,114	(469,531)
Provisions for liabilities and charges	20,851	(8,133)	(10,370)	2,347
Carry forward losses	14,479	8,543	-	23,022
Employment termination benefits	9,432	(983)	-	8,449
Other	(8,485)	(25,268)	2,608	(31,145)
Deferred tax liability	**(478,600)**	**(1,981)**	**2,554**	**(478,027)**

The tax effect of the movements in the temporary differences for the year ended 31 December 2008 is as follows:

	1 January 2008	Credited/(charged) to profit or loss	31 December 2008
Tax effect of deductible/(taxable) temporary differences			
Accrued revenue	8,001	38,094	46,095
Investments in associates and jointly controlled entities	99	(99)	-
Impairment provision for receivables	374,094	66,925	441,019
Inventories	3,790	7,862	11,652
PPE	(89,986)	143,458	53,472
Provisions for liabilities and charges	139,461	(32,859)	106,602
Other	(927)	979	52
Deferred tax asset	**434,532**	**224,360**	**658,892**

	1 January 2008	Acquired through business combination	Credited/ (charged) to profit or loss	Translation difference	31 December 2008
Tax effect of deductible/(taxable) temporary differences					
Accruals	(25,816)	857	17,986	1,003	(5,970)
Investments in associates and jointly controlled entities	(13,647)	144	(2,812)	-	(16,315)
Impairment provision for receivables	(7,519)	-	(22,940)	-	(30,459)
Inventory	127	2,089	10,656	-	12,872
Other	(1,673)	(1,376)	(5,671)	235	(8,485)
PPE	(218,002)	(269,564)	18,671	(6,110)	(475,005)
Provisions for liabilities and charges	16,539	1,952	2,360	-	20,851
Carry forward losses	-	14,479	-	-	14,479
Employment termination benefits	-	9,432	-	-	9,432
Deferred tax liability	**(249,991)**	**(241,987)**	**18,250**	**(4,872)**	**(478,600)**

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

29 Income Taxes (Continued)

The Group does not file a consolidated tax return. In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

In accordance with the Azerbaijan Republic tax legislation, tax losses arising in one period can be carried forward for five years.

30 Significant Non-Cash Investing and Financing Activities

Investing and financing transactions that did not require the use of cash and cash equivalents and were excluded from the cash flow statement are as follows:

	2009	2008
Non-cash investing activities		
Transfer of PPE to the Government	43,451	55,295
Transfer of PPE to third parties	-	27,658
Non-cash investing activities	**43,451**	**82,953**

	2009	2008
Non-cash financing activities		
Offsetting transactions	-	34,347
Repayment of loans via proceeds from crude oil sales	150,994	198,010
Non-cash financing activities	**150,994**	**232,357**

31 Contingencies, Commitments and Operating Risks

Operating environment. Whilst there have been improvements in economic trends in the Azerbaijan Republic, the country continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Azerbaijan Republic. The tax, currency and customs legislation within the Azerbaijan Republic is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Azerbaijan Republic is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments. Management is unable to predict all developments in the economic environment which would have an impact on the Group's operations and consequently what effect, if any, they could have on the financial position of the Group.

Impact of the ongoing global financial and economic crisis. The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

The availability of external funding in financial markets has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Debtors of the Group may be adversely affected by the financial and economic environment, which could in turn impact their ability to repay the amounts owed. Deteriorating economic conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and development of the Group's business in the current circumstances.

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in this consolidated financial statements.

Tax legislation. The Azerbaijan Republic tax, currency and customs legislation is subject to varying interpretations, and changes, which may occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities.

Fiscal periods remain open to review by the tax authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances such reviews may cover longer periods.

The Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained and potential tax liabilities of the Group will not exceed the amounts recorded in these consolidated financial statements. Accordingly, at 31 December 2009 no provision for potential tax liabilities had been recorded (2008: nil).

31 Contingencies, Commitments and Operating Risks (Continued)

Environmental matters. The enforcement of environmental regulation in the Azerbaijan Republic is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage above environmental obligation provision currently made by the Group (see Note 21).

The Group is subject to numerous national and local environmental laws and regulations concerning its products, operations and other activities. These laws and regulations may require the Group to take future action to remediate the effects on the environment of prior disposal or release of chemicals or petroleum substances by the Group or other parties. Such contingencies may exist for various sites including refineries, chemical plants, oil fields, service stations, terminals and waste disposal sites. In addition, the Group may have obligations relating to prior asset sales or closed facilities. The ultimate requirement for remediation and its cost are inherently difficult to estimate. However, the estimated cost of known environmental obligations has been provided in the consolidated financial statements in accordance with the Group's accounting policies. While the amounts of future costs could be significant and could be material to the Group's results of operations in the period in which they are recognized, it is not practical to estimate the amounts involved. The Group does not expect these costs to have a material effect on the Group's financial position or liquidity.

The Group also has obligations to decommission oil and natural gas production facilities and related pipelines. Provision is made for the estimated costs of these activities, however there is uncertainty regarding both the amount and timing of these costs, given the long-term nature of these obligations. The Group believes that the impact of any reasonably foreseeable changes to these provisions on the Group's results of operations, financial position or liquidity will not be material.

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. Management believes that, as of 31 December 2009 and 2008 the Group was in compliance with all applicable covenants.

With respect to the credit facilities obtained for the acquisition of Petkim shares, there are certain restrictions on the Group related to the distribution of cash and non-cash dividends and related to investment of the dividends received from Petkim. Another requirement brought by the same credit facilities is that the Group has committed to identify and complete the necessary work at Petkim in order to provide compliance of Petkim with the currently effective environmental regulations.

Commitments and contingent liabilities given for Petkim acquisition. Letters of guarantee amounting to USD 491,750 thousand equivalent to AZN 395,859 for the acquisition of Petkim were given to the Republic of Turkey Ministry Privatisation Administration ("Administration") on 30 May 2008. The letter of guarantee amounting to USD 38,030 thousand was released as of 31 December 2009. The balance of letters guarantee given to Administration is USD 453,720 thousand equivalent to AZN 364,383.

Letters of guarantee given to Administration were provided by the Group based on payment, investment, production and inspection commitments stated in the "Share Sales Agreement". The aforementioned commitments will be cancelled by the Administration as soon as they have been fulfilled in accordance with the clauses of the "Share Sales Agreement".

Based on the Share Sales Agreement, the Group has accepted and committed to take the Administration's approval for any kind of stock transfer that will result in change of controlling interest of Petkim for the following three years after signing the Share Sales Agreement.

31 Contingencies, Commitments and Operating Risks (Continued)

The Group has committed to preserve the rights of union member personnel subject to Labor Law Article 4857 of the Republic of Turkey and to pay their employment termination benefits (including periods they have worked in other public institutions) along with all other rights they have earned. The Group has accepted and committed that Petkim has the responsibility to compensate for the unused vacation rights of the personnel whose service contracts are still valid and have the right to be transferred to other public institutions as of the effective date of the Share Sales Agreement.

The Group has accepted and committed to make investments over a certain amount for infrastructure and services for Petkim harbour, increase production capabilities of factories and established new factories for the following three years after the Share Sales Agreement. The Group also has accepted and committed to continue production in the Ethylene Plant and produce a certain amount for at least three years after signing the Share Sales Agreement unless there are unforeseen situations that do not involve the Group.

The Group is responsible for all operations, all unrecorded payables, payables and liabilities that are related to the period prior to the acquisition of Petkim. The Group has accepted and committed that it has no right of application or rescinding that may result in binding of Administration or Petkim about aforementioned matters. This liability will be valid for continuing share transfers.

Commitment to the government of Georgia

Based on the investment agreement signed between the Group and the Ministry of Economical Development of Georgia (MEDG) on 26 December 2008 the Group acquired controlling stake in 19 regional gas distribution companies and certain stand-alone gas distribution pipelines (jointly referred to "RGC") for a consideration of GEL 166 thousand (AZN 80) and commitment to invest additional USD 40 million (AZN 32,000) in development of gas networks till year 2011.

Commitment to SOCAR Umid

SOCAR Umid is a joint venture established in 2008 by the Group and Nobel Oil Exploration and Production. Initial investment of the Group in this company was AZN 8. In 2009, the Group committed to invest additional funds in the form of cash contributions (AZN 28,645) and transfer of property, plant and equipment (AZN 65,000). During 2009, the Group made cash contribution in the amount of AZN 8,382 to SOCAR Umid. The balance of commitment as at 31 December 2009 is AZN 85,263.

Contingent liability to Azerbaijan Gas Supply Company (AGSC)

Based on "Gas sales and purchase agreement" signed on 27 February 2003 between AGSC and Ministry of Oil and Energy of the Azerbaijan Republic (currently purchase rights under this agreement are executed by the Group), the Group has obligation to purchase seller's minimum annual quantity as indicated in the agreement. Monetary amount of commitment to purchase seller's minimum annual quantity is USD 86,840 thousand (AZN 69,741).

32 Business Combinations

Azerigaz CJSC On 1 July 2009 the Group acquired 100 per cent of the share capital of Azerigaz CJSC. According to the Presidential Decree number 366 dated 1 July 2009 "On improvement of management framework in the oil and gas industry" Azerigaz CJSC was transferred to SOCAR. Based on the results of analysis of acquired rights SOCAR management concluded that 1 July 2009 should be considered as a date of transition of control over Azerigaz CJSC. The Company is involved in transportation of gas via gas pipelines between manufacturers, consumers and gas storages in the Azerbaijan Republic as well as transit of gas for export to Russia, Georgia and Iran. Following this acquisition, Azerigaz CJSC was transformed into Azerigaz PU within SOCAR structure.

Details of the fair value allocation and the purchase consideration related to Azerigaz PU acquisition are as follows:

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

32 Business Combinations (Continued)

	IFRS carrying amount immediately before business combination	Attributed fair value
Cash and cash equivalents	3,398	3,398
Restricted cash	403	403
Trade and other receivables	684,998	545,186
Corporate income tax prepayments	32	32
Inventories	72,756	69,507
Property, plant and equipment	601,283	787,044
Intangible assets	14	14
Other non-current assets	5	5
Trade and other payables	(1,291,498)	(1,265,163)
Short-term and current portion of long-term borrowings	(17,209)	(11,734)
Corporate income tax payable	(29,677)	(43,835)
Other taxes payable	(164,915)	(185,957)
Other provisions	(808)	(15,371)
Deferred income	(110,178)	(110,178)
Long-term borrowings	(130,034)	(130,034)
Asset retirement obligations	(330)	(330)
Deferred tax asset	-	99,392
Net assets of subsidiary	**(381,760)**	**(257,621)**
Acquired interest in net assets of subsidiary	-	**(257,621)**
Total purchase consideration	-	**(257,621)**
Goodwill arising at the acquisition date	-	-
Goodwill at 31 December 2009	-	-

There was neither exchange of assets nor cash consideration paid as part of this business combination. In accordance with provisions of IFRS 3, the Group had sought an independent valuation for identification of fair value of purchase consideration of this business combination. The independent valuators' report determined that fair value of purchase consideration in the business combination is equal to fair value of 100 per cent of net assets of Azerigaz CJSC as of 1 July 2009, using net assets approach for identification of purchase consideration of the business combination.

The Group had pre-existing business relations with Azerigaz CJSC before the business combination date. Gain on settlement of this pre-existing relationship between SOCAR and Azerigaz PU is recognized as other income within statement of comprehensive income for the year ended 31 December 2009.

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

32 Business Combinations (Continued)

Other acquisitions. During 2009 the Group has also acquired a number of subsidiaries in Georgia, Ukraine as well as controlling interest in Caspian Drilling Company. These acquisitions did not have a material impact on the Group's consolidated IFRS financial statements.

Petkim Petrokimya Holding A.Ş. On 30 May 2008 the Group completed an acquisition of 51 per cent of the voting share capital of Petkim Petrokimya Holding A.Ş ("Petkim"), a leading petrochemical concern primarily involved in production and marketing of a variety of petrochemical products in the Turkish as well as international markets. The Group acquired Petkim as a result of a privatization tender held by the Turkish government in 2007. The Group participated in the tender through SOCAR & Turcas Petrokimya A.Ş. ("STPAŞ"), a 99.74 per cent subsidiary of STEAŞ, a 51 per cent subsidiary of SOCAR, acting in consortium with Injaz Projects Company Limited, a Saudi-based investment company. As a result, SOCAR's acquired economic ownership interest in Petkim was 25.94 per cent as of the date of acquisition.

Subsequent to the purchase of 51 per cent of Petkim shares with the privatization process on 30 May 2008, the Group purchased an additional 1.76 per cent of Petkim shares during the year ended 31 December 2008.

Details of the final fair value allocation and the purchase consideration related to Petkim acquisition are as follows:

	IFRS carrying amount immediately before business combination	Attributed fair value
Cash and cash equivalents	60,678	60,678
Trade and other receivables	200,538	200,538
Inventories	155,626	155,626
Other current assets	19,629	19,632
PPE	849,309	2,324,507
Intangible assets	799	658,969
Other non-current assets	23,477	23,477
Trade and other payables	(156,573)	(156,573)
Deferred tax liability	(20,983)	(323,579)
Other liabilities	(113,621)	(113,622)
Net assets of subsidiary	**1,018,879**	**2,849,653**
Non-controlling interest	-	(2,082,879)
Acquired interest in net assets of subsidiary	-	**766,774**
SOCAR's share in total purchase consideration	-	**874,104**
Goodwill arising at the acquisition date	-	**107,330**
Translation difference		(24,493)
Goodwill at 31 December 2008		**82,837**

The goodwill comprises the value of expected benefits arising from the Group's entry to the regional market in which Petkim operates.

Total purchase consideration is comprised of the following at acquisition date:

Total purchase consideration	**(1,713,929)**
Fair value of deferred purchase consideration at acquisition	317,832
Cash and cash equivalents – acquired	60,678
Outflow of cash and cash equivalents on acquisition	**(1,335,419)**

(Amounts presented are in thousands of Azerbaijani Manats, unless otherwise stated)

32 Business Combinations (Continued)

The total purchase consideration of USD 2,040 million comprises cash of USD 1,660 million (AZN 1,396,097) paid on the date of acquisition and deferred cash consideration of USD 380 million (AZN 317,832). Deferred consideration of USD 40 million (AZN 32,992) is payable no later than 30 May 2010, with the remaining balance payable no later than 30 May 2011 and bears interest at the rate of LIBOR+1 per cent per annum (Note 18). The carrying value of deferred purchase consideration at 30 May 2008 and at 31 December 2008 amounted to AZN 317,832 and AZN 308,170, respectively. As at 31 December 2009 the carrying value of deferred purchase consideration amounted to AZN 308,954.

The acquisition was primarily financed with long-term debt (Note 18). As more fully described in Note18, the Group has pledged its 99.74 per cent interest in STPAŞ as collateral under the Akbank T.A.Ş./Turkiye Garanti Bankasi A.Ş. loan facility. Also, the Group has issued an embedded call option on 38 per cent of voting interest in STPAŞ as part of the Viani loan facility which was cancelled in December 2008 (Note 18).

Goodwill

Movement in goodwill amount of the Group for the years 2009 and 2008 is as follows:

1 January 2008	-
Acquisition of Petkim Petrokimya Holding A.Ş	82,837
1 January 2009	**82,837**
Acquisition of other subsidiaries	24,068
31 December 2009	**106,905**

33 Events after the Reporting Period

Gas agreement with the Republic of Turkey

In June 2010 certain agreements related to the sale of Azerbaijan gas in the Republic of Turkey and its transportation to the European Markets through the territory of the Republic of Turkey have been signed. The Group will account for the impact of these agreements on its consolidated IFRS financial statements prospectively.

Borrowings

On 19 March 2010 the Group signed loan agreement with BNP Paribas in the amount of USD 100,000,000 for the period of 36 months.

On 31 March 2010 the Group singed loan agreement with Natixis S.A in the amount of USD 50,000,000 for the period of 36 months.

Newly signed PSA agreement

The Group signed a Production Sharing Agreement on rehabilitation of onshore oil fields of Balakhani-Sabunchi-Ramana-Kurdahani with UGE Lanser Ltd.

Repayment of Lalaben Loan

On 31 March 2010 the Group fully repaid the remaining balance of the Lalaben loan in the amount of USD 61,841,000. Subsequent to repayment of the obligations to Lalaben the Group was released from its commitments under the Intercreditor Deed signed between a syndicate of lenders and the Group.

33 Events after the Reporting Period (continued)

Business combination with Azerkimya

In accordance with decree of the President of the Azerbaijan Republic signed on 22 April 2010, the state owned company Azerkimya was transferred under control of the Group. The Group is currently in the process of performing a purchase price allocation related to this business combination.

ANNEX 1: SUMMARY RESERVES REPORT

Note: This reserves report is a summary report. It is included on a voluntary basis and does not meet the content requirements of, and does not constitute a competent persons report for the purposes of, the ESMA update of the CESR recommendations on the consistent implementation of the Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive.

September 7, 2011

Mr. Rovnag Abdullayev, President
State Oil Company of Azerbaijan Republic
73 Neftchiler Avenue
Baku AZ1000 Azerbaijan Republic

RE: State Oil Company of Azerbaijan Republic
Reserves and Future Net Revenues Forecast
As of January 1, 2011
Constant Price Case

Dear Mr. Abdullayev:

In accordance with your request, Miller and Lents, Ltd. (MLL) estimated the net oil and gas reserves and future net revenues as of January 1, 2011 attributable to the interests of the State Oil Company of Azerbaijan Republic (SOCAR) in certain oil and gas fields located in the Republic of Azerbaijan.

MLL performed our evaluation, which is designated as the Constant Price Case, using the prices and expenses provided by SOCAR. The Constant Price Case assumes no future escalations of oil or gas prices, operating expenses, capital, or royalty taxes above the respective January 1, 2011 values. The aggregate results of MLL's evaluations are as follows:

	Net Reserves		Future Net Revenues	
Reserves Category	**Oil, MBbls.**	**Gas, MMcf**	**Undiscounted, M$**	**Discounted at 10% Per Year, M$**
Proved Developed Producing	570,626	1,075,457	29,882,047	15,391,831
Proved Developed Nonproducing	0	0	0	0
Proved Undeveloped	0	0	0	0
Other Capital and Property Taxes	0	0	-1,710,085	-1,064,340
Total Proved	**570,626**	**1,075,457**	**28,171,962**	**14,327,491**
Probable	104,955	89,932	5,673,373	1,505,267
Possible	106,259	75,601	5,452,264	885,658

Figure 1 is a location map that includes the fields evaluated by MLL for SOCAR. The geologic horizons, which produce from these fields, are illustrated in Figure 2. Attachment 1 provides a list of the fields evaluated.

The annual projections of future production and net revenues are shown on the attached exhibits. Exhibits 1 through 5 and Exhibits 7 through 11 show the annual future net revenues for SOCAR and each reserves category in English and metric units, respectively. Exhibits 6 and 12 are one-line summaries showing the contribution of each NGDU and field to the total reserves and future net revenues in each reserves category in English and metric units, respectively.

Definitions

The reserves reported herein conform to the standards of the Petroleum Resources Management System (PRMS), which was prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE). The document (SPE-PRMS) was reviewed and jointly sponsored by the World Petroleum Council, the American Association of Petroleum Geologists, and the Society of Petroleum Evaluation Engineers. It was approved by the SPE Board of Directors in March 2007. Definitions from the SPE-PRMS are included in the Appendix. Reserves were projected for the life of the field and no investigation of production or exploration licenses was made, as such was beyond the scope of this assignment.

Future net revenues as used herein are defined as the total gross revenues less operating costs and capital expenditures. The total gross revenues are the total revenues received by the working interest owner after deduction of transportation costs and port expenses. Royalty was deducted from gross revenue in accordance with the agreement between SOCAR and the Azerbaijan government. The royalty was a deduction from gross revenues in determining net revenues but was not a deduction from gross reserves in determining net reserves. As instructed by SOCAR, the interest used in the evaluation of the SOCAR fields is 100 percent. The future net revenues for total proved reserves include deductions for other capital and property taxes. Future net revenues do not include deductions for either federal or local taxes on net profit.

Reserves for all categories are considered economic for development if undiscounted future net revenues are positive. Estimates of future net revenues and discounted future net revenues are not intended and should not be interpreted to represent fair market values for the estimated reserves.

Economic Considerations

The oil and gas prices employed in the computations of gross revenues were utilized in accordance with instructions by SOCAR and are shown on Attachment 2. These prices reflect conditions in effect as of December 2010. SOCAR provided the estimate of transportation and port expenses.

The operating expenses (OPEX) employed in estimating future net revenues are based on the average actual operating expenses from the year 2010 that were provided by SOCAR. Actual operating expenses for these fields are shown on Attachment 3. Depreciation, royalty, and any taxes that were levied on the operation of these fields were deducted from the operating expenses. Operating expenses are allocated to the number of active completions on a per-well basis and the remainder to the oil production rates on a per-barrel basis using the allocations derived from actual data provided by SOCAR.

The forecast for capital expenditures for each NGDU was provided by SOCAR and is shown on Attachment 4. The additional capital is intended for refurbishing existing infrastructure, expansion of production facilities, and planned expansion of secondary recovery projects within various fields.

Reserves Considerations

The proved developed producing (PDP) reserves and production forecasts were estimated by production decline extrapolations. Production decline curves were extrapolated to economic limits based on operating cost and product price data. The past performance trends of these reservoirs were influenced by production curtailments, workovers, well replacements, various types of floods, and infill drilling. Extrapolations of future performance are based, whenever possible, upon the average performance trend of active wells during periods of stable field activity.

The estimated proved developed nonproducing reserves are reserves that can be produced from existing well bores from alternate behind-pipe horizons. Because the work program for this type of reserves recovery was not identified in detail by the client, no reserves could be determined and allocated for this type of work effort. It was assumed that production benefits for any such ongoing work programs has been taken into account within the baseline decline rate of the PDP production forecast and the cost of such work program has been included within the OPEX forecast of the company.

The proved undeveloped reserves (PUD) are usually expected to be produced from undeveloped portions of known reservoirs that have been adequately defined by existing wells. However, the client advised MLL that there are limited areas within these fields that have not yet been developed. Therefore, no reserves could be determined and allocated for the PUD category. SOCAR did provide MLL with their future drilling schedule of new wells to be drilled within the existing PDP areas of the fields. These new wells are intended as replacement wells for existing wells that are no longer functional. The capital investment associated with this additional drilling program has been included in the project economics with other capital expenditures. Because this drilling program is a continuation of an ongoing drilling program for SOCAR, it was assumed that the production benefits for such additional drilling program are included within the baseline decline rate of the PDP production forecast.

The estimated probable and possible reserves are derived from the uncertainty of the baseline decline rates associated with the PDP production forecast. In other words, the baseline decline rates of PDP production may perform better than the proved producing forecast. The incremental difference between the PDP forecast decline and future decline rates was estimated and categorized as either probable or possible reserves. There are no additional capital expenditures associated with probable and possible reserves because the same capital expenditures will be made, but the production performance could be better than projected in the PDP forecast. The probable and possible reserves volumes and the estimated future net revenues therefrom have not been adjusted for uncertainty.

Attachment 5 shows a composite production forecast for SOCAR. This figure shows the contribution of production from each reserves category. A portion of SOCAR's proved reserves are derived from natural gas production which will be sourced from both (1) nonassociated gas well gas and (2) associated gas produced with oil production. A majority of future natural gas sales will be made from gas well gas fields which have been evaluated separately from the gas production associated with oil production. SOCAR has advised MLL that sufficient gas contracts and sales markets exist to make continued future gas sales reasonably plausible.

Other Considerations

None of the reserves volumes or the estimated future net revenues therefrom have been adjusted for uncertainty. None of the proved, probable, or possible reserves volumes, nor the revenues projected therefrom, should be combined with either of the other without adjustment for uncertainty.

Future costs of abandoning facilities and wells and any future costs of restoration of producing fields to satisfy environmental standards were not deducted from total revenues as such estimates are beyond the scope of this assignment.

Structural maps, isopach maps of net oil sand, well status maps, oil and water production data, well logs of key wells, and the interpretation of key reservoir parameters were provided by SOCAR. These data were reviewed and were generally found to be acceptable interpretations.

In conducting this evaluation, MLL relied upon (1) production histories; (2) accounting and cost data; (3) ownership; (4) geological, geophysical, and engineering data; and (5) drilling schedule supplied by SOCAR. These data were accepted as represented, as verification of such data and information was beyond the scope of this assignment.

The evaluations presented in this report, with the exceptions of those parameters specified by others, reflect MLL's informed judgments and are subject to the inherent uncertainties associated with interpretation of geological, geophysical, and engineering information. These uncertainties include, but are not limited to, (1) the utilization of analogous or indirect data and (2) the application of professional judgments. Government policies and market conditions different from those employed in this study may cause (1) the total quantity of oil, natural gas liquids, or gas to be recovered, (2) actual production rates, (3) prices received, or (4) operating and capital costs to vary from those presented in this report. At this time, MLL is not aware of any regulations that would affect SOCAR's ability to recover the estimated reserves. Minor precision inconsistencies in subtotals and totals may exist in the report due to truncation or rounding of aggregated values.

Miller and Lents, Ltd. is an independent oil and gas consulting firm. No director, officer, or key employee of Miller and Lents, Ltd. has any financial ownership in SOCAR or any related company. MLL's compensation for the required investigations and preparation of this report is not contingent on the results obtained and reported, and we have not performed other work that would

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INTERNATIONAL OIL AND GAS CONSULTANTS
FOUNDED 1948

Mr. Rovnag Abdullayev
State Oil Company of Azerbaijan Republic

affect our objectivity. Production of this report was supervised by an officer of the firm who is a professionally qualified and licensed Professional Engineer in the State of Texas with more than 30 years of relevant experience in the estimation, assessment, and evaluation of oil and gas reserves.

Yours very truly,

MILLER AND LENTS, LTD.
Texas Registered Engineering Firm No. F-1442

STATE OF TEXAS
GEORGE SCHAEFER, JR.
49891
LICENSED
PROFESSIONAL ENGINEER

By
George Schaefer, P.E.
Senior Vice President

GTS/slc

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Reserves

Reserves are those quantities of petroleum anticipated to be commercially recoverable by application of development projects to known accumulations from a given date forward under defined conditions.

Reserves must satisfy four criteria: they must be discovered, recoverable, commercial, and remaining based on the development project(s) applied. Reserves are further subdivided in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their development and production status.

To be included in the Reserves class, a project must be sufficiently defined to establish its commercial viability. There must be a reasonable expectation that all required internal and external approvals will be forthcoming, and there is evidence of firm intention to proceed with development within a reasonable time frame.

A reasonable time frame for the initiation of development depends on the specific circumstances and varies according to the scope of the project. While 5 years is recommended as a benchmark, a longer time frame could be applied where, for example, development of economic projects are deferred at the option of the producer for, among other things, market-related reasons, or to meet contractual or strategic objectives. In all cases, the justification for classification as Reserves should be clearly documented.

To be included in the Reserves class, there must be a high confidence in the commercial producibility of the reservoir as supported by actual production or formation tests. In certain cases, Reserves may be assigned on the basis of well logs and/or core analysis that indicate that the subject reservoir is hydrocarbon-bearing and is analogous to reservoirs in the same area that are producing or have demonstrated the ability to produce on formation tests.

On Production. The development project is currently producing and selling petroleum to market. The key criterion is that the project is receiving income from sales, rather than the approved development project necessarily being complete. This is the point at which the project "chance of commerciality" can be said to be 100%. The project "decision gate" is the decision to initiate commercial production from the project.

Approved for Development. All necessary approvals have been obtained, capital funds have been committed, and implementation of the development project is under way. At this point, it must be certain that the development project is going ahead. The project must not be subject to any contingencies such as outstanding regulatory approvals or sales contracts. Forecast capital expenditures should be included in the reporting entity's current or following year's approved budget. The project "decision gate" is the decision to start investing capital in the construction of production facilities and/or drilling development wells.

Justified for Development. Implementation of the development project is justified on the basis of reasonable forecast commercial conditions at the time of reporting, and there are reasonable expectations that all necessary approvals/contracts will be obtained.

In order to move to this level of project maturity, and hence have reserves associated with it, the development project must be commercially viable at the time of reporting, based on the reporting entity's assumptions of future prices, costs, etc. ("forecast case") and the specific circumstances of the project. Evidence of a firm intention to proceed with development within a reasonable time frame will be sufficient to demonstrate commerciality. There should be a development plan in sufficient detail to support the assessment of commerciality and a reasonable expectation that any regulatory approvals or sales contracts required prior to project implementation will be forthcoming. Other than such approvals/contracts, there should be no known contingencies that could preclude the development from proceeding within a reasonable timeframe (see Reserves class).

The project "decision gate" is the decision by the reporting entity and its partners, if any, that the project has reached a level of technical and commercial maturity sufficient to justify proceeding with development at that point in time.

Contingent Resources

Those quantities of petroleum estimated, as of a given date, to be potentially recoverable from known accumulations by application of development projects, but which are not currently considered to be commercially recoverable due to one or more contingencies.

Contingent Resources may include, for example, projects for which there are currently no viable markets, or where commercial recovery is dependent on technology under development, or where evaluation of the accumulation is insufficient to clearly assess commerciality. Contingent Resources are further categorized in accordance with the level of certainty associated with the estimates and may be sub-classified based on project maturity and/or characterized by their economic status.

Development Pending. A discovered accumulation where project activities are ongoing to justify commercial development in the foreseeable future.

The project is seen to have reasonable potential for eventual commercial development, to the extent that further data acquisition (e.g. drilling, seismic data) and/or evaluations are currently ongoing with a view to confirming that the project is commercially viable and providing the basis for selection of an appropriate development plan. The critical contingencies have been identified and are reasonably expected to be resolved within a reasonable time frame. Note that disappointing appraisal/evaluation results could lead to a re-classification of the project to "On Hold" or "Not Viable" status.

The project "decision gate" is the decision to undertake further data acquisition and/or studies designed to move the project to a level of technical and commercial maturity at which a decision can be made to proceed with development and production.

Development Unclarified or on Hold. A discovered accumulation where project activities are on hold and/or where justification as a commercial development may be subject to significant delay.

The project is seen to have potential for eventual commercial development, but further appraisal/evaluation activities are on hold pending the removal of significant contingencies external to the project, or substantial further appraisal/evaluation activities are required to clarify the potential for eventual commercial development. Development may be subject to a significant time delay. Note that a change in circumstances, such that there is no longer a reasonable expectation that a critical contingency can be removed in the foreseeable future, for example, could lead to a re-classification of the project to “Not Viable” status.

The project “decision gate” is the decision to either proceed with additional evaluation designed to clarify the potential for eventual commercial development or to temporarily suspend or delay further activities pending resolution of external contingencies.

Development Not Viable. A discovered accumulation for which there are no current plans to develop or to acquire additional data at the time due to limited production potential.

The project is not seen to have potential for eventual commercial development at the time of reporting, but the theoretically recoverable quantities are recorded so that the potential opportunity will be recognized in the event of a major change in technology or commercial conditions.

The project “decision gate” is the decision not to undertake any further data acquisition or studies on the project for the foreseeable future.

Prospective Resources

Those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.

Potential accumulations are evaluated according to their chance of discovery and, assuming a discovery, the estimated quantities that would be recoverable under defined development projects. It is recognized that the development programs will be of significantly less detail and depend more heavily on analog developments in the earlier phases of exploration.

Prospect. A project associated with a potential accumulation that is sufficiently well defined to represent a viable drilling target. Project activities are focused on assessing the chance of discovery and, assuming discovery, the range of potential recoverable quantities under a commercial development program.

Lead. A project associated with a potential accumulation that is currently poorly defined and requires more data acquisition and/or evaluation in order to be classified as a prospect. Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to confirm whether or not the lead can be matured into a prospect. Such evaluation includes the assessment of the chance of discovery and, assuming discovery, the range of potential recovery under feasible development scenarios.

Play. A project associated with a prospective trend of potential prospects, but which requires more data acquisition and/or evaluation in order to define specific leads or prospects. Project activities are focused on acquiring additional data and/or undertaking further evaluation designed to define specific leads or prospects for more detailed analysis of their chance of discovery and, assuming discovery, the range of potential recovery under hypothetical development scenarios.

Reserves Category Definitions and Guidelines

Proved Reserves

Proved Reserves are those quantities of petroleum, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.

If deterministic methods are used, the term reasonable certainty is intended to express a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

The area of the reservoir considered as Proved includes (1) the area delineated by drilling and defined by fluid contacts, if any, and (2) adjacent undrilled portions of the reservoir that can reasonably be judged as continuous with it and commercially productive on the basis of available geoscience and engineering data.

In the absence of data on fluid contact, Proved quantities in a reservoir are limited by the lowest known hydrocarbon (LKH) as seen in a well penetration unless otherwise indicated by definitive geoscience, engineering, or performance data. Such definitive information may include pressure gradient analysis and seismic indicators. Seismic data alone may not be sufficient to define fluid contacts for Proved reserves (see “2001 Supplemental Guidelines,” Chapter 8).

Reserves in undeveloped locations may be classified as Proved provided that:

- The locations are in undrilled areas of the reservoir that can be judged with reasonable certainty to be commercially productive.
- Interpretations of available geoscience and engineering data indicate with reasonable certainty that the objective formation is laterally continuous with drilled Proved locations.

For Proved Reserves, the recovery efficiency applied to these reservoirs should be defined based on a range of possibilities supported by analogs and sound engineering judgment considering the characteristics of the Proved area and the applied development program.

Probable Reserves

Probable reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves.

It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). In this context, when probabilistic methods are used, there should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.

Probable Reserves may be assigned to areas of a reservoir adjacent to Proved where data control or interpretations of available data are less certain. The interpreted reservoir continuity may not meet the reasonable certainty criteria.

Probable estimates also include incremental recoveries associated with project recovery efficiencies beyond that assumed for Proved.

Possible Reserves

Possible Reserves are those additional reserves which analysis of geoscience and engineering data indicate are less likely to be recoverable than Probable Reserves.

The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P), which is equivalent to the high estimate scenario. When probabilistic methods are used, there should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.

Possible Reserves may be assigned to areas of a reservoir adjacent to Probable where data control and interpretations of available data are progressively less certain. Frequently, this may be in areas where geoscience and engineering data are unable to clearly define the area and vertical reservoir limits of commercial production from the reservoir by a defined project.

Possible estimates also include incremental quantities associated with project recovery efficiencies beyond that assumed for Probable.

Probable and Possible Reserves

(See above for separate criteria for Probable Reserves and Possible Reserves.)

The 2P and 3P estimates may be based on reasonable alternative technical and commercial interpretations within the reservoir and/or subject project that are clearly documented, including comparisons to results in successful similar projects.

In conventional accumulations, Probable and/or Possible Reserves may be assigned where geoscience and engineering data identify directly adjacent portions of a reservoir within the same accumulation that may be separated from Proved areas by minor faulting or other geological discontinuities and have not been penetrated by a wellbore but are interpreted to be in communication with the known (Proved) reservoir. Probable or Possible Reserves may be assigned to areas that are structurally higher than the Proved area. Possible (and in some cases, Probable) Reserves may be assigned to areas that are structurally lower than the adjacent Proved or 2P area.

Caution should be exercised in assigning Reserves to adjacent reservoirs isolated by major, potentially sealing, faults until this reservoir is penetrated and evaluated as commercially productive. Justification for assigning Reserves in such cases should be clearly documented. Reserves should not be assigned to areas that are clearly separated from a known accumulation by non-productive reservoir (i.e. absence of reservoir, structurally low reservoir, or negative test results); such areas may contain Prospective Resources.

In conventional accumulations, where drilling has defined a highest known oil (HKO) elevation and there exists the potential for an associated gas cap, Proved oil Reserves should only be assigned in the structurally higher portions of the reservoir if there is reasonable certainty that such portions are initially above bubble point pressure based on documented engineering analyses. Reservoir portions that do not meet this certainty may be assigned as Probable and Possible oil and/or gas based on reservoir fluid properties and pressure gradient interpretations.

Reserves Status Definitions and Guidelines

Developed Reserves

Developed Reserves are expected quantities to be recovered from existing wells and facilities.

Reserves are considered developed only after the necessary equipment has been installed, or when the costs to do so are relatively minor compared to the cost of a well. Where required facilities become unavailable, it may be necessary to reclassify Developed Reserves as Undeveloped. Developed Reserves may be further sub-classified as Producing or Non-Producing.

Developed Producing Reserves. Developed Producing Reserves are expected to be recovered from completion intervals that are open and producing at the time of the estimate.

Improved recovery reserves are considered producing only after the improved recovery project is in operation.

Developed Non-Producing Reserves. Developed Non-Producing Reserves include shut-in and behind-pipe Reserves.

Shut-in Reserves are expected to be recovered from (1) completion intervals which are open at the time of the estimate but which have not yet started producing, (2) wells which were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe Reserves are expected to be recovered from zones in existing wells which will require additional completion work or future recompletion prior to start of production.

In all cases, production can be initiated or restored with relatively low expenditure compared to the cost of drilling a new well.

Undeveloped Reserves

Undeveloped Reserves are quantities expected to be recovered through future investments: (1) from new wells on undrilled acreage in known accumulations, (2) from deepening existing wells to a different (but known) reservoir, (3) from infill wells that will increase recovery, or (4) where a relatively large expenditure (e.g. when compared to the cost of drilling a new well) is required to (a) recomplete an existing well or (b) install production or transportation facilities for primary or improved recovery projects.

Prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers (SPE); reviewed and jointly sponsored by the World Petroleum Council (WPC), the American Association of Petroleum Geologists (AAPG); and the Society of Petroleum Evaluation Engineers (SPEE). Approved by the SPE Board of Directors, March 2007.

Field Location Area Map
State Oil Company of Azerbaijan Republic

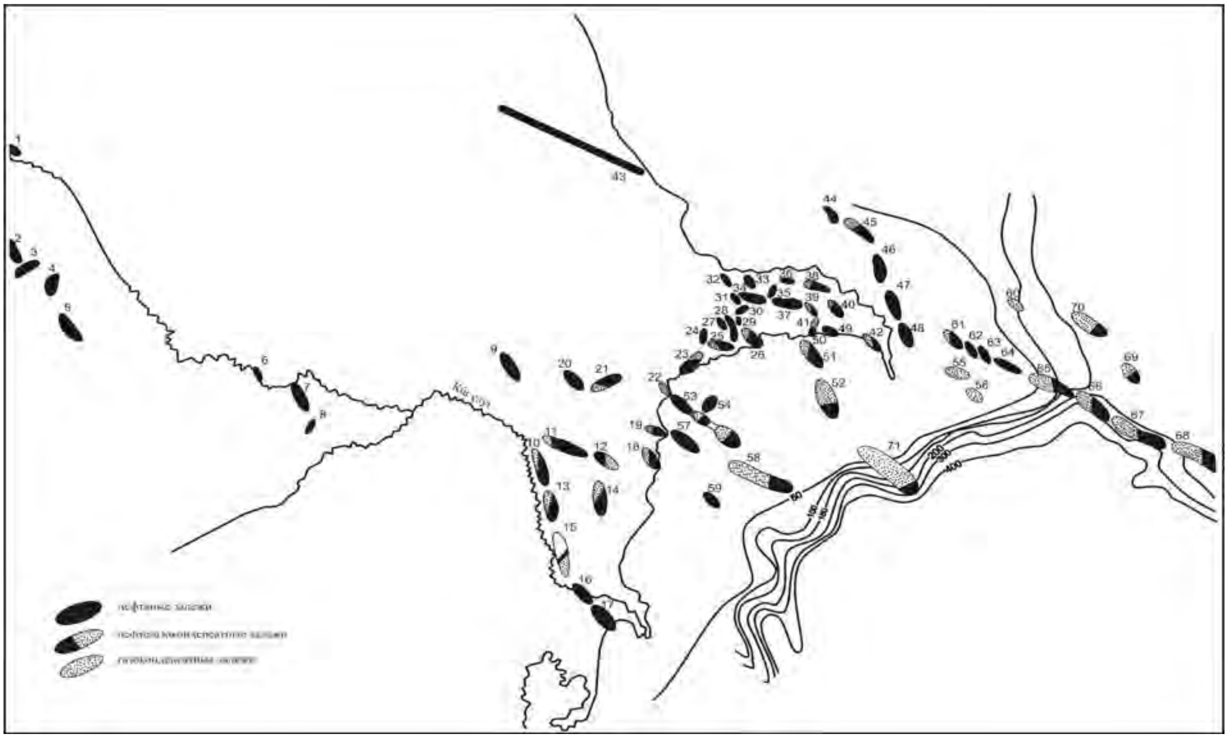


Figure 1

Onshore fields; *7. Muradkhanly, 8. Dzhafarly, 12. Kalmaz, 25. Lokbatan–Puta–Kushkhana, 26. Bibieibat, 28. Shabandag–Shubany–Yasamalskaya Dolina-Atashkya, 37. Balakhany–Sabunchy, 38. Buzovna–Mashtaga, 40. Kala–Old Kala; Karachukhur.*

Offshore fields: *45. Banka Absheron, 46. Banka Darvina, 47 Pirallakhi, 48. Gyurgan-Deniz, 53. SDKhZ (Sangachaly–Duvanny-Deniz–Khara–Zyrya), 54. 8 March, 57. Alyat–Deniz, 58. Bulla-Deniz, 61. Chilov, 63. Palchyg Pilpilyasi (Gryazevaya Sopka), 64. Neft Dashlary (Neftyanye Kamni), 65. Gyuneshli.*

Figure 2

Stratigraphic Column
Onshore and Offshore Fields
Republic of Azerbaijan

ERA	PERIOD	EPOCH		SUCCESSION		HORIZON	THICKNESS GROSS (NET SAND)	OIL/GAS RESERVOIRS Gunashli	AGE (million years before present)
CENEZOIC	Neogene	Holoccene							0.01
		Pleistocene							1.64
		Pliocene	Upper	Apsheron			300m		
				Akchagyl			80m		
			Middle	Productive Series	Surakhan-skaya	C,D,I	1100m(10m)		
					Sabuchin-skaya	II	400m(20m)		
						III			
						IV			
					Balakhan-skaya	V	110m(5-10m)		
						VI	100m(5-15m)		
						VII	100m(5-10m)		
						VIII	100m(10-50m)		
						IX	120m(5-10m)		
						X	75m(15-30m)		
					Pereriv	SP	150m(60-70m)		
					Nadrikmakin-skaya	NKg	175m(5-25m)		
						NKp			
					Kirmakin-skaya	KS	250m		
					Podkirmakin-skaya	pK	100m(20-25m)		
					Kalinskaya	KaS	250m(25-30m)		
			Lower		Pontin				5.2
		Miocene							22.3
	Paleogene	Oligocene							35.4
		Eocene							56.5
		Paleocene							65
MESOZOIC	Cretaceous								144
	Jurassic								208
	Triassic								245

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

TOTAL PROVED RESERVES **MILLER AND LENTS, LTD.**
TOTAL COMPANY

Date	Gross Volumes Oil & Cond	Gross Volumes Gas	Net Volumes Oil & Cond	Net Volumes Gas	Average Prices Oil	Average Prices Gas	Net Product Revenues	Net Operating Expenses	Net Taxes	Net Capital	Future Net Revenues Undisc.	Future Net Revenues Disc. 10%
	MBbl	MMcf	MBbl	MMcf	$/Bbl	$/Mcf	M$	M$	M$	M$	M$	M$
2011(12)	48,504	210,677	48,504	203,726	62.510	2.460	3,533,127	476,106	162,471	177,933	2,716,617	2,592,910
2012(12)	45,122	157,587	45,122	152,805	62.510	2.460	3,196,492	448,479	145,535	268,455	2,334,023	2,026,652
2013(12)	40,919	102,948	40,919	100,354	62.510	2.460	2,804,717	399,270	125,860	207,345	2,072,242	1,635,050
2014(12)	37,353	87,575	37,353	85,427	62.510	2.460	2,545,064	372,921	113,874	86,000	1,972,270	1,414,579
2015(12)	34,007	76,100	34,007	74,281	62.510	2.460	2,308,483	345,448	102,614	86,175	1,774,246	1,156,854
2016(12)	31,109	66,355	31,109	64,809	62.510	2.460	2,104,063	326,338	93,167	111,455	1,573,103	932,481
2017(12)	28,513	57,429	28,513	56,139	62.510	2.460	1,920,437	310,043	83,643	36,045	1,490,706	803,259
2018(12)	26,151	50,355	26,151	49,252	62.510	2.460	1,755,839	295,392	74,818	27,410	1,358,219	665,327
2019(12)	23,967	44,245	23,967	43,300	62.510	2.460	1,604,718	279,091	66,816	58,480	1,200,331	534,545
2020(12)	21,975	37,053	21,975	36,326	62.510	2.460	1,463,041	258,660	58,694	36,930	1,108,758	448,861
2021(12)	20,130	29,712	20,130	29,222	62.510	2.460	1,330,204	232,717	50,779	35,850	1,010,858	372,016
2022(12)	18,453	26,752	18,453	26,310	62.510	2.460	1,218,217	217,030	44,033	36,100	921,054	308,155
2023(12)	16,798	16,035	16,798	16,001	62.510	2.460	1,089,410	193,813	38,190	35,900	821,507	249,883
2024(12)	15,447	13,751	15,447	13,751	62.510	2.460	999,420	183,537	34,822	35,690	745,371	206,097
2025(12)	14,240	12,396	14,240	12,396	62.510	2.460	920,619	176,099	32,053	34,050	678,417	170,532
2026(12)	13,042	11,142	13,042	11,142	62.510	2.460	842,644	163,406	29,355	32,620	617,263	141,055
2027(12)	12,007	10,037	12,007	10,037	62.510	2.460	775,271	155,640	27,058	33,620	558,953	116,119
2028(12)	11,064	9,054	11,064	9,054	62.510	2.460	713,875	148,667	25,028	33,620	506,560	95,669
2029(12)	10,196	8,147	10,196	8,147	62.510	2.460	657,388	142,121	23,160	33,520	458,587	78,737
2030(12)	9,412	7,340	9,412	7,340	62.510	2.460	606,392	137,414	21,442	31,020	416,517	65,014
Sub.	478,408	1,034,688	478,408	1,009,820	62.510	2.460	32,389,420	5,262,191	1,353,410	1,438,218	24,335,601	14,013,793
Rem.	92,219	65,636	92,219	65,636	62.510	2.460	5,926,056	1,861,201	197,474	31,020	3,836,361	313,698
Total	570,626	1,100,325	570,626	1,075,457	62.510	2.460	38,315,474	7,123,393	1,550,883	1,469,238	28,171,962	14,327,491

	MBbl	MMcf
CUMULATIVE	7,347,296	2,122,387
ULTIMATE	7,917,922	3,222,712

GROSS COMPLETIONS		3,782
PROJECT LIFE	Start:	01/2011
	End:	01/2070

**** PRESENT WORTH PROFILE ****

DISC RATE	PW OF FNR	DISC RATE	PW OF FNR	DISC RATE	PW OF FNR
%	M$	%	M$	%	M$
0.0	28,171,962	25.0	8,607,497	60.0	4,884,636
5.0	18,898,907	30.0	7,672,134	70.0	4,419,751
10.0	14,327,491	35.0	6,947,482	80.0	4,056,952
15.0	11,634,192	40.0	6,369,201	90.0	3,765,454
20.0	9,862,091	50.0	5,503,223	100.0	3,525,759

Exhibit 1

STATE OIL COMPANY OF AZERBAIJAN REPUBLIC 9/6/2011
CONSTANT PRICE CASE 14:24

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

TOTAL PROVED PRODUCING **MILLER AND LENTS, LTD.**
TOTAL COMPANY

Date	Gross Volumes Oil & Cond	Gross Volumes Gas	Net Volumes Oil & Cond	Net Volumes Gas	Average Prices Oil	Average Prices Gas	Net Product Revenues	Net Operating Expenses	Net Taxes	Net Capital	Future Net Revenues Undisc.	Future Net Revenues Disc. 10%
	MBbl	MMcf	MBbl	MMcf	$/Bbl	$/Mcf	M$	M$	M$	M$	M$	M$
2011(12)	48,504	210,677	48,504	203,726	62.510	2.460	3,533,127	476,106	134,939	0	2,922,081	2,788,823
2012(12)	45,122	157,587	45,122	152,805	62.510	2.460	3,196,492	448,479	117,821	0	2,630,192	2,283,375
2013(12)	40,919	102,948	40,919	100,354	62.510	2.460	2,804,717	399,270	98,820	0	2,306,626	1,819,749
2014(12)	37,353	87,575	37,353	85,427	62.510	2.460	2,545,064	372,921	88,910	0	2,083,234	1,494,075
2015(12)	34,007	76,100	34,007	74,281	62.510	2.460	2,308,483	345,448	80,212	0	1,882,823	1,227,568
2016(12)	31,109	66,355	31,109	64,809	62.510	2.460	2,104,063	326,338	72,717	0	1,705,008	1,010,576
2017(12)	28,513	57,429	28,513	56,139	62.510	2.460	1,920,437	310,043	65,964	0	1,544,430	832,177
2018(12)	26,151	50,355	26,151	49,252	62.510	2.460	1,755,839	295,392	60,029	0	1,400,418	685,976
2019(12)	23,967	44,245	23,967	43,300	62.510	2.460	1,604,718	279,091	54,631	0	1,270,996	565,978
2020(12)	21,975	37,053	21,975	36,326	62.510	2.460	1,463,041	258,660	49,382	0	1,155,000	467,561
2021(12)	20,130	29,712	20,130	29,222	62.510	2.460	1,330,204	232,717	44,383	0	1,053,103	387,546
2022(12)	18,453	26,752	18,453	26,310	62.510	2.460	1,218,217	217,030	40,586	0	960,601	321,371
2023(12)	16,798	16,035	16,798	16,001	62.510	2.460	1,089,410	193,813	35,277	0	860,320	261,674
2024(12)	15,447	13,751	15,447	13,751	62.510	2.460	999,420	183,537	32,237	0	783,646	216,669
2025(12)	14,240	12,396	14,240	12,396	62.510	2.460	920,619	176,099	29,659	0	714,861	179,683
2026(12)	13,042	11,142	13,042	11,142	62.510	2.460	842,644	163,406	27,119	0	652,119	149,011
2027(12)	12,007	10,037	12,007	10,037	62.510	2.460	775,271	155,640	24,922	0	594,709	123,539
2028(12)	11,064	9,054	11,064	9,054	62.510	2.460	713,875	148,667	22,923	0	542,285	102,408
2029(12)	10,196	8,147	10,196	8,147	62.510	2.460	657,388	142,121	21,083	0	494,184	84,841
2030(12)	9,412	7,340	9,412	7,340	62.510	2.460	606,392	137,414	19,424	0	449,555	70,165
Sub.	478,408	1,034,688	478,408	1,009,820	62.510	2.460	32,389,420	5,262,191	1,121,037	0	26,006,192	15,072,765
Rem.	92,219	65,636	92,219	65,636	62.510	2.460	5,926,056	1,861,201	188,999	0	3,875,856	319,066
Total	570,626	1,100,325	570,626	1,075,457	62.510	2.460	38,315,474	7,123,393	1,310,036	0	29,882,047	15,391,831

	MBbl	MMcf
CUMULATIVE	7,347,296	2,122,387
ULTIMATE	7,917,922	3,222,712

GROSS COMPLETIONS		3,782
PROJECT LIFE	Start:	01/2011
	End:	01/2070

**** PRESENT WORTH PROFILE ****

DISC RATE %	PW OF FNR M$	DISC RATE %	PW OF FNR M$	DISC RATE %	PW OF FNR M$
0.0	29,882,047	25.0	9,320,370	60.0	5,317,115
5.0	20,203,593	30.0	8,319,996	70.0	4,812,086
10.0	15,391,831	35.0	7,542,842	80.0	4,416,920
15.0	12,541,302	40.0	6,921,095	90.0	4,098,727
20.0	10,658,123	50.0	5,986,973	100.0	3,836,613

Exhibit 2

BEFORE FEDERAL INCOME TAX ECONOMICS
AS OF JANUARY 1, 2011

TOTAL OTHER CAPITAL & PROPERTY TAXES
TOTAL COMPANY

MILLER AND LENTS, LTD.

Date	Gross Volumes Oil & Cond MBbl	Gross Volumes Gas MMcf	Net Volumes Oil & Cond MBbl	Net Volumes Gas MMcf	Average Prices Oil $/Bbl	Average Prices Gas $/Mcf	Net Product Revenues M$	Net Operating Expenses M$	Net Taxes M$	Net Capital M$	Future Net Revenues Undisc. M$	Future Net Revenues Disc. 10% M$
2011(12)	0	0	0	0	0.000	0.000	0	0	27,532	177,933	-205,465	-195,913
2012(12)	0	0	0	0	0.000	0.000	0	0	27,713	268,455	-296,168	-256,723
2013(12)	0	0	0	0	0.000	0.000	0	0	27,040	207,345	-234,385	-184,700
2014(12)	0	0	0	0	0.000	0.000	0	0	24,964	86,000	-110,964	-79,496
2015(12)	0	0	0	0	0.000	0.000	0	0	22,402	86,175	-108,577	-70,714
2016(12)	0	0	0	0	0.000	0.000	0	0	20,450	111,455	-131,905	-78,095
2017(12)	0	0	0	0	0.000	0.000	0	0	17,679	36,045	-53,724	-28,918
2018(12)	0	0	0	0	0.000	0.000	0	0	14,789	27,410	-42,199	-20,650
2019(12)	0	0	0	0	0.000	0.000	0	0	12,185	58,480	-70,665	-31,433
2020(12)	0	0	0	0	0.000	0.000	0	0	9,312	36,930	-46,242	-18,700
2021(12)	0	0	0	0	0.000	0.000	0	0	6,395	35,850	-42,245	-15,530
2022(12)	0	0	0	0	0.000	0.000	0	0	3,448	36,100	-39,548	-13,217
2023(12)	0	0	0	0	0.000	0.000	0	0	2,913	35,900	-38,813	-11,792
2024(12)	0	0	0	0	0.000	0.000	0	0	2,585	35,690	-38,275	-10,571
2025(12)	0	0	0	0	0.000	0.000	0	0	2,395	34,050	-36,445	-9,151
2026(12)	0	0	0	0	0.000	0.000	0	0	2,236	32,620	-34,856	-7,956
2027(12)	0	0	0	0	0.000	0.000	0	0	2,136	33,620	-35,756	-7,420
2028(12)	0	0	0	0	0.000	0.000	0	0	2,105	33,620	-35,725	-6,739
2029(12)	0	0	0	0	0.000	0.000	0	0	2,077	33,520	-35,597	-6,105
2030(12)	0	0	0	0	0.000	0.000	0	0	2,018	31,020	-33,038	-5,151
Sub.	0	0	0	0	0.000	0.000	0	0	232,373	1,438,218	-1,670,591	-1,058,973
Rem.	0	0	0	0	0.000	0.000	0	0	8,474	31,020	-39,494	-5,367
Total	0	0	0	0	0.000	0.000	0	0	240,847	1,469,238	-1,710,085	-1,064,340

	MBbl	MMcf
CUMULATIVE	0	0
ULTIMATE	0	0

GROSS COMPLETIONS		0
PROJECT LIFE	Start:	01/2011
	End:	12/2041

**** PRESENT WORTH PROFILE ****

DISC RATE %	PW OF FNR M$	DISC RATE %	PW OF FNR M$	DISC RATE %	PW OF FNR M$
0.0	-1,710,085	25.0	-712,873	60.0	-432,479
5.0	-1,304,686	30.0	-647,862	70.0	-392,335
10.0	-1,064,340	35.0	-595,359	80.0	-359,968
15.0	-907,110	40.0	-551,893	90.0	-333,273
20.0	-796,032	50.0	-483,750	100.0	-310,854

Exhibit 3

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

TOTAL PROBABLE RESERVES **MILLER AND LENTS, LTD.**
TOTAL COMPANY

Date	Gross Volumes Oil & Cond	Gross Volumes Gas	Net Volumes Oil & Cond	Net Volumes Gas	Average Prices Oil	Average Prices Gas	Net Product Revenues	Net Operating Expenses	Net Taxes	Net Capital	Future Net Revenues Undisc.	Future Net Revenues Disc. 10%
	MBbl	MMcf	MBbl	MMcf	$/Bbl	$/Mcf	M$	M$	M$	M$	M$	M$
2011(12)	90	127	90	127	62.509	2.460	5,953	399	198	0	5,356	5,030
2012(12)	1,445	1,661	1,445	1,661	62.510	2.460	94,384	2,145	3,093	0	89,146	76,241
2013(12)	2,762	3,129	2,762	3,129	62.510	2.460	180,368	4,102	5,905	0	170,360	134,230
2014(12)	2,916	3,290	2,916	3,290	62.510	2.460	190,397	5,306	6,232	0	178,860	128,134
2015(12)	3,029	3,392	3,029	3,392	62.510	2.460	197,702	6,420	6,468	0	184,814	120,377
2016(12)	3,107	3,445	3,107	3,445	62.510	2.460	202,683	7,456	6,626	0	188,601	111,685
2017(12)	3,154	3,458	3,154	3,458	62.510	2.460	205,684	8,421	6,719	0	190,544	102,585
2018(12)	3,176	3,438	3,176	3,438	62.510	2.460	207,005	9,324	6,757	0	190,924	93,451
2019(12)	3,176	3,392	3,176	3,392	62.510	2.460	206,907	10,172	6,748	0	189,987	84,543
2020(12)	3,159	3,326	3,159	3,326	62.510	2.460	205,659	11,013	6,701	0	187,945	76,034
2021(12)	3,125	3,242	3,125	3,242	62.510	2.460	203,344	11,748	6,619	0	184,977	68,033
2022(12)	3,079	3,146	3,079	3,146	62.510	2.460	200,201	12,119	6,511	0	181,572	60,710
2023(12)	3,023	3,040	3,023	3,040	62.510	2.460	196,429	11,746	6,382	0	178,302	54,196
2024(12)	2,958	2,927	2,958	2,927	62.510	2.460	192,113	11,186	6,235	0	174,691	48,274
2025(12)	2,887	2,810	2,887	2,810	62.510	2.460	187,365	11,228	6,075	0	170,061	42,724
2026(12)	2,810	2,690	2,810	2,690	62.510	2.460	182,283	11,226	5,904	0	165,153	37,719
2027(12)	2,730	2,569	2,730	2,569	62.510	2.460	176,951	11,036	5,726	0	160,189	33,260
2028(12)	2,646	2,448	2,646	2,448	62.510	2.460	171,442	10,742	5,542	0	155,158	29,287
2029(12)	2,561	2,328	2,561	2,328	62.510	2.460	165,817	10,395	5,355	0	150,067	25,751
2030(12)	2,475	2,210	2,475	2,210	62.510	2.460	160,128	9,734	5,166	0	145,228	22,655
Sub.	54,310	56,064	54,310	56,064	62.510	2.460	3,532,815	175,919	114,962	0	3,241,933	1,354,921
Rem.	50,645	33,867	50,645	33,867	62.510	2.460	3,249,134	714,357	103,338	0	2,431,439	150,346
Total	104,955	89,932	104,955	89,932	62.510	2.460	6,781,948	890,276	218,300	0	5,673,373	1,505,267

	MBbl	MMcf
CUMULATIVE	0	0
ULTIMATE	104,955	89,932

GROSS COMPLETIONS		0
PROJECT LIFE	Start:	01/2011
	End:	07/2081

**** PRESENT WORTH PROFILE ****

DISC RATE	PW OF FNR	DISC RATE	PW OF FNR	DISC RATE	PW OF FNR
%	M$	%	M$	%	M$
0.0	5,673,373	25.0	582,193	60.0	193,891
5.0	2,558,136	30.0	469,168	70.0	157,433
10.0	1,505,267	35.0	388,655	80.0	131,058
15.0	1,019,459	40.0	328,845	90.0	111,257
20.0	750,007	50.0	246,793	100.0	95,953

Exhibit 4

STATE OIL COMPANY OF AZERBAIJAN REPUBLIC 9/6/2011
CONSTANT PRICE CASE 14:24

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

TOTAL POSSIBLE RESERVES **MILLER AND LENTS, LTD.**
TOTAL COMPANY

Date	Gross Volumes Oil & Cond	Gross Volumes Gas	Net Volumes Oil & Cond	Net Volumes Gas	Average Prices Oil	Average Prices Gas	Net Product Revenues	Net Operating Expenses	Net Taxes	Net Capital	Future Net Revenues Undisc.	Future Net Revenues Disc. 10%
	MBbl	MMcf	MBbl	MMcf	$/Bbl	$/Mcf	M$	M$	M$	M$	M$	M$
2011(12)	90	126	90	126	62.511	2.460	5,930	398	197	0	5,335	5,010
2012(12)	256	344	256	344	62.510	2.460	16,872	1,445	559	0	14,867	12,833
2013(12)	530	657	530	657	62.510	2.460	34,747	2,847	1,145	0	30,755	24,102
2014(12)	886	1,044	886	1,044	62.510	2.460	57,951	4,285	1,903	0	51,764	36,985
2015(12)	1,191	1,359	1,191	1,359	62.510	2.460	77,788	5,636	2,548	0	69,603	45,260
2016(12)	1,450	1,614	1,450	1,614	62.510	2.460	94,641	6,909	3,095	0	84,637	50,062
2017(12)	1,670	1,816	1,670	1,816	62.510	2.460	108,853	8,111	3,554	0	97,188	52,279
2018(12)	1,854	1,974	1,854	1,974	62.510	2.460	120,725	9,248	3,936	0	107,541	52,601
2019(12)	2,006	2,092	2,006	2,092	62.510	2.460	130,527	10,326	4,250	0	115,951	51,568
2020(12)	2,130	2,178	2,130	2,178	62.510	2.460	138,500	11,351	4,504	0	122,645	49,593
2021(12)	2,231	2,235	2,231	2,235	62.510	2.460	144,944	12,434	4,708	0	127,803	46,985
2022(12)	2,307	2,268	2,307	2,268	62.510	2.460	149,768	13,262	4,859	0	131,647	44,002
2023(12)	2,365	2,281	2,365	2,281	62.510	2.460	153,465	14,109	4,973	0	134,383	40,836
2024(12)	2,407	2,277	2,407	2,277	62.510	2.460	156,065	14,346	5,051	0	136,667	37,754
2025(12)	2,434	2,258	2,434	2,258	62.510	2.460	157,707	13,768	5,099	0	138,841	34,869
2026(12)	2,448	2,228	2,448	2,228	62.510	2.460	158,515	13,655	5,119	0	139,741	31,908
2027(12)	2,451	2,188	2,451	2,188	62.510	2.460	158,598	13,931	5,117	0	139,550	28,969
2028(12)	2,444	2,141	2,444	2,141	62.510	2.460	158,055	14,219	5,094	0	138,742	26,183
2029(12)	2,429	2,087	2,429	2,087	62.510	2.460	156,973	14,279	5,053	0	137,640	23,614
2030(12)	2,407	2,029	2,407	2,029	62.510	2.460	155,430	14,162	4,999	0	136,269	21,254
Sub.	35,986	35,195	35,986	35,195	62.510	2.460	2,336,055	198,720	75,764	0	2,061,570	716,668
Rem.	70,273	40,406	70,273	40,406	62.510	2.460	4,492,155	959,458	142,004	0	3,390,694	168,990
Total	106,259	75,601	106,259	75,601	62.510	2.460	6,828,210	1,158,177	217,768	0	5,452,264	885,658

	MBbl	MMcf
CUMULATIVE	0	0
ULTIMATE	106,259	75,601

GROSS COMPLETIONS		0
PROJECT LIFE	Start:	01/2011
	End:	12/2085

**** PRESENT WORTH PROFILE ****

DISC RATE	PW OF FNR	DISC RATE	PW OF FNR	DISC RATE	PW OF FNR
%	M$	%	M$	%	M$
0.0	5,452,265	25.0	245,577	60.0	59,131
5.0	1,824,821	30.0	184,240	70.0	45,873
10.0	885,658	35.0	143,726	80.0	36,900
15.0	522,078	40.0	115,562	90.0	30,532
20.0	344,971	50.0	79,963	100.0	25,840

Exhibit 5

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

SORTED BY RESERVE CATEGORY AND FIELD
28 MAY

MILLER AND LENTS, LTD.

RESERVE CATEGORY Field Name	Total No. of Compl.	Gross Volumes Oil & Cond MBbl	Gross Volumes Gas MMcf	Net Volumes Oil & Cond MBbl	Net Volumes Gas MMcf	Net Product Revenues M$	Net Operating Expenses M$	Net Taxes M$	Net Capital M$	Future Net Revenues Undisc. M$	Future Net Revenues Disc. 10% M$
CATEGORY: TOTAL PROVED RESERVES											
28 MAY NGDU	0	0	0	0	0	0	0	130,901	904,930	-1,035,831	-652,040
CHILOV	30	2,565	864	2,565	864	162,485	102,777	5,056	0	54,653	32,448
GYUNESHLI	219	402,607	1,019,705	402,607	995,097	27,614,906	2,142,377	973,924	0	24,498,606	12,621,819
TOTAL PROVED RESERVES	**249**	**405,172**	**1,020,569**	**405,172**	**995,961**	**27,777,391**	**2,245,154**	**1,109,880**	**904,930**	**23,517,428**	**12,002,226**
CATEGORY: TOTAL PROVED PRODUCING											
CHILOV	30	2,565	864	2,565	864	162,485	102,777	5,056	0	54,653	32,448
GYUNESHLI	219	402,607	1,019,705	402,607	995,097	27,614,906	2,142,377	973,924	0	24,498,606	12,621,819
TOTAL PROVED PRODUCING	**249**	**405,172**	**1,020,569**	**405,172**	**995,961**	**27,777,391**	**2,245,154**	**978,979**	**0**	**24,553,259**	**12,654,267**
CATEGORY: TOTAL OTHER CAPITAL & PROPERTY TAXES											
28 MAY NGDU	0	0	0	0	0	0	0	130,901	904,930	-1,035,831	-652,040
TOTAL OTHER CAPITAL & PROPERTY TAX	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**130,901**	**904,930**	**-1,035,831**	**-652,040**
CATEGORY: TOTAL PROBABLE RESERVES											
GYUNESHLI	0	81,496	83,339	81,496	83,339	5,299,317	288,203	172,343	0	4,838,772	1,324,645
TOTAL PROBABLE RESERVES	**0**	**81,496**	**83,339**	**81,496**	**83,339**	**5,299,317**	**288,203**	**172,343**	**0**	**4,838,772**	**1,324,645**
CATEGORY: TOTAL POSSIBLE RESERVES											
GYUNESHLI	0	70,921	67,318	70,921	67,318	4,598,859	214,825	148,886	0	4,235,147	683,974
TOTAL POSSIBLE RESERVES	**0**	**70,921**	**67,318**	**70,921**	**67,318**	**4,598,859**	**214,825**	**148,886**	**0**	**4,235,147**	**683,974**

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

SORTED BY RESERVE CATEGORY AND FIELD
A. DZH. AMIROV

MILLER AND LENTS, LTD.

RESERVE CATEGORY Field Name	Total No. of Compl.	Gross Volumes Oil & Cond MBbl	Gross Volumes Gas MMcf	Net Volumes Oil & Cond MBbl	Net Volumes Gas MMcf	Net Product Revenues M$	Net Operating Expenses M$	Net Taxes M$	Net Capital M$	Future Net Revenues Undisc. M$	Future Net Revenues Disc. 10% M$
CATEGORY: TOTAL PROVED RESERVES											
A. DZH. AMIROV NGDU	0	0	0	0	0	0	0	4,516	16,010	-20,526	-10,923
KALMAZ	32	219	1,656	219	1,653	17,731	8,425	762	0	8,544	5,651
LOKBATAN-PUTA-KUSHKHANA	324	3,372	492	3,372	492	211,978	167,953	6,510	0	37,515	22,197
SHABANDAG-SHUBANY-YASAMALSKYA D	60	762	38	762	38	47,702	32,738	1,455	0	13,509	7,216
TOTAL PROVED RESERVES	**416**	**4,352**	**2,186**	**4,352**	**2,183**	**277,411**	**209,116**	**13,243**	**16,010**	**39,042**	**24,141**
CATEGORY: TOTAL PROVED PRODUCING											
KALMAZ	32	219	1,656	219	1,653	17,731	8,425	762	0	8,544	5,651
LOKBATAN-PUTA-KUSHKHANA	324	3,372	492	3,372	492	211,978	167,953	6,510	0	37,515	22,197
SHABANDAG-SHUBANY-YASAMALSKYA D	60	762	38	762	38	47,702	32,738	1,455	0	13,509	7,216
TOTAL PROVED PRODUCING	**416**	**4,352**	**2,186**	**4,352**	**2,183**	**277,411**	**209,116**	**8,727**	**0**	**59,568**	**35,064**
CATEGORY: TOTAL OTHER CAPITAL & PROPERTY TAXES											
A. DZH. AMIROV NGDU	0	0	0	0	0	0	0	4,516	16,010	-20,526	-10,923
TOTAL OTHER CAPITAL & PROPERTY TAX	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**4,516**	**16,010**	**-20,526**	**-10,923**

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

SORTED BY RESERVE CATEGORY AND FIELD
ABSHERONNEFT

MILLER AND LENTS, LTD.

RESERVE CATEGORY Field Name	Total No. of Compl.	Gross Volumes Oil & Cond MBbl	Gross Volumes Gas MMcf	Net Volumes Oil & Cond MBbl	Net Volumes Gas MMcf	Net Product Revenues M$	Net Operating Expenses M$	Net Taxes M$	Net Capital M$	Future Net Revenues Undisc. M$	Future Net Revenues Disc. 10% M$
CATEGORY: TOTAL PROVED RESERVES											
ABSHERONNEFT NGDU	0	0	0	0	0	0	0	15,888	40,030	-55,918	-39,049
BANKA ABSHERON	17	1,411	0	1,411	0	88,229	60,542	2,682	0	25,005	14,627
BANKA DARVINA	105	5,726	258	5,726	258	358,537	261,230	10,933	0	86,374	49,435
GYURGAN-DENIZ	1	343	0	343	0	21,450	9,568	652	0	11,230	6,729
PIRALLAKHI	270	3,795	304	3,795	304	237,967	204,339	7,274	0	26,354	16,900
TOTAL PROVED RESERVES	**393**	**11,275**	**562**	**11,275**	**562**	**706,184**	**535,680**	**37,428**	**40,030**	**93,046**	**48,642**
CATEGORY: TOTAL PROVED PRODUCING											
BANKA ABSHERON	17	1,411	0	1,411	0	88,229	60,542	2,682	0	25,005	14,627
BANKA DARVINA	105	5,726	258	5,726	258	358,537	261,230	10,933	0	86,374	49,435
GYURGAN-DENIZ	1	343	0	343	0	21,450	9,568	652	0	11,230	6,729
PIRALLAKHI	270	3,795	304	3,795	304	237,967	204,339	7,274	0	26,354	16,900
TOTAL PROVED PRODUCING	**393**	**11,275**	**562**	**11,275**	**562**	**706,184**	**535,680**	**21,541**	**0**	**148,963**	**87,691**
CATEGORY: TOTAL OTHER CAPITAL & PROPERTY TAXES											
ABSHERONNEFT NGDU	0	0	0	0	0	0	0	15,888	40,030	-55,918	-39,049
TOTAL OTHER CAPITAL & PROPERTY TAX	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**15,888**	**40,030**	**-55,918**	**-39,049**
CATEGORY: TOTAL PROBABLE RESERVES											
PIRALLAKHI	0	970	97	970	97	60,878	50,978	1,864	0	8,036	2,827
TOTAL PROBABLE RESERVES	**0**	**970**	**97**	**970**	**97**	**60,878**	**50,978**	**1,864**	**0**	**8,036**	**2,827**
CATEGORY: TOTAL POSSIBLE RESERVES											
PIRALLAKHI	0	1,622	139	1,622	139	101,745	85,294	3,111	0	13,339	3,556
TOTAL POSSIBLE RESERVES	**0**	**1,622**	**139**	**1,622**	**139**	**101,745**	**85,294**	**3,111**	**0**	**13,339**	**3,556**

BEFORE FEDERAL INCOME TAX ECONOMICS
AS OF JANUARY 1, 2011

SORTED BY RESERVE CATEGORY AND FIELD **MILLER AND LENTS, LTD.**
BALAKHANYNEFT

RESERVE CATEGORY Field Name	Total No. of Compl.	Gross Volumes Oil & Cond MBbl	Gross Volumes Gas MMcf	Net Volumes Oil & Cond MBbl	Net Volumes Gas MMcf	Net Product Revenues M$	Net Operating Expenses M$	Net Taxes M$	Net Capital M$	Future Net Revenues Undisc. M$	Future Net Revenues Disc. 10% M$
CATEGORY: TOTAL PROVED RESERVES											
BALAKHANYNEFT NGDU	0	0	0	0	0	0	0	5,669	33,020	-38,689	-16,472
BALAKHANY-SABUNCHY	1,209	20,950	4,105	20,950	4,105	1,319,698	685,101	40,668	0	593,930	293,373
TOTAL PROVED RESERVES	**1,209**	**20,950**	**4,105**	**20,950**	**4,105**	**1,319,698**	**685,101**	**46,336**	**33,020**	**555,241**	**276,901**
CATEGORY: TOTAL PROVED PRODUCING											
BALAKHANY-SABUNCHY	1,209	20,950	4,105	20,950	4,105	1,319,698	685,101	40,668	0	593,930	293,373
TOTAL PROVED PRODUCING	**1,209**	**20,950**	**4,105**	**20,950**	**4,105**	**1,319,698**	**685,101**	**40,668**	**0**	**593,930**	**293,373**
CATEGORY: TOTAL OTHER CAPITAL & PROPERTY TAXES											
BALAKHANYNEFT NGDU	0	0	0	0	0	0	0	5,669	33,020	-38,689	-16,472
TOTAL OTHER CAPITAL & PROPERTY TAX	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**5,669**	**33,020**	**-38,689**	**-16,472**
CATEGORY: TOTAL PROBABLE RESERVES											
BALAKHANY-SABUNCHY	0	1,157	109	1,157	109	72,566	37,422	2,220	0	32,924	8,300
TOTAL PROBABLE RESERVES	**0**	**1,157**	**109**	**1,157**	**109**	**72,566**	**37,422**	**2,220**	**0**	**32,924**	**8,300**
CATEGORY: TOTAL POSSIBLE RESERVES											
BALAKHANY-SABUNCHY	0	1,700	133	1,700	133	106,572	54,062	3,257	0	49,252	9,687
TOTAL POSSIBLE RESERVES	**0**	**1,700**	**133**	**1,700**	**133**	**106,572**	**54,062**	**3,257**	**0**	**49,252**	**9,687**

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

SORTED BY RESERVE CATEGORY AND FIELD
BIBIEIBATNEFT

MILLER AND LENTS, LTD.

RESERVE CATEGORY	Total	Gross Volumes		Net Volumes		Net Product	Net Operating	Net	Net	Future Net Revenues	
	No. of	Oil & Cond	Gas	Oil & Cond	Gas	Revenues	Expenses	Taxes	Capital	Undisc.	Disc. 10%
Field Name	Compl.	MBbl	MMcf	MBbl	MMcf	M$	M$	M$	M$	M$	M$
CATEGORY: TOTAL PROVED RESERVES											
BIBIEIBAT - BIBIEIBAT DENIZ	620	10,516	6,024	10,516	6,024	672,199	380,697	21,246	0	270,256	147,465
BIBIEIBATNEFT NGDU	0	0	0	0	0	0	0	5,484	22,568	-28,052	-24,390
TOTAL PROVED RESERVES	**620**	**10,516**	**6,024**	**10,516**	**6,024**	**672,199**	**380,697**	**26,730**	**22,568**	**242,204**	**123,075**
CATEGORY: TOTAL PROVED PRODUCING											
BIBIEIBAT - BIBIEIBAT DENIZ	620	10,516	6,024	10,516	6,024	672,199	380,697	21,246	0	270,256	147,465
TOTAL PROVED PRODUCING	**620**	**10,516**	**6,024**	**10,516**	**6,024**	**672,199**	**380,697**	**21,246**	**0**	**270,256**	**147,465**
CATEGORY: TOTAL OTHER CAPITAL & PROPERTY TAXES											
BIBIEIBATNEFT NGDU	0	0	0	0	0	0	0	5,484	22,568	-28,052	-24,390
TOTAL OTHER CAPITAL & PROPERTY TAX	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**5,484**	**22,568**	**-28,052**	**-24,390**
CATEGORY: TOTAL PROBABLE RESERVES											
BIBIEIBAT - BIBIEIBAT DENIZ	0	350	107	350	107	22,122	11,257	687	0	10,178	2,263
TOTAL PROBABLE RESERVES	**0**	**350**	**107**	**350**	**107**	**22,122**	**11,257**	**687**	**0**	**10,178**	**2,263**
CATEGORY: TOTAL POSSIBLE RESERVES											
BIBIEIBAT - BIBIEIBAT DENIZ	0	524	149	524	149	33,153	16,886	1,028	0	15,239	2,608
TOTAL POSSIBLE RESERVES	**0**	**524**	**149**	**524**	**149**	**33,153**	**16,886**	**1,028**	**0**	**15,239**	**2,608**

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

SORTED BY RESERVE CATEGORY AND FIELD **MILLER AND LENTS, LTD.**

G. Z. TAGIEV

RESERVE CATEGORY Field Name	Total No. of Compl.	Gross Volumes Oil & Cond MBbl	Gross Volumes Gas MMcf	Net Volumes Oil & Cond MBbl	Net Volumes Gas MMcf	Net Product Revenues M$	Net Operating Expenses M$	Net Taxes M$	Net Capital M$	Future Net Revenues Undisc. M$	Future Net Revenues Disc. 10% M$
CATEGORY: TOTAL PROVED RESERVES											
BUZOVNA-MASHTAGA	77	329	0	329	0	20,596	12,861	626	0	7,109	6,000
G. Z. TAGIEV NGDU	0	0	0	0	0	0	0	2,110	5,780	-7,890	-6,542
KALA-OLD KALA	75	313	144	313	144	19,934	15,037	625	0	4,272	3,646
TOTAL PROVED RESERVES	**152**	**643**	**144**	**643**	**144**	**40,531**	**27,898**	**3,362**	**5,780**	**3,491**	**3,104**
CATEGORY: TOTAL PROVED PRODUCING											
BUZOVNA-MASHTAGA	77	329	0	329	0	20,596	12,861	626	0	7,109	6,000
KALA-OLD KALA	75	313	144	313	144	19,934	15,037	625	0	4,272	3,646
TOTAL PROVED PRODUCING	**152**	**643**	**144**	**643**	**144**	**40,531**	**27,898**	**1,251**	**0**	**11,381**	**9,646**
CATEGORY: TOTAL OTHER CAPITAL & PROPERTY TAXES											
G. Z. TAGIEV NGDU	0	0	0	0	0	0	0	2,110	5,780	-7,890	-6,542
TOTAL OTHER CAPITAL & PROPERTY TAX	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**2,110**	**5,780**	**-7,890**	**-6,542**

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

SORTED BY RESERVE CATEGORY AND FIELD
KARACHUKHUR

MILLER AND LENTS, LTD.

RESERVE CATEGORY	Total No. of	Gross Volumes		Net Volumes		Net Product	Net Operating	Net	Net	Future Net Revenues	
		Oil & Cond	Gas	Oil & Cond	Gas	Revenues	Expenses	Taxes	Capital	Undisc.	Disc. 10%
Field Name	Compl.	MBbl	MMcf	MBbl	MMcf	M$	M$	M$	M$	M$	M$
CATEGORY: TOTAL PROVED RESERVES											
KARACHUKHUR	56	359	484	359	484	23,621	17,749	952	2,120	2,799	2,516
TOTAL PROVED RESERVES	**56**	**359**	**484**	**359**	**484**	**23,621**	**17,749**	**952**	**2,120**	**2,799**	**2,516**
CATEGORY: TOTAL PROVED PRODUCING											
KARACHUKHUR	56	359	484	359	484	23,621	17,749	783	0	5,088	4,251
TOTAL PROVED PRODUCING	**56**	**359**	**484**	**359**	**484**	**23,621**	**17,749**	**783**	**0**	**5,088**	**4,251**
CATEGORY: TOTAL OTHER CAPITAL & PROPERTY TAXES											
KARACHUKHUR	0	0	0	0	0	0	0	169	2,120	-2,289	-1,735
TOTAL OTHER CAPITAL & PROPERTY TAX	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**169**	**2,120**	**-2,289**	**-1,735**

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

SORTED BY RESERVE CATEGORY AND FIELD
MURADKHANLY

MILLER AND LENTS, LTD.

RESERVE CATEGORY Field Name	Total No. of Compl.	Gross Volumes Oil & Cond MBbl	Gross Volumes Gas MMcf	Net Volumes Oil & Cond MBbl	Net Volumes Gas MMcf	Net Product Revenues M$	Net Operating Expenses M$	Net Taxes M$	Net Capital M$	Future Net Revenues Undisc. M$	Future Net Revenues Disc. 10% M$
CATEGORY: TOTAL PROVED RESERVES											
DZHAFARLY (GAFARLI)	19	1,269	0	1,269	0	79,299	36,692	2,410	0	40,196	22,897
MURADKHANLY	44	1,260	0	1,260	0	78,777	54,431	2,394	0	21,952	11,631
MURADKHANLY NGDU	0	0	0	0	0	0	0	3,398	4,000	-7,398	-5,515
TOTAL PROVED RESERVES	**63**	**2,529**	**0**	**2,529**	**0**	**158,075**	**91,122**	**8,203**	**4,000**	**54,750**	**29,014**
CATEGORY: TOTAL PROVED PRODUCING											
DZHAFARLY (GAFARLI)	19	1,269	0	1,269	0	79,299	36,692	2,410	0	40,196	22,897
MURADKHANLY	44	1,260	0	1,260	0	78,777	54,431	2,394	0	21,952	11,631
TOTAL PROVED PRODUCING	**63**	**2,529**	**0**	**2,529**	**0**	**158,075**	**91,122**	**4,805**	**0**	**62,148**	**34,528**
CATEGORY: TOTAL OTHER CAPITAL & PROPERTY TAXES											
MURADKHANLY NGDU	0	0	0	0	0	0	0	3,398	4,000	-7,398	-5,515
TOTAL OTHER CAPITAL & PROPERTY TAX	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**3,398**	**4,000**	**-7,398**	**-5,515**
CATEGORY: TOTAL PROBABLE RESERVES											
DZHAFARLY (GAFARLI)	0	132	0	132	0	8,273	2,276	251	0	5,746	1,750
TOTAL PROBABLE RESERVES	**0**	**132**	**0**	**132**	**0**	**8,273**	**2,276**	**251**	**0**	**5,746**	**1,750**
CATEGORY: TOTAL POSSIBLE RESERVES											
DZHAFARLY (GAFARLI)	0	243	0	243	0	15,188	6,648	462	0	8,078	2,022
TOTAL POSSIBLE RESERVES	**0**	**243**	**0**	**243**	**0**	**15,188**	**6,648**	**462**	**0**	**8,078**	**2,022**

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

SORTED BY RESERVE CATEGORY AND FIELD **MILLER AND LENTS, LTD.**

N. NARIMANOV

RESERVE CATEGORY	Total	Gross Volumes		Net Volumes		Net Product	Net Operating	Net	Net	Future Net Revenues	
	No. of	Oil & Cond	Gas	Oil & Cond	Gas	Revenues	Expenses	Taxes	Capital	Undisc.	Disc. 10%
Field Name	Compl.	MBbl	MMcf	MBbl	MMcf	M$	M$	M$	M$	M$	M$
CATEGORY: TOTAL PROVED RESERVES											
8 MARCH	7	1,174	2,093	1,174	2,093	78,537	24,971	2,670	0	50,896	36,863
ALYAT-DENIZ	17	5,043	11,417	5,043	11,417	343,319	130,772	11,979	0	200,567	94,766
BULLA-DENIZ	15	574	768	574	768	37,745	13,416	1,251	0	23,078	10,570
N. NARIMANOV NGDU	0	0	0	0	0	0	0	15,422	59,500	-74,922	-49,431
SDKHZ	145	29,188	29,118	29,188	28,861	1,895,520	879,160	61,517	0	954,843	463,722
TOTAL PROVED RESERVES	**184**	**35,978**	**43,395**	**35,978**	**43,138**	**2,355,121**	**1,048,319**	**92,839**	**59,500**	**1,154,462**	**556,490**
CATEGORY: TOTAL PROVED PRODUCING											
8 MARCH	7	1,174	2,093	1,174	2,093	78,537	24,971	2,670	0	50,896	36,863
ALYAT-DENIZ	17	5,043	11,417	5,043	11,417	343,319	130,772	11,979	0	200,567	94,766
BULLA-DENIZ	15	574	768	574	768	37,745	13,416	1,251	0	23,078	10,570
SDKHZ	145	29,188	29,118	29,188	28,861	1,895,520	879,160	61,517	0	954,843	463,722
TOTAL PROVED PRODUCING	**184**	**35,978**	**43,395**	**35,978**	**43,138**	**2,355,121**	**1,048,319**	**77,418**	**0**	**1,229,384**	**605,921**
CATEGORY: TOTAL OTHER CAPITAL & PROPERTY TAXES											
N. NARIMANOV NGDU	0	0	0	0	0	0	0	15,422	59,500	-74,922	-49,431
TOTAL OTHER CAPITAL & PROPERTY TAX	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**15,422**	**59,500**	**-74,922**	**-49,431**
CATEGORY: TOTAL PROBABLE RESERVES											
ALYAT-DENIZ	0	1,146	1,434	1,146	1,434	75,147	28,979	2,478	0	43,690	7,942
SDKHZ	0	6,615	2,316	6,615	2,316	419,224	177,738	13,056	0	228,431	45,010
TOTAL PROBABLE RESERVES	**0**	**7,761**	**3,750**	**7,761**	**3,750**	**494,371**	**206,717**	**15,534**	**0**	**272,121**	**52,952**
CATEGORY: TOTAL POSSIBLE RESERVES											
ALYAT-DENIZ	0	1,800	1,798	1,800	1,798	116,958	45,536	3,798	0	67,624	9,088
SDKHZ	0	10,420	2,878	10,420	2,878	658,403	300,261	20,401	0	337,740	47,579
TOTAL POSSIBLE RESERVES	**0**	**12,220**	**4,677**	**12,220**	**4,677**	**775,361**	**345,797**	**24,200**	**0**	**405,364**	**56,667**

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

SORTED BY RESERVE CATEGORY AND FIELD
NEFTYANYE KAMNI

MILLER AND LENTS, LTD.

RESERVE CATEGORY Field Name	Total No. of Compl.	Gross Volumes Oil & Cond MBbl	Gross Volumes Gas MMcf	Net Volumes Oil & Cond MBbl	Net Volumes Gas MMcf	Net Product Revenues M$	Net Operating Expenses M$	Net Taxes M$	Net Capital M$	Future Net Revenues Undisc. M$	Future Net Revenues Disc. 10% M$
CATEGORY: TOTAL PROVED RESERVES											
GRYAZEVYA SOPKA	107	8,794	3,828	8,794	3,828	559,116	316,055	17,512	0	225,549	131,618
NEFTYANYE KAMNI	333	70,058	19,028	70,058	19,028	4,426,127	1,566,501	137,106	0	2,722,520	1,388,007
NEFTYANYE KAMNI NGDU	0	0	0	0	0	0	0	57,292	381,280	-438,572	-258,242
TOTAL PROVED RESERVES	**440**	**78,852**	**22,856**	**78,852**	**22,856**	**4,985,243**	**1,882,556**	**211,910**	**381,280**	**2,509,496**	**1,261,382**
CATEGORY: TOTAL PROVED PRODUCING											
GRYAZEVYA SOPKA	107	8,794	3,828	8,794	3,828	559,116	316,055	17,512	0	225,549	131,618
NEFTYANYE KAMNI	333	70,058	19,028	70,058	19,028	4,426,127	1,566,501	137,106	0	2,722,520	1,388,007
TOTAL PROVED PRODUCING	**440**	**78,852**	**22,856**	**78,852**	**22,856**	**4,985,243**	**1,882,556**	**154,618**	**0**	**2,948,068**	**1,519,624**
CATEGORY: TOTAL OTHER CAPITAL & PROPERTY TAXES											
NEFTYANYE KAMNI NGDU	0	0	0	0	0	0	0	57,292	381,280	-438,572	-258,242
TOTAL OTHER CAPITAL & PROPERTY TAX	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**57,292**	**381,280**	**-438,572**	**-258,242**
CATEGORY: TOTAL PROBABLE RESERVES											
GRYAZEVYA SOPKA	0	1,347	490	1,347	490	85,412	43,780	2,662	0	38,970	10,693
NEFTYANYE KAMNI	0	11,742	2,040	11,742	2,040	739,008	249,644	22,738	0	466,626	101,837
TOTAL PROBABLE RESERVES	**0**	**13,089**	**2,530**	**13,089**	**2,530**	**824,420**	**293,424**	**25,400**	**0**	**505,596**	**112,530**
CATEGORY: TOTAL POSSIBLE RESERVES											
GRYAZEVYA SOPKA	0	2,016	683	2,016	683	127,672	65,365	3,973	0	58,334	12,523
NEFTYANYE KAMNI	0	17,013	2,502	17,013	2,502	1,069,662	369,300	32,851	0	667,511	114,621
TOTAL POSSIBLE RESERVES	**0**	**19,029**	**3,185**	**19,029**	**3,185**	**1,197,334**	**434,665**	**36,824**	**0**	**725,845**	**127,144**

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

TOTAL PROVED RESERVES **MILLER AND LENTS, LTD.**
TOTAL COMPANY

Date	Gross Volumes Oil & Cond	Gross Volumes Gas	Net Volumes Oil & Cond	Net Volumes Gas	Average Prices Oil	Average Prices Gas	Net Product Revenues	Net Operating Expenses	Net Taxes	Net Capital	Future Net Revenues Undisc.	Future Net Revenues Disc. 10%
	MTons	MMm3	MTons	MMm3	$/Ton	$/Mm3	M$	M$	M$	M$	M$	M$
2011(12)	6,688	5,966	6,688	5,769	453.311	86.874	3,533,127	476,106	162,471	177,933	2,716,617	2,592,910
2012(12)	6,222	4,462	6,222	4,327	453.303	86.874	3,196,492	448,479	145,535	268,455	2,334,023	2,026,652
2013(12)	5,644	2,915	5,644	2,842	453.185	86.874	2,804,717	399,270	125,860	207,345	2,072,242	1,635,050
2014(12)	5,153	2,480	5,153	2,419	453.091	86.874	2,545,064	372,921	113,874	86,000	1,972,270	1,414,579
2015(12)	4,692	2,155	4,692	2,103	453.060	86.874	2,308,483	345,448	102,614	86,175	1,774,246	1,156,854
2016(12)	4,293	1,879	4,293	1,835	452.959	86.874	2,104,063	326,338	93,167	111,455	1,573,103	932,481
2017(12)	3,936	1,626	3,936	1,590	452.866	86.874	1,920,437	310,043	83,643	36,045	1,490,706	803,259
2018(12)	3,610	1,426	3,610	1,395	452.778	86.874	1,755,839	295,392	74,818	27,410	1,358,219	665,327
2019(12)	3,309	1,253	3,309	1,226	452.706	86.874	1,604,718	279,091	66,816	58,480	1,200,331	534,545
2020(12)	3,035	1,049	3,035	1,029	452.609	86.874	1,463,041	258,660	58,694	36,930	1,108,758	448,861
2021(12)	2,781	841	2,781	827	452.541	86.874	1,330,204	232,717	50,779	35,850	1,010,858	372,016
2022(12)	2,549	758	2,549	745	452.579	86.874	1,218,217	217,030	44,033	36,100	921,054	308,155
2023(12)	2,321	454	2,321	453	452.501	86.874	1,089,410	193,813	38,190	35,900	821,507	249,883
2024(12)	2,134	389	2,134	389	452.453	86.874	999,420	183,537	34,822	35,690	745,371	206,097
2025(12)	1,968	351	1,968	351	452.370	86.874	920,619	176,099	32,053	34,050	678,417	170,532
2026(12)	1,802	316	1,802	316	452.386	86.874	842,644	163,406	29,355	32,620	617,263	141,055
2027(12)	1,659	284	1,659	284	452.303	86.874	775,271	155,640	27,058	33,620	558,953	116,119
2028(12)	1,529	256	1,529	256	452.263	86.874	713,875	148,667	25,028	33,620	506,560	95,669
2029(12)	1,409	231	1,409	231	452.216	86.874	657,388	142,121	23,160	33,520	458,587	78,737
2030(12)	1,301	208	1,301	208	452.157	86.874	606,392	137,414	21,442	31,020	416,517	65,014
Sub.	66,037	29,299	66,037	28,595	452.857	86.874	32,389,420	5,262,191	1,353,410	1,438,218	24,335,601	14,013,793
Rem.	12,704	1,859	12,704	1,859	453.768	86.874	5,926,056	1,861,201	197,474	31,020	3,836,361	313,698
Total	78,741	31,158	78,741	30,454	453.004	86.874	38,315,474	7,123,393	1,550,883	1,469,238	28,171,962	14,327,491

	MTons	MMm3
CUMULATIVE	1,033,923	60,099
ULTIMATE	1,112,664	91,257

GROSS COMPLETIONS		3,782
PROJECT LIFE	Start:	01/2011
	End:	01/2070

**** PRESENT WORTH PROFILE ****

DISC RATE	PW OF FNR	DISC RATE	PW OF FNR	DISC RATE	PW OF FNR
%	M$	%	M$	%	M$
0.0	28,171,962	25.0	8,607,497	60.0	4,884,636
5.0	18,898,907	30.0	7,672,134	70.0	4,419,751
10.0	14,327,491	35.0	6,947,482	80.0	4,056,952
15.0	11,634,192	40.0	6,369,201	90.0	3,765,454
20.0	9,862,091	50.0	5,503,223	100.0	3,525,759

Exhibit 7

BEFORE FEDERAL INCOME TAX ECONOMICS
AS OF JANUARY 1, 2011

TOTAL PROVED PRODUCING **MILLER AND LENTS, LTD.**
TOTAL COMPANY

	Gross Volumes		Net Volumes		Average Prices		Net Product	Net Operating	Net	Net	Future Net Revenues	
Date	Oil & Cond	Gas	Oil & Cond	Gas	Oil	Gas	Revenues	Expenses	Taxes	Capital	Undisc.	Disc. 10%
	MTons	MMm3	MTons	MMm3	$/Ton	$/Mm3	M$	M$	M$	M$	M$	M$
2011(12)	6,688	5,966	6,688	5,769	453.311	86.874	3,533,127	476,106	134,939	0	2,922,081	2,788,823
2012(12)	6,222	4,462	6,222	4,327	453.303	86.874	3,196,492	448,479	117,821	0	2,630,192	2,283,375
2013(12)	5,644	2,915	5,644	2,842	453.185	86.874	2,804,717	399,270	98,820	0	2,306,626	1,819,749
2014(12)	5,153	2,480	5,153	2,419	453.091	86.874	2,545,064	372,921	88,910	0	2,083,234	1,494,075
2015(12)	4,692	2,155	4,692	2,103	453.060	86.874	2,308,483	345,448	80,212	0	1,882,823	1,227,568
2016(12)	4,293	1,879	4,293	1,835	452.959	86.874	2,104,063	326,338	72,717	0	1,705,008	1,010,576
2017(12)	3,936	1,626	3,936	1,590	452.866	86.874	1,920,437	310,043	65,964	0	1,544,430	832,177
2018(12)	3,610	1,426	3,610	1,395	452.778	86.874	1,755,839	295,392	60,029	0	1,400,418	685,976
2019(12)	3,309	1,253	3,309	1,226	452.706	86.874	1,604,718	279,091	54,631	0	1,270,996	565,978
2020(12)	3,035	1,049	3,035	1,029	452.609	86.874	1,463,041	258,660	49,382	0	1,155,000	467,561
2021(12)	2,781	841	2,781	827	452.541	86.874	1,330,204	232,717	44,383	0	1,053,103	387,546
2022(12)	2,549	758	2,549	745	452.579	86.874	1,218,217	217,030	40,586	0	960,601	321,371
2023(12)	2,321	454	2,321	453	452.501	86.874	1,089,410	193,813	35,277	0	860,320	261,674
2024(12)	2,134	389	2,134	389	452.453	86.874	999,420	183,537	32,237	0	783,646	216,669
2025(12)	1,968	351	1,968	351	452.370	86.874	920,619	176,099	29,659	0	714,861	179,683
2026(12)	1,802	316	1,802	316	452.386	86.874	842,644	163,406	27,119	0	652,119	149,011
2027(12)	1,659	284	1,659	284	452.303	86.874	775,271	155,640	24,922	0	594,709	123,539
2028(12)	1,529	256	1,529	256	452.263	86.874	713,875	148,667	22,923	0	542,285	102,408
2029(12)	1,409	231	1,409	231	452.216	86.874	657,388	142,121	21,083	0	494,184	84,841
2030(12)	1,301	208	1,301	208	452.157	86.874	606,392	137,414	19,424	0	449,555	70,165
Sub.	66,037	29,299	66,037	28,595	452.857	86.874	32,389,420	5,262,191	1,121,037	0	26,006,192	15,072,765
Rem.	12,704	1,859	12,704	1,859	453.768	86.874	5,926,056	1,861,201	188,999	0	3,875,856	319,066
Total	78,741	31,158	78,741	30,454	453.004	86.874	38,315,474	7,123,393	1,310,036	0	29,882,047	15,391,831

	MTons	MMm3
CUMULATIVE	1,033,923	60,099
ULTIMATE	1,112,664	91,257

GROSS COMPLETIONS		3,782
PROJECT LIFE	Start:	01/2011
	End:	01/2070

**** PRESENT WORTH PROFILE ****

DISC RATE	PW OF FNR	DISC RATE	PW OF FNR	DISC RATE	PW OF FNR
%	M$	%	M$	%	M$
0.0	29,882,047	25.0	9,320,370	60.0	5,317,115
5.0	20,203,593	30.0	8,319,996	70.0	4,812,086
10.0	15,391,831	35.0	7,542,842	80.0	4,416,920
15.0	12,541,302	40.0	6,921,095	90.0	4,098,727
20.0	10,658,123	50.0	5,986,973	100.0	3,836,613

Exhibit 8

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

TOTAL OTHER CAPITAL & PROPERTY TAXES **MILLER AND LENTS, LTD.**
TOTAL COMPANY

Date	Gross Volumes Oil & Cond	Gross Volumes Gas	Net Volumes Oil & Cond	Net Volumes Gas	Average Prices Oil	Average Prices Gas	Net Product Revenues	Net Operating Expenses	Net Taxes	Net Capital	Future Net Revenues Undisc.	Future Net Revenues Disc. 10%
	MTons	MMm3	MTons	MMm3	$/Ton	$/Mm3	M$	M$	M$	M$	M$	M$
2011(12)	0	0	0	0	0.000	0.000	0	0	27,532	177,933	-205,465	-195,913
2012(12)	0	0	0	0	0.000	0.000	0	0	27,713	268,455	-296,168	-256,723
2013(12)	0	0	0	0	0.000	0.000	0	0	27,040	207,345	-234,385	-184,700
2014(12)	0	0	0	0	0.000	0.000	0	0	24,964	86,000	-110,964	-79,496
2015(12)	0	0	0	0	0.000	0.000	0	0	22,402	86,175	-108,577	-70,714
2016(12)	0	0	0	0	0.000	0.000	0	0	20,450	111,455	-131,905	-78,095
2017(12)	0	0	0	0	0.000	0.000	0	0	17,679	36,045	-53,724	-28,918
2018(12)	0	0	0	0	0.000	0.000	0	0	14,789	27,410	-42,199	-20,650
2019(12)	0	0	0	0	0.000	0.000	0	0	12,185	58,480	-70,665	-31,433
2020(12)	0	0	0	0	0.000	0.000	0	0	9,312	36,930	-46,242	-18,700
2021(12)	0	0	0	0	0.000	0.000	0	0	6,395	35,850	-42,245	-15,530
2022(12)	0	0	0	0	0.000	0.000	0	0	3,448	36,100	-39,548	-13,217
2023(12)	0	0	0	0	0.000	0.000	0	0	2,913	35,900	-38,813	-11,792
2024(12)	0	0	0	0	0.000	0.000	0	0	2,585	35,690	-38,275	-10,571
2025(12)	0	0	0	0	0.000	0.000	0	0	2,395	34,050	-36,445	-9,151
2026(12)	0	0	0	0	0.000	0.000	0	0	2,236	32,620	-34,856	-7,956
2027(12)	0	0	0	0	0.000	0.000	0	0	2,136	33,620	-35,756	-7,420
2028(12)	0	0	0	0	0.000	0.000	0	0	2,105	33,620	-35,725	-6,739
2029(12)	0	0	0	0	0.000	0.000	0	0	2,077	33,520	-35,597	-6,105
2030(12)	0	0	0	0	0.000	0.000	0	0	2,018	31,020	-33,038	-5,151
Sub.	0	0	0	0	0.000	0.000	0	0	232,373	1,438,218	-1,670,591	-1,058,973
Rem.	0	0	0	0	0.000	0.000	0	0	8,474	31,020	-39,494	-5,367
Total	0	0	0	0	0.000	0.000	0	0	240,847	1,469,238	-1,710,085	-1,064,340

	MTons	MMm3
CUMULATIVE	0	0
ULTIMATE	0	0

GROSS COMPLETIONS		0
PROJECT LIFE	Start:	01/2011
	End:	12/2041

**** PRESENT WORTH PROFILE ****

DISC RATE	PW OF FNR	DISC RATE	PW OF FNR	DISC RATE	PW OF FNR
%	M$	%	M$	%	M$
0.0	-1,710,085	25.0	-712,873	60.0	-432,479
5.0	-1,304,686	30.0	-647,862	70.0	-392,335
10.0	-1,064,340	35.0	-595,359	80.0	-359,968
15.0	-907,110	40.0	-551,893	90.0	-333,273
20.0	-796,032	50.0	-483,750	100.0	-310,854

Exhibit 9

STATE OIL COMPANY OF AZERBAIJAN REPUBLIC
CONSTANT PRICE CASE

9/6/2011
14:28

BEFORE FEDERAL INCOME TAX ECONOMICS
AS OF JANUARY 1, 2011

TOTAL PROBABLE RESERVES
TOTAL COMPANY

MILLER AND LENTS, LTD.

Date	Gross Volumes Oil & Cond	Gross Volumes Gas	Net Volumes Oil & Cond	Net Volumes Gas	Average Prices Oil	Average Prices Gas	Net Product Revenues	Net Operating Expenses	Net Taxes	Net Capital	Future Net Revenues Undisc.	Future Net Revenues Disc. 10%
	MTons	MMm3	MTons	MMm3	$/Ton	$/Mm3	M$	M$	M$	M$	M$	M$
2011(12)	13	4	13	4	450.434	86.874	5,953	399	198	0	5,356	5,030
2012(12)	198	47	198	47	456.183	86.874	94,384	2,145	3,093	0	89,146	76,241
2013(12)	378	89	378	89	456.409	86.874	180,368	4,102	5,905	0	170,360	134,230
2014(12)	400	93	400	93	456.158	86.874	190,397	5,306	6,232	0	178,860	128,134
2015(12)	415	96	415	96	455.953	86.874	197,702	6,420	6,468	0	184,814	120,377
2016(12)	426	98	426	98	455.777	86.874	202,683	7,456	6,626	0	188,601	111,685
2017(12)	433	98	433	98	455.624	86.874	205,684	8,421	6,719	0	190,544	102,585
2018(12)	436	97	436	97	455.486	86.874	207,005	9,324	6,757	0	190,924	93,451
2019(12)	436	96	436	96	455.361	86.874	206,907	10,172	6,748	0	189,987	84,543
2020(12)	434	94	434	94	455.247	86.874	205,659	11,013	6,701	0	187,945	76,034
2021(12)	429	92	429	92	455.139	86.874	203,344	11,748	6,619	0	184,977	68,033
2022(12)	423	89	423	89	455.036	86.874	200,201	12,119	6,511	0	181,572	60,710
2023(12)	415	86	415	86	454.939	86.874	196,429	11,746	6,382	0	178,302	54,196
2024(12)	407	83	407	83	454.846	86.874	192,113	11,186	6,235	0	174,691	48,274
2025(12)	397	80	397	80	454.757	86.874	187,365	11,228	6,075	0	170,061	42,724
2026(12)	386	76	386	76	454.670	86.874	182,283	11,226	5,904	0	165,153	37,719
2027(12)	375	73	375	73	454.585	86.874	176,951	11,036	5,726	0	160,189	33,260
2028(12)	364	69	364	69	454.502	86.874	171,442	10,742	5,542	0	155,158	29,287
2029(12)	352	66	352	66	454.421	86.874	165,817	10,395	5,355	0	150,067	25,751
2030(12)	340	63	340	63	454.341	86.874	160,128	9,734	5,166	0	145,228	22,655
Sub.	7,458	1,588	7,458	1,588	455.220	86.874	3,532,815	175,919	114,962	0	3,241,933	1,354,921
Rem.	6,978	959	6,978	959	453.656	86.874	3,249,134	714,357	103,338	0	2,431,439	150,346
Total	14,436	2,547	14,436	2,547	454.464	86.874	6,781,948	890,276	218,300	0	5,673,373	1,505,267

	MTons	MMm3
CUMULATIVE	0	0
ULTIMATE	14,436	2,547

GROSS COMPLETIONS		0
PROJECT LIFE	Start:	01/2011
	End:	07/2081

**** PRESENT WORTH PROFILE ****

DISC RATE %	PW OF FNR M$	DISC RATE %	PW OF FNR M$	DISC RATE %	PW OF FNR M$
0.0	5,673,373	25.0	582,193	60.0	193,891
5.0	2,558,136	30.0	469,168	70.0	157,433
10.0	1,505,267	35.0	388,655	80.0	131,058
15.0	1,019,459	40.0	328,845	90.0	111,257
20.0	750,007	50.0	246,793	100.0	95,953

Exhibit 10

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

TOTAL POSSIBLE RESERVES **MILLER AND LENTS, LTD.**
TOTAL COMPANY

Date	Gross Volumes Oil & Cond	Gross Volumes Gas	Net Volumes Oil & Cond	Net Volumes Gas	Average Prices Oil	Average Prices Gas	Net Product Revenues	Net Operating Expenses	Net Taxes	Net Capital	Future Net Revenues Undisc.	Future Net Revenues Disc. 10%
	MTons	MMm3	MTons	MMm3	$/Ton	$/Mm3	M$	M$	M$	M$	M$	M$
2011(12)	12	4	12	4	450.450	86.874	5,930	398	197	0	5,335	5,010
2012(12)	36	10	36	10	450.421	86.874	16,872	1,445	559	0	14,867	12,833
2013(12)	73	19	73	19	452.050	86.874	34,747	2,847	1,145	0	30,755	24,102
2014(12)	122	30	122	30	453.145	86.874	57,951	4,285	1,903	0	51,764	36,985
2015(12)	164	38	164	38	453.541	86.874	77,788	5,636	2,548	0	69,603	45,260
2016(12)	200	46	200	46	453.725	86.874	94,641	6,909	3,095	0	84,637	50,062
2017(12)	230	51	230	51	453.821	86.874	108,853	8,111	3,554	0	97,188	52,279
2018(12)	255	56	255	56	453.870	86.874	120,725	9,248	3,936	0	107,541	52,601
2019(12)	276	59	276	59	453.890	86.874	130,527	10,326	4,250	0	115,951	51,568
2020(12)	293	62	293	62	453.894	86.874	138,500	11,351	4,504	0	122,645	49,593
2021(12)	307	63	307	63	453.887	86.874	144,944	12,434	4,708	0	127,803	46,985
2022(12)	318	64	318	64	453.865	86.874	149,768	13,262	4,859	0	131,647	44,002
2023(12)	326	65	326	65	453.841	86.874	153,465	14,109	4,973	0	134,383	40,836
2024(12)	332	64	332	64	453.812	86.874	156,065	14,346	5,051	0	136,667	37,754
2025(12)	335	64	335	64	453.778	86.874	157,707	13,768	5,099	0	138,841	34,869
2026(12)	337	63	337	63	453.742	86.874	158,515	13,655	5,119	0	139,741	31,908
2027(12)	338	62	338	62	453.702	86.874	158,598	13,931	5,117	0	139,550	28,969
2028(12)	337	61	337	61	453.661	86.874	158,055	14,219	5,094	0	138,742	26,183
2029(12)	335	59	335	59	453.618	86.874	156,973	14,279	5,053	0	137,640	23,614
2030(12)	332	57	332	57	453.573	86.874	155,430	14,162	4,999	0	136,269	21,254
Sub.	4,958	997	4,958	997	453.693	86.874	2,336,055	198,720	75,764	0	2,061,570	716,668
Rem.	9,703	1,144	9,703	1,144	452.721	86.874	4,492,155	959,458	142,004	0	3,390,694	168,990
Total	14,661	2,141	14,661	2,141	453.050	86.874	6,828,210	1,158,177	217,768	0	5,452,264	885,658

	MTons	MMm3
CUMULATIVE	0	0
ULTIMATE	14,661	2,141

GROSS COMPLETIONS		0
PROJECT LIFE	Start:	01/2011
	End:	12/2085

**** PRESENT WORTH PROFILE ****

DISC RATE	PW OF FNR	DISC RATE	PW OF FNR	DISC RATE	PW OF FNR
%	M$	%	M$	%	M$
0.0	5,452,265	25.0	245,577	60.0	59,131
5.0	1,824,821	30.0	184,240	70.0	45,873
10.0	885,658	35.0	143,726	80.0	36,900
15.0	522,078	40.0	115,562	90.0	30,532
20.0	344,971	50.0	79,963	100.0	25,840

Exhibit 11

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

SORTED BY RESERVE CATEGORY AND FIELD
28 MAY

MILLER AND LENTS, LTD.

RESERVE CATEGORY	Total	Gross Volumes		Net Volumes		Net Product	Net Operating	Net	Net	Future Net Revenues	
	No. of	Oil & Cond	Gas	Oil & Cond	Gas	Revenues	Expenses	Taxes	Capital	Undisc.	Disc.10%
Field Name	Compl.	MTons	MMm3	MTons	MMm3	M$	M$	M$	M$	M$	M$
CATEGORY: TOTAL PROVED RESERVES											
28 MAY NGDU	0	0	0	0	0	0	0	130,901	904,930	-1,035,831	-652,040
CHILOV	30	371	24	371	24	162,485	102,777	5,056	0	54,653	32,448
GYUNESHLI	219	55,018	28,875	55,018	28,178	27,614,906	2,142,377	973,924	0	24,498,606	12,621,819
TOTAL PROVED RESERVES	**249**	**55,389**	**28,899**	**55,389**	**28,202**	**27,777,391**	**2,245,154**	**1,109,880**	**904,930**	**23,517,428**	**12,002,226**
CATEGORY: TOTAL PROVED PRODUCING											
CHILOV	30	371	24	371	24	162,485	102,777	5,056	0	54,653	32,448
GYUNESHLI	219	55,018	28,875	55,018	28,178	27,614,906	2,142,377	973,924	0	24,498,606	12,621,819
TOTAL PROVED PRODUCING	**249**	**55,389**	**28,899**	**55,389**	**28,202**	**27,777,391**	**2,245,154**	**978,979**	**0**	**24,553,259**	**12,654,267**
CATEGORY: TOTAL OTHER CAPITAL & PROPERTY TAXES											
28 MAY NGDU	0	0	0	0	0	0	0	130,901	904,930	-1,035,831	-652,040
TOTAL OTHER CAPITAL & PROPERTY TAX	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**130,901**	**904,930**	**-1,035,831**	**-652,040**
CATEGORY: TOTAL PROBABLE RESERVES											
GYUNESHLI	0	11,137	2,360	11,137	2,360	5,299,317	288,203	172,343	0	4,838,772	1,324,645
TOTAL PROBABLE RESERVES	**0**	**11,137**	**2,360**	**11,137**	**2,360**	**5,299,317**	**288,203**	**172,343**	**0**	**4,838,772**	**1,324,645**
CATEGORY: TOTAL POSSIBLE RESERVES											
GYUNESHLI	0	9,692	1,906	9,692	1,906	4,598,859	214,825	148,886	0	4,235,147	683,974
TOTAL POSSIBLE RESERVES	**0**	**9,692**	**1,906**	**9,692**	**1,906**	**4,598,859**	**214,825**	**148,886**	**0**	**4,235,147**	**683,974**

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

SORTED BY RESERVE CATEGORY AND FIELD **MILLER AND LENTS, LTD.**

A. DZH. AMIROV

RESERVE CATEGORY	Total	Gross Volumes		Net Volumes		Net Product	Net Operating	Net	Net	Future Net Revenues	
	No. of	Oil & Cond	Gas	Oil & Cond	Gas	Revenues	Expenses	Taxes	Capital	Undisc.	Disc.10%
Field Name	Compl.	MTons	MMm3	MTons	MMm3	M$	M$	M$	M$	M$	M$
CATEGORY: TOTAL PROVED RESERVES											
A. DZH. AMIROV NGDU	0	0	0	0	0	0	0	4,516	16,010	-20,526	-10,923
KALMAZ	32	33	47	33	47	17,731	8,425	762	0	8,544	5,651
LOKBATAN-PUTA-KUSHKHANA	324	487	14	487	14	211,978	167,953	6,510	0	37,515	22,197
SHABANDAG-SHUBANY-YASAMALSKYA D	60	108	1	108	1	47,702	32,738	1,455	0	13,509	7,216
TOTAL PROVED RESERVES	**416**	**628**	**62**	**628**	**62**	**277,411**	**209,116**	**13,243**	**16,010**	**39,042**	**24,141**
CATEGORY: TOTAL PROVED PRODUCING											
KALMAZ	32	33	47	33	47	17,731	8,425	762	0	8,544	5,651
LOKBATAN-PUTA-KUSHKHANA	324	487	14	487	14	211,978	167,953	6,510	0	37,515	22,197
SHABANDAG-SHUBANY-YASAMALSKYA D	60	108	1	108	1	47,702	32,738	1,455	0	13,509	7,216
TOTAL PROVED PRODUCING	**416**	**628**	**62**	**628**	**62**	**277,411**	**209,116**	**8,727**	**0**	**59,568**	**35,064**
CATEGORY: TOTAL OTHER CAPITAL & PROPERTY TAXES											
A. DZH. AMIROV NGDU	0	0	0	0	0	0	0	4,516	16,010	-20,526	-10,923
TOTAL OTHER CAPITAL & PROPERTY TAX	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**4,516**	**16,010**	**-20,526**	**-10,923**

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

SORTED BY RESERVE CATEGORY AND FIELD
ABSHERONNEFT

MILLER AND LENTS, LTD.

RESERVE CATEGORY	Total	Gross Volumes		Net Volumes		Net Product	Net Operating	Net	Net	Future Net Revenues	
	No. of	Oil & Cond	Gas	Oil & Cond	Gas	Revenues	Expenses	Taxes	Capital	Undisc.	Disc.10%
Field Name	Compl.	MTons	MMm3	MTons	MMm3	M$	M$	M$	M$	M$	M$
CATEGORY: TOTAL PROVED RESERVES											
ABSHERONNEFT NGDU	0	0	0	0	0	0	0	15,888	40,030	-55,918	-39,049
BANKA ABSHERON	17	206	0	206	0	88,229	60,542	2,682	0	25,005	14,627
BANKA DARVINA	105	844	7	844	7	358,537	261,230	10,933	0	86,374	49,435
GYURGAN-DENIZ	1	49	0	49	0	21,450	9,568	652	0	11,230	6,729
PIRALLAKHI	270	554	9	554	9	237,967	204,339	7,274	0	26,354	16,900
TOTAL PROVED RESERVES	**393**	**1,652**	**16**	**1,652**	**16**	**706,184**	**535,680**	**37,428**	**40,030**	**93,046**	**48,642**
CATEGORY: TOTAL PROVED PRODUCING											
BANKA ABSHERON	17	206	0	206	0	88,229	60,542	2,682	0	25,005	14,627
BANKA DARVINA	105	844	7	844	7	358,537	261,230	10,933	0	86,374	49,435
GYURGAN-DENIZ	1	49	0	49	0	21,450	9,568	652	0	11,230	6,729
PIRALLAKHI	270	554	9	554	9	237,967	204,339	7,274	0	26,354	16,900
TOTAL PROVED PRODUCING	**393**	**1,652**	**16**	**1,652**	**16**	**706,184**	**535,680**	**21,541**	**0**	**148,963**	**87,691**
CATEGORY: TOTAL OTHER CAPITAL & PROPERTY TAXES											
ABSHERONNEFT NGDU	0	0	0	0	0	0	0	15,888	40,030	-55,918	-39,049
TOTAL OTHER CAPITAL & PROPERTY TAX	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**15,888**	**40,030**	**-55,918**	**-39,049**
CATEGORY: TOTAL PROBABLE RESERVES											
PIRALLAKHI	0	142	3	142	3	60,878	50,978	1,864	0	8,036	2,827
TOTAL PROBABLE RESERVES	**0**	**142**	**3**	**142**	**3**	**60,878**	**50,978**	**1,864**	**0**	**8,036**	**2,827**
CATEGORY: TOTAL POSSIBLE RESERVES											
PIRALLAKHI	0	237	4	237	4	101,745	85,294	3,111	0	13,339	3,556
TOTAL POSSIBLE RESERVES	**0**	**237**	**4**	**237**	**4**	**101,745**	**85,294**	**3,111**	**0**	**13,339**	**3,556**

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

SORTED BY RESERVE CATEGORY AND FIELD
BALAKHANYNEFT

MILLER AND LENTS, LTD.

RESERVE CATEGORY Field Name	Total No. of Compl.	Gross Volumes Oil & Cond MTons	Gross Volumes Gas MMm3	Net Volumes Oil & Cond MTons	Net Volumes Gas MMm3	Net Product Revenues M$	Net Operating Expenses M$	Net Taxes M$	Net Capital M$	Future Net Revenues Undisc. M$	Future Net Revenues Disc.10% M$
CATEGORY: TOTAL PROVED RESERVES											
BALAKHANYNEFT NGDU	0	0	0	0	0	0	0	5,669	33,020	-38,689	-16,472
BALAKHANY-SABUNCHY	1,209	2,998	116	2,998	116	1,319,698	685,101	40,668	0	593,930	293,373
TOTAL PROVED RESERVES	**1,209**	**2,998**	**116**	**2,998**	**116**	**1,319,698**	**685,101**	**46,336**	**33,020**	**555,241**	**276,901**
CATEGORY: TOTAL PROVED PRODUCING											
BALAKHANY-SABUNCHY	1,209	2,998	116	2,998	116	1,319,698	685,101	40,668	0	593,930	293,373
TOTAL PROVED PRODUCING	**1,209**	**2,998**	**116**	**2,998**	**116**	**1,319,698**	**685,101**	**40,668**	**0**	**593,930**	**293,373**
CATEGORY: TOTAL OTHER CAPITAL & PROPERTY TAXES											
BALAKHANYNEFT NGDU	0	0	0	0	0	0	0	5,669	33,020	-38,689	-16,472
TOTAL OTHER CAPITAL & PROPERTY TAX	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**5,669**	**33,020**	**-38,689**	**-16,472**
CATEGORY: TOTAL PROBABLE RESERVES											
BALAKHANY-SABUNCHY	0	165	3	165	3	72,566	37,422	2,220	0	32,924	8,300
TOTAL PROBABLE RESERVES	**0**	**165**	**3**	**165**	**3**	**72,566**	**37,422**	**2,220**	**0**	**32,924**	**8,300**
CATEGORY: TOTAL POSSIBLE RESERVES											
BALAKHANY-SABUNCHY	0	243	4	243	4	106,572	54,062	3,257	0	49,252	9,687
TOTAL POSSIBLE RESERVES	**0**	**243**	**4**	**243**	**4**	**106,572**	**54,062**	**3,257**	**0**	**49,252**	**9,687**

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

SORTED BY RESERVE CATEGORY AND FIELD
BIBIEIBATNEFT

MILLER AND LENTS, LTD.

RESERVE CATEGORY	Total	Gross Volumes		Net Volumes		Net Product	Net Operating	Net	Net	Future Net Revenues	
	No. of	Oil & Cond	Gas	Oil & Cond	Gas	Revenues	Expenses	Taxes	Capital	Undisc.	Disc.10%
Field Name	Compl.	MTons	MMm3	MTons	MMm3	M$	M$	M$	M$	M$	M$
CATEGORY: TOTAL PROVED RESERVES											
BIBIEIBAT - BIBIEIBAT DENIZ	620	1,458	171	1,458	171	672,199	380,697	21,246	0	270,256	147,465
BIBIEIBATNEFT NGDU	0	0	0	0	0	0	0	5,484	22,568	-28,052	-24,390
TOTAL PROVED RESERVES	**620**	**1,458**	**171**	**1,458**	**171**	**672,199**	**380,697**	**26,730**	**22,568**	**242,204**	**123,075**
CATEGORY: TOTAL PROVED PRODUCING											
BIBIEIBAT - BIBIEIBAT DENIZ	620	1,458	171	1,458	171	672,199	380,697	21,246	0	270,256	147,465
TOTAL PROVED PRODUCING	**620**	**1,458**	**171**	**1,458**	**171**	**672,199**	**380,697**	**21,246**	**0**	**270,256**	**147,465**
CATEGORY: TOTAL OTHER CAPITAL & PROPERTY TAXES											
BIBIEIBATNEFT NGDU	0	0	0	0	0	0	0	5,484	22,568	-28,052	-24,390
TOTAL OTHER CAPITAL & PROPERTY TAX	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**5,484**	**22,568**	**-28,052**	**-24,390**
CATEGORY: TOTAL PROBABLE RESERVES											
BIBIEIBAT - BIBIEIBAT DENIZ	0	48	3	48	3	22,122	11,257	687	0	10,178	2,263
TOTAL PROBABLE RESERVES	**0**	**48**	**3**	**48**	**3**	**22,122**	**11,257**	**687**	**0**	**10,178**	**2,263**
CATEGORY: TOTAL POSSIBLE RESERVES											
BIBIEIBAT - BIBIEIBAT DENIZ	0	73	4	73	4	33,153	16,886	1,028	0	15,239	2,608
TOTAL POSSIBLE RESERVES	**0**	**73**	**4**	**73**	**4**	**33,153**	**16,886**	**1,028**	**0**	**15,239**	**2,608**

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

SORTED BY RESERVE CATEGORY AND FIELD **MILLER AND LENTS, LTD.**
G. Z. TAGIEV

RESERVE CATEGORY Field Name	Total No. of Compl.	Gross Volumes Oil & Cond MTons	Gross Volumes Gas MMm3	Net Volumes Oil & Cond MTons	Net Volumes Gas MMm3	Net Product Revenues M$	Net Operating Expenses M$	Net Taxes M$	Net Capital M$	Future Net Revenues Undisc. M$	Future Net Revenues Disc.10% M$
CATEGORY: TOTAL PROVED RESERVES											
BUZOVNA-MASHTAGA	77	48	0	48	0	20,596	12,861	626	0	7,109	6,000
G. Z. TAGIEV NGDU	0	0	0	0	0	0	0	2,110	5,780	-7,890	-6,542
KALA-OLD KALA	75	44	4	44	4	19,934	15,037	625	0	4,272	3,646
TOTAL PROVED RESERVES	**152**	**91**	**4**	**91**	**4**	**40,531**	**27,898**	**3,362**	**5,780**	**3,491**	**3,104**
CATEGORY: TOTAL PROVED PRODUCING											
BUZOVNA-MASHTAGA	77	48	0	48	0	20,596	12,861	626	0	7,109	6,000
KALA-OLD KALA	75	44	4	44	4	19,934	15,037	625	0	4,272	3,646
TOTAL PROVED PRODUCING	**152**	**91**	**4**	**91**	**4**	**40,531**	**27,898**	**1,251**	**0**	**11,381**	**9,646**
CATEGORY: TOTAL OTHER CAPITAL & PROPERTY TAXES											
G. Z. TAGIEV NGDU	0	0	0	0	0	0	0	2,110	5,780	-7,890	-6,542
TOTAL OTHER CAPITAL & PROPERTY TAX	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**2,110**	**5,780**	**-7,890**	**-6,542**

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

SORTED BY RESERVE CATEGORY AND FIELD
KARACHUKHUR

MILLER AND LENTS, LTD.

RESERVE CATEGORY	Total	Gross Volumes		Net Volumes		Net Product	Net Operating	Net	Net	Future Net Revenues	
	No. of	Oil & Cond	Gas	Oil & Cond	Gas	Revenues	Expenses	Taxes	Capital	Undisc.	Disc.10%
Field Name	Compl.	MTons	MMm3	MTons	MMm3	M$	M$	M$	M$	M$	M$
CATEGORY: TOTAL PROVED RESERVES											
KARACHUKHUR	56	49	14	49	14	23,621	17,749	952	2,120	2,799	2,516
TOTAL PROVED RESERVES	**56**	**49**	**14**	**49**	**14**	**23,621**	**17,749**	**952**	**2,120**	**2,799**	**2,516**
CATEGORY: TOTAL PROVED PRODUCING											
KARACHUKHUR	56	49	14	49	14	23,621	17,749	783	0	5,088	4,251
TOTAL PROVED PRODUCING	**56**	**49**	**14**	**49**	**14**	**23,621**	**17,749**	**783**	**0**	**5,088**	**4,251**
CATEGORY: TOTAL OTHER CAPITAL & PROPERTY TAXES											
KARACHUKHUR	0	0	0	0	0	0	0	169	2,120	-2,289	-1,735
TOTAL OTHER CAPITAL & PROPERTY TAX	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**169**	**2,120**	**-2,289**	**-1,735**

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

SORTED BY RESERVE CATEGORY AND FIELD
MURADKHANLY

MILLER AND LENTS, LTD.

RESERVE CATEGORY	Total	Gross Volumes		Net Volumes		Net Product	Net Operating	Net	Net	Future Net Revenues	
	No. of	Oil & Cond	Gas	Oil & Cond	Gas	Revenues	Expenses	Taxes	Capital	Undisc.	Disc.10%
Field Name	Compl.	MTons	MMm3	MTons	MMm3	M$	M$	M$	M$	M$	M$
CATEGORY: TOTAL PROVED RESERVES											
DZHAFARLY (GAFARLI)	19	177	0	177	0	79,299	36,692	2,410	0	40,196	22,897
MURADKHANLY	44	176	0	176	0	78,777	54,431	2,394	0	21,952	11,631
MURADKHANLY NGDU	0	0	0	0	0	0	0	3,398	4,000	-7,398	-5,515
TOTAL PROVED RESERVES	**63**	**353**	**0**	**353**	**0**	**158,075**	**91,122**	**8,203**	**4,000**	**54,750**	**29,014**
CATEGORY: TOTAL PROVED PRODUCING											
DZHAFARLY (GAFARLI)	19	177	0	177	0	79,299	36,692	2,410	0	40,196	22,897
MURADKHANLY	44	176	0	176	0	78,777	54,431	2,394	0	21,952	11,631
TOTAL PROVED PRODUCING	**63**	**353**	**0**	**353**	**0**	**158,075**	**91,122**	**4,805**	**0**	**62,148**	**34,528**
CATEGORY: TOTAL OTHER CAPITAL & PROPERTY TAXES											
MURADKHANLY NGDU	0	0	0	0	0	0	0	3,398	4,000	-7,398	-5,515
TOTAL OTHER CAPITAL & PROPERTY TAX	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**3,398**	**4,000**	**-7,398**	**-5,515**
CATEGORY: TOTAL PROBABLE RESERVES											
DZHAFARLY (GAFARLI)	0	18	0	18	0	8,273	2,276	251	0	5,746	1,750
TOTAL PROBABLE RESERVES	**0**	**18**	**0**	**18**	**0**	**8,273**	**2,276**	**251**	**0**	**5,746**	**1,750**
CATEGORY: TOTAL POSSIBLE RESERVES											
DZHAFARLY (GAFARLI)	0	34	0	34	0	15,188	6,648	462	0	8,078	2,022
TOTAL POSSIBLE RESERVES	**0**	**34**	**0**	**34**	**0**	**15,188**	**6,648**	**462**	**0**	**8,078**	**2,022**

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

SORTED BY RESERVE CATEGORY AND FIELD **MILLER AND LENTS, LTD.**

N. NARIMANOV

RESERVE CATEGORY Field Name	Total No. of Compl.	Gross Volumes Oil & Cond MTons	Gross Volumes Gas MMm3	Net Volumes Oil & Cond MTons	Net Volumes Gas MMm3	Net Product Revenues M$	Net Operating Expenses M$	Net Taxes M$	Net Capital M$	Future Net Revenues Undisc. M$	Future Net Revenues Disc.10% M$
CATEGORY: TOTAL PROVED RESERVES											
8 MARCH	7	166	59	166	59	78,537	24,971	2,670	0	50,896	36,863
ALYAT-DENIZ	17	706	323	706	323	343,319	130,772	11,979	0	200,567	94,766
BULLA-DENIZ	15	63	22	63	22	37,745	13,416	1,251	0	23,078	10,570
N. NARIMANOV NGDU	0	0	0	0	0	0	0	15,422	59,500	-74,922	-49,431
SDKHZ	145	4,033	825	4,033	817	1,895,520	879,160	61,517	0	954,843	463,722
TOTAL PROVED RESERVES	**184**	**4,967**	**1,229**	**4,967**	**1,222**	**2,355,121**	**1,048,319**	**92,839**	**59,500**	**1,154,462**	**556,490**
CATEGORY: TOTAL PROVED PRODUCING											
8 MARCH	7	166	59	166	59	78,537	24,971	2,670	0	50,896	36,863
ALYAT-DENIZ	17	706	323	706	323	343,319	130,772	11,979	0	200,567	94,766
BULLA-DENIZ	15	63	22	63	22	37,745	13,416	1,251	0	23,078	10,570
SDKHZ	145	4,033	825	4,033	817	1,895,520	879,160	61,517	0	954,843	463,722
TOTAL PROVED PRODUCING	**184**	**4,967**	**1,229**	**4,967**	**1,222**	**2,355,121**	**1,048,319**	**77,418**	**0**	**1,229,384**	**605,921**
CATEGORY: TOTAL OTHER CAPITAL & PROPERTY TAXES											
N. NARIMANOV NGDU	0	0	0	0	0	0	0	15,422	59,500	-74,922	-49,431
TOTAL OTHER CAPITAL & PROPERTY TAX	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**15,422**	**59,500**	**-74,922**	**-49,431**
CATEGORY: TOTAL PROBABLE RESERVES											
ALYAT-DENIZ	0	160	41	160	41	75,147	28,979	2,478	0	43,690	7,942
SDKHZ	0	914	66	914	66	419,224	177,738	13,056	0	228,431	45,010
TOTAL PROBABLE RESERVES	**0**	**1,074**	**106**	**1,074**	**106**	**494,371**	**206,717**	**15,534**	**0**	**272,121**	**52,952**
CATEGORY: TOTAL POSSIBLE RESERVES											
ALYAT-DENIZ	0	252	51	252	51	116,958	45,536	3,798	0	67,624	9,088
SDKHZ	0	1,440	81	1,440	81	658,403	300,261	20,401	0	337,740	47,579
TOTAL POSSIBLE RESERVES	**0**	**1,691**	**132**	**1,691**	**132**	**775,361**	**345,797**	**24,200**	**0**	**405,364**	**56,667**

BEFORE FEDERAL INCOME TAX ECONOMICS

AS OF JANUARY 1, 2011

SORTED BY RESERVE CATEGORY AND FIELD
NEFTYANYE KAMNI

MILLER AND LENTS, LTD.

		Gross Volumes		Net Volumes		Net	Net			Future Net Revenues	
	Total					Product	Operating	Net	Net		
RESERVE CATEGORY	No. of	Oil & Cond	Gas	Oil & Cond	Gas	Revenues	Expenses	Taxes	Capital	Undisc.	Disc.10%
Field Name	Compl.	MTons	MMm3	MTons	MMm3	M$	M$	M$	M$	M$	M$
CATEGORY: TOTAL PROVED RESERVES											
GRYAZEVYA SOPKA	107	1,289	108	1,289	108	559,116	316,055	17,512	0	225,549	131,618
NEFTYANYE KAMNI	333	9,867	539	9,867	539	4,426,127	1,566,501	137,106	0	2,722,520	1,388,007
NEFTYANYE KAMNI NGDU	0	0	0	0	0	0	0	57,292	381,280	-438,572	-258,242
TOTAL PROVED RESERVES	**440**	**11,156**	**647**	**11,156**	**647**	**4,985,243**	**1,882,556**	**211,910**	**381,280**	**2,509,496**	**1,261,382**
CATEGORY: TOTAL PROVED PRODUCING											
GRYAZEVYA SOPKA	107	1,289	108	1,289	108	559,116	316,055	17,512	0	225,549	131,618
NEFTYANYE KAMNI	333	9,867	539	9,867	539	4,426,127	1,566,501	137,106	0	2,722,520	1,388,007
TOTAL PROVED PRODUCING	**440**	**11,156**	**647**	**11,156**	**647**	**4,985,243**	**1,882,556**	**154,618**	**0**	**2,948,068**	**1,519,624**
CATEGORY: TOTAL OTHER CAPITAL & PROPERTY TAXES											
NEFTYANYE KAMNI NGDU	0	0	0	0	0	0	0	57,292	381,280	-438,572	-258,242
TOTAL OTHER CAPITAL & PROPERTY TAX	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**57,292**	**381,280**	**-438,572**	**-258,242**
CATEGORY: TOTAL PROBABLE RESERVES											
GRYAZEVYA SOPKA	0	197	14	197	14	85,412	43,780	2,662	0	38,970	10,693
NEFTYANYE KAMNI	0	1,654	58	1,654	58	739,008	249,644	22,738	0	466,626	101,837
TOTAL PROBABLE RESERVES	**0**	**1,851**	**72**	**1,851**	**72**	**824,420**	**293,424**	**25,400**	**0**	**505,596**	**112,530**
CATEGORY: TOTAL POSSIBLE RESERVES											
GRYAZEVYA SOPKA	0	295	19	295	19	127,672	65,365	3,973	0	58,334	12,523
NEFTYANYE KAMNI	0	2,396	71	2,396	71	1,069,662	369,300	32,851	0	667,511	114,621
TOTAL POSSIBLE RESERVES	**0**	**2,692**	**90**	**2,692**	**90**	**1,197,334**	**434,665**	**36,824**	**0**	**725,845**	**127,144**

State Oil Company of Azerbaijan Republic
LIST OF FIELDS EVALUATED
As of January 1, 2011

Field	NGDU	Current Status
Offshore		
Chilov	28 May	Producing
Gyuneshli	28 May	Producing
Banka Absheron	Absheronneft	Producing
Banka Darvina	Absheronneft	Producing
Gyurgan-Deniz	Absheronneft	Producing
Pirallakhi	Absheronneft	Producing
8 March	N. Narimanov	Producing
Alyat-Deniz	N. Narimanov	Producing
Bulla-Deniz	N. Narimanov	Producing
SDKhZ	N. Narimanov	Producing
Gryazevya Sopka	Neftyanye Kamni	Producing
Neftyanye Kamni	Neftyanye Kamni	Producing
Onshore		
Kalmaz	A. Dzh. Amirov	Producing
Lokbatan-Puta-Kushkhana	A. Dzh. Amirov	Producing
Shabandag-Shubany-Yasamalskya Dolina-Atashkya	A. Dzh. Amirov	Producing
Balakhany-Sabunchy	Balakhanyneft	Producing
Bibieibat - Bibieibat Deniz	Bibieibatneft	Producing
Buzovna-Mashtaga	G. Z. Tagiev	Producing
Kala-Old Kala	G. Z. Tagiev	Producing
Dzhafarly (Gafarli)	Muradkhanly	Producing
Muradkhanly	Muradkhanly	Producing
Karachukhur	Karachukhur	Producing

State Oil Company of Azerbaijan Republic
OIL AND GAS PRICING
Average December 2010

A. Export Oil Price	**$US/Tonne**	**Manat/Tonne**
Contract Price	**639.20**	**513.35**
Less: Transportation	15.92	12.79
Export Duties	166.15	133.43
Other Expenses for Export	0.08	0.06
Freight	0.02	0.02
Excise Tax	0.00	0.00
Commissions for Firm-Exporter	2.70	2.17
Total Deductions	**184.86**	**148.46**
Net Export Oil Price	**454.34**	**364.88**
Percent Oil Exported (Yearly Average)	**100.0%**	
B. Domestic Oil Price	**$US/Tonne**	**Manat/Tonne**
Contract Price	**78.76**	**63.25**
Less: VAT and Special Tax	12.02	9.65
Excise Tax	0.00	0.00
Total Deductions	**12.02**	**9.65**
Net Domestic Oil Price	**66.74**	**53.60**
AVERAGE NET OIL PRICE	**454.34 $/Tonne**	
	62.51 $/Bbl	

C. Onshore Gas Price	**$US/1000m^3**	**Manat/1000m^3**
Net Onshore Gas Price	**86.74**	**69.66**
D. Offshore Gas Price	**$US/1000m^3**	**Manat/1000m^3**
Net Offshore Gas Price	**86.74**	**69.66**
AVERAGE NET GAS PRICE		
Onshore	**2.46 $/MCF**	
Offshore	**2.46 $/MCF**	

Conversion Factors:

Bbl per Tonne	7.269
Manat per U.S. $ (average December 2010)	0.803

State Oil Company of Azerbaijan Republic
OPERATING EXPENSES
NGDU - Onshore
2010
(Thousands of U.S. Dollars)

Cost Item	A.Dzh.Amirov Oil	A.Dzh.Amirov Gas	Balakhanyneft Oil	Bibieibatneft Oil	G.Z. Tagiev Oil	Muradkhanly Oil	Karachukhur Oil
1. Tangible	2,646	372	6,336	4,456	3,183	371	618
2. Salary	4,768	1,075	9,518	5,405	7,417	1,708	1,046
3. Social Deductions	952	219	1,950	1,115	1,571	342	228
4. Main Assets Depreciation	1,390	148	3,558	528	608	228	262
5. Workover and Maintenance	2,096	270	5,406	2,691	4,291	766	1,673
6. Transportation Costs	2,467	265	161	3,158	2,079	1,530	620
7. Security	235	31	1,980	1,677	1,683	736	508
8. Electric Power	946	216	4,101	1,966	2,661	257	566
9. Production Tax	0	0	0	0	0	0	0
10. Other Taxes (Except for Profit Taxes)	3,277	640	2,497	1,267	2,242	547	1,465
11. Communal Costs	100	15	448	113	246	0	56
12. Other Costs	2,794	277	5,821	2,922	2,661	675	1,331
TOTAL EXPENSE	**21,669**	**3,528**	**41,776**	**25,297**	**28,643**	**7,161**	**8,372**
13. Less: Total Depreciation (Depr. Of Oil Wells + Other Depr.)	1,390	148	3,558	528	608	228	262
14. Less: Commercial Expenses	0	0	0	0	0	0	0
15. Less: Restoration, Recompletion of Wells	0	0	0	0	0	0	0
Total Deductions	**1,390**	**148**	**3,558**	**528**	**608**	**228**	**262**
TOTAL NET OPERATING EXPENSE	**20,280**	**3,380**	**38,218**	**24,769**	**28,035**	**6,933**	**8,110**
AVERAGE MONTHLY OPERATING COSTS	**1,690**	**282**	**3,185**	**2,064**	**2,336**	**578**	**676**
Operating Cost Distribution, US$							
60% Per Oil Completion Per Month	**2,504**		**1,581**	**1,998**	**9,222**	**5,502**	**7,241**
40% Per Barrel of Oil Produced	**17.88**		**10.43**	**11.52**	**25.04**	**12.45**	**22.06**
100% Per Gas Completion Per Month		**25,604**					
Active Wells:	**405**	**11**	**1,209**	**620**	**152**	**63**	**56**
Average Monthly Oil Production, Tonnes:	**5,462**		**17,483**	**9,917**	**5,308**	**2,593**	**1,667**
Average Monthly Oil Production, Barrels:	**37,803**		**122,185**	**71,682**	**37,318**	**18,564**	**12,253**
Conversion factor (Bbl/Tonnes):	**6.922**		**6.989**	**7.228**	**7.030**	**7.160**	**7.352**
Exchange Rate (Januaryr 1, 2011):	**0.797**	**0.797**	**0.797**	**0.797**	**0.797**	**0.797**	**0.797**

State Oil Company of Azerbaijan Republic
OPERATING EXPENSES
NGDU - Offshore
2010
(Thousands of U.S. Dollars)

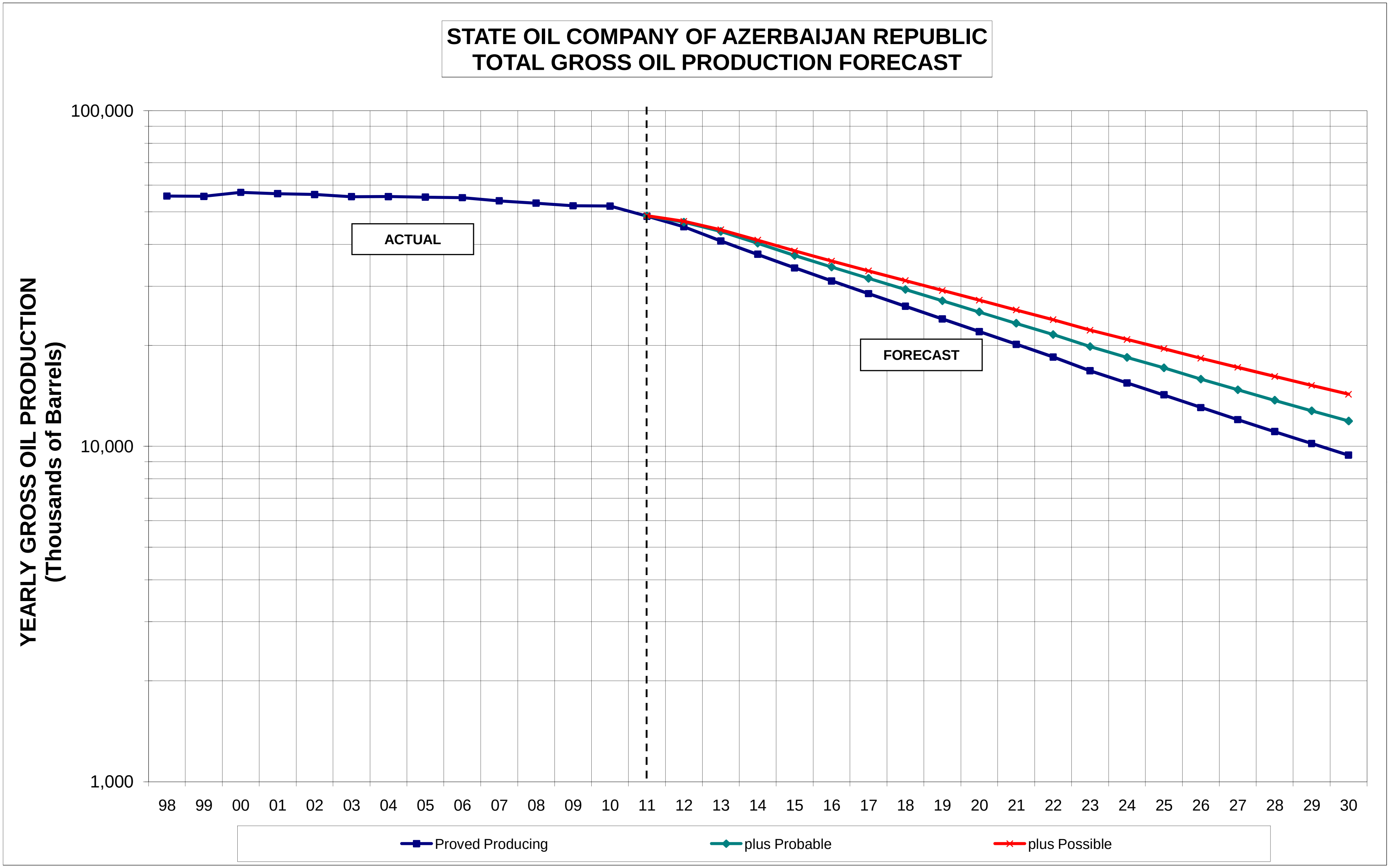
Cost Item	28 May Oil	28 May Gas	Absheronneft Oil	N. Narimanov Oil	N. Narimanov Gas	Neftyanye Kamni Oil
1. Tangible	9,760	12,660	5,859	6,242	3,348	8,632
2. Salary	18,811	11,115	18,681	14,367	8,658	28,940
3. Social Deductions	4,175	1,980	3,736	2,867	1,726	5,588
4. Main Assets Depreciation	53,151	74,700	2,000	28,529	16,125	30,648
5. Workover and Maintenance	20,504	32,355	13,187	13,215	7,914	42,304
6. Transportation Costs	13,627	17,674	9,393	9,804	6,284	11,751
7. Security	2,499	3,242	2,689	2,294	1,400	3,198
8. Electric Power	110	53	958	1,142	549	0
9. Production Tax	0	0	0	0	0	0
10. Other Taxes (Except for Profit Taxes)	4,996	6,480	2,607	1,654	835	4,964
11. Communal Costs	286	401	84	158	98	1,179
12. Other Costs	7,109	9,221	4,210	4,860	2,918	6,180
TOTAL EXPENSE	**135,030**	**169,881**	**63,404**	**85,132**	**49,856**	**143,383**
13. Less: Total Depreciation (Depr. Of Oil Wells + Other Depr.)	53,151	74,700	2,000	28,529	16,125	30,648
14. Less: Commercial Expenses	0	0	0	0	0	0
15. Less: Restoration, Recompletion of Wells	0	0	0	0	0	0
Total Deductions	**53,151**	**74,700**	**2,000**	**28,529**	**16,125**	**30,648**
TOTAL NET OPERATING EXPENSE	**81,879**	**95,181**	**61,403**	**56,603**	**33,731**	**112,735**
AVERAGE MONTHLY OPERATING COSTS	**6,823**	**7,932**	**5,117**	**4,717**	**2,811**	**9,395**
Operating Cost Distribution, US$						
60% Per Oil Completion Per Month	**20,887**		**7,812**	**17,470**		**12,811**
40% Per Barrel of Oil Produced	**0.63**		**20.78**	**8.10**		**7.07**
100% Per Gas Completion Per Month		**155,524**			**127,768**	
Active Wells:	**196**	**51**	**393**	**162**	**22**	**440**
Average Monthly Oil Production, Tonnes:	**595,605**		**14,417**	**32,174**		**75,208**
Average Monthly Oil Production, Barrels:	**4,360,191**		**98,510**	**232,926**		**531,649**
Conversion factor (Bbl/Tonnes):	**7.321**		**6.833**	**7.240**		**7.069**
Exchange Rate (Januaryr 1, 2011):	**0.797**	**0.797**	**0.797**	**0.797**	**0.797**	**0.797**

State Oil Company of Azerbaijan Republic
FORECAST OF OTHER CAPITAL INVESTMENTS
(Does not include CAPEX for drilling and recompletion of wells and well workovers)

NGDU - Onshore

(Thousands of U.S. Dollars)

Year	A.Dzh.Amirov	Balakhanyneft	Bibieibatneft	G.Z. Tagiev	Muradkhanly	Karachukhur	28 May	Absheronneft	N. Narimanov	Neftyanye Kamni
2011	1,900	1,000	11,883	1,250	1,000	0	95,000	10,000	9,500	46,400
2012	870	40	10,125	1,510	1,000	530	161,430	10,000	7,950	75,000
2013	870	2,160	125	1,510	500	530	160,500	2,750	6,400	32,000
2014	900	2,000	310	1,510	500	530	60,000	1,050	6,200	13,000
2015	350	1,920	125	1,510	0	530	60,000	1,050	5,700	16,500
2016	900	1,400	0	1,510	500	530	93,000	1,675	2,500	11,480
2017	870	840	0	1,510	0	530	10,000	1,835	4,500	18,000
2018	900	840	0	1,510	500	530	5,000	2,670	3,000	14,500
2019	1,300	2,280	0	510	0	530	20,000	2,000	5,500	27,400
2020	950	280	0	510	0	530	20,000	2,000	700	13,000
2021	450	2,000	0	510	0	530	20,000	500	900	12,000
2022	450	2,000	0	510	0	530	20,000	1,000	650	12,000
2023	900	2,000	0	510	0	530	20,000	500	500	12,000
2024	550	3,140	0	510	0	530	20,000	500	1,500	10,000
2025	550	2,000	0	510	0	0	20,000	500	1,000	10,000
2026	600	1,520	0	510	0	0	20,000	500	0	10,000
2027	600	1,520	0	0	0	0	20,000	500	1,000	10,000
2028	600	1,520	0	0	0	0	20,000	500	1,000	10,000
2029	500	1,520	0	0	0	0	20,000	500	1,000	10,000
2030	500	1,520	0	0	0	0	20,000	0	0	9,000
2031	500	1,520	0	0	0	0	20,000	0	0	9,000
Total	**16,010**	**33,020**	**22,568**	**15,900**	**4,000**	**6,890**	**904,930**	**40,030**	**59,500**	**381,280**



Attachment 5

This page is part of a Miller and Lents, Ltd. (TREF No. F-1442) report and should not be used independently of the report.

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