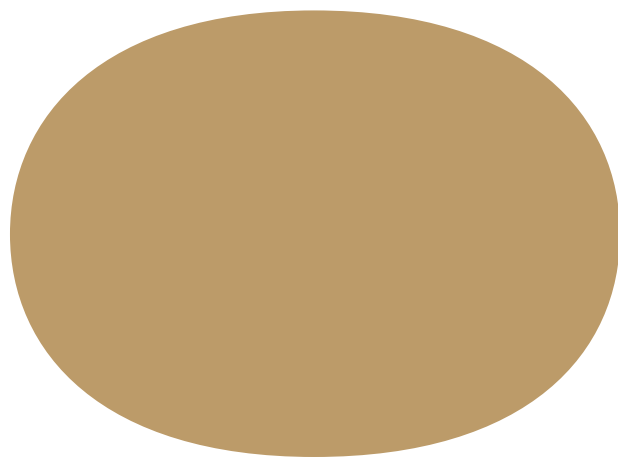
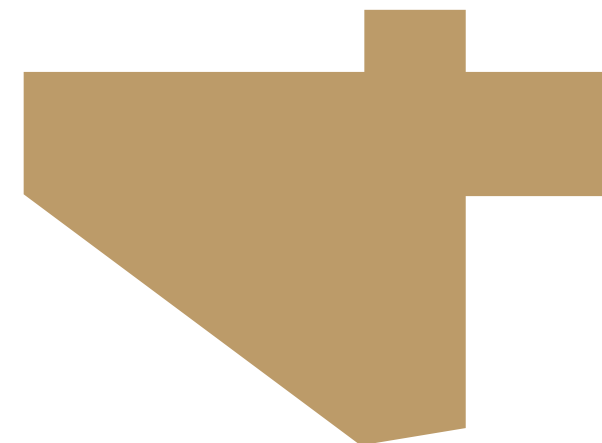




The State Oil Fund of the
Republic of Azerbaijan





ANNUAL REPORT

2014



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*Baku School
flower (symbol
of paradise)
Entrance door*



The State Oil Fund of the Republic of Azerbaijan (SOFAZ) was established in accordance with the Decree of national leader Heydar Aliyev No. 240 on December 29, 1999. The Fund is a mechanism whereby energy-related earnings are accumulated and efficiently managed for future generations.

SOFAZ is structured as an extra-budgetary fund and functions as the legal entity separate from the government or central bank. Statute of the Oil Fund was approved in 2000.

The cornerstone of the philosophy behind the Fund is to ensure intergenerational equality with regard to benefit from the country's oil wealth and to safeguard the economic security of future generations.

ABOUT THE FUND



MISSION

SOFAZ's mission is to transform depletable hydrocarbon reserves into financial assets generating perpetual income for current and future generations, to finance strategically important infrastructure and social projects of national scale and to ensure the representation of the country in international agreements on joint exploration of natural resources.

OBJECTIVES

Fund's activity is directed to the achievement of the following objectives:

1. Preserving macroeconomic stability, ensuring fiscal-tax discipline, decreasing dependence on oil revenues while stimulating development of the non-oil sector;
2. Funding major national scale projects to support socio-economic progress.
3. Ensuring intergenerational equality with regard to the country's oil wealth, accumulating and preserving oil revenues for future generations;

LEGAL FRAMEWORK

The Fund's operations are guided by the Constitution and laws of the Republic of Azerbaijan, Presidential decrees and resolutions, SOFAZ Statute and the Fund's regulations.

SOFAZ's funding and withdrawal rules are clearly defined by the "Statute of SOFAZ" and "Rules on the preparation and execution of the annual program of revenues and expenditures (budget) of the State Oil Fund of the Republic of Azerbaijan". According to the Law "On budget system" of the Republic of Azerbaijan, all SOFAZ expenditures, except for operating expenditures, are incorporated as part of an annual consolidated government budget presented to the Parliament for approval. Thus, indirectly, all citizens participate in the discussions of the budget of the State Oil Fund of the Republic of Azerbaijan. In compliance with this law, SOFAZ can only execute the expenditures envisaged by its budget.

Fund's investment and risk management policies are defined by

"Investment Guidelines" and "Investment Policy" approved by the President of the Republic of Azerbaijan after the review of the Supervisory Board. According to its "Investment Policy", Fund's investment decisions should aim at maximizing the risk adjusted returns. According to the "Investment Guidelines", SOFAZ makes investment decisions independently.

ABOUT THE FUND

In 2004, the President of the Republic of Azerbaijan Ilham Aliyev approved “Long-term Strategy on the management of oil and gas resources”. This document is considered as a crucial milestone for the long-term prosperity of the country, outlining the development of the non-oil sector, human capital and competitive economy. The Oil Fund is one of the central components in the implementation of the Strategy.



OUR VALUES: RESPECT, TEAMWORK, TRUST AND TRANSPARENCY

Since its very inception, SOFAZ has built a strong cooperation with a number of financial organizations and institutions in Azerbaijan and globally. Fund’s relations with its partners are based on the principles of mutual respect trust, teamwork and transparency.

RESPECT	TEAMWORK	TRUST	TRANSPARENCY
<i>SOFAZ’s relations with international organizations, financial institutions, government bodies as well as its employees are based on mutual respect. Deeply rooted into the Fund’s philosophy, trust and respect are the main factors in maintaining healthy relations in workplace and cooperating fruitfully with partners.</i>	<i>It is through teamwork and joint efforts that SOFAZ succeeds in all of its endeavors and strengthens its prestige locally and worldwide. Building strong working relationships, praising personal achievements and encouraging teamwork contribute to the establishment, as well as further development of professional work environment.</i>	<i>Since its inception, SOFAZ adheres to the highest standards of ethical behavior and honesty to gain the trust of its partners. SOFAZ expects all of its business partners to operate on the same principles of mutual trust and cooperation.</i>	<i>SOFAZ’s activities are based on the principles of transparency and accountability. Internationally praised as a credible and transparent institution, SOFAZ, in line with the foremost international practices, ensures the highest level of transparency towards its counterparties, employees and external managers.</i>

FACTS AT GLANCE

Chart 2.1. Growth in SOFAZ assets (USD billion)

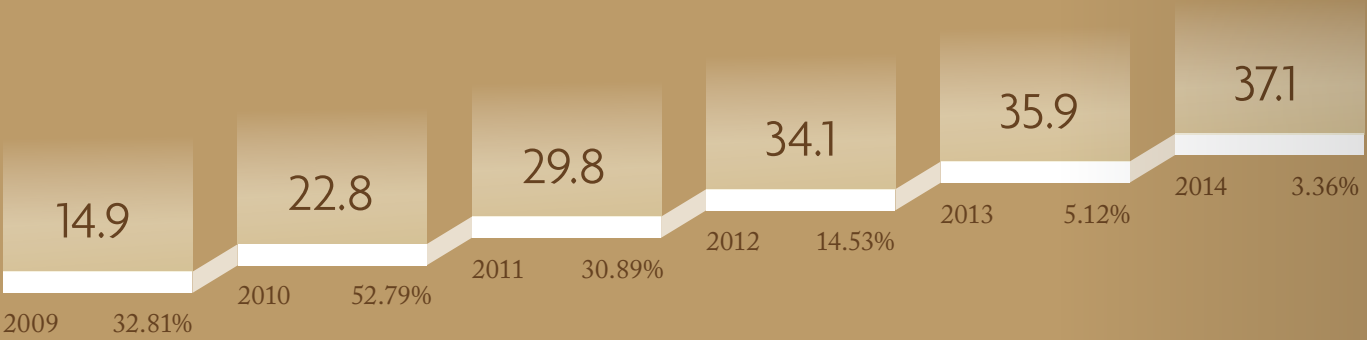


Chart 2.2. Return on portfolio

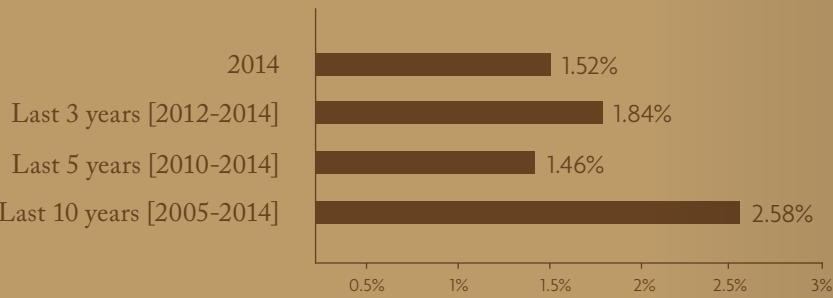


Chart 2.3. Currency composition

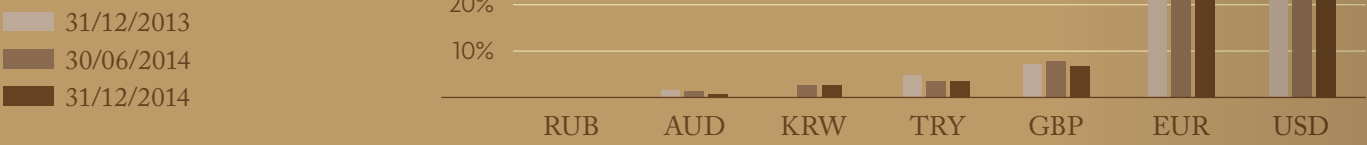
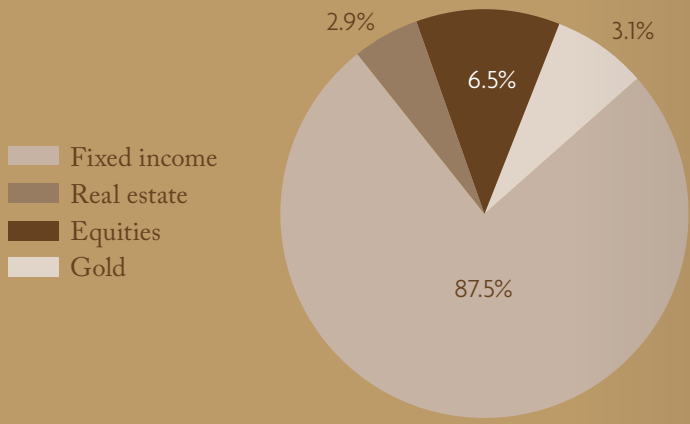


Chart 2.4. Current asset allocation





3.1. SOFAZ MANAGEMENT

The Supervisory Board, consisting of representatives of the state authorities and public organizations, carries out general oversight of the Fund’s operations.

SUPERVISORY BOARD

The Board reviews and evaluates the Fund’s draft annual budget, annual report and financial statements, along with audit report. Members of the Supervisory Board are approved by the President of the Republic of Azerbaijan. The board members act on an entirely voluntary basis.

Supervisory Board consists of the following members:

Artur RASIZADE

Prime Minister of the Republic of Azerbaijan

Valeh ALESGEROV

Vice-Speaker of the Parliament (Milli Majlis) of the Republic of Azerbaijan

Vahid AKHUNDOV

State Economic Policy Adviser of the Republic of Azerbaijan

Samir SHARIFOV

Minister of Finance of the Republic of Azerbaijan

Shahin MUSTAFAYEV

Minister of Economy and Industry of the Republic of Azerbaijan

Elman RUSTAMOV

Governor of the Central Bank of the Republic of Azerbaijan

On 28 March 2014 Supervisory Board by the means of request discussed and approved the amendments to the Fund’s 2014 annual budget.

On 24 April 2014 Supervisory Board held a meeting. At the meeting, election of chairman of the Supervisory Board was discussed and Prime Minister of Azerbaijan Republic Artur Rasizade was elected the chairman of the Supervisory Board for the next term. Simultaneously, Oil Fund’s 2013 annual report, the

audit findings of financial activates, Fund’s budget execution were discussed and deemed satisfactory.



Gazakh School 'gyol' with tribal motifs
Board Meeting Room wall panel



EXECUTIVE DIRECTOR

The Oil Fund’s day-to-day activities are managed by the Executive Director appointed by the President of the Republic of Azerbaijan.

The Executive Director represents the Fund, appoints and dismisses employees of the Fund in a manner determined by the legislation, carries out operational management of the Fund’s activities, ensures the management and investment of the Fund’s assets in accordance with the Guidelines approved by the President of the Republic of Azerbaijan.

DEPUTY EXECUTIVE DIRECTOR

Deputy Executive Director is appointed by the President of the Republic of Azerbaijan. Israfil Mammadov was appointed as Deputy Executive Director of SOFAZ on July 23, 2013.

SOFAZ ORGANIZATIONAL STRUCTURE

Investment activity at SOFAZ is conducted by front, middle and back offices. Front and middle office are responsible for investment and risk management functions, respectively.

INVESTMENT DEPARTMENT (FRONT OFFICE)

The Investment Department is responsible for developing investment strategy, investing across eligible asset classes, including fixed income, money market instruments, equity, real estate and gold.

- The department has 3 divisions:
- the Fixed income and money market division;
 - the Equity and alternative investment division;
 - the Real estate division.

RISK MANAGEMENT DEPARTMENT (MIDDLE OFFICE)

The Risk Management Department is responsible for conducting the assessment of investment activities, proposing changes to the Fund’s investment policy and strategic asset allocation (SAA), selecting benchmarks and defining the risk limits. In addition, this department is also responsible for performance attribution, modelling and research, compliance, and supervision of external managers.

- The department has 2 divisions:
- the Risk and performance measurement division;
 - the External asset management/research division.

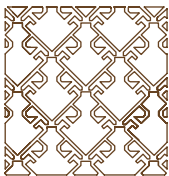
SETTLEMENTS DEPARTMENT (BACK OFFICE)

Settlements department operates under the Fund’s Finance and Operations Administration.

The Settlements department is responsible for verifying trades with counterparties, settling trades with the custodian and correspondent banks, reconciling cash and transactions with statements from the banks, as well as reconciling external managers’ transactions and positions.

BUDGET FORECASTING AND PROJECTS DEPARTMENT

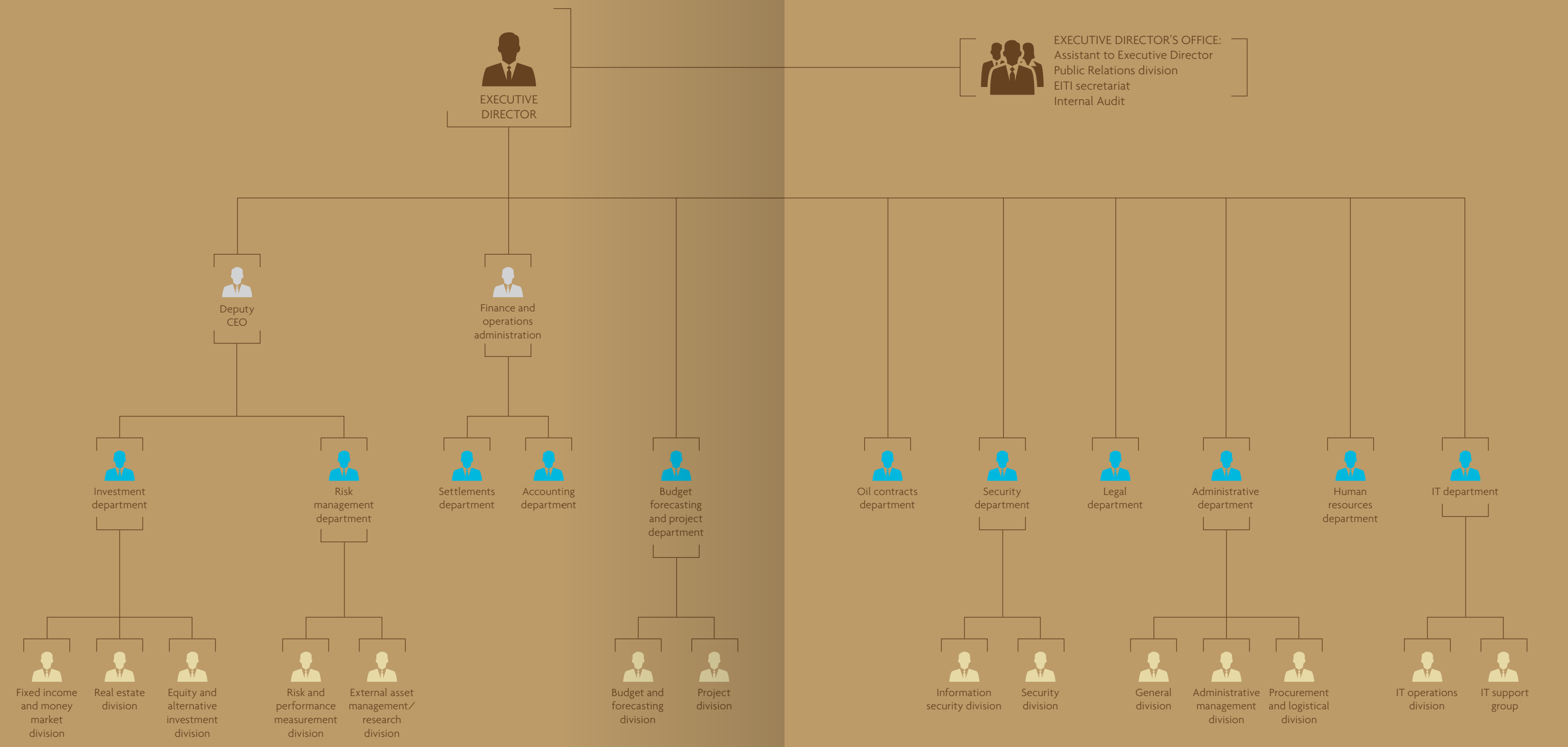
The budget forecasting and projects department is responsible for forecasting SOFAZ’s revenues and expenditures, organizing budgeting, economic analysis, strategic research and macroeconomic modelling work, as well as organizing and supporting the activities of the Fund’s Supervisory Board and the financing of fund-sponsored projects. After the changes to the organizational structure two divisions were established within the budget forecasting and projects department.



Garabakh School, claw motif in “shebeke” (network), Auditorium translators window



FIGURE 3.1. SOFAZ ORGANIZATIONAL STRUCTURE





RULES OF ETHICAL CONDUCT

Highly important document, Rules of ethical conduct came into force in December 2013. This document outlines Fund’s attitude in relation with ethical behavior and professional conduct (Confidential information, anti-corruption measures, corporate values, environment, etc.).

Furthermore, attributes such as teamwork, enthusiasm, openness to new ideas, willingness to share experience play crucial role in fostering ethical workplace culture at SOFAZ. These are the key factors, which have contributed to the success of the State Oil Fund both in Azerbaijan and abroad.

3.2. TRANSPARENCY AND ACCOUNTABILITY

Transparency and accountability have been key principles in the State Oil Fund’s operations since its inception. Regular auditing of the Fund’s financial statements by a reputable international audit firm is used as the primary safeguard to ensure the transparency of SOFAZ operations. The State Oil Fund’s financial performance in 2014 was audited by Price Waterhouse Coopers.

The State Oil Fund’s public relations are managed in accordance with its Information Policy approved in 2007. This policy was developed to properly coordinate and effectively manage the Fund’s public relations, thereby meeting the public’s need for information and maintaining and further developing its reputation of being a transparent public organization, in accordance with the Law of the Republic of Azerbaijan “On right to obtain information”.

SOFAZ issues press releases about its assets, projects, revenues and expenditures through the periodical press. Furthermore, press releases are used to inform the public about various events and meetings held at the Fund.

SOFAZ publishes quarterly revenue and expenditure statements, annual reports and reports on EITI activities through the press and its own website (www.oilfund.az). It ensures the transparency of the revenues from the management of the natural reserves and their utilization.

Press conferences are held for media representatives in order to keep them updated on the Oil Fund’s activities. In addition, SOFAZ’s Executive Director gives interviews to reputable local and international media.

Oil Fund always takes an interest in answering questions of public. SOFAZ replies to all verbal and written Fund-related requests directed to the Fund within the timeframe envisaged by the Law of the Republic of Azerbaijan “On right to obtain information”.

EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE

The Extractive Industries Transparency Initiative (EITI) is designed to promote transparency and accountability in the extractive industry. It was first announced in September 2002 in Johannesburg by British Prime Minister Tony Blair. The first EITI conference was held in London on 17th June 2003. At the I International EITI Conference held in London in June, 2003 the President of the Republic of Azerbaijan Ilham Aliyev declared the decision of the government of Azerbaijan to join the EITI and support the international efforts aimed at ensuring transparency in extractive industries. Azerbaijan volunteered to become a pilot country in the EITI implementation.

The EITI Committee was set up by the Cabinet of Ministers of the Republic of Azerbaijan in its 13 November, 2003 decree. The Committee, chaired by the Executive Director of the Oil Fund, consists of representatives of the ministries of Foreign Affairs, Economy and

Industry, Energy, Finance, Taxes, Ecology and Natural Resources, the State Statistical Committee, the State Oil Company and the Ambassador of the Republic of Azerbaijan in the United Kingdom of Great Britain and Northern Ireland.

The EITI is a voluntary initiative, supported by companies, governments, investors and civil society organizations. Joining of governments to the EITI and companies’ participation in this process ensure adherence to transparency and accountability standards at regional and international level in public life, public administration and business environment. It provides the implementing countries with a significant capacity to demonstrate a completely transparent investment environment that is attractive to investors and to international financial institutions. The EITI acts as a major incentive to improve accountability and governance in a politically stable and rapidly growing country. This, in turn, helps to avoid any possible disagreements that may arise over the revenue distribution in the extractive industries.

On 24 November 2004, the EITI Committee, local and foreign oil and gas companies and the

Increasing Transparency in the Extractive Industries Coalition of NGOs signed a Memorandum of Understanding on implementing the EITI in Azerbaijan.

The government of Azerbaijan discloses its EITI reports according to the mechanism stipulated by the Memorandum. In accordance with the Memorandum, a competition is held to select a credible international audit firm for each reporting cycle to analyze and reconcile government and companies’ reports. The successful bidder is selected by EITI multi-stakeholder Group (MSG), consisting of representatives of the parties to the Memorandum.

All companies operating in extractive industries, as well as state enterprises are involved in EITI implementation process. The government has also ensured active participation of the civil society in development, monitoring and evaluation of the EITI implementation process. In 2014, the Oil Fund continued its activities within the EITI. 8 Multi-stakeholder Group’s meetings were held on implementation the Extractive Industries Transparency Initiatives during the year.

Delegation headed by the Chairman of the National EITI Committee, a member of the EITI International Board and the Executive Director of the State Oil Fund of the Republic of Azerbaijan Shahmar Movsumov participated at the 26th EITI Board Meeting on March 18-19, 2014 in Oslo, Norway.

The EITI Commission, local and foreign extractive industry companies operating in Azerbaijan and NGO Coalition for Improving Transparency in Extractive Industries signed a new Memorandum of Understanding on “Implementation of the Extractive Industries Transparency Initiative in the Republic of Azerbaijan” on June 10, 2014.

EITI Annual Activity Report on implementation for 2013 was published on June 29, 2014.

Delegation headed by the Chairman of the National EITI Committee, a member of the EITI International Board and the Executive Director of the State Oil Fund of the Republic of Azerbaijan Shahmar Movsumov participated at the 27th EITI Board Meeting on July 1-2, 2014 in Mexico.

“Moore Stephens” Audit company presented the

Government’s Report and the Auditor’s Report on EITI for 2013 to the MSG on October 3, 2014.

The 28th EITI Board Meeting was held on July 1-2, 2014 in Naypyidaw, Myanmar. Azerbaijan EITI Secretariat’s representatives participated at the meeting.

The international conference on “EITI’s impact on business management environment: international experience” was held on December 3, 2014 in Moscow, Russian Federation. Delegation headed by the Chairman of the National EITI Committee, a member of the EITI International Board and the Executive Director of the State Oil Fund of the Republic of Azerbaijan Shahmar Movsumov participated at the conference.

“EITI Pre-validation seminar” was held for EITI stakeholders on December 24, 2014 at the State Oil Fund.



INTERNATIONAL
FORUM OF SOVEREIGN
WEALTH FUNDS

The International Forum of Sovereign Wealth Funds (IFSFW or Forum) was established by the International Working Group of Sovereign Wealth Funds, meeting in Kuwait City on 5-6 April 2009. IFSWF is a voluntary group of Sovereign Wealth Funds (SWFs), which meets, exchanges views on issues of common interest and facilitates an understanding of the Santiago Principles and of SWF activities.

The State Oil Fund of the Republic of Azerbaijan is an active member of IFSWF and has systematically participated in its meetings. IFSWF held its first meeting in Baku organized by the government of Azerbaijan and SOFAZ on 8-9 October 2009. IFSWF met for its sixth annual meeting in Doha, Qatar on November 19-20, 2014. Hosted by the Qatar Investment Authority (QIA), the Forum advanced

on the commitments made in Oslo in October 2013. The Forum adopted a three-year strategic plan focused on promoting the use of the Santiago Principles to support the free flow of long-term, global capital. IFSWF members agreed to publish a series of 15 case studies of how members are implementing the Santiago Principles and discussed SWFs' domestic and international roles.

In accordance with Santiago Principle No. 24, SOFAZ published its first self-assessment report on its adherence to these Principles in May 2011. This report is reviewed on an annual basis and is presented in the Appendix.





Shirvan School, from Agsou
'beuruk' (braid motif)
Petroleum Lounge wall

4.1. MACROECONOMIC DEVELOPMENT

2014 can be labeled as a year of considerable economic and, at times, political instability and uncertainty. The ongoing global economic imbalances were exacerbated by a severe negative shock to energy prices. Despite the collective monetary and fiscal policy interventions, the global economy continued to stagnate, already some 6 years after the onset of the Global Financial Crisis. Actual global economic growth figures (3.3%) fell short of the International Monetary Fund's forecasts (3.7%). Advanced economies grew at the 1.8% annualized

rate, outpaced by emerging markets which grew at 4.4%. The slowdown of 2014 led both the IMF and the World Bank to re-assess their growth expectations for 2015. IMF now forecasts that global economic growth in 2015 will be 3.5%, while the WB predicts an even more pessimistic 3%.

The last two quarters of 2014 were undoubtedly impacted by a sharp fall in energy prices. Prices on crude oil fell by as much as 55% for the June-December period. Despite of this negative trend, the average for the year still stood at

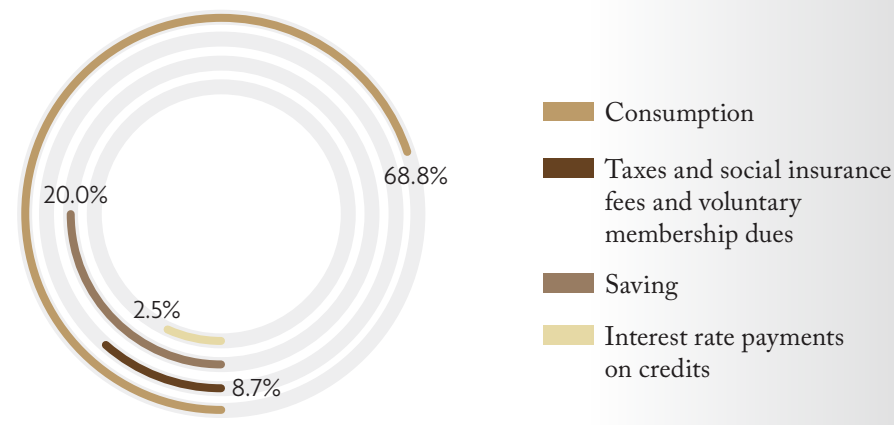
\$104.3 per barrel, mainly due to the high price levels during the first 6 months of the calendar year.

The Azerbaijani economy did not remain unaffected by the global energy downturn in 2014. Accordingly, economic growth for 2014 was 2.8%, which was below the 2013's level of 5.8%. Gross Domestic Product (GDP) in absolute terms reached USD 59 billion for the calendar year. GDP per capita grew by 0.9% and reached AZN 6 264.1 (USD 7 985.9). Compared to the previous year, nominal income of

the population rose by 4.8% and amounted to AZN 39.4 billion. Nominal income per capita also grew (by 3.5%) and reached AZN 4 180.5. Nationwide average monthly wage grew by 4.3% and amounted to AZN 444.3. The composition of household financial decisions was as follows: 68.8% of income devoted to consumption, 8.7% to the payment of taxes, social insurance fees and voluntary membership dues; 2.5% to pay interest rates on credit, and 20% to household saving.

Chart 4.1.1.
Expenditure structure
of household income

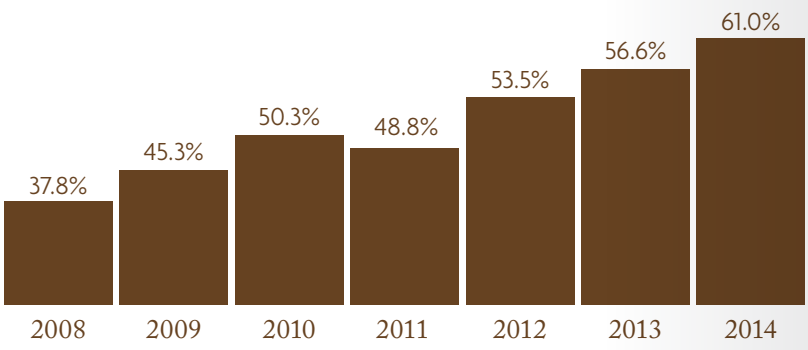
Source: The State Statistical
Committee of the Republic
of Azerbaijan



After withdrawing all mandatory and voluntary disbursements, disposable income amounted to AZN 35.9 billion of which was 5.1% higher compared to previous year. As reported by the Central Bank of Azerbaijan, the inflation rate exhibited 1.4% in 2014. The poverty rate in Azerbaijan was recorded 5% in the previous year. The contribution of non-oil sector to GDP reached 61% in the reporting year.

Chart 4.1.2.
Share of non-oil sector in GDP

Source: The Ministry of Economy and
Industry of the Republic of Azerbaijan



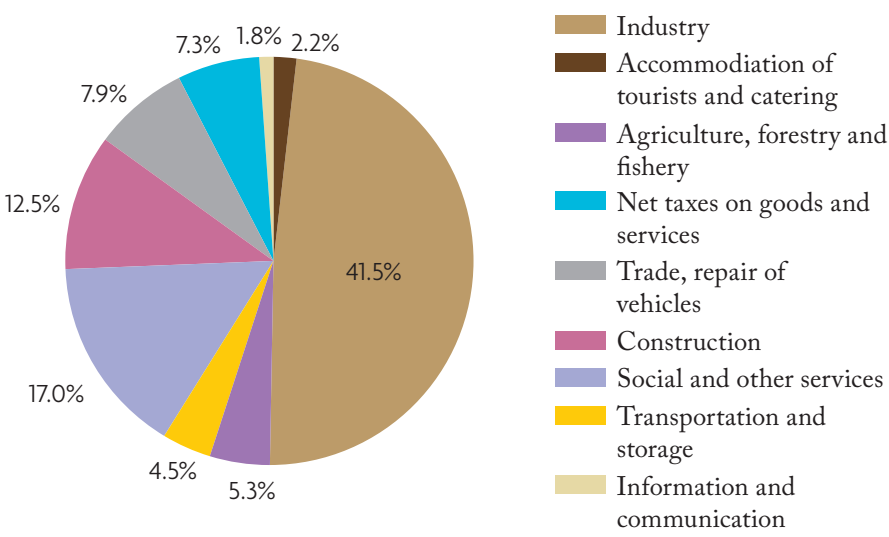
In the GDP structure, the shares of goods, services and net taxes on goods and imports preserved their levels from the previous year. In consequence, production of goods accounted for 59.3% of GDP totaling AZN 58 997.8 million and production of services for 33.4%, while net taxes

on goods and imports accounted for the remaining 7.3%. Compared to the previous year, value added production in non-oil sector expanded by 7%, while oil sector displayed 2.9% decline. Compared to 2013, industrial production declined by 1.7%, despite of the fact that industrial

manufacturing takes a crucial share in production of goods. The breakdown of the GDP and their growth dynamics are illustrated in Charts 4.1.3 and 4.1.4 respectively.

Chart 4.1.3.
Breakdown of GDP by sectors

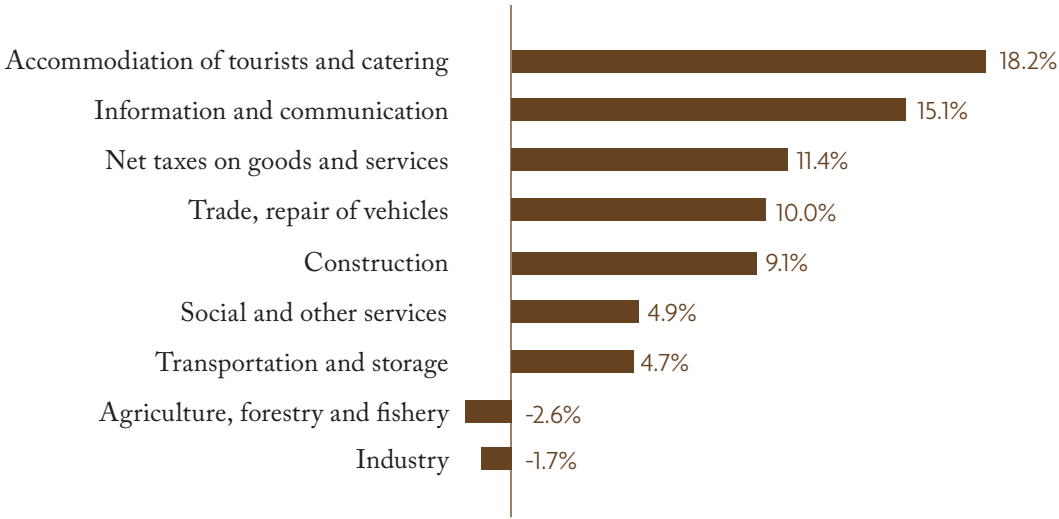
Source: The Ministry of Economy
and Industry of the Republic of
Azerbaijan



At the beginning of 2014, the US Energy Information Agency (EIA), OPEC and other international organizations forecasted a barrel of “Brent” crude oil to be USD 100 for the year of 2015, however those projections have been revised after the second half of 2014 as a result of the fall in oil prices. Currently projected “Brent” crude oil price by EIA on world market averages USD 58 for 2015.

Chart 4.1.4.
Growth by sector, 2014

Source: The Ministry of Economy
and Industry of the Republic of
Azerbaijan

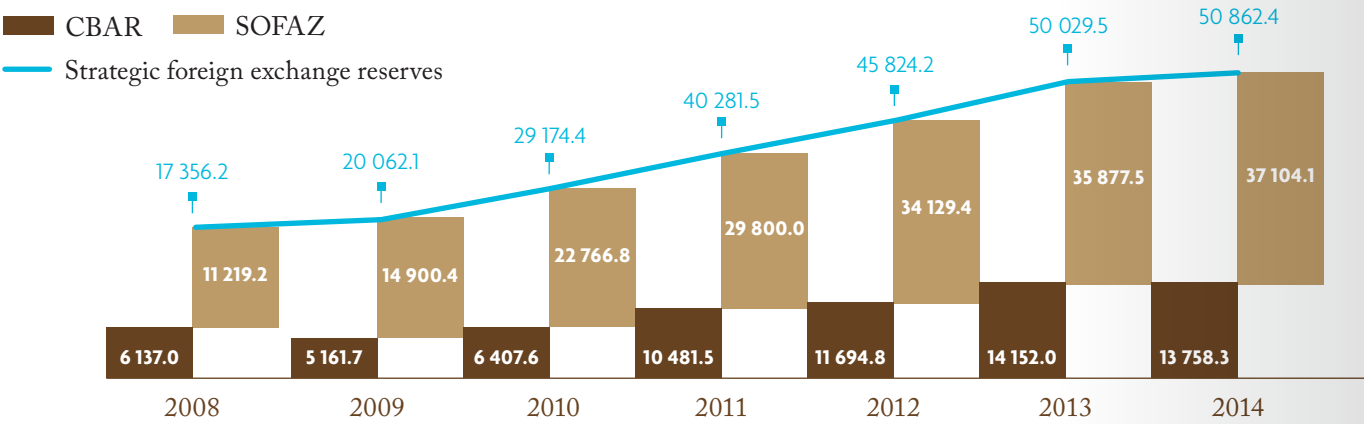




STRATEGIC FOREIGN EXCHANGE RESERVES

Chart 4.1.5.
Strategic Foreign Exchange Reserves of the Azerbaijan (USD billion)

Source: SOFAZ, CBAR



SOFAZ's assets increased by 3.4% (USD 1.2 billion) during the reporting period and amounted to USD 37.1 billion. Fulfillment

of SOFAZ revenues above the estimated level, and the execution of budget expenses below the approved level led to

3.4% growth of SOFAZ assets in 2014. Accordingly, budget expenses of SOFAZ were AZN 10 117.2 million, while revenues

were AZN 12 731.0 million in 2014. Growth dynamics of SOFAZ's assets are provided in Chart 4.1.6

Chart 4.1.6.
SOFAZ assets during 2001–2014 (as at 31.12.2014, USD million)

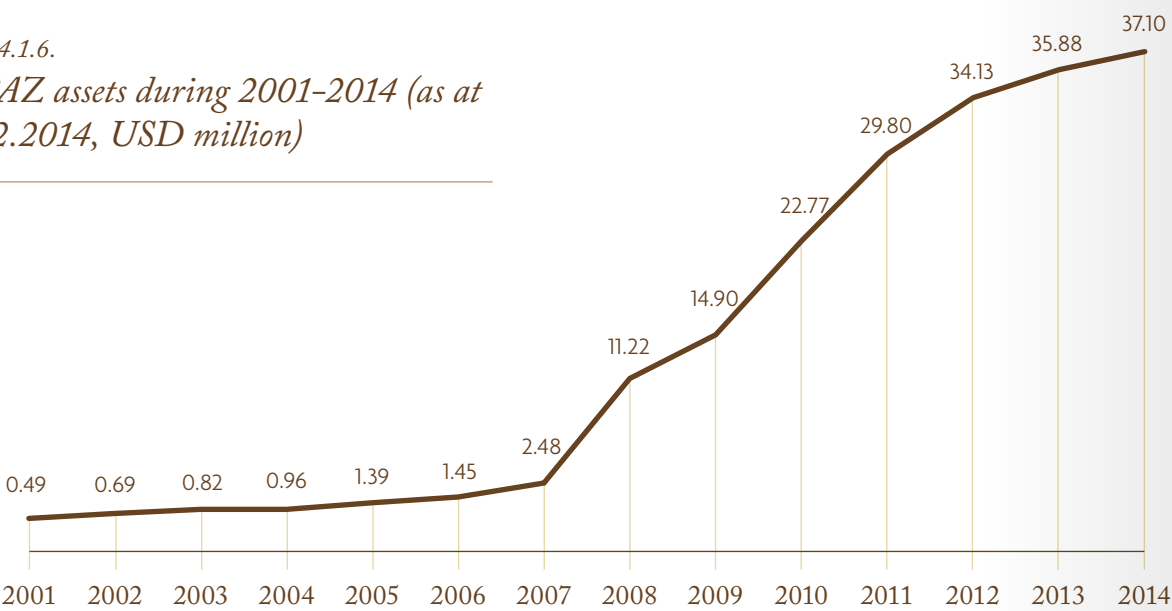
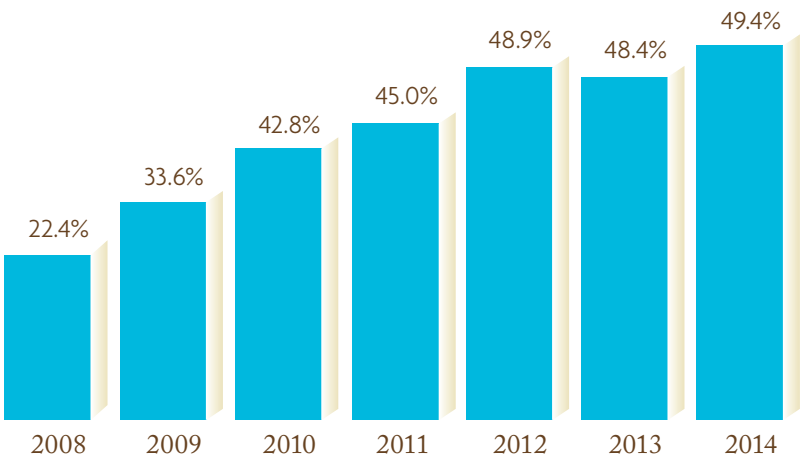


Chart 4.1.7.
SOFAZ's assets as a percentage of GDP

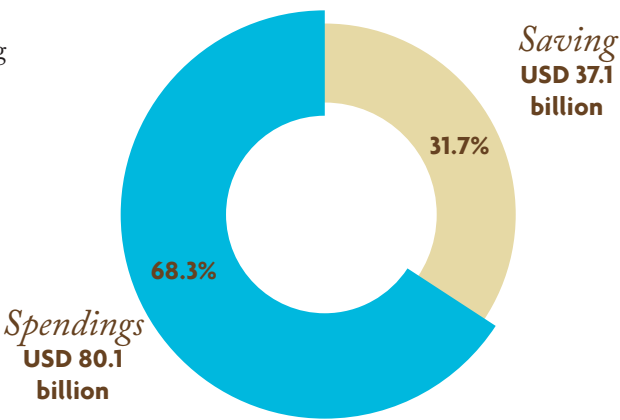
Source: The State Statistical Committee of the Republic of Azerbaijan

In 2014, the share of the Fund's assets in GDP has grown to 49.4% as shown in the chart below.



In 2014, the Fund's savings constituted 7.6% (USD 1 226.6 million) of total inflows. During the years 2001–2014, inflows to the Fund totaled USD 117.2 billion, representing 31.7% or USD 37.1 billion of savings.

Chart 4.1.8.
SOFAZ reserve level, 2001–2014

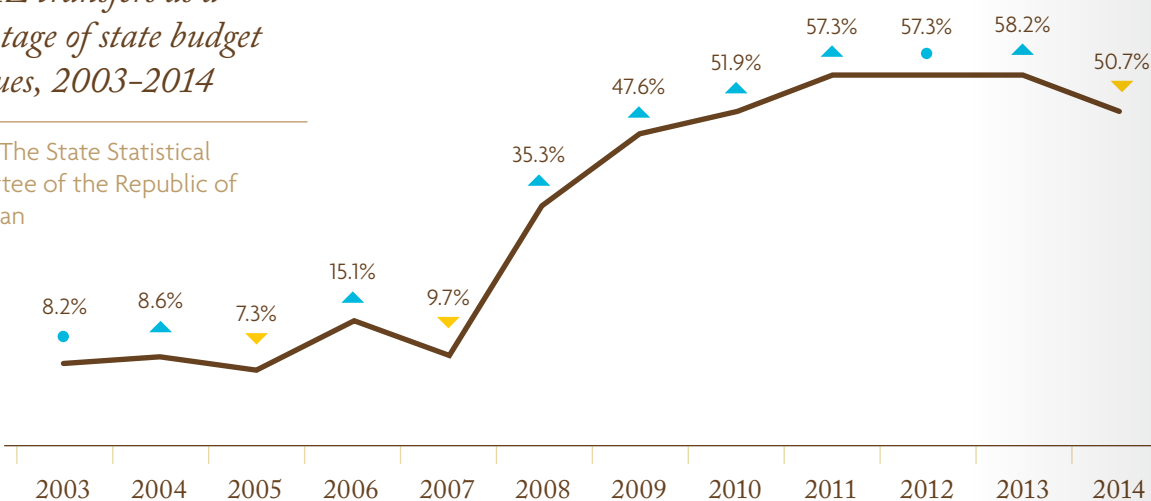




MAINTAINING FISCAL SUSTAINABILITY

Chart 4.1.9.
SOFAZ transfers as a percentage of state budget revenues, 2003–2014

Source: The State Statistical Committee of the Republic of Azerbaijan

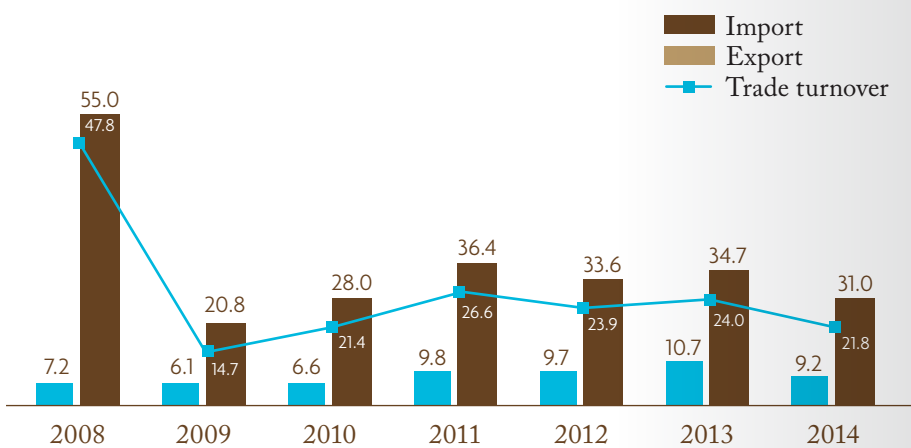


Revenues of state budget amounted AZN 18 400.5 million in 2014, more than 50% of which was financed with transfers from SOFAZ. As seen from Chart 4.1.9, SOFAZ contributed more than half of the state budget revenues in the last 5 years. During the period of 2003–2014, total transfers to the state budget equaled AZN 55.8 billion.

FOREIGN TRADE

Chart 4.1.10.
Azerbaijan's foreign trade turnover dynamics, 2008–2014 (USD billion)

Source: The State Statistical Committee of the Republic of Azerbaijan

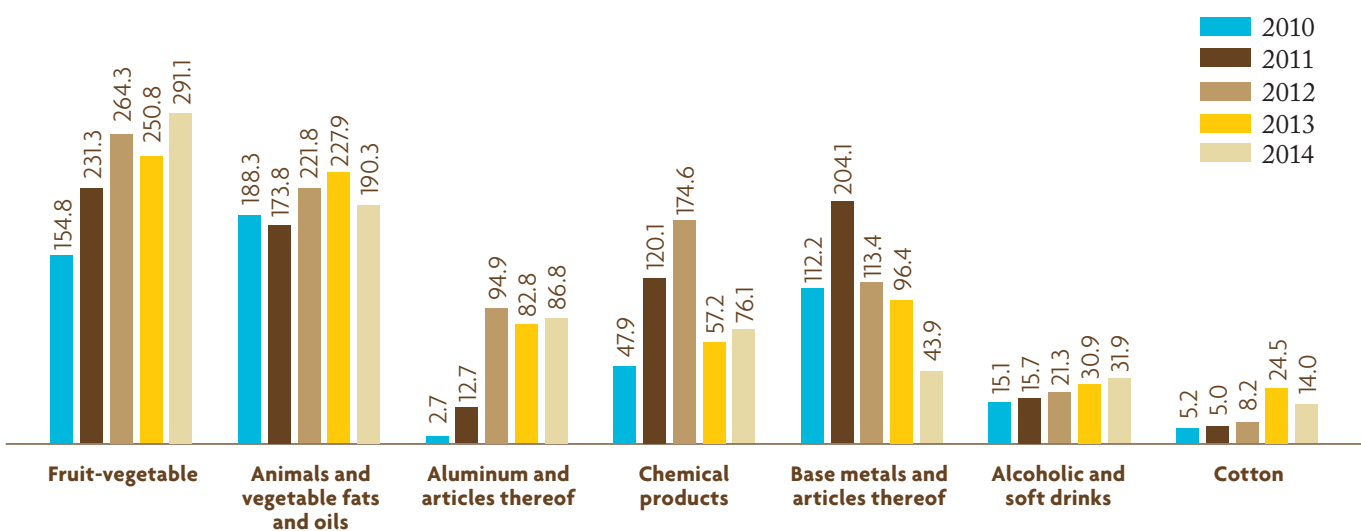


According to the State Customs Committee of the Republic of Azerbaijan, foreign trade amounted to USD 31 billion, including export volume of USD 21.8 billion and import volume of USD 9.2 billion. Compared to the previous year, the trade volume declined by 10.6% in 2014. Export volume

has been marked with a reduction of 9.0%, whereas the import volume has been marked with a decrease of 14.2%. In addition to the reduction in the volume of exports, a fall is also recorded in the variety of exported goods.

Chart 4.1.11.
Major non-oil goods export, (USD million)

Source: The State Customs Committee of the Republic of Azerbaijan



As presented in the graph above, although the export of fruit-vegetable and alcoholic and soft drinks has increased, export of other non-oil goods decreased. Export of base

metals and articles thereof and cotton decreased by 54.4% and 42.9%, respectively.

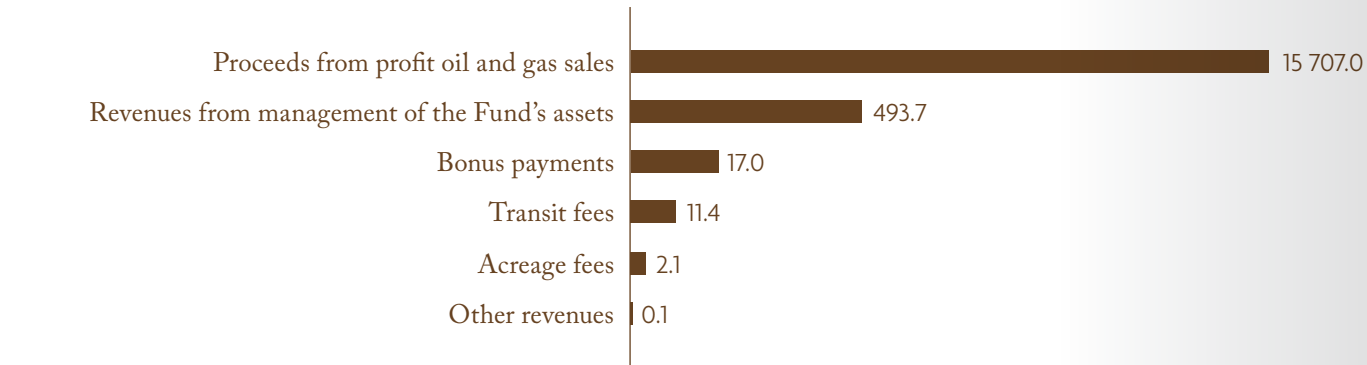


4.2. SOFAZ’S REVENUES

During the reporting year covering the calendar year-ending 31 December 2014, Oil Fund revenues expressed by the proceeds from sales of the Republic of Azerbaijan’s share of hydrocarbons, transit fees, bonus payments, acreage fees,

revenues from management of the Fund’s assets and other revenues recorded a total of AZN 12 731.0 million (USD 16 231.3 million).

Chart 4.2.1.
Structure of SOFAZ revenues, 2014 (USD million)

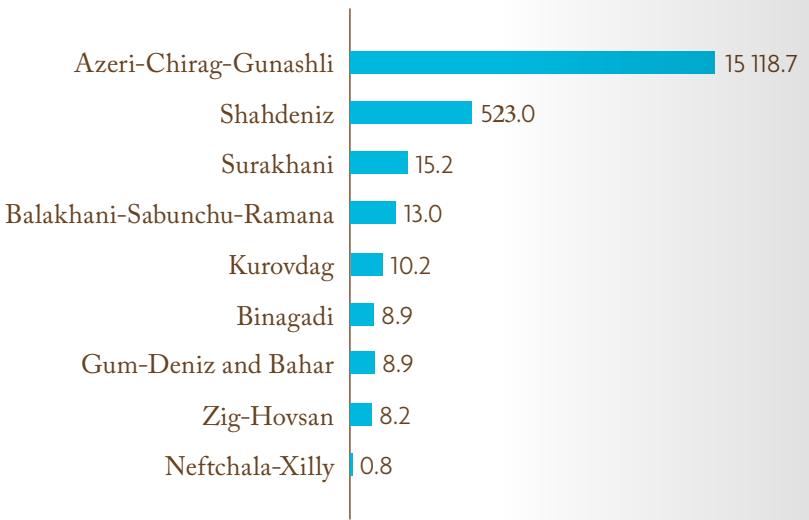


PROCEEDS FROM SALES OF THE REPUBLIC OF AZERBAIJAN’S SHARE OF HYDROCARBONS

During the reporting year, AZN 12 319.8 million constituting 96.8% of total revenues, was generated from sales of the profit oil produced in the Republic of Azerbaijan and offshore fields in the Azerbaijan sector of the Caspian Sea in accordance with Product Sharing Agreements (PSA). SOFAZ generated USD 15 118.7 million (155.9 million

barrels), representing 93.1% of the Fund’s total inflows from the sales of profit oil and gas - produced from Azeri-Chirag-Gunashli (ACG) oil field, which started as a vision in 1994 and became a truly historic milestone opening a new chapter in the development of Caspian hydrocarbon assets. This amount reflects proceeds transferred to Fund after deduction of oil transportation, banking, customs clearances, surveying, marketing and insurance costs by the State Oil Company of Azerbaijan Republic (SOCAR).

Chart 4.2.2.
Distribution structure of inflows from the sale of profit oil and gas by fields, during the year 2014, (USD million)

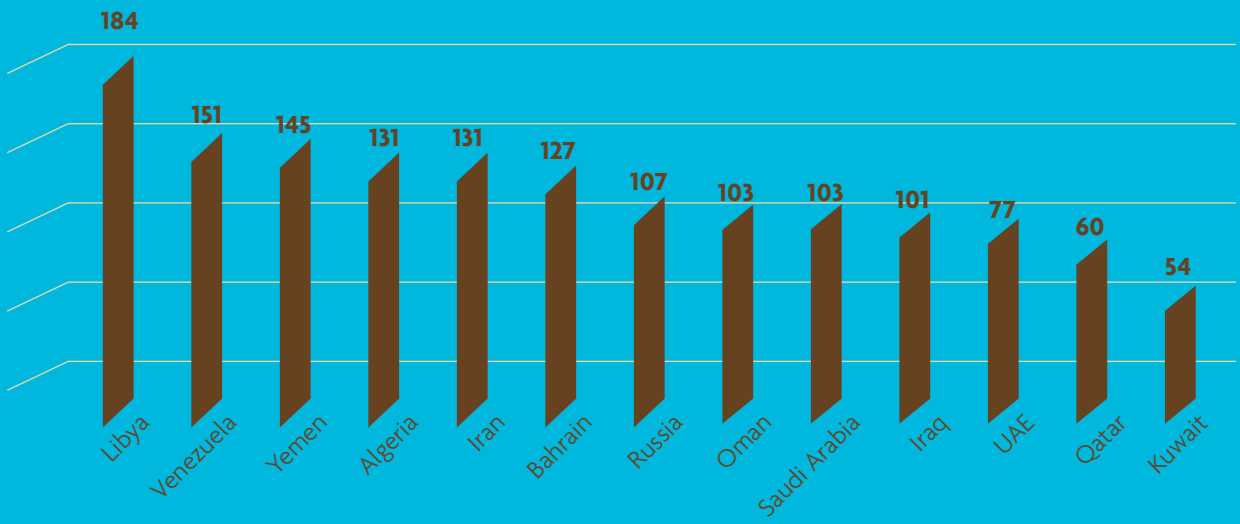


REFERENCES FROM WORLD OIL MARKETS

After nearly five years of stability, the oil price has fallen by more than 55% since June, 2014 when it was USD 115 a barrel. According to various world known researches, the most important factors affecting the current situation are the following:

1. Crude oil demand has sharply fallen down because of weak economic activity, increased energy efficiency, and a growing switch away from oil to other fuels.
2. Uncertain economic situation caused by turmoil in Iraq and Libya—two big oil producers with nearly 4 million barrels a day combined production - didn’t affect their output in the longterm. In July, opening of the two key export terminals that had been shut down for a year-Es Sider and Ras Lanuf by Libyan rebels lead to unexpected growth in Libyan oil export. When the conflicts have flared up again, country’s crude oil production started to decrease, but the exports potential was compensated by Iraq’s rising production. On top of that, countries like Iraq began producing more oil. According to the International Energy Agency, by late 2014, world oil supply was on track to rise much higher than actual demand.
3. Over the past four years, as the price hovered around USD 100 a barrel, oilmen of North Dakota and Texas have set about extracting oil from shale formations previously considered unviable and Canada started to drill hard-to-extract crude from Alberta’s oil sands.
4. At a meeting of the Organization of Petroleum Exporting Countries (OPEC) serving to the goal of “the stabilization of prices in international oil markets”, in Vienna on November 27th, the Saudis and their Gulf allies have decided not to sacrifice their own market share to restore the price. The contest between the shale men and the sheikhs has tipped the world from a shortage of oil to a surplus. At the same time, other member countries who need high prices in order to “break even” on their budgets and pay for all the government spending, like Venezuela and Iran, wanted the cartel to cut back on production in order to prop up the price.

Although, the drop in the oil price has had an immediate positive impact on oil importing countries, oil exporting countries were most negatively impacted. According to the latest estimates, the Brent crude price is now below the level needed to balance the budget of oil exporting countries.



Graph 1.
Budget “Breakeven” prices (brent, USD bbl)

REFERENCES FROM WORLD OIL MARKETS

Falling oil prices forced countries to revise oil prices in their draft budgets. Key oil producers lowered oil price forecasts in their 2015’s budget. Saudi Arabia estimates oil price will vary between USD 55 to USD 63, equivalent to Brent prices of USD 59 to USD 67. Iran has also cut oil price from USD 72 to USD 40 in 2015’s budget. Iraq also has trimmed its forecast for oil price down to USD 55. Most Gulf countries are estimating oil price USD 50 for 2015. As the price of oil falls, consequences are different for exporters and importers of oil. Regarding the oil exporters, many of them arranged their budgets for the coming fiscal year based on oil price per barrel between USD 80 and USD 90 level. Declining oil price implies collapse in export revenues, less oil inflows and will lead to budget deficits when expenditures are not executed in moderate way.

Some wealthier Gulf countries having export revenues and account surpluses, can run a deficit. However, there is no warranty to securing from potential loss. Considering that prices stay low, according to

WB estimation Gulf Cooperation Council will face over a USD 215 billion loss in oil revenues which is more than 14% of their joint GDP. Libyan reserves reached USD 100 billion in August 2014, however if oil price stays low its reserves could be depleted in a few years.

Sources:

<http://www.vox.com/2014/12/16/7401705/oil-prices-falling>

MEEES, IMF, Citi Research (<http://www.marketwatch.com/story/iran-venezuela-russia-may-face-pain-from-cratering-oil-prices-2014-12-01>)
<http://www.economist.com/blogs/economist-explains/2014/12/economist-explains-4>

<http://www.worldbank.org/en/news/feature/2015/01/29/who-gains-and-who-loses-from-plunging-oil-prices-in-the-middle-east-and-north-africa-region>

<http://www.bbc.com/news/business-29643612>

<https://www.gov.uk/government/publications/saudi-arabia-record-budget-for-2015/saudi-arabia-record-budget-for-2015>

Every game reveals its winners and losers. In contrary to the oil exporters, oil importers benefit from low oil price. Egypt can be shown as an example. On the occasion that oil stays at around USD 50 per barrel, Egypt will be able to save on the EGP 100.4 billion (USD 13.2 billion) budgeted for energy subsidies (based on an expected price of USD 105 per barrel).

REVENUES FROM SOFAZ’S ASSET MANAGEMENT

In 2014, SOFAZ’s investment portfolio was comprised of investments in fixed income, equities, real estate and gold. SOFAZ returned 1.52% or AZN 387.2 million in 2014.

BONUS PAYMENTS

During the reporting period, SOFAZ’s revenues from bonuses paid by investors for signing and fulfilling oil and gas contracts amounted AZN 13.3 million or USD 17 million. Bonus payments inflows from companies are represented in Table 4.2.1.



Table 4.2.1.
Bonus proceeds to SOFAZ in 2014

Transferor	Oilfield	Date	Amount	
			USD	AZN
BP	Shah-Deniz	15.01.2014	4 819 677	3 781 037
STATOIL	Shah-Deniz	16.01.2014	4 819 677	3 781 037
NICO	Shah-Deniz	16.01.2014	1 890 069	1 482 759
TOTAL	Shah-Deniz	17.01.2014	1 890 069	1 482 570
LUKOIL	Shah-Deniz	17.01.2014	1 830 538	1 435 874
TPOC	Shah-Deniz	17.01.2014	1 647 484	1 292 286
LUKOIL	Shah-Deniz	23.01.2014	58 187	45 636
TPOC	Shah-Deniz	24.01.2014	52 368	41 072
LUKOIL	Shah-Deniz	29.01.2014	1 344	1 054
TPOC	Shah-Deniz	30.01.2014	1 210	949
Total			17 010 623	13 344 274

TRANSIT FEE REVENUES.

In the reporting period, the other revenue inflow was generated from transportation of oil and gas through the territory of Azerbaijan (transit fees) and amounted AZN 8.9 million or USD 11.4 million. Issue date and amount of SOFAZ proceeds from transit fees are given in Table 4.2.2.

Table 4.2.2.
SOFAZ proceeds from transit fees in 2014

Transferor	Date	Amount	
		USD million	AZN million
AIOC	14.01.2014	1.0	0.8
AIOC	14.02.2014	1.0	0.8
AIOC	13.03.2014	0.9	0.7
AIOC	14.04.2014	1.0	0.8
AIOC	14.05.2014	1.0	0.7
AIOC	12.06.2014	0.7	0.5
AIOC	14.07.2014	1.0	0.8
AIOC	18.08.2014	1.0	0.8
AIOC	12.09.2014	1.0	0.8
AIOC	14.10.2014	1.0	0.8
AIOC	13.11.2014	1.0	0.8
AIOC	12.12.2014	0.8	0.6
Total		11.4	8.9

**Azerbaijan International Operating Company*



ACREAGE FEES

Proceeds paid by foreign investors operating hydrocarbon assets, for the utilization of contract areas amounted AZN 1.7 million or USD 2.1 million. Acreage fees are represented in the Table 4.2.3.

Table 4.2.3.
Proceeds from acreage fees in 2014

Transferor	Oilfield	Date	Amount	
			USD million	AZN million
BP International Limited	Shafag-Asiman	25.06.2014	2.1	1.7
Total			2.1	1.7

OTHER REVENUES

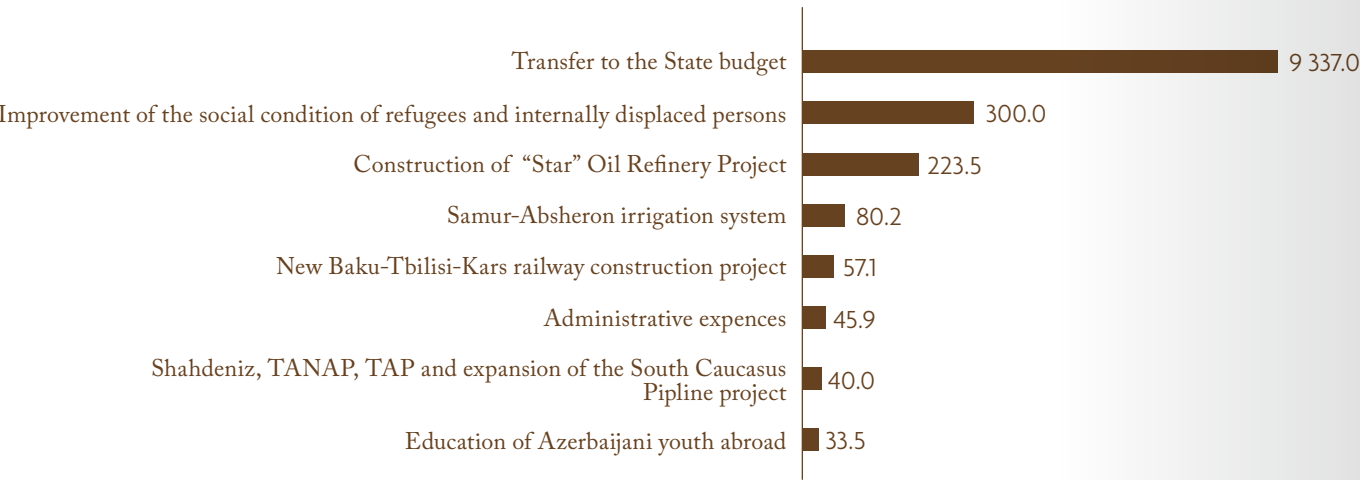
Thanks to cost control and best use of technology in business processes, other revenues reflecting the highlights of Fund's activities in the reporting year, amounted AZN

0.05 million. This amount reflects revenues from the sales of assets (obsolete or unused metal scrap, pipes) by investors (international oil companies) in accordance with oil and gas contracts.

4.3. SOFAZ EXPENDITURES

In 2014, the Fund's expenditures amounted to AZN 10 117.2 million (USD 12 898.8 million). The Fund's structure of expenditures for the year 2014 is shown in Chart 4.3.1.

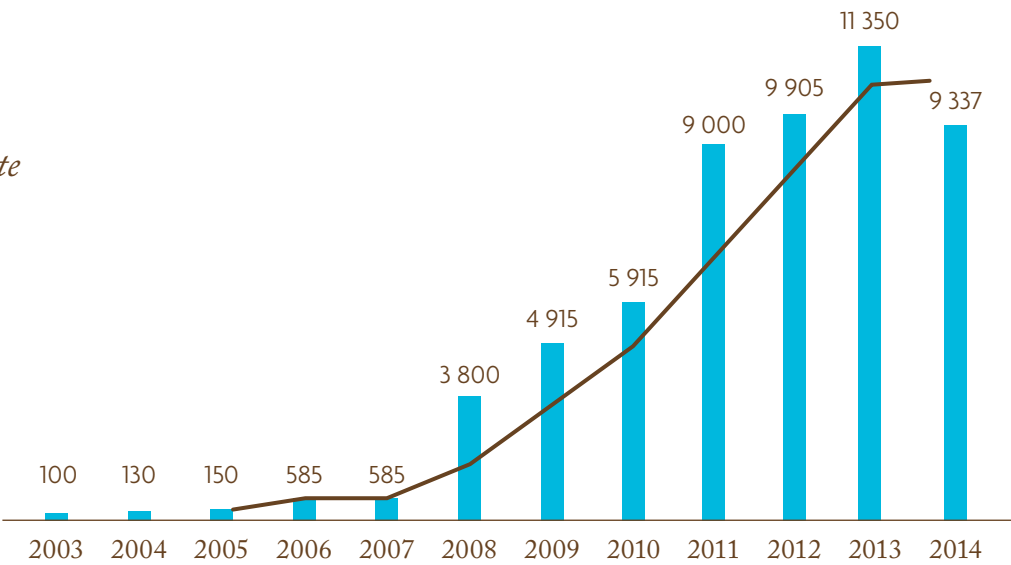
Chart 4.3.1.
Structure of expenditures in 2014 (AZN million)



TRANSFERTS TO THE STATE BUDGET

As seen in the Chart 4.3.1. major part of Fund's expenditures is transfers to the state budget. In 2014, transfers from Fund to the State budget amounted to AZN 9 337 million. Overall, through 2003-2014 years transfers to the state budget totaled AZN 55 772 million.

Chart 4.3.2.
Year-by-year breakdown of the transfers to the state budget (AZN million)



FUNDING OF SOCIAL AND INFRASTRUCTURE PROJECTS

State Oil Fund plays a prominent role in funding substantial social and infrastructure, at the same time state strategic important projects.

THE IMPROVEMENT OF THE SOCIAL AND ECONOMIC CONDITIONS OF REFUGEES AND INTERNALLY-DISPLACED PERSONS

Above mentioned project is one of the prominent social projects funded by the Fund. In 2014, the

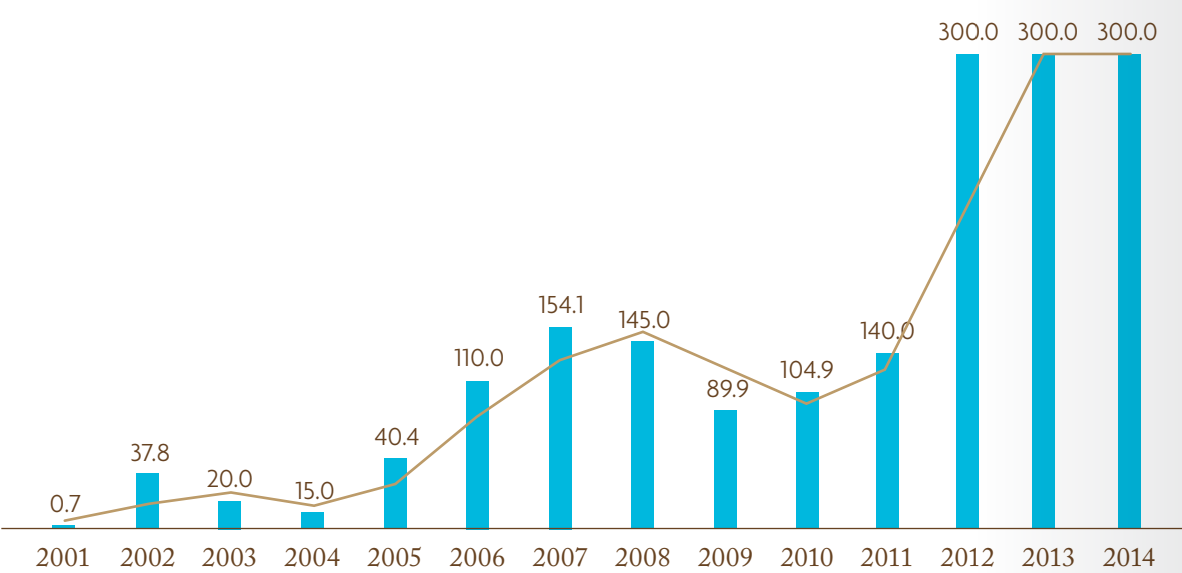
Fund allocated AZN 300 million in order to improve the social and economic conditions of refugees and internally-displaced persons. Overall, through 2001-2014 years, AZN 1 757.8 million was spent on these purposes. The amount mentioned above was spent for the construction of 68 residential blocks comprising private houses for 28 822 families, and a number of social and infrastructure facilities. In 2014, 24 buildings were constructed and 3 419 refugees and internally-displaced families were provided with private

houses and apartments within the mentioned activities in 6 districts and 3 neighborhoods. Additionally the construction of such socio-cultural-infrastructure objects such as 8 schools, 1 music school, 8 kindergartens, 4 dispensaries, 2 ambulatories, 6 cultural-community centers, 7 administrative buildings, the building of the local authority, 6 communication centers, 16 artesian wells, 25 reservoirs, 11 pumping stations, 109 large and small high-voltage transformers, 3 electric substations, 81 km highways, 120 km

pipeline for water transport, 264 km transmission lines, 101 km gas pipeline, 10 km of sewerage system and 486 ha of irrigation system were completed.



Chart 4.3.3.
Year-by-year allocation of the funds for the improvement of the living and socio-economic conditions of refugees and internally displaced persons (AZN million)



FINANCING THE SHARE OF THE REPUBLIC OF AZERBAIJAN IN THE CONSTRUCTION OF “STAR” OIL REFINERY COMPLEX IN TURKEY

According to the Order 2698 of the President of the Republic of Azerbaijan dated 4 February 2013 on additional measures to support the participation of Azerbaijan in “SOCAR Turkey Aegean Refinery” Oil Refinery Complex project, the 40% share (USD 760 million) of the USD 1.9 billion charter capital is funded by the Fund. In 2013, the Fund allocated USD 475 million (AZN 372.6 million),

the remaining USD 285 million (AZN 223.5 million) was allocated in 2014. The Fund fully funded its share (USD 760 million) in this project.

FUNDING OF SAMUR-ABSHERON IRRIGATION SYSTEM RECONSTRUCTION PROJECT

In 2014, the Fund allocated AZN 80.2 million for the funding of “Samur-Absheron irrigation system reconstruction” project. Overall, through 2006–2014 years, AZN 1 149.6 million was spent on these purposes.

In 2014, SOFAZ allocated to the “Azerbaijan Melioration and Water Economy” JSC AZN 21.48 million for the “Construction of Takhtakorpu water reservoir with hydropower plant”, AZN 11 million for the “Construction of Takhtakorpu-Jeyranbatan water canal”, AZN 3.27 million for the “Construction of Valvalachay-Takhtakorpu canal”, AZN 2.59 million for the “Construction of access roads for the Takhtakorpu water reservoir”, AZN 0.5 million for the maintenance of the project’s working group, AZN 0.68 million for

the design and tender documents preparation for the “Construction of water intake facilities and water transmission canals on Northern rivers”, AZN 22.66 million for the “Construction of water intake facilities and water transmission canals on Northern rivers”, AZN 4.63 million for the preparation of the technical design and tender documents for the “Shabran, Siyazan and Khizi water supply” project and AZN 13.41 million for the improving the water supply in irrigated area in Khizi region territory, commissioning new irrigated lands and construction the connecting

to the SAC system canal.

On September 28, 2013 at the official opening ceremony with participation of the President of the Republic of Azerbaijan Ilham Aliyev Takhtakorpu water reservoir, Takhtakorpu hydro power plant and Takhtakorpu-Jeyranbatan water canal were brought into operation. With the Ordinance # 019U dated May 8, 2014 by AMWE JSC State Commission was established for handing over the project. With the Act of this Commission dated November 12, 2014 Takhtakorpu water reservoir including hydro power plant, roads leading to Takhtakorpu water reservoir, Velvelechay-Takhtakorpu, Takhtakorpu-Jeyranbatan canals were brought into operation.

FUNDING OF THE NEW BAKU-TBILISI-KARS RAILWAY CONSTRUCTION PROJECT

The main purpose of the project is to enhance the transit capacity of the region’s countries by building a railway line that goes through Azerbaijan, Georgia and Turkey and connects the Trans European and Trans Asian railway networks. The project envisages building a Kars-Akhalkalaki railway line, 76 km of which will pass through Turkey and 26 km through Georgia, as well as restoring and rebuilding the 160 km of Georgia’s Marabda-Akhalkalaki railway. In 2014, SOFAZ provided USD 72.7 million (AZN 57.1 million) to finance this project. Overall, through 2007–2014 years, USD 536.6 million was spent on these purposes.

FINANCING THE SHARE OF THE REPUBLIC OF AZERBAIJAN IN THE SHARE CAPITAL OF “SOUTH GAS CORRIDOR” CLOSED JOINT STOCK COMPANY

According to the Decree of the President of the Republic of Azerbaijan dated 25.02.2014 South Gas Corridor” closed joint stock company was established with USD 100 million charter capital, 51% of which is owned by government and the remaining 49% is owned by SOCAR. The company is aimed at the management of the projects of the second stage of “Shah Deniz” gas-condensate field, the expansion of the South Caucasus Pipeline, the construction of Trans-Anatolian Pipeline and the Trans-Adriatic Pipeline.

According to the paragraph 2.1. of the Decree the Fund finances state-owned shares, but the ownership and management is vested to the Ministry of Economy and Industry. In order to provide financing of the state-owned shares of the Company, the Fund transferred AZN 40.0 million (USD 51 million) to the Ministry of Economy and Industry in 2014.



INVESTING IN
HUMAN CAPITAL

FINANCING THE “STATE
PROGRAM ON EDUCATION OF
AZERBAIJANI YOUTH ABROAD
IN THE YEARS 2007-2015”

The Fund is fully financing the “State Program on Education of Azerbaijani Youth Abroad in the years 2007-2015” aiming to fulfill the idea of “transforming black gold into human capital”. In 2014, according to the orders of the Ministry of Education the Fund allocated AZN 33.5 million to this project, including AZN 16.5 million allocated for accommodation, AZN 15.2 million for education, approximately AZN 1 million for travel, AZN 0.5 million for insurance costs, AZN 0,3 million for visa and registration and for other expenses. During 2008-2014 years the Fund allocated AZN 121.3 million in total to this project. As of 31 December 2014 the number of students financed by the Fund within this project is 2 867.

Chart 4.3.4.
Breakdown of students by country
of destination

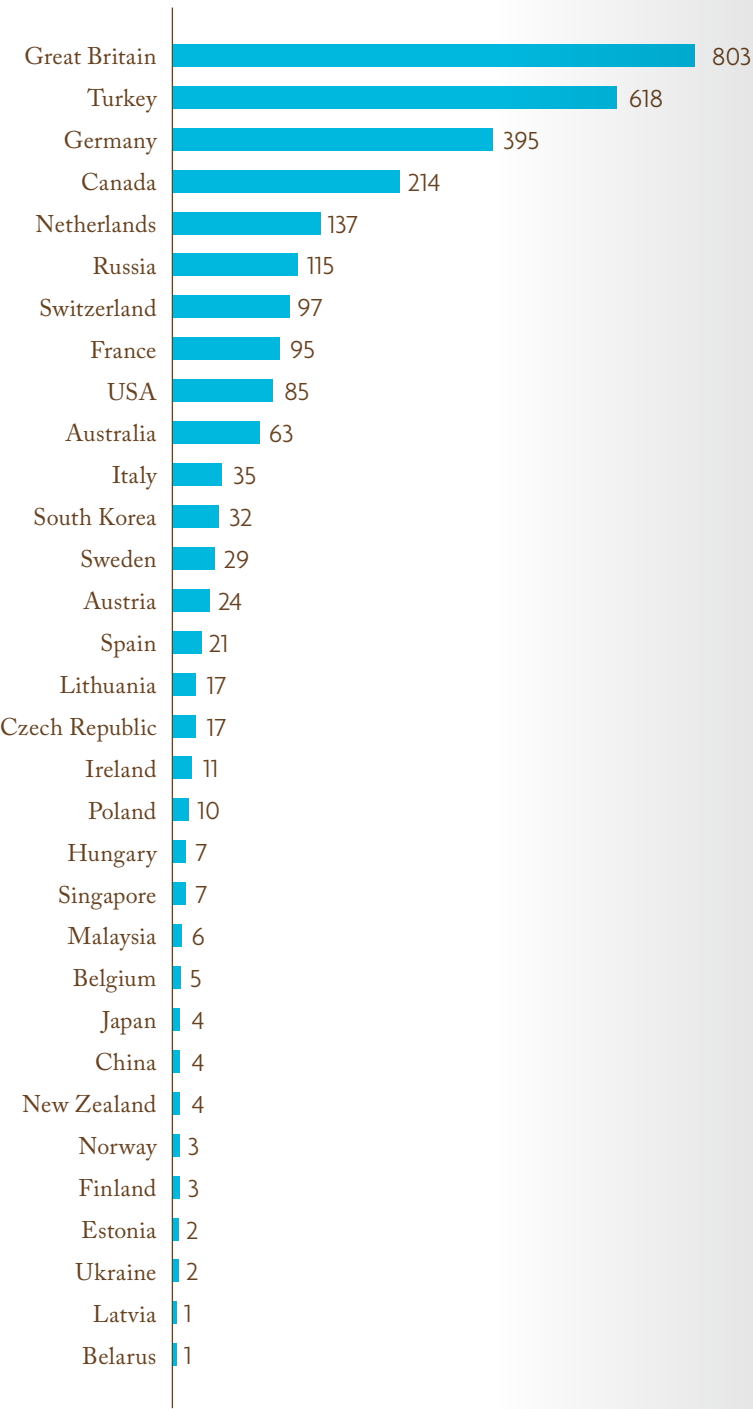
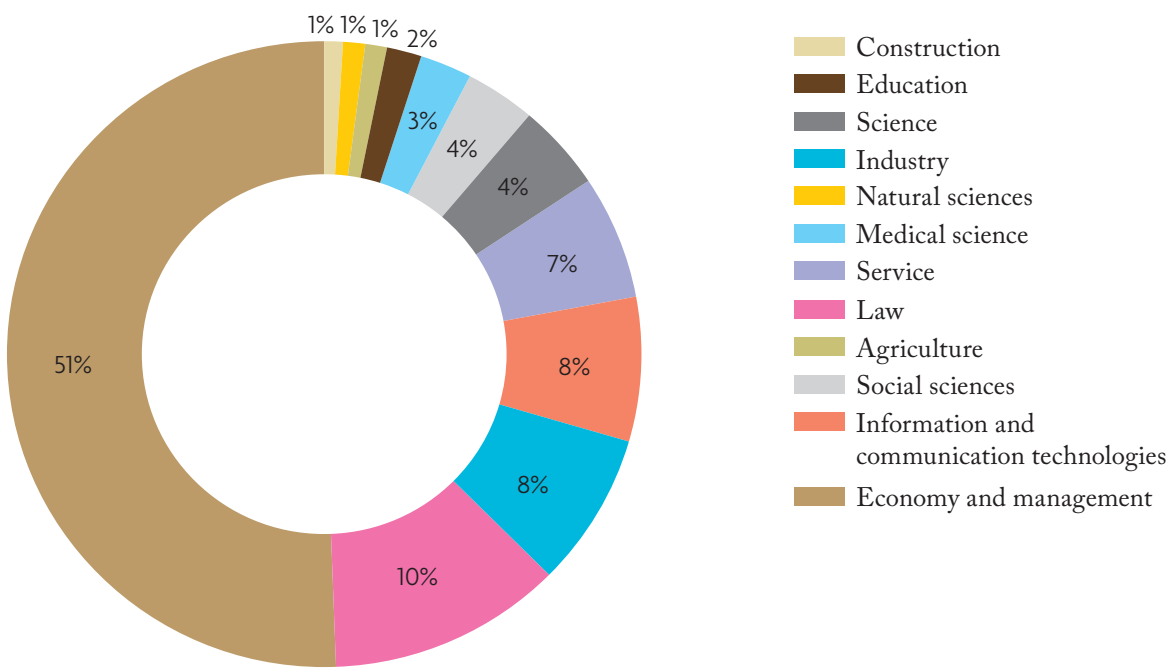


Chart 4.3.5.
Distribution of master’s degree students by
priority areas



THE FUND’S EXTRA-BUDGETARY EXPENDITURES

In 2014, as the result of revaluation of foreign currency exchange rates and gold prices, the Fund’s extra-budgetary expenditures amounted to AZN 1 611.9 million.



*All Schools, berekets
with rhombs (symbol of
abundance)
Typical floors, Lobbies,
Glass wall*

5.1. INVESTMENT STRATEGY

Oil Fund’s investment strategy is aimed at obtaining reasonable returns while minimizing the probability of substantial losses. Broad diversification among the asset classes and across the countries, together with tight monitoring of macroeconomic environment serves this

strategic goal and assures the persistence of stable investment performance. Government has laid down general principles and guidelines for the efficient management of the Fund’s assets, in order to set up the legal framework for the Fund’s investment mandate and ensure the transparency in its investment decisions.

SOFAZ investment portfolio is managed in accordance with the “Rules on managing the foreign currency assets of the State Oil Fund of the Republic of Azerbaijan” (“Investment Guidelines”), approved by Presidential Decree No. 511 of 19 June 2001 and the Investment Policy approved by Presidential Decrees on

an annual basis.

Investment Guidelines set the general principles of SOFAZ’s asset management framework. While serving other purposes, it outlines permissible asset classes, currencies, minimum requirements for the Fund’s external managers, and

defines the credit quality limits for the Fund’s counterparties (custodian banks, correspondent banks, etc.). Investment Policy defines the objectives, forecasted size, currency composition, strategic asset allocation, benchmarks and risk limits for the Fund’s investment portfolio.

In line with the long-term objectives, asset class composition of the Fund’s investment portfolio is reviewed and approved annually. 2014 Investment Policy defines the asset class composition as below:

- Debt obligations and money market instruments – minimum 80% of the investment

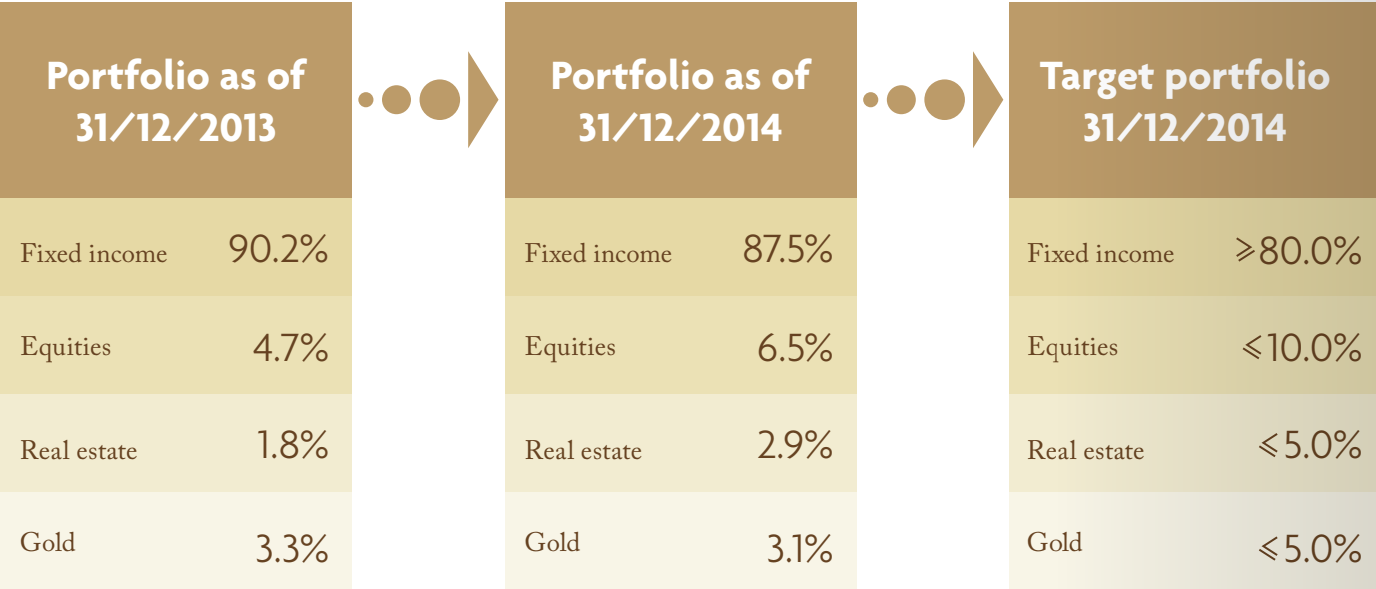
- portfolio;
- Equity portfolio – up to 10% of the investment portfolio;
- Real estate portfolio – up to 5% of the investment portfolio;
- Gold portfolio – up to 5% of the investment portfolio.

As of December 2014,

87.5% of the investment portfolio comprised of fixed income and money market securities followed by 6.5%, 2.9% and 3.1% invested in equities, gold, and real estate, respectively.



Graph 5.1.1.
Target Asset Allocation



In 2014 SOFAZ's investment portfolio was diversified among assets denominated in USD, EUR and GBP currencies, with each currency given 50%, 35% and 5% weights respectively, whereas 10% of the investment portfolio could be allocated to other currencies specified in the Investment Guidelines.

The selected benchmark for the fixed income and money market instruments is the 3-month LIBOR (3-month EURIBOR for assets denominated in EUR), whereas the MSCI World Index is the current benchmark for the equity portfolio.

EVOLUTION OF THE INVESTMENT STRATEGY OF THE FUND

Initially SOFAZ used to follow a rather conservative asset management strategy. The rapid increase of AUM, along with the capacity building process and the evolution of stakeholders' risk tolerance, has provided the opportunity to introduce new asset classes into the portfolio. Beginning from 2012, the Fund started the process of gradual movement towards a more diversified investment portfolio. New asset classes such as public equity, real estate and gold were added to the portfolio. Also, SOFAZ made a number of new commitments to private equity funds. As a prudent long-term investor, SOFAZ expects to continue implementing further portfolio diversification.

INVESTMENT APPROACH

Table 5.1.1. provides a summary snapshot of SOFAZ's current investment approach and its implementation to the portfolio:

Table 5.1.1.
Investment forms

Global asset classes	Portfolio asset classes	Strategy employed	Implementation methods
Traditional	Public Equities	Exposure through direct and indirect ownership of global equities	MSCI World, S&P 100, strategic stake in VTB Bank
	Fixed Income	Exposure to bond and money market instruments	Sovereign, supranational, agency and corporate investment grade bonds and money market instruments
Alternative	Private Equity	Exposure through fund investments	Commitments to IFC AMC managed funds
	Real Estate	Exposure through direct commercial property stakes	Direct property stakes in: Moscow, London, Paris and Seoul
	Commodity	Exposure through physical purchase	Investments in gold

INTERNAL PORTFOLIO MANAGEMENT

One of the unstated missions of SOFAZ is to promote and enhance asset management industry standards in Azerbaijan. Therefore, Fund puts special emphasis on bringing all asset classes under internal management as it builds extensive knowledge and expertise in the field. It is worth to note that, as of today, 95.56% of the investment portfolio is managed internally.



EXTERNAL MANAGERS

As of the year-end, 4.44% of SOFAZ’s investment portfolio is managed by external managers. Benefits brought by external managers include market expertise, specific industry experience and regional presence thereby adding value to the investment portfolio.

SOFAZ has granted the below-mentioned asset managers with investment mandates:

- World Bank – the World Bank Treasury manages over USD 223 million (0.60%) of assets.
- Deutsche Bank Advisors –

manages more than USD 99 million (0.27%) of assets.

- UBS Asset Management – manages more than USD 664 million (1.79%) of assets.
- State Street Global Advisors (SSgA) – manages more than USD

662 million (1.79%) of assets.

This data is provided as of December 31, 2014.

Chart 5.1.1.
Investment Process

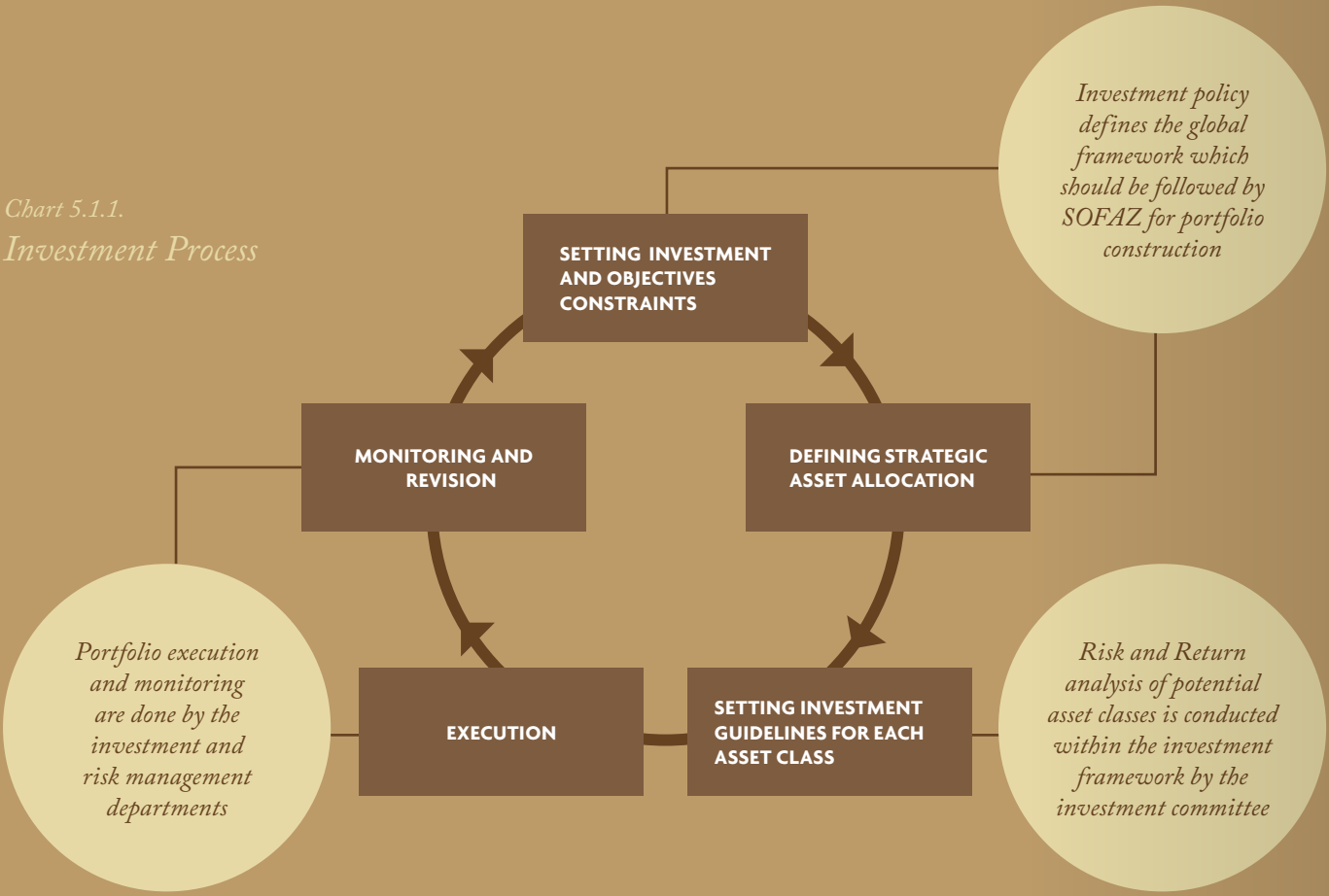
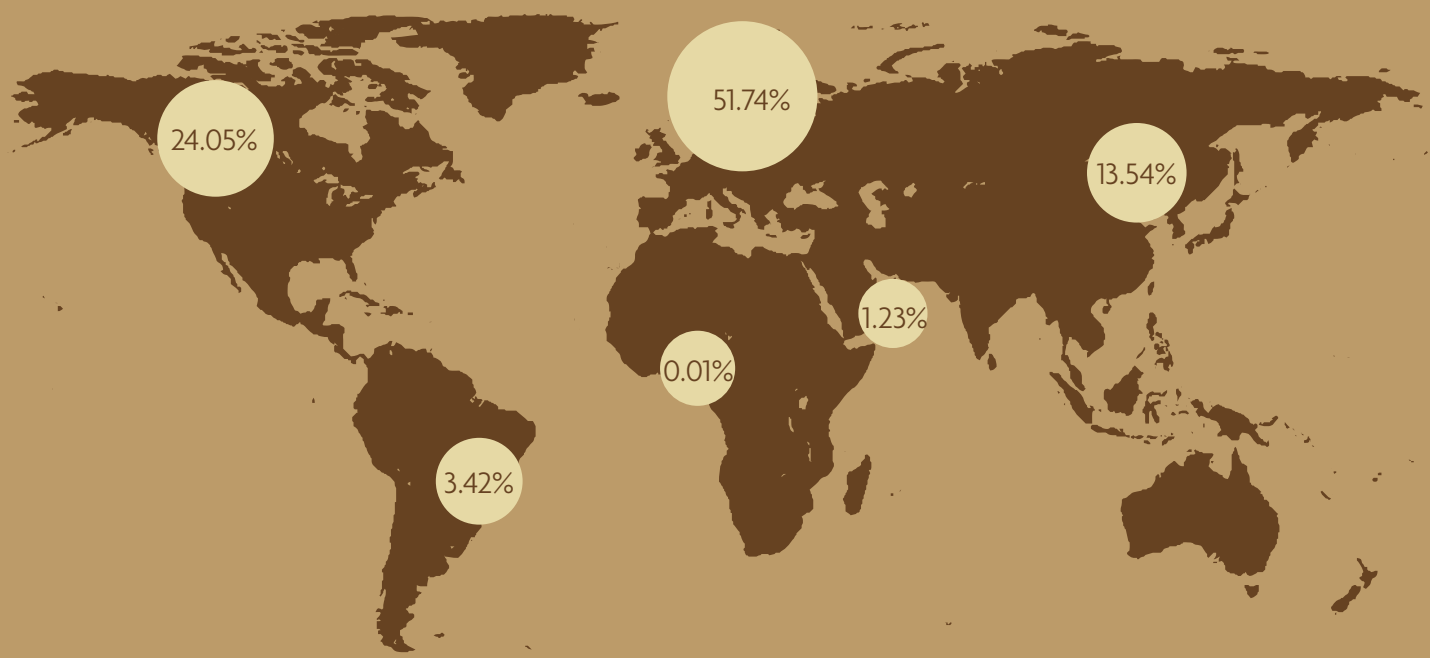


Chart 5.1.2.
SOFAZ’s investment portfolio
breakdown by geographic regions



North America	24.05%	Asia / Pacific	13.54%
South America	3.42%	Middle East	1.23%
Europe	51.74%	International financial organizations	6.01%
Africa	0.01%		



5.2. SOFAZ INVESTMENT PORTFOLIO

GLOBAL ECONOMY REVIEW

GLOBAL GROWTH DIVERGENCE

2014 was a year of moderate stabilization in global economic growth at just below 3% PPP. Growth was far from symmetric across markets as developed economies – led by the bullying United States – relatively outperformed emerging economies. The U.S. and U.K. led the developed world with

above-median growth rates in the range of 2.5%-3% and are entering the expansionary phase of the business cycle. The Eurozone, dampened by internal deflation pressures and labor market severities, trailed its major peers by registering a dismal 1% area-wide growth over the year. Within the Eurozone performance was itself unequal: Germany and Spain grew by 1.5%

on average, with France stagnating at a sub-par 0.4% and Italy sliding into a recession (-0.4%). Japan surprised markets by registering growth contractions in the second and third quarters, partially explained by a consumption tax hike. Growth in emerging markets was dampened by the Chinese soft landing that led to a decline in regional trade and lower demand for

commodities including oil. On the other hand, the shale oil revolution in the U.S. coupled with unchanged supply targets from OPEC put more downward pressure on oil, whose price tumbled 40% by the year-end.

Chart 5.2.1.
GDP growth rate
in major economies
(2010-2014,
percentages)

Source: Bloomberg

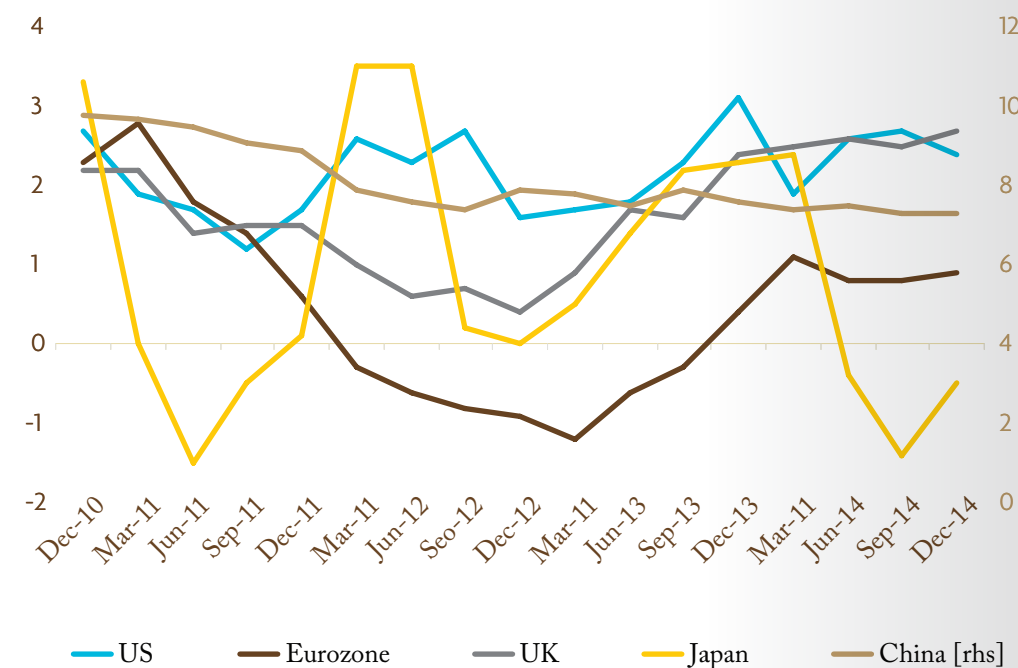
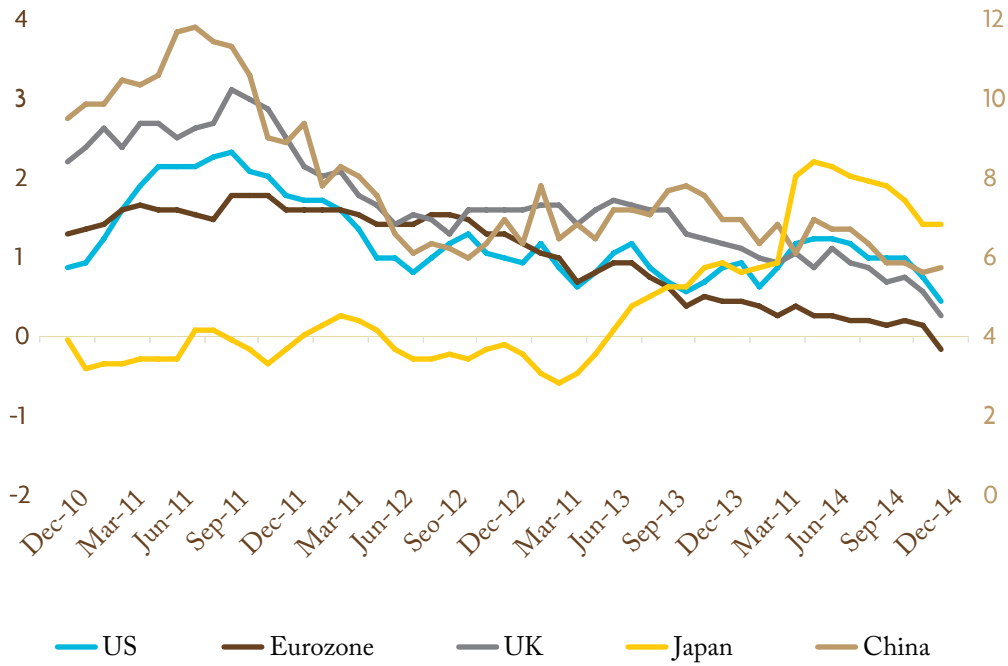


Chart 5.2.2.
Inflation rates in
major economies
(2010-2014,
percentages)

Source: Bloomberg



UNSYNCHRONIZED POLICY CYCLES

It is fair to say that global growth is still to a large extent boosted by unprecedented liquidity injections from central banks, particularly the Federal Reserve and the Bank of Japan. However, 2014 marked a period of gross dis-synchronization in monetary policies as the Fed announced the end of its massive quantitative

easing program and began preparing to hike rates for the first time in nearly 6 years. Meanwhile, Japan was forced to renew its expansionary monetary policies in October, after the world's third largest economy entered a quick recession mainly due to consumption tax imposed in April. The European Central Bank's

balance sheet continued to draw down due to the prepayments of the VLTROs. On the policy front, ECB implemented an array of unconventional monetary interventions including policy rate cuts, TLTRO bank participation system, and purchases of asset-backed securities and covered bonds directly from markets.

In emerging economies, the monetary space was equally uneven as Russia and Brazil raised interests to 17.5% and 11.25% respectively, whereas India and China lowered their key benchmark rates citing decelerating inflation dynamics and pronounced slowdowns in domestic economies.



Chart 5.2.3.
Central Banks' benchmark interest rates (2007-2014, percentages)

Source: Bloomberg

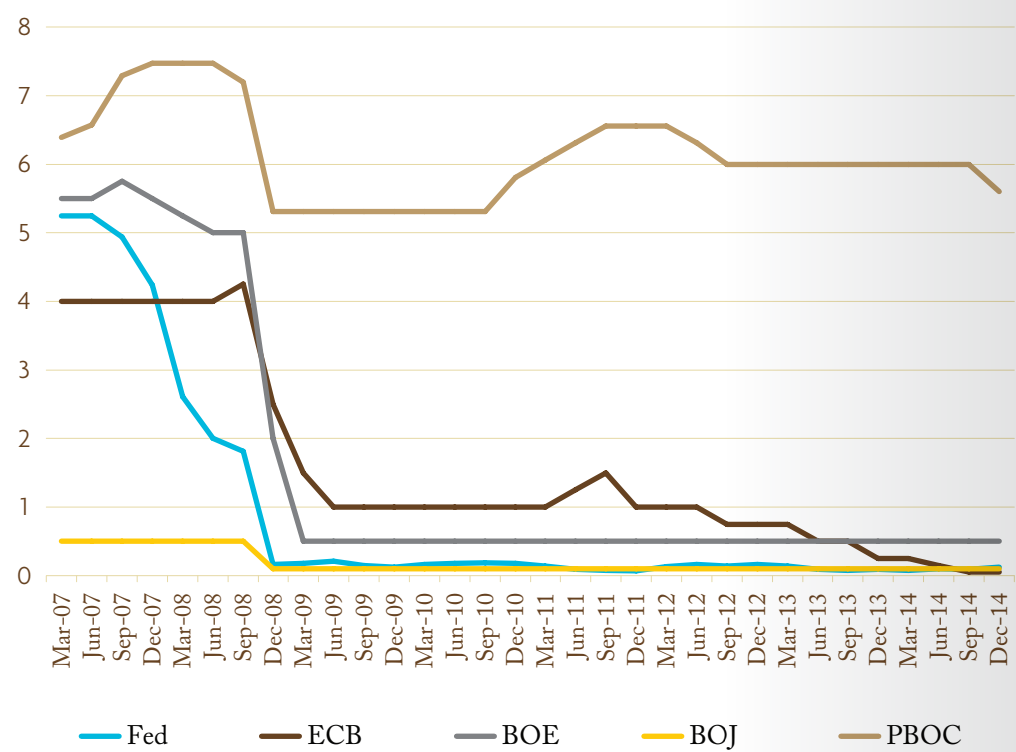
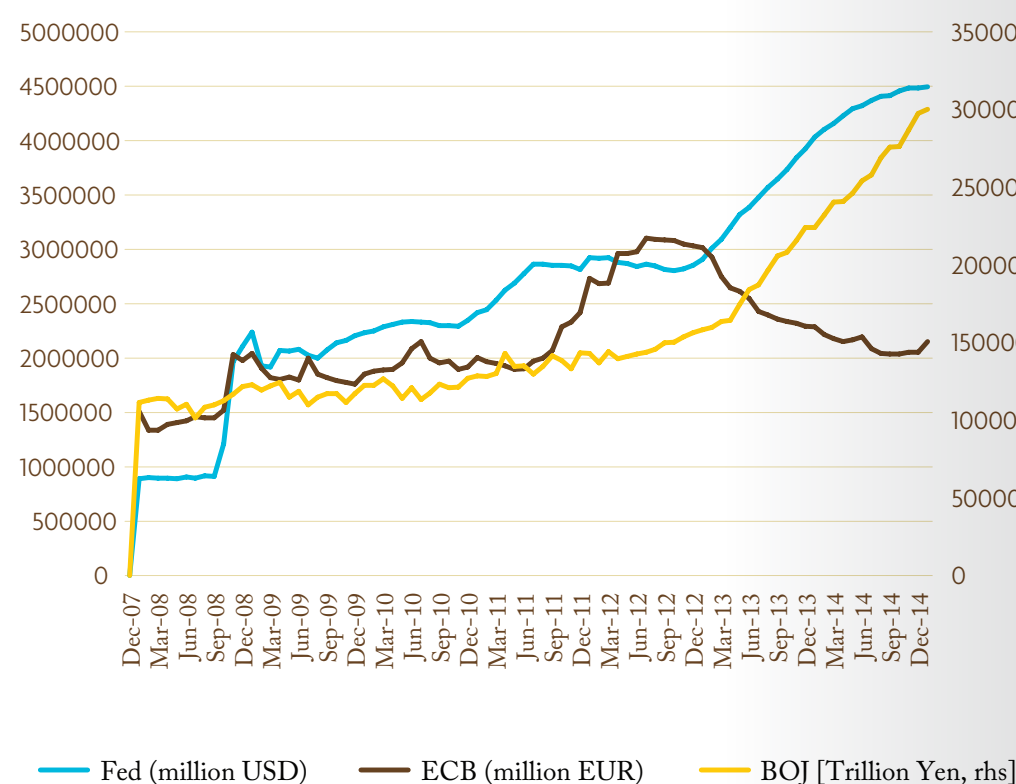


Chart 5.2.4.
Central banks' balance sheets (2007-2014)

Source: Bloomberg



UNITED STATES – LEADING GLOBAL RECOVERY IN 2014

The 2014 can be comfortably labeled as the American year. The U.S. dollar appreciated against practically all other currencies in the world and particularly against its G10 counterparts. Solid corporate sales and rebounding consumer spending helped rally U.S. equities. Relative underperformance of peers such as Eurozone and Japan led investors to redirect funds into U.S. Treasuries, which recorded a good performance for the year. The American consumer and selected industries are benefiting from lower oil prices and, as a result, lower gas and fuel prices. The unemployment rate stood at 5.7% by end of the year, and payroll numbers continue to meet bullish analysts' estimates.

Chart 5.2.5.
G10 currency performance in 2014 (against USD)

Source: Bloomberg

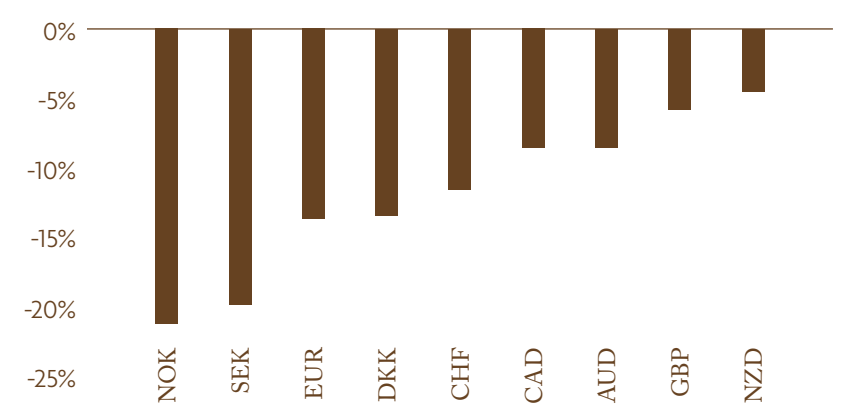
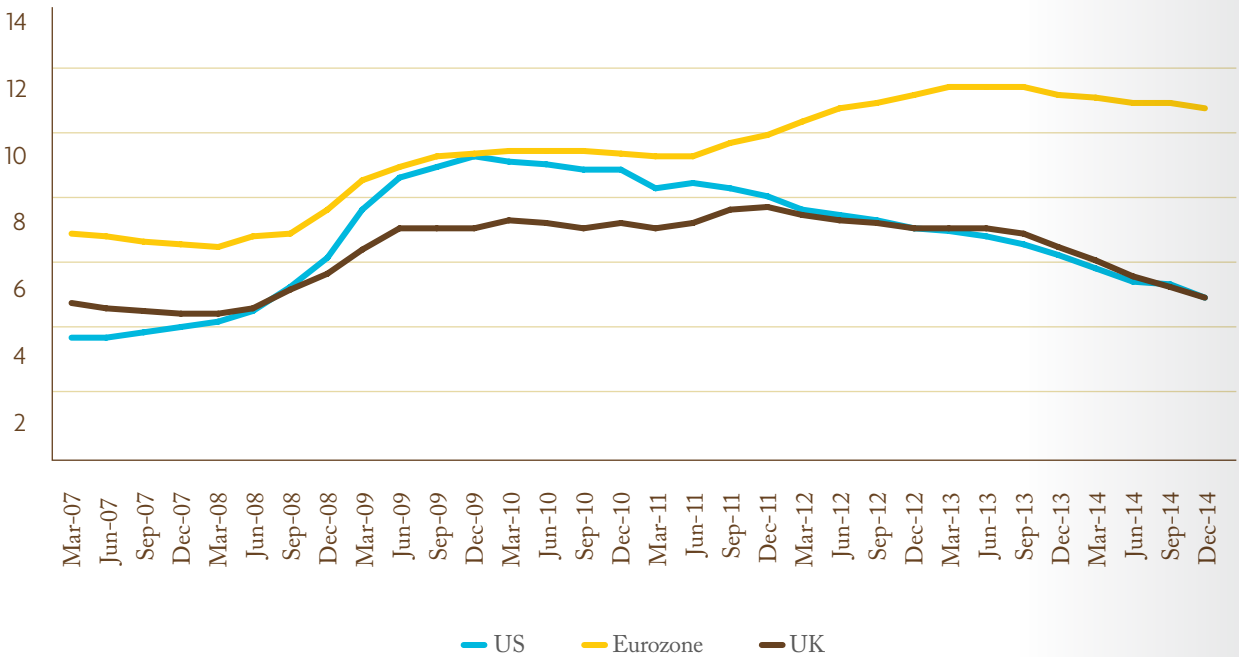




Chart 5.2.6.
Unemployment rates in USA, Eurozone and UK
(2007-2014, percentages)

Source: Bloomberg



FIXED INCOME MARKETS

HISTORICALLY LOW YIELDS IN GERMANY

The yield for the 10-year Bund, which started the year at slightly below 2%, closed out 2014 at around 0.6%. Continued easing of nominal yields was mainly due to the decline in inflationary expectations

in the Eurozone. 5 year forward 5 year inflation swap rate, a widely-watched measure of Eurozone inflation expectations, fell to a record low as oil prices plummeted. The German 10-year

breakeven inflation rate (difference between yields on nominal and inflation-protected securities) stood at the record-low 1.7%. The depressed economic environment, ECB's expansive actions, concerns

over Greece and collapse of Russian markets were the other major factors contributing to the Bund performance.

Chart 5.2.7.
Eurozone 5Y5Y forward inflation swaps
(percentages)

Source: Bloomberg

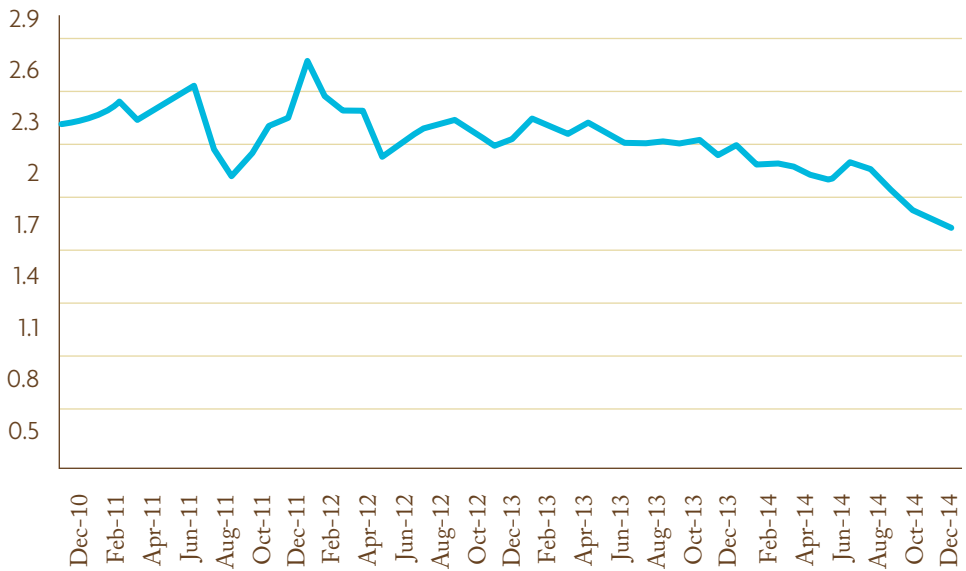
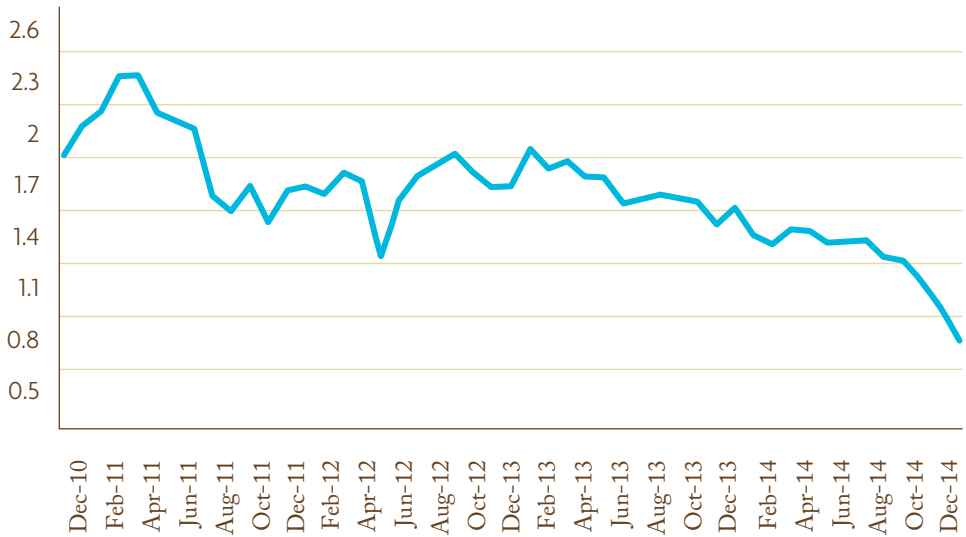


Chart 5.2.8.
German 10 year breakeven inflation (percentages)

Source: Bloomberg





YIELD CURVES FLATTEN

Yield curves of some of the major G-7 economies flattened during 2014 due to declining inflationary expectations. The 10Y-2Y spread (measured as the difference between yields on 10-year and 2-year bonds) narrowed from 265 bps to 150 bps in the US and from 250 bps to 130 bps in the UK. However, the decline was more impressive in Germany, as 10Y-2Y spread dropped from 180 bps to 65 bps.

Chart 5.2.9.
Sovereign yield curves in USA and Eurozone (2013-2014, percentages)

Source: Bloomberg

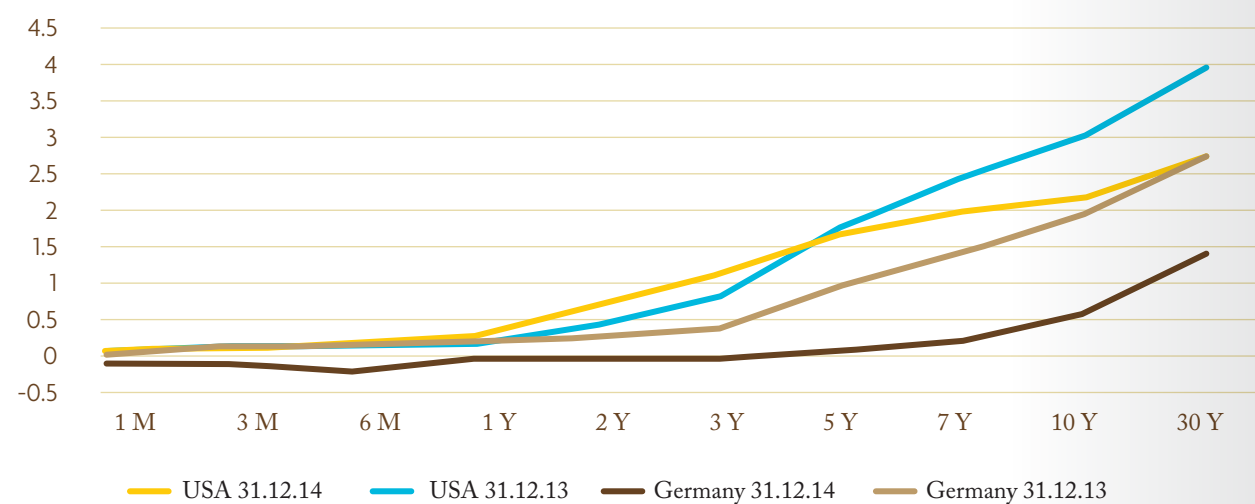
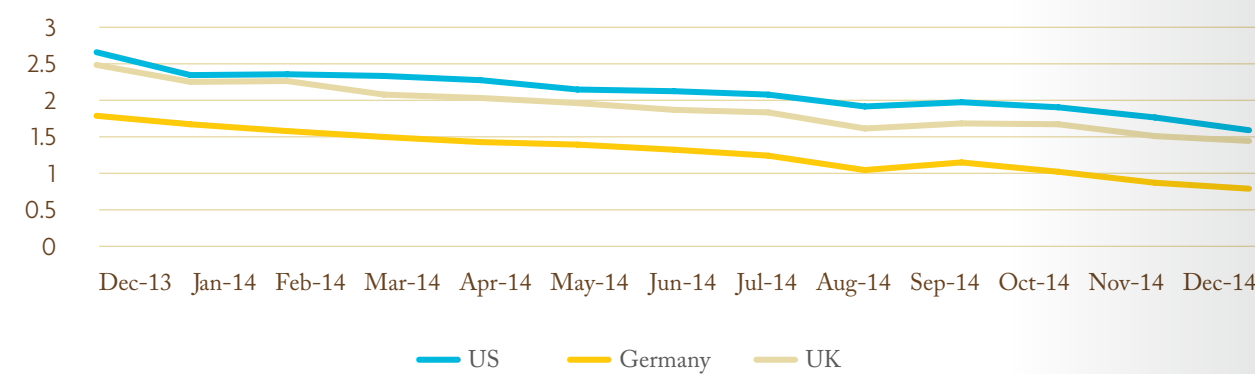


Chart 5.2.10.
10 year – 2 year spreads in major economies

Source: Bloomberg

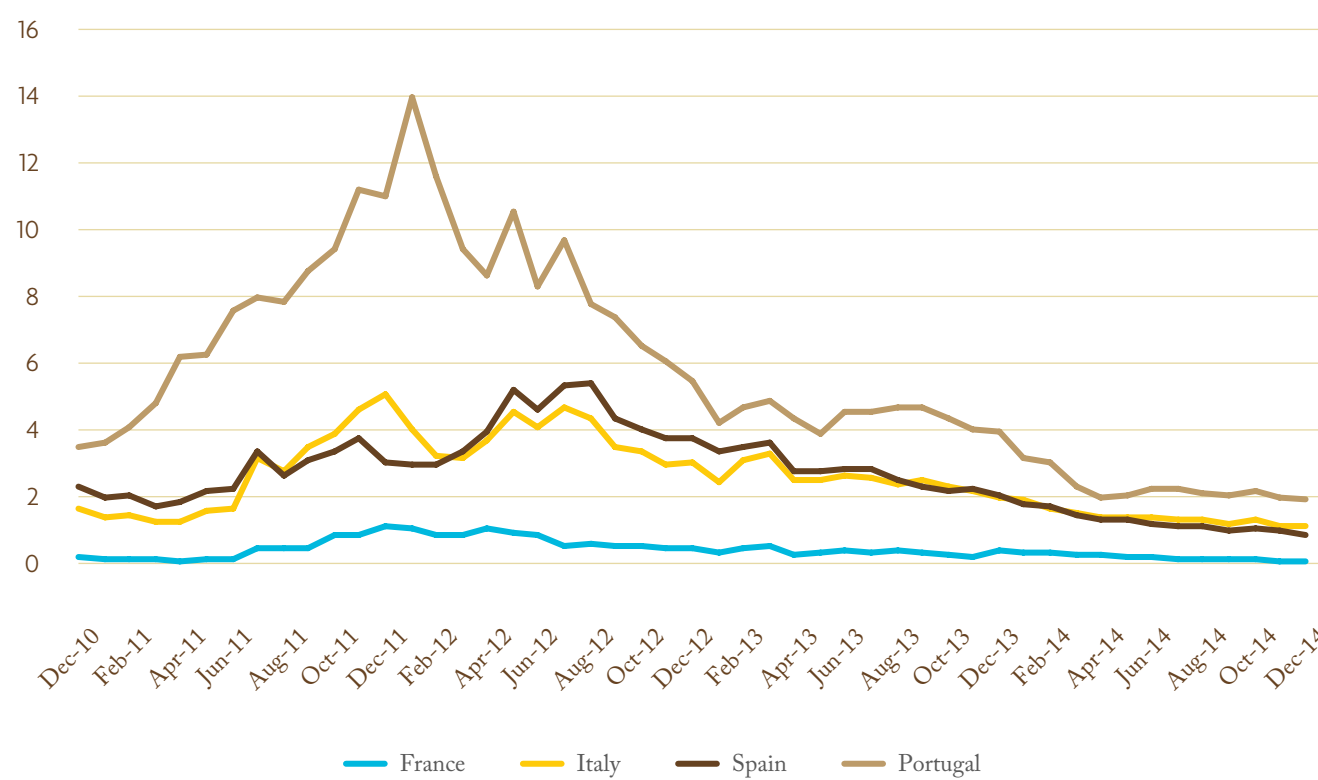


EUROZONE PERIPHERY OUTPERFORMED

A compression of peripheral debt spreads was observed in 2014, which resulted in the periphery's superior performance versus core debts. The 10Y Italy-Germany spreads narrowed from 220 bps at the start of January to 140 bps at the end of December over the year. 10 Year Spanish Government bond spreads declined 65 bps during the period. The one exception was the Greek bond spread that has widened 200 bps, due to political uncertainties which negatively affected all other peripheral debts. The convergence of spreads over much of 2014 was mainly driven by the first signs of economic recovery in peripheral countries and by the ECB's accommodative responses to economic data, as well as strengthened possibilities of a full QE in 2015.

Chart 5.2.11.
10 year yield spread against Germany (percentages)

Source: Bloomberg





SOFAZ’S FIXED INCOME INVESTMENTS

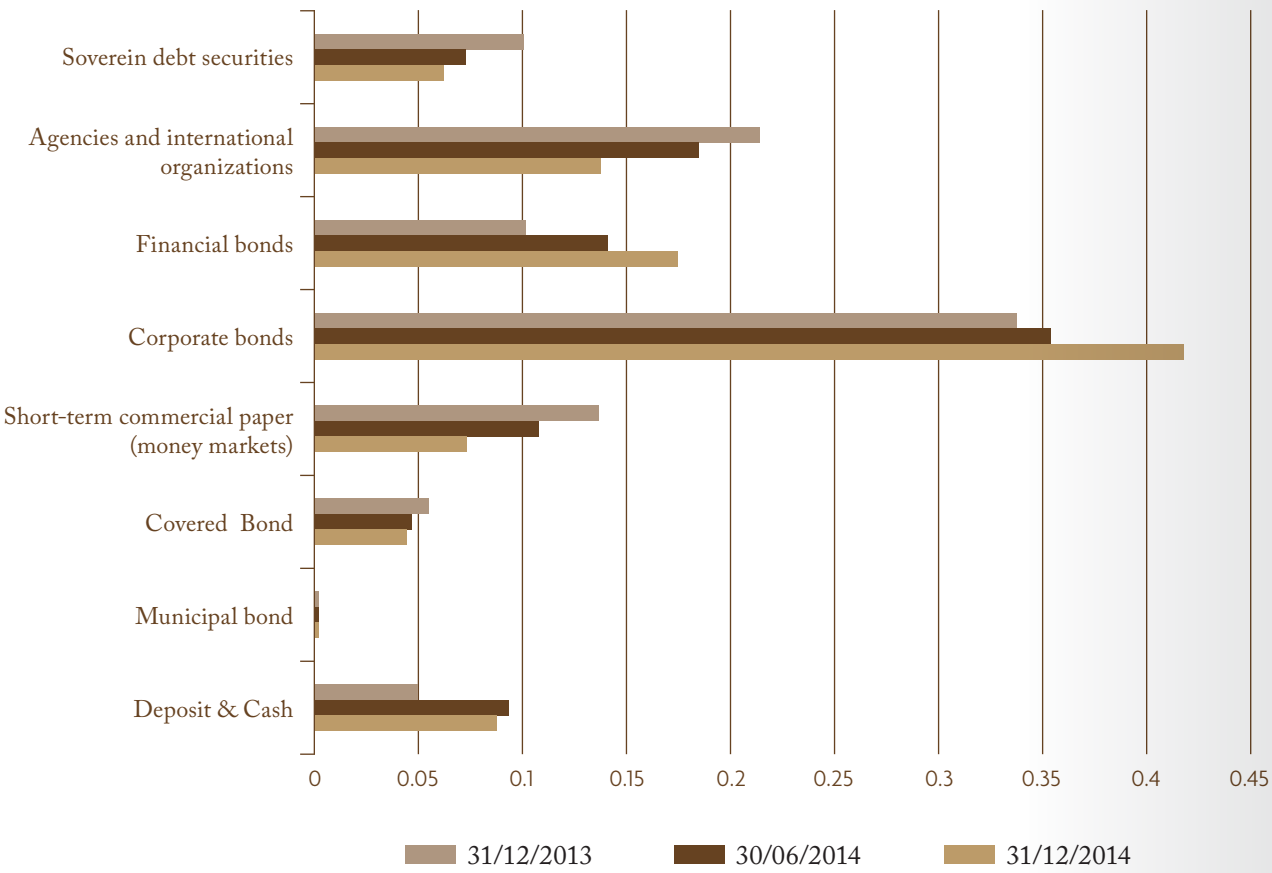
The year of 2014 was marked by low volatility in fixed income markets with bull flattening of yield curves in most of the developed countries and credit spreads stabilizing

at low levels. SOFAZ sought to achieve the highest possible return within prudent levels of risk under this environment. We reduced our State-Supra-Agencies (SSAs)

exposure due to lower, if not negative, yield levels and reallocated funds into Financial and Corporate bonds offering yield pick-up. Short-term commercial papers were also subject to

reduction because of lower money-market yield levels and lack of opportunities.

Chart 5.2.12.
Breakdown of fixed income portfolio by product types (percentages)



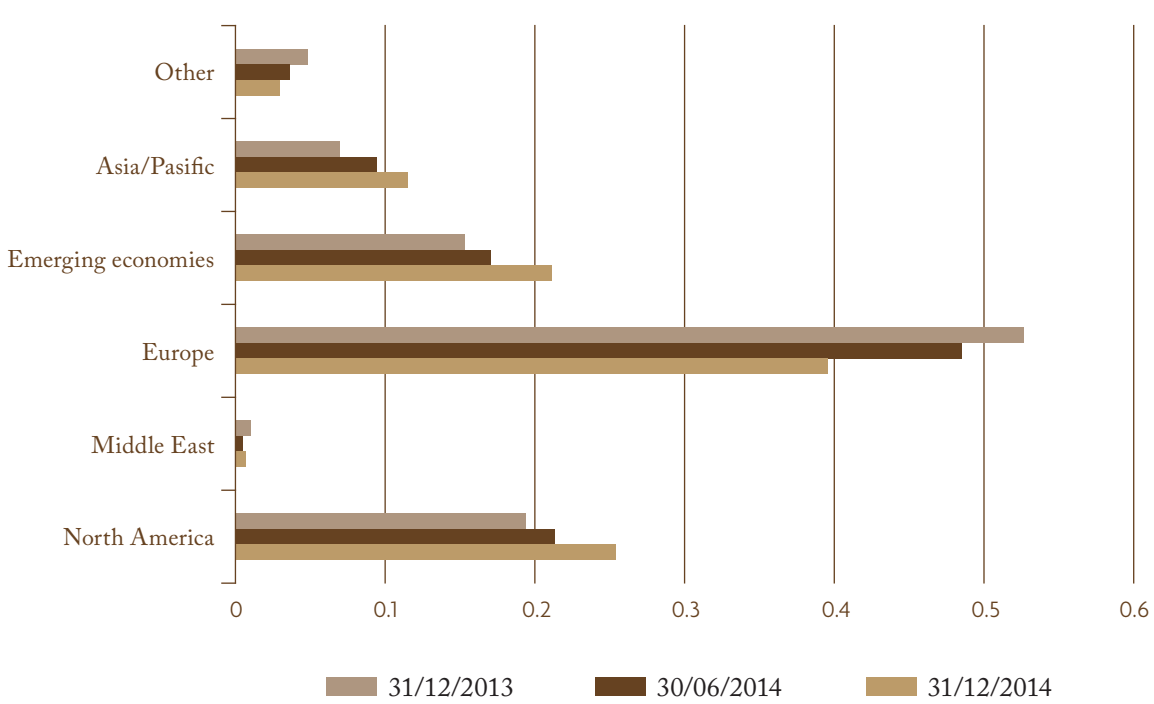
During the year under review, the Fund pursued the strategy of achieving geographical diversification of the fixed income portfolio. SOFAZ has significantly decreased its exposure to Europe from 52.67% to 39% due to very

low yield environment and weak prospects in comparison to other regions. However, the largest exposure of the portfolio by the year-end was still to Europe. North America, Asia/Pacific and Emerging economies

received higher allocation, due to stronger economic growth indicators and higher yield levels in comparison to Europe. In fact, the exposure to North America increased from 19.37% to 25% during the year. Capital return

in emerging markets was satisfactory in 2014; it was also reflected in SOFAZ's allocation of 21% versus 15% of the previous year.

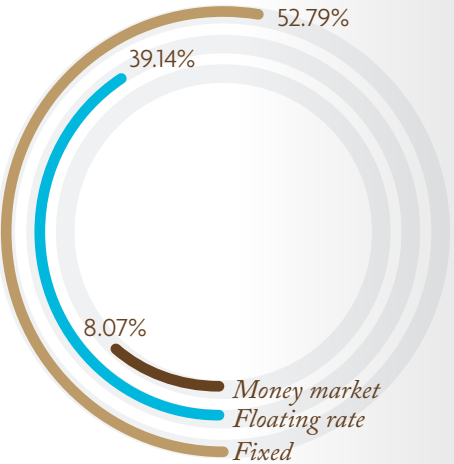
Chart 5.2.13.
Breakdown of fixed income portfolio by geographical distribution (percentages)



SOFAZ increased the portion of fixed coupon securities to 53% in 2014 from 43% in the previous year to benefit from flattening yield curves and tightening spreads in the bond markets. In order for the Fund to be able to timely satisfy its pre-determined withdrawals, the allocation to money market securities was kept at the level of 8% even despite the decline in the

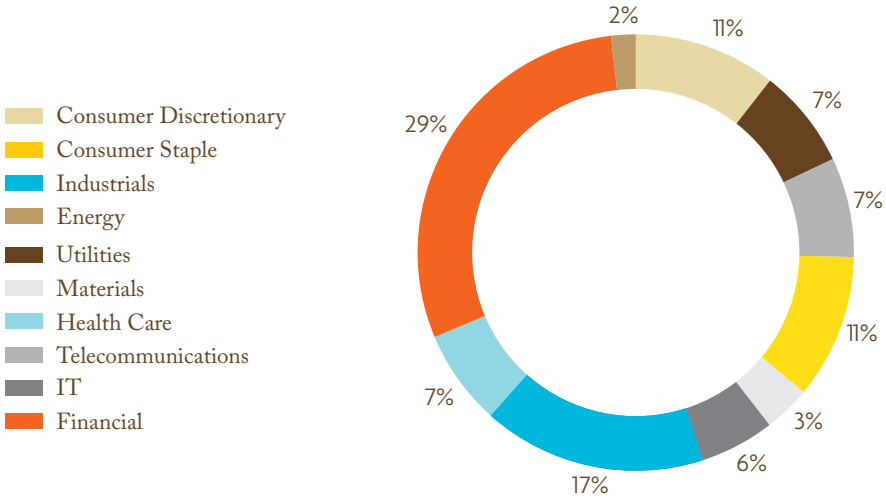
weight due to the lower yield environment. Overall duration of fixed income portfolio is still considered to be short, for the purpose of protecting it from adverse effects of movements in the interest rates.

Chart 5.2.14.
Breakdown of fixed income portfolio by security type



Fixed income portfolio is well diversified across different industry sectors. The sectors receiving highest allocations were financials, industrials, consumer staples and consumer discretionary (29%, 17%, 11% and 11% respectively).

Chart 5.2.15.
Breakdown of fixed income portfolio by sectors



EQUITY INVESTMENTS

EQUITY MARKET
OUTLOOK IN 2014

During 2014 central banks of developed countries kept monetary policies very loose; Eurozone countries maintained a zero-interest-rate policy and Japan further expanded its asset purchase program.

The United States stocks led the growth (+11.39% annual return for S&P 500) in global equity market despite the strengthening of

the US dollar. Particularly, during the second half of the year markets improved consistently, driven by strong US fundamentals. Strong corporate earnings results and macroeconomic indicators in US have led global equity valuations to new peak levels. Generally, growth stocks outperformed value stocks and large-caps beat small-caps throughout the year.

European equity markets indicated positive but

modest performance (+1.2% annual return for STOXX 50) throughout 2014. Economic growth slowed down during the year, partially due to the Greek debt crisis and political instability in the Eastern Europe.

Solid Japanese growth attributable to Prime Minister Shinzō Abe's expansionary economic policies, deteriorated after the mid-year hike in consumption tax. The

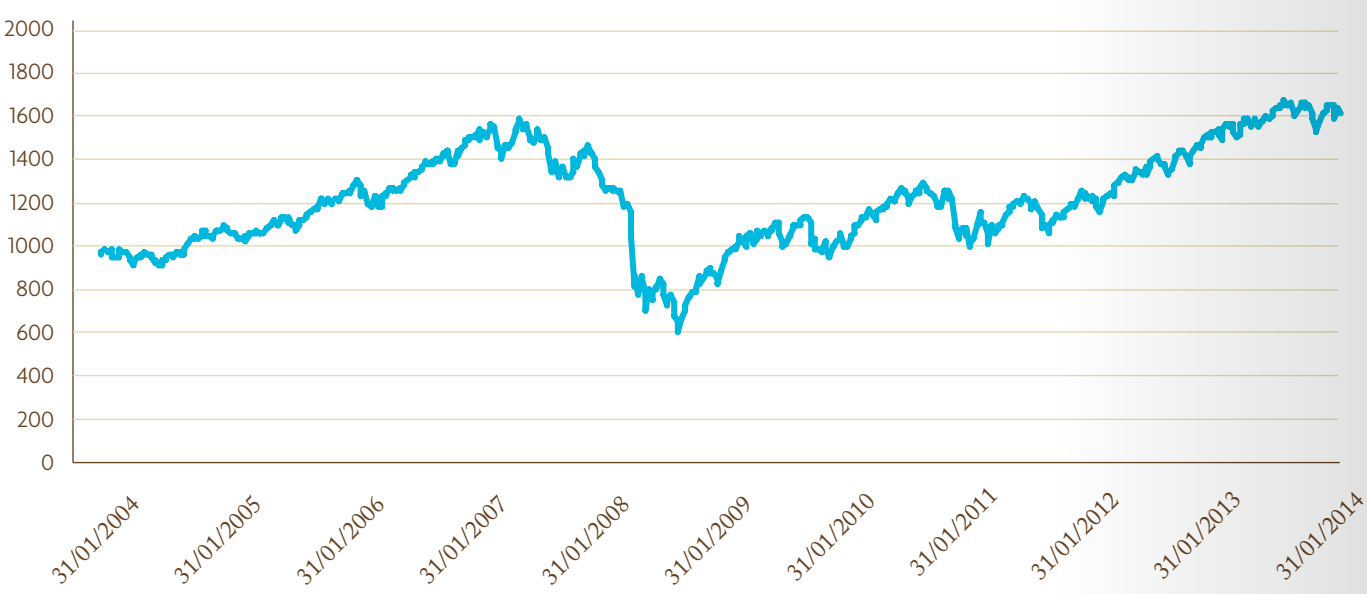
leading Japanese market index, Nikkei 225, posted an annual return of +4%. In 2014 the performance across emerging equity markets was disperse. China and India outperformed the emerging stock indices while Brazil and Russia were far down in the ranking.





Chart 5.2.16.
MSCI World Index (2004–2014, index points)

Source: Bloomberg



EQUITY PORTFOLIO

By the end of 2014, SOFAZ has increased its equity portfolio to 6.2% of total AUM, compared to 3.9% in 2013. Throughout the year, equity investments generated a return of 8.8%. The fund mitigates the portfolio volatility by investing the largest

proportion of the equity portfolio into the MSCI World index. The portfolio tracking MSCI World returned 5.4% during 2014. SOFAZ holds a large equity stake in VTB bank, a state-controlled Russian bank. In the passing year, the

local currency denominated return equaled 38%. End of 2014 was also highlighted with one major event. Fund has started internal equity investments by allocating USD 100 million into portfolio tracking S&P 100 index.

At the time of acquisition, the index was comprised of 101 blue-chip companies representing various sectors of the American economy.

PRIVATE EQUITY

PRIVATE EQUITY MARKET OUTLOOK 2014

2014 can be considered quite a healthy year for Private Equity with around USD 500 billion of capital raised by approximately 1000 funds throughout the year. Combined with an

increase in the unrealized value, total Private Equity AUM currently stands at USD 3.8 trillion. Given 1600 market exits valued at some USD 430 billion, 2014 was also marked with the highest ever aggregate exit value for private equity buyout funds. Venture

capitalists engaged in 7 475 financings with an aggregate value of USD 86 billion. Dry powder was a very hot topic during the year, as there were concerns that high levels of undrawn capital were increasing the competition over the deals in the market among funds.

Throughout 2014, dry powder levels increased by about USD 128 billion and as of year-end stood at over USD 1 trillion.

PRIVATE EQUITY PORTFOLIO

Currently, SOFAZ has a commitment to three funds managed by IFC Asset Management Company. The description of each fund is outlined below:

- IFC African, Latin American, and Caribbean Fund (ALAC) is a USD 1 billion fund established in 2010 and makes equity and equity-related investments across all industry sectors in Sub-Saharan Africa,

Latin America, and the Caribbean. The fund makes investments mostly in Argentina, Brazil, Chile, Colombia, Cote D'Ivoire, Dominican Republic, Kenya, Mexico, Nigeria, Trinidad and Tobago, and Uganda. SOFAZ's commitment in ALAC Fund is USD 100 million, representing 10% stake as a Limited Partner.

- IFC Catalyst Fund was established in 2012 as a

fund of funds and makes investments in selected renewable energy and resource efficiency-focused private equity funds in emerging markets. To date, the fund has USD 418 million in commitments. SOFAZ's commitment in IFC Catalyst Fund is USD 50 million, representing 12% stake as a Limited Partner.

- IFC Global Infrastructure Fund was established in

2013 and makes equity and equity-related investments in the infrastructure sector in global emerging markets. To date, the fund has commitments of USD 1.2 billion and SOFAZ's portion in it is USD 200 million representing 16.67% stake as a Limited Partner.



Chart 5.2.17.
Breakdown by sectors

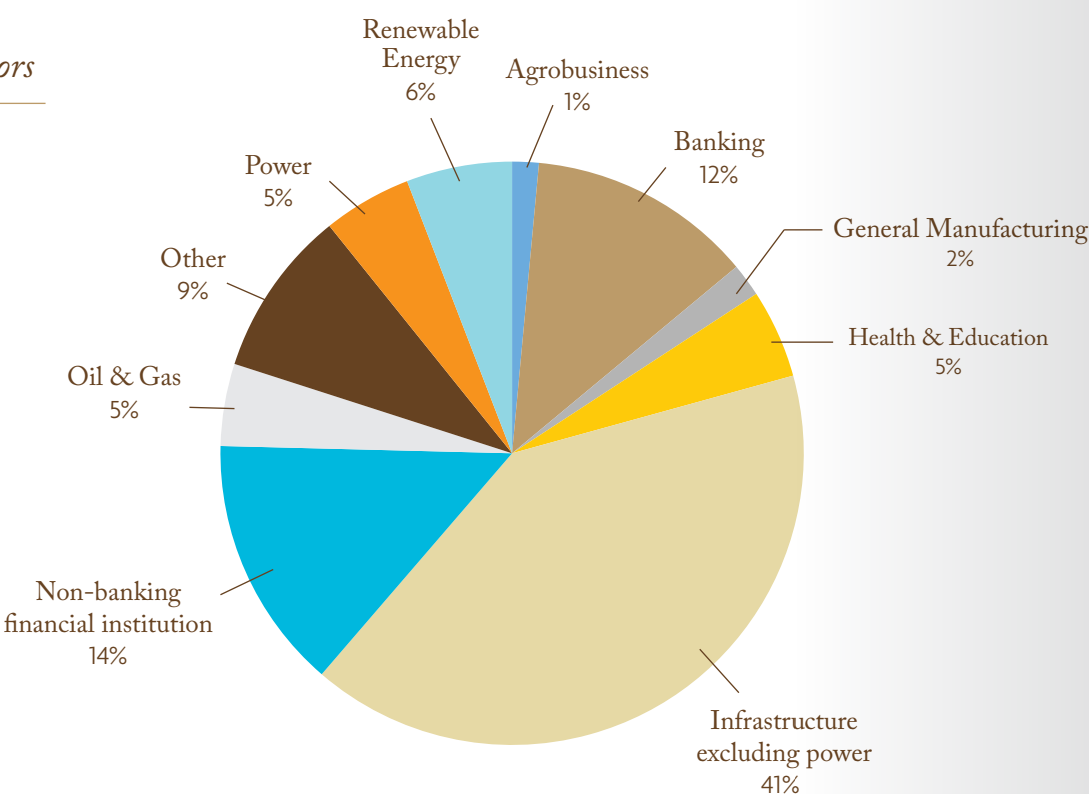
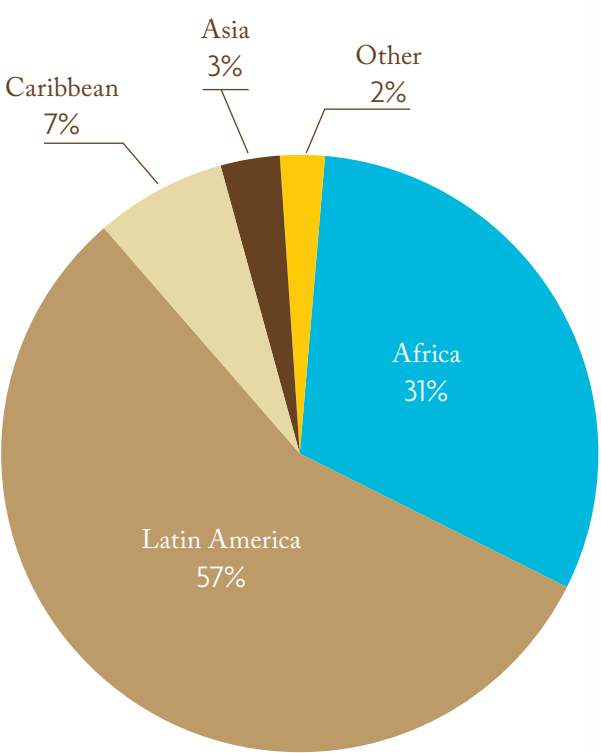


Chart 5.2.18.
Breakdown by regions



INVESTMENT TO THE NEW, SEMI-SUBMERSIBLE DRILLING RIG

In 2014, the Fund invested USD 192.8 million (AZN 151.3 million) in the charter capital of the Azerbaijan Rigs LLC, formed with the participation of State Oil Fund (90%) and State Oil Company (10%).

The maximum budget limit of the project is USD 1 116.7 million. The charter capital is formed by periodic capital contributions from SOFAZ and SOCAR in order to fulfil payments to the contractors. According to the Engineering Procurement Construction

and Management Contract dated 24 June, 2013 Caspian Drilling Company LLC is a project contractor, which was founded by State Oil Company and is the owner of existing drilling rigs in the Caspian Sea. The project is expected to be completed in 42 months.

REAL ESTATE MARKET HIGHLIGHTS

Since the financial crisis, investors have been at their most acquisitive in global property markets in 2014, as state-backed investors snapped up big-ticket prime assets across Europe and North America. In the meantime, private real estate funds deployed

large amounts of capital that they have raised for opportunistic investments. The most important development has been the return of confidence in a number of jurisdictions. Investors have been active in Spain, Portugal, Ireland, and other distressed

jurisdictions. Another notable change is in the nature of the investors. Whereas before 2014 much of the investment activity was from investors at the higher end of the risk spectrum, typically seeking returns from distress, we are now seeing core and

core-plus investors coming back in. It is they who seem to be driving the next round of international investment into real estate.

EUROPE

For the first time since 2007, European property values across all asset classes saw four consecutive quarters of growth in 2014. The capital value index rose by 4.3% over the year, resulting in

yield compression across all quartiles for the first time. Investors are mainly focused on prime assets, but with the increasing risk appetite they are moving into secondary and more peripheral markets. On an

annual basis the UK was the strongest performer, with values rising 12.9% for the year. Strong levels of growth were also observed in the Nordics (3.9%), Southern Europe (3.6%), and France (3.3%). Values

in Germany rose 2.7%. Transaction volumes for 2014 surged by 10% compared to the previous year reaching the EUR 160 billion more.



ASIA PACIFIC (APAC)

Asia Pacific commercial real estate investment volumes rose to a record high in the last quarter of 2014, bringing full year volumes to USD 131 billion, also a record high for the region. Office leasing activity continued to gain traction in 2014 and with annual net take-up around 15% higher than the year before. It is worth mentioning, however, that expansion demand in the region is still much lower than the peak level of 2011. Domestic occupiers and technology-related firms have been the main

demand drivers, while large corporates generally remain in cost-saving mode. Full year Grade A supply additions in the Tier I markets were down by 30% from the year before to 3.4 million sqm and the lowest since 2006. As a result, vacancy rates fell in three-quarters of the major markets during 2014. The aggregate vacancy rate for the region stood at 11.6% at the end of the year, but with a wide range across cities.

MOSCOW

2014 was truly a challenging year for Russia, specifically the Moscow real estate market. Low oil prices coupled with ruble depreciation have heaped pressure on real estate market of Moscow. Real estate investments are down by 14% and local investments currently exceed foreign investments by 76%. Average retail rent on high streets are down by 20% and the vacancy rates

are up by 6% compared to the previous year. The office sector has also been affected by the downturn. The vacancy rate in A-class buildings are at a level of 28.4% with B-class standing at 15.5%.

ACQUISITIONS IN 2014

On 28 March 2014, the Fund acquired Pine Avenue Tower A, a 25-story Class A office building (with 6 basement floors) located on 203 Euljiro 2-ga, Jung-gu, Seoul, Korea. The Fund purchased beneficiary certificates of Mirae Asset MAPS

Frontier Private Real Estate Investment Trust 21 for KRW 469,007,098 thousand, which is a trust-type real estate fund under the Financial Investment Services and Capital Markets Act and managed by Mirae Asset Global Investment Co.,

Ltd as collective investment company. Built in 2011, the gross building area is over 65 000 sqm. The building is let in its entirety to S&K E&C, a wholly owned subsidiary of S&K Holding, South Korea's second largest conglomerate, till June 2017.



ANNUAL EARNINGS

As of the year end, the real estate portfolio consisted of four assets located in London, Paris, Moscow and Seoul.

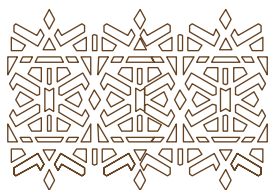
- During 2014, below mentioned rents were collected from the four respective investments:
- London, 78 St James Street, GBP 9 650 000

- Paris, 8 Place Vendome, EUR 5 065 000
- Moscow, 16 Tverskaya, RUB 319 690 000
- Seoul, Pine Avenue Tower A, KRW 22 154 400 000

In 2014 a major redevelopment program was initiated at Gallery Actor, which saw complete overhaul of the shopping

center concept as well as conversion of the last floor to a restaurant. Naturally, due to these changes net operating income has fallen in comparison with 2013, associated with the loss of rental income and capital expenditure. All four assets were independently valued at the end of 2014. The valuation results are shown below:

- 78 St James Street, GBP 193 350 000
- 8, Place Vendome, EUR 158 000 000
- Tverskaya 16, RUB 5 687 000 000
- Pine Avenue Tower A, KRW 481 900 000 000



Garabakh School
dragon motif
Auditorium perforated metal
panels



GOLD INVESTMENTS

According to the investment guidelines, up to 5% of the SOFAZ's assets can be invested into gold. Starting from February 1, 2012, SOFAZ initiated the purchase of 25 gold bars conforming to the requirements of London Bullion Market Association (LBMA) per week (10 000 troy ounces) from the market-maker member banks of LBMA.

Incorporated in 1987, London Bullion Market Association includes international banks active in gold and silver markets, as well as producers, transportation and refinery companies. In order to reduce the risks associated with price fluctuations, the Fund has been implementing a strategy, according to which the overall amount of gold planned to be purchased will be bought on a weekly basis in equal amounts within two years.

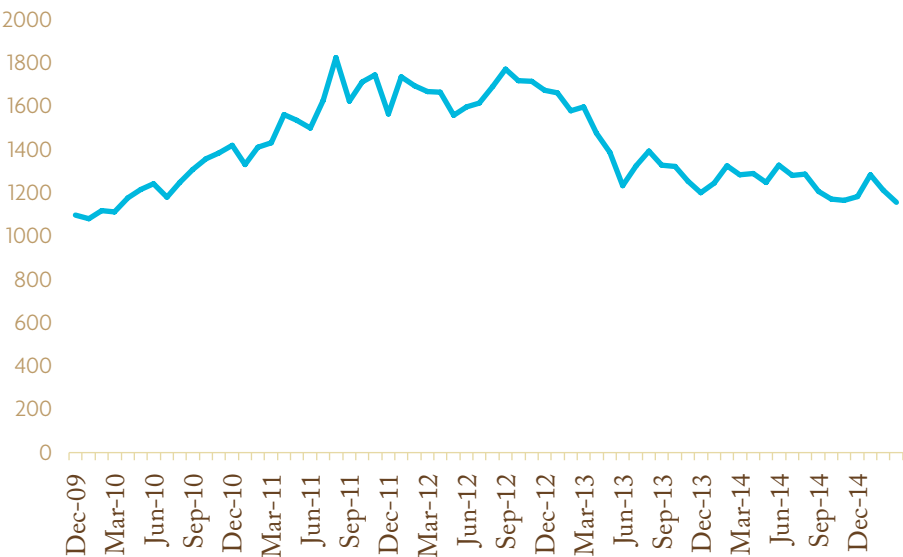
30 175 kg of gold (970 146 troy ounces) was included into SOFAZ's investment portfolio by the end of 2014.

The gold purchased by the Fund is temporarily stored in JP Morgan's London vault considering its experience and competitive storage costs. Starting from January 11, SOFAZ began to transfer the purchased gold to Azerbaijan. By the end of 2014, 30 169 kg of

gold was transferred to Azerbaijan and temporarily stored in the vaults of the Central Bank of the Republic of Azerbaijan.

Chart 5.2.19.
Gold price
(US dollar)

Source: Bloomberg



5.3. SOFAZ INVESTMENT PORTFOLIO PERFORMANCE

PERFORMANCE
MEASUREMENT
METHODOLOGY

Returns on SOFAZ's assets are calculated in accordance with the "Performance measurement methodology for the investment portfolio and sub-portfolios of the State Oil Fund" approved by the Resolution No. 5 dated 21 April, 2009. In accordance with this methodology AZN, USD or EUR is taken as the base currency in calculating the performance of the total investment

portfolio. Performance is also calculated without taking currency exchange fluctuations into account. The performance of the sub-portfolios is measured in the respective (local) currency of each sub-portfolio and in the base currency, i.e. USD (provided the impact of the currency component is indicated).

SOFAZ RATE OF
RETURN IN 2014.

SOFAZ's total investment portfolio returned 1.52% in 2014. Average return for the past 10 years is 2.58%. Chart 5.3.1. illustrates annual returns since 2006:



Chart 5.3.1.
SOFAZ investment portfolio: rate of return

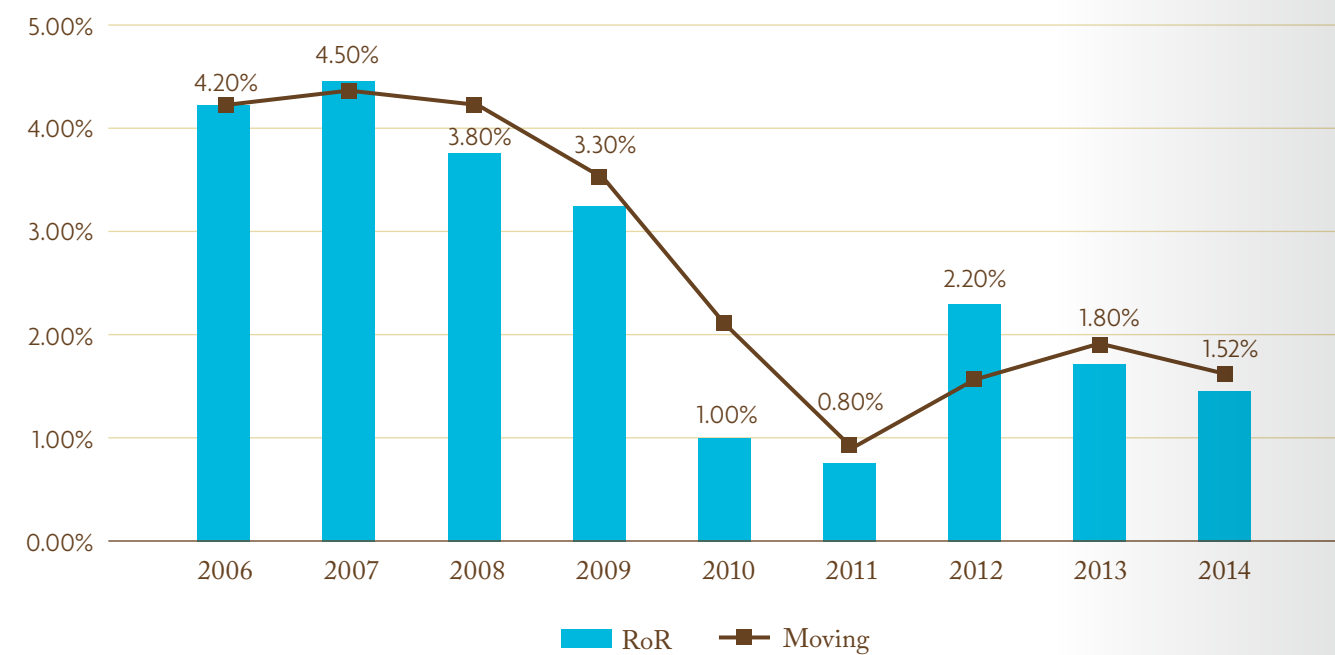
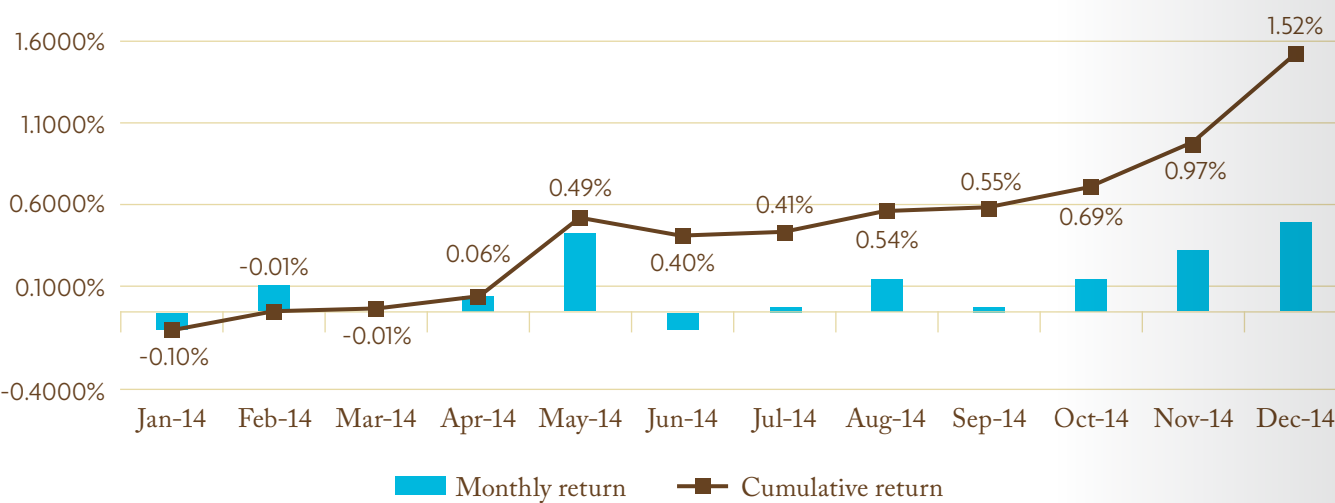


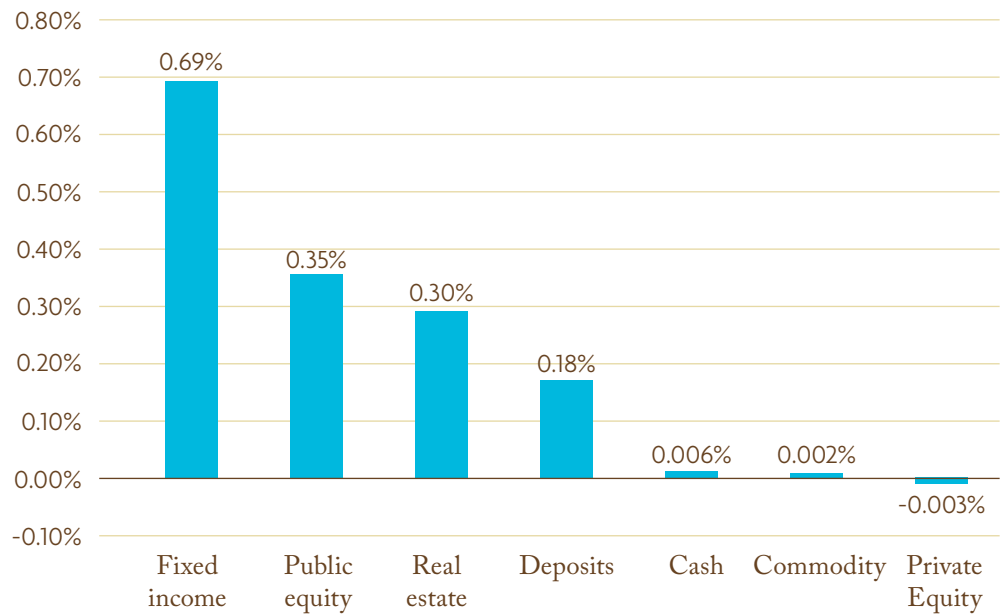
Chart 5.3.2.
Cumulative monthly performance

In 2014 cumulative monthly return of the fund's portfolio tended to increase.



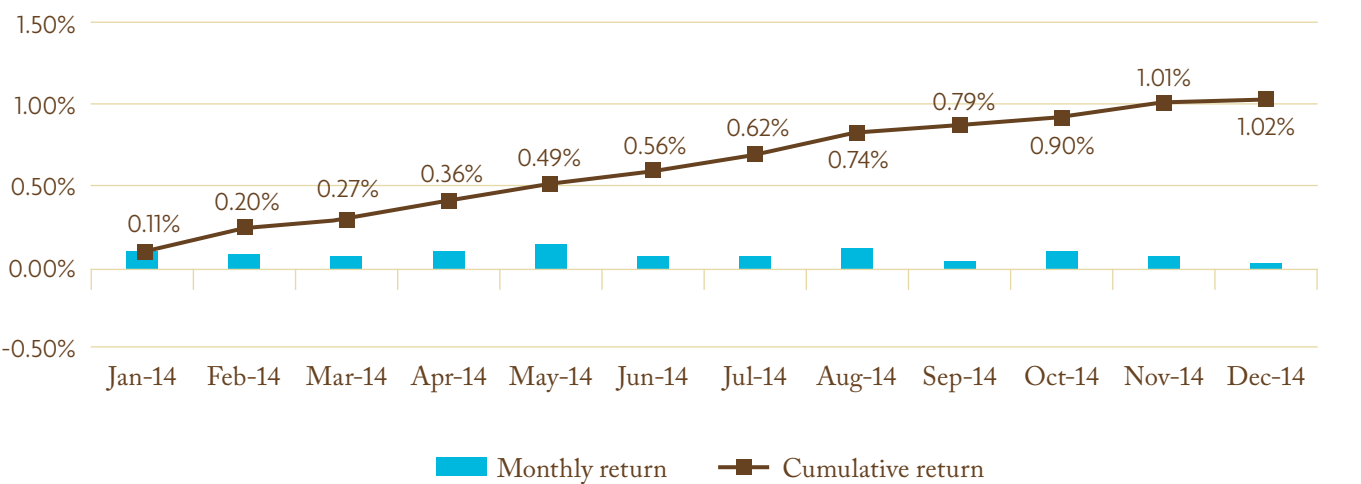
Of all the asset classes, public equities and fixed income securities contributed the most to total performance in 2014. Contribution of different asset classes to total performance is presented in Chart 5.3.3.

Chart 5.3.3.
Contribution to total performance by asset class (percentage)



In the course of the year, a steady increase in cumulative monthly performance of fixed income and deposits portfolios led to annual return of 1.02%.

Chart 5.3.4.
Cumulative monthly fixed income performance





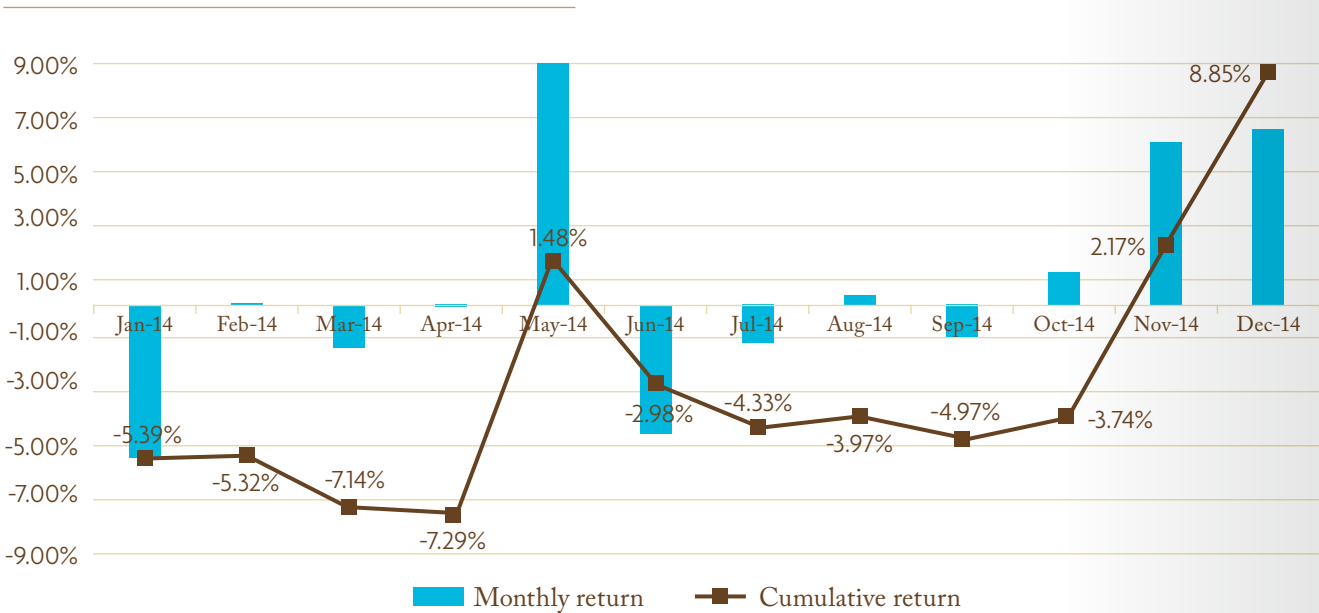
Geopolitical tensions led to economic uncertainties in 2014, particularly in the second half of the year. Even so, due to the dominating role of the United States in the stock markets and high

concentration of SOFAZ's equity portfolio in the US, performance of the equity portfolio was satisfactory. Moreover, by the end of the year SOFAZ allocated funds to internally managed public equities portfolio.

The new portfolio passively replicates the S&P100 Index.

Cumulative monthly performance of Public equity portfolio is shown in Chart 5.3.5.

Chart 5.3.5.
Public equity performance



In order to reveal the difference between historical risk and performance of the fund's portfolio and the benchmark, a tracking error concept is implemented. Ex-ante tracking error limits for the equity portfolios managed by UBS Global Asset Management (UBS) and State Street

Global Advisors (SSGA) have been established at the level of 30 bps on an annual basis. As of 31.12.2014, the tracking errors on annual basis were 9 bps for the UBS portfolio and 12 bps for the State Street portfolio.

With regard to the gold portfolio, an upper limit

of 5% is set in order to encourage strategic diversification. 2014 was characterized by falling gold prices, which remained relatively constant at the beginning of the year, but fell in the last quarter. Following the sudden increase in the gold sales by western investors in September

2014, a significant fall in the performance of the fund's gold portfolio was experienced. However, shortly afterwards, a steady recovery was observed, which is still ongoing.

5.4. RISK MANAGEMENT

Risk management is one of the essential components of the Oil Fund's operations. Our reports reflect the analysis of market risks at business unit, country, position, and risk factor levels, and help us to preserve the effectiveness during slowdowns and shocks.

Every stage of our analysis incorporates the well-established and globally recognized models and indicators. SOFAZ's risk management procedures are constructed based on the experience of the global market leaders.

SOFAZ constantly tracks risks of its portfolio through the analysis of asset price volatility, as well as fluctuations in exchange rate levels, interest rates, and credit risk spreads.

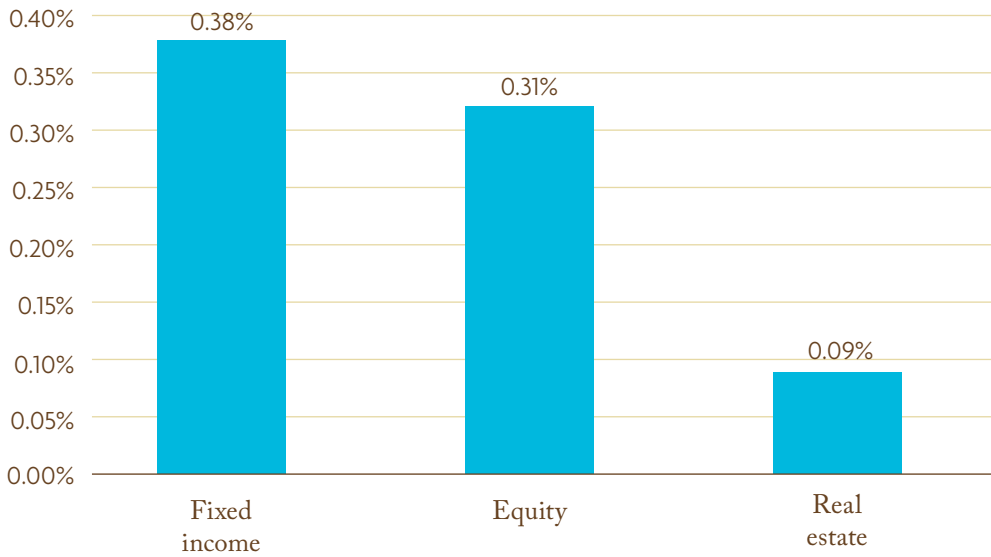
A range of state-of-the-art instruments is used in order to analyze the fund's market risks. Our methods of assessment of the market risk include Value at Risk, tracking error, scenario analysis, stress tests, etc.

For the purposes of internal risk management, Value at Risk (VaR) is a common and valuable measure of total risk. We obtain VaR of the portfolio using Monte Carlo and historical simulations.

The Fund's 20 day horizon 95% VaR as of 31.12.2014 is USD 337 million.

Risk contribution by asset class is shown in the Chart 5.4.1.

Chart 5.4.1.
Risk contribution by asset class





Despite the slow economic growth, global markets observed an increase in volatility in 2014. Due to rising political and economic uncertainties, the end of the year was associated with higher risk perception

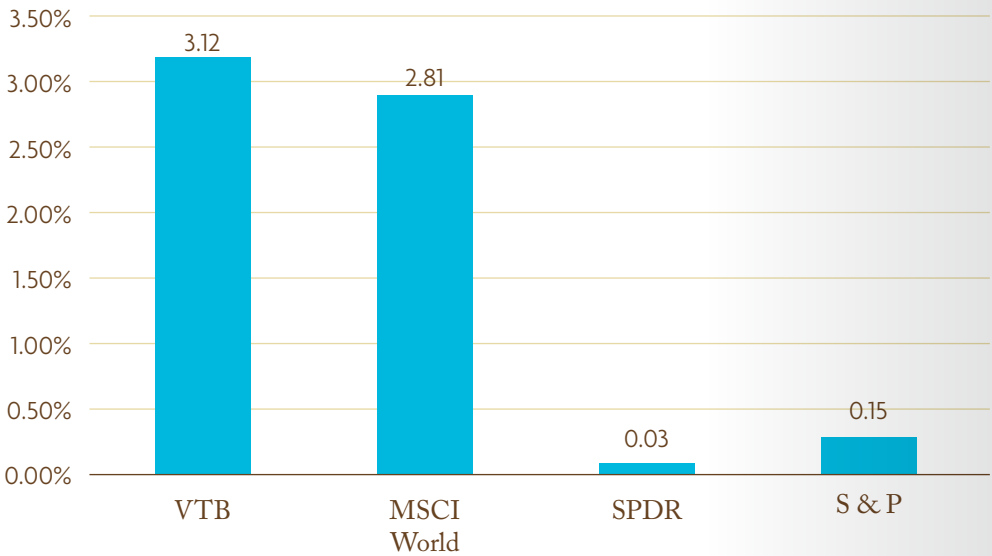
and risk aversion, as well as decreased risk concentration between and within asset classes. In other words, various asset classes responded to such conditions differently and their performances varied geographically: with US

equities winning, while Latin America and Europe underperforming at the stock market. Despite weak performance, European equities still showed positive annual returns. In the meantime, Euro-denominated sovereign debt

instruments outperformed other bonds.

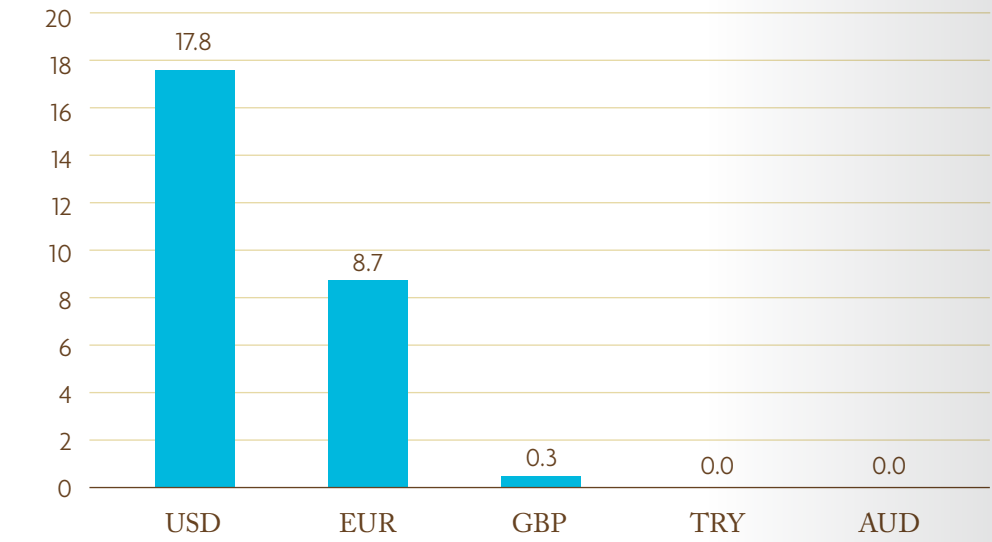
The following chart shows contribution of different equity portfolios to total equity VaR.

Chart 5.4.2.
Contribution to total equity VaR



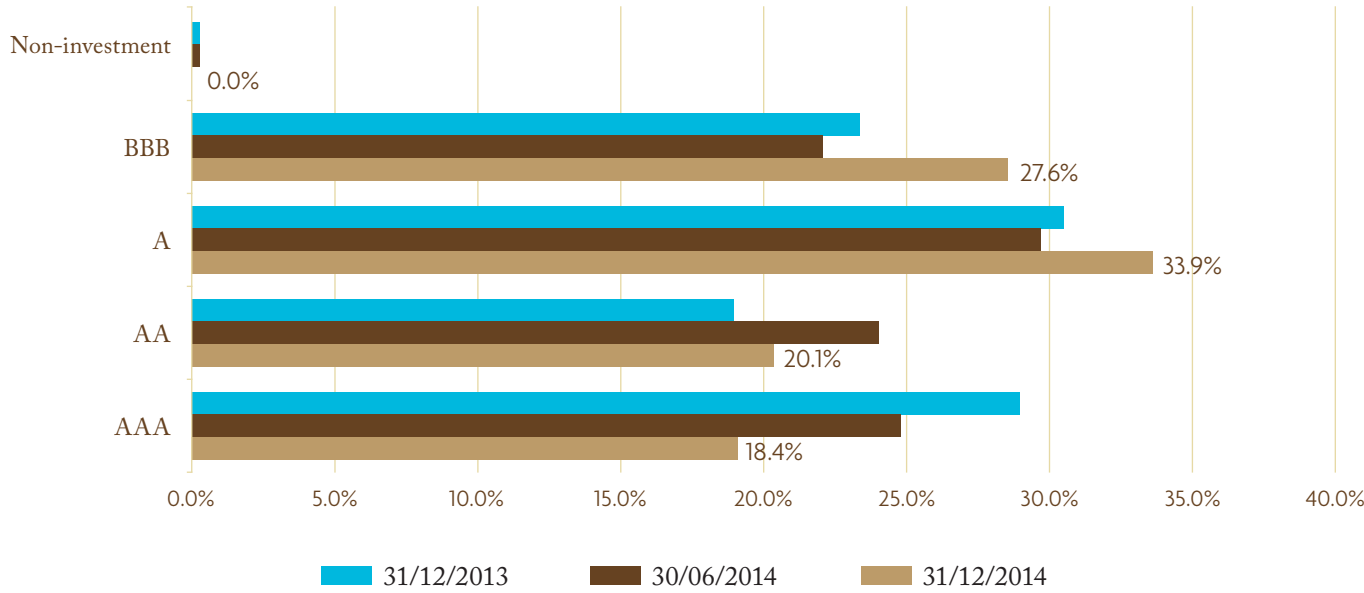
Risk contribution by currencies in the total fixed income portfolio is shown in the Chart 5.4.3.

Chart 5.4.3.
Contribution to total fixed income VaR (bps)



Credit risk management is also an important part of the Oil Fund’s operations. The Fund’s “Investment Guidelines” set restrictions on the credit ratings of the issuers and the securities in which SOFAZ is allowed to invest. The Chart 5.4.4. represents the change in composition of the portfolio by credit rating during the year.

Chart 5.4.4.
Composition of the portfolio by credit ratings





The State Oil Fund's 2014 annual budget was approved by Presidential Decree No.57 on December 19, 2013.

Amendments to the State Oil Fund's 2014 budget were approved by Presidential Decree No.134 on April 10, 2014. Thus, based on the amendments, in accordance with the Presidential Ordinance No. 287 on "Actions related to projects on Phase II of development of Shah-Deniz gas-condensate field and establishment of the Southern Gas Corridor" dated February 25, 2014, in order to finance the state shares in the closed joint-stock company founded by State Oil Company

of Azerbaijan Republic, the expenditure item of "Financing of the share of Azerbaijan Republic in the construction of TANAP project" in the Oil Fund's 2014 annual budget was edited as "Financing of the shares belonging to the state in the joint-stock company for effective management of the projects within Phase II of Shah-Deniz gas and condensate field's development, Trans Adriatic Pipeline (TAP), Trans Anatolian Gas Pipeline (TANAP) and expansion of South

Caucasus Pipeline". In addition, the amount of related expenditure item was reduced from AZN 800.0 million to AZN 40.1 million, total expenditures of The State Oil Fund was reduced from AZN 11 349.9 million to AZN 10 590.0 million.



*Gazakh School
row of geometric, rhomb
medalions,
Conference Room carpet and
metal panels*





REVENUES

The Oil Fund's actual revenues in 2014 exceeded the forecasted amount (AZN 11 626.9 million) by 109.5% and came to total of AZN 12 731.0 million or USD 16 231.3 million.

PROFIT PROCEEDS FROM SALES OF HYDROCARBONS

In 2014, Oil Fund received a total of AZN 12 319.8 million or USD 15 707.0 million from sales of the Republic of Azerbaijan's share of hydrocarbons, which comparing with the initially forecasted amount (AZN 11 221.3 million) was implemented at 109.8%. The 9.8% excess revenues from sales of profit oil and gas versus projections are mostly attributable to higher production of crude oil extracted from Azeri-Chirag-Gunashli (ACG) and higher oil export prices compared with 2014 budget projections. While in the 2014 SOFAZ budget crude oil production from the ACG field was forecasted equal to 30.0 million tons or 226.0 million barrels, the actual production volume in this field amounted to 232.0 million barrels. Moreover, in the Oil Fund's budget

calculations crude oil export price was considered equal to USD 100.0 per barrel, while, in reality, the weighted average price of profit oil sold during the year was close to USD 104.3. SOFAZ gained AZN 1 098.5 million from the price and crude oil production difference.

ACREAGE FEES PAID BY FOREIGN INVESTORS FOR THE USE OF CONTRACT AREAS FOR DEVELOPMENT OF HYDROCARBON RESOURCES

Acreage fees received by the Oil Fund in 2014 were AZN 1.7 million or USD 2.1 million. Acreage fees were paid by SOCAR, BP (Azerbaijan) and SOCAR Oil Affiliate Company in accordance with the implementation of Article 28.2 Exploration, Development and Production Sharing Agreement for the Shafag-Asiman Offshore Block in the Azerbaijani Sector of the Caspian Sea. Revenues under this item were

executed by 100% against the budgeted amount.

REVENUES FROM TRANSPORTATION OF OIL AND GAS THROUGH THE TERRITORY OF AZERBAIJAN

The Oil Fund Revenues from transportation of oil and gas through the territory of Azerbaijan (transit fees) amounted to AZN 8.9 million or USD 11.4 million in 2014. Revenues under this item were implemented at 142.0% comparing with the budgeted amount (AZN 6.3 million). The 42.0% (AZN 2.6 million) higher level of implementation is a result of higher crude oil production and an increase in export volume compared to the volumes planned in SOFAZ budget in 2014.

BONUSES PAID BY INVESTORS FOR SIGNING AND FULFILLING OIL AND GAS CONTRACTS

In 2014, the Oil Fund received AZN 13.3 million or USD 17.0 million from bonuses paid by investors for signing and fulfilling oil and gas contracts. Bonus revenues was implemented

at 74.0% comparing with budgeted amount (AZN 18.0 million). Lower level of sales on contracts signed by investor resulted in decrease in the bonus revenues of the Oil Fund.

ASSET MANAGEMENT REVENUES OF THE STATE OIL FUND

The State Oil Fund's revenues from asset management in 2014 exceeded the budgeted amount (AZN 379.6 million) by 102% and totaled AZN 387.2 million.

OTHER REVENUES AND PROCEEDS

In 2014, assets (obsolete or unused metal scrap, pipes) received from investors (international oil companies) under oil and gas contracts were sold, bringing SOFAZ AZN 0.05 million or USD 0.06 million. This revenue item was executed at 49.7% level of the planned AZN 0.1 million. The breakdown of the revenues by sources is presented in Table 6.1.

TABLE 6.1.
Revenues of the State Oil Fund of the Republic of Azerbaijan in 2014

No.	Revenue items	Amount of the revenues (AZN million)		Execution percentage
		Budgeted	Actual	
1.	Net revenues generated from the sales of the share of the Republic of Azerbaijan in hydrocarbons development (excluding expenditures on transportation of hydrocarbons, customs clearance and banking costs, marketing, insurance and independent surveyor fees, as well as shareholder revenues of State Oil Company of Azerbaijan Republic from the investments in the projects where it as an investor, participant or a contracting party)	11 221.3	12 319.8	109.8
2.	Acreage fees paid by foreign investors for the use of contract areas for development of hydrocarbons	1.7	1.7	100.0
3.	Revenue from transportation of oil and gas through the territory of the Republic of Azerbaijan	6.3	8.9	142.0
4.	Bonuses paid to the State Oil Company of Azerbaijan Republic or other relevant state bodies by investors for signing and fulfilling oil and gas contracts	18.0	13.3	74.0
5.	Asset management revenues of the State Oil Fund	379.6	387.2	102.0
6.	Other revenues and proceeds	0.1	0.05	49.7
Total revenues		11 627.0	12 731.0	109.5



EXPENDITURES

In 2014, total budget expenditures of the State Oil Fund amounted to AZN 10 117.2 million (USD 12 898.8 million) executed at 95.5% level of planned expenditures for 2014 (AZN 10 589.9 million).

TRANSFERS TO THE STATE BUDGET IN 2014

The Oil Fund transferred AZN 9 337.0 million to the state budget in 2014, whereby the expenditures under this item was implemented in full 100% against the projected amount (AZN 9 337.0 million). Transfers to state budget was 92.3% of total Fund's budget expenditures.

THE IMPROVEMENT OF THE SOCIAL AND ECONOMIC CONDITIONS OF REFUGEES AND INTERNALLY DISPLACED PERSONS

In 2014, the Oil Fund allocated a total of AZN 300.0 million for building housing and improvement of the social and economic conditions of refugees and internally displaced persons. The expenditure under this item was fulfilled by 100%.

SAMUR-ABSSHERON IRRIGATION SYSTEM RECONSTRUCTION PROJECT

In 2014, the State Oil Fund allocated AZN 80.2 million to finance the project of Samur-Absheron irrigation system reconstruction and the Fund's spending under this item was executed in

the scope of 100.0% against the budgeted amount (AZN 80.2 million).

NEW BAKU-TBILISI-KARS RAILWAY CONSTRUCTION PROJECT

In 2014, the State Oil Fund provided AZN 57.1 million or USD 72.7 million for financing this project and the expenditure under this item was executed by 43.1% of the planned amount (AZN 132.3 million).

FINANCING THE STATE PROGRAM ON THE EDUCATION OF AZERBAIJANI YOUTH ABROAD

In 2014, the State Oil Fund allocated AZN 33.5 million to finance this project. The Oil Fund's execution of this item was 99.4% of the Fund's budgeted amount (AZN 33.7 million).

FINANCING OF THE SHARE OF THE REPUBLIC OF AZERBAIJAN IN THE CONSTRUCTION OF "STAR" OIL REFINERY COMPLEX IN TURKEY

In 2014, the State Oil Fund provided AZN 223.5 million for financing of the share of the Republic of Azerbaijan in the construction of "STAR"

Oil Refinery Complex in Turkey. The expenditure under this item was implemented by 100.0%. State Oil Fund allocated AZN 40 million for financing the state shares of the "Southern Gas Corridor" CJSC, established for the purpose of effective management of the projects within the second stage of SHAH-DENIZ GAS-CONDENSATE FIELD, ESTABLISHMENT OF SOUTHERN GAS CORRIDOR, TRANS ANATOLIAN GAS PIPELINE (TANAP) AND TRANS ADRIATIC PIPELINE (TAP). THE EXPENDITURE UNDER THIS ITEM WAS FULFILLED BY 99.7%.

During the reporting year, execution of the projects "THE CONSTRUCTION OF HIGH SPEED FIBER-OPTIC NETWORK PROVIDING A BROADBAND INTERNET ACCESS TO ALL SETTLEMENTS OF AZERBAIJAN" AND "CONSTRUCTION OF OIL – GAS PROCESSING AND PETROCHEMICAL COMPLEX" had not started. Therefore, the State Oil Fund postponed allocating funds for financing these projects.

ADMINISTRATIVE EXPENSES

The State Oil Fund allocated AZN 45.9 million or USD 58.5 million for financing administrative expenses of the Fund. This expenditure was implemented by 79.0% of projected amount. The execution level of the expenditures is presented in Table 6.2.

Table 6.2.
Expenditures of the State Oil Fund of the Republic of Azerbaijan in 2014

No.	Expenditure items	Amount of the revenues (AZN million)		Execution percentage
		Budgeted	Actual	
1.	The improvement of the social and economic conditions of refugees and internally-displaced persons	300.0	300.0	100.0
2.	Transfers to the state budget of the Republic of Azerbaijan in 2014	9 337.0	9 337.0	100.0
3.	Samur-Absheron irrigation system reconstruction project	80.2	80.2	100.0
4.	New Baku-Tbilisi-Kars railway construction project	132.3	57.1	43.1
5.	Financing of State Program on education of Azerbaijani youth abroad in the years 2007-2015	33.7	33.5	99.4
6.	The construction of high speed fiber-optic network providing a broadband internet access to all settlements of Azerbaijan	100.0	0	0.0
7.	Financing of the share of Azerbaijan Republic in the construction project of the Oil-Gas and Petrochemical Consortium (OGPC)	285.00	0	0.0
8.	Financing of the share of the Republic of Azerbaijan in the construction of "STAR" Oil Refinery Complex in Turkey	223.6	223.5	100.0
9.	Financing of shares belonging to the state in the joint-stock company for effective management of the projects within the second phase of the Shah-Deniz gas and condensate field's development, Trans Anatolian Gas Pipeline (TANAP), Trans Adriatic Pipeline (TAP) and expansion of the South Caucasus Pipeline	40.1	40.0	99.7
10.	Administrative expenses of the State Oil Fund	58.1	45.9	79.0
Total expenditures		10 590.0	10 117.2	95.5
Extra-budgetary expenditures			1 611.9	



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THE STATE OIL FUND OF THE REPUBLIC OF AZERBAIJAN
31 DECEMBER 2014

INTERNATIONAL PUBLIC SECTOR ACCOUNTING
STANDARDS CONSOLIDATED FINANCIAL
STATEMENTS AND INDEPENDENT AUDITORS'
REPORT



INDEPENDENT AUDITOR'S REPORT

To the Supervisory Board of the State Oil Fund of the Republic of Azerbaijan

We have audited the accompanying consolidated financial statements of the State Oil Fund of the Republic of Azerbaijan and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated

statements of financial performance, of changes in net assets/equity and of cash flows, and statement of comparison of budget and actual amounts for the year then ended, and notes comprising 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 Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, 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 audit procedures selected depend on the auditor's 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 auditor considers 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 State Oil Fund of the Republic of Azerbaijan and its subsidiaries as at 31 December 2014, and their financial performance and cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

PricewaterhouseCoopers Audit Azerbaijan LLC

19 March 2015
Baku, Azerbaijan

PricewaterhouseCoopers Audit Azerbaijan LLC
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CONSOLIDATED FINANCIAL STATEMENTS



CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014 (THOUSANDS OF AZERBAIJANI MANATS)

	Notes	2014	2013
Assets			
Current assets			
Cash and cash equivalents	5	2,271,131	1,276,341
Financial assets at fair value through surplus or deficit	6	22,320,242	24,548,583
Financial investments held to maturity	7	110,974	313,381
Gold bullion	8	902,144	924,331
Tax receivables other than income tax		9,216	12,982
Current income tax asset		7,522	7,528
Other current assets		1,380	2,744
Total current assets		25,622,609	27,085,890
Non-current assets			
Financial investments held to maturity	7	2,388,565	428,673
Investment properties	9	805,472	509,107
Property and equipment, net		1,472	8,456
Other non-current and intangible assets		144,459	106,364
Investments in jointly controlled entities	10	319,933	168,966
Total non-current assets		3,659,901	1,221,566
Total assets		29,282,510	28,307,456
Liabilities			
Current liabilities		15,536	7,882
Net assets		29,266,974	28,299,574
Net assets/Equity			
Contributed capital		30,067,186	27,794,666
Property revaluation reserve		-	3,800
Foreign currency translation reserve		(80,176)	6,817
Accumulated (deficit)/surplus		(720,036)	494,291
Total net assets/equity		29,266,974	28,299,574

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2014 (THOUSANDS OF AZERBAIJANI MANATS)

	Notes	2014	2013
Interest income and other investment income	13	548,955	491,118
Net (loss)/gain on foreign currency translation differences	14	(1,616,273)	277,995
Net (loss)/gain on financial assets at fair value through surplus or deficit	15	(166,883)	(5,341)
Net loss on revaluation of gold bullion	8	(22,186)	(243,186)
Net fair value gain on revaluation of investment properties	9	46,390	11,465
Other operating income	16	44,440	24,285
Total operating (loss)/gain		(1,165,557)	556,336
Operating expenses	17	(44,750)	(14,388)
Share of after tax results of jointly controlled entities	10	(296)	(170)
(Deficit)/surplus before income tax expense		(1,210,603)	541,778
Income tax expense	18	(934)	(1,229)
Net (deficit)/surplus for the year		(1,211,538)	540,549

The notes set out on pages 88 to 139 form an integral part of these consolidated financial statements.¹

CONSOLIDATED FINANCIAL STATEMENTS



CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS/EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014 (THOUSANDS OF AZERBAIJANI MANATS)

	Notes	Contri- buted capital	Property revaluation reserve	Foreign currency translation reserve	Accumu- lated surplus/ (deficit)	Total net assets/ equity
31 December 2012		26,929,986	1,836	(185)	(46,258)	26,885,379
Contributions received	11	13,119,874	-	-	-	13,119,874
Revaluation of building		-	1,964	-	-	1,964
Net surplus for the year		-	-	-	540,549	540,549
Exchange differences on translation of foreign operations		-	-	7,002	-	7,002
Transfers to the State Budget		(11,350,000)	-	-	-	(11,350,000)
Transfers for construction of "Star" oil refinery complex		(372,590)	-	-	-	(372,590)
Transfers to the State Refugees Committee and Internally Displaced Peoples' Social Development Fund		(299,990)	-	-	-	(299,990)
Transfers for the reconstruction of Samur Absheron Irrigation system		(173,934)	-	-	-	(173,934)
Transfers for the construction of new Baku-Tbilisi-Kars railway line		(25,672)	-	-	-	(25,672)
Transfers for the State Program on "Education of Azerbaijani youth abroad"		(33,008)	-	-	-	(33,008)
31 December 2013		27,794,666	3,800	6,817	494,291	28,299,574

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS/EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014 (THOUSANDS OF AZERBAIJANI MANATS)

	Notes	Contri- buted capital	Property revaluation reserve	Foreign currency translation reserve	Accumu- lated surplus/ (deficit)	Total net assets/ equity
Contributions received	11	12,343,810	-	-	-	12,343,810
Disposal of building		-	(3,800)	-	(2,789)	(6,589)
Net deficit for the year		-	-	-	(1,211,538)	(1,211,538)
Exchange differences on translation of foreign operations		-	-	(86,993)	-	(86,993)
Transfers to the State Budget		(9,337,000)	-	-	-	(9,337,000)
Transfers for construction of "Star" oil refinery complex		(223,538)	-	-	-	(223,538)
Transfers to the State Refugees Committee and Internally Displaced Peoples' Social Development Fund		(299,998)	-	-	-	(299,998)
Transfers for the reconstruction of Samur Absheron Irrigation system		(80,221)	-	-	-	(80,221)
Transfers for the construction of new Baku-Tbilisi-Kars railway line		(57,040)	-	-	-	(57,040)
Transfers for the State Program on "Education of Azerbaijani youth abroad"		(33,494)	-	-	-	(33,494)
Transfer for the "Southern Gas Corridor"		(39,999)	-	-	-	(39,999)
31 December 2014		30,067,186	-	(80,176)	(720,036)	29,266,974

The notes set out on pages 88 to 139 form an integral part of these consolidated financial statements.¹

CONSOLIDATED FINANCIAL STATEMENTS



CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014 (THOUSANDS OF AZERBAIJANI MANATS)

	Notes	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
(Deficit)/surplus before income tax expense		(1,210,603)	541,778
Adjustments to reconcile result to net cash used in operating activities			
Depreciation of property and equipment		138	322
Amortization of intangible assets		56	73
Unrealized loss on change in fair value of financial assets at fair value through surplus or deficit	15	165,039	4,711
Net unrealized loss/(gain) on foreign currency translation differences	14	1,589,105	(305,653)
Net loss on revaluation of gold bullion	8	22,187	243,186
Fair value gain on revaluation of investment properties		(46,390)	(11,465)
Share of after tax results of jointly controlled entities		296	170
Change in interest accruals		(33,434)	(99,351)
<i>Changes in operating assets and liabilities:</i>			
Increase in financial assets at fair value through surplus or deficit		433,845	(28,049)
Increase in financial investments held to maturity		(1,750,566)	(220,404)
Increase in investment properties		(347,743)	(145,578)
Purchase of gold bullion		-	(542,782)
Increase in investment in jointly controlled entities		(151,263)	(169,136)
Decrease in tax receivables other than income tax		3,765	4
Decrease/(increase) in other assets		2,527	(1,716)
(Decrease)/increase in current liabilities		(3,238)	3,125
Net cash used in operating activities before income tax		(1,326,280)	(730,765)
Income taxes paid		-	(1,229)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2014 (THOUSANDS OF AZERBAIJANI MANATS)

	Notes	2014	2013
Net cash used in operating activities after income tax		(1,326,280)	(731,994)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment		(292)	(2,329)
Purchase of intangible assets		(63)	(74)
Increase in other non-current assets		(38,088)	(29,246)
Net cash used in investing activities		(38,443)	(31,649)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Contributions received	11	12,343,810	13,119,874
Transfers to the State Budget		(9,337,000)	(11,350,000)
Transfers for the reconstruction of Samur-Absheron Irrigation System		(80,221)	(173,934)
Transfers to the State Refugees Committee and Internally Displaced Peoples' Social Development Fund		(299,998)	(299,990)
Transfers for the construction of new Baku-Tbilisi-Kars railway Line		(57,040)	(25,672)
Transfers for State Program on "Education of Azerbaijani youth abroad"		(33,494)	(33,008)
Transfers for construction of "Star" oil refinery complex		(223,538)	(372,590)
Transfer for the "Southern Gas Corridor"		(39,999)	-
Net cash from financing activities		2,272,520	864,680
Effect of exchange rate changes on cash and cash equivalents		86,993	(7,005)
Net increase in cash and cash equivalents		994,791	94,032
Cash and cash equivalents, beginning of the year	5	1,276,341	1,182,309
Cash and cash equivalents, end of the year	5	2,271,131	1,276,341
Operating cash flows from interest and dividend received		515,521	391,767

The notes set out on pages 88 to 139 form an integral part of these consolidated financial statements.¹

CONSOLIDATED FINANCIAL STATEMENTS



STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS¹ FOR THE YEAR ENDED 31 DECEMBER 2014 (THOUSANDS OF AZERBAIJANI MANATS)

Annual budgeted amounts			
	Original ²	Final ²	Actual amounts on a comparable basis
RECEIPTS			
Contributions received from sales of profit oil and gas	11,221,286	11,221,286	12,319,847
Income from placement and management of assets ¹	379,581	379,581	387,204
The oil and gas agreements signature or performance bonuses paid by investors to the State Oil Company of the Republic of Azerbaijan or an authorized state body	18,039	18,039	13,344
Income from transit of oil and gas through the territory of the Republic of Azerbaijan	6,276	6,276	8,910
Acreage fees by the foreign investors for use of the contract areas in connection with the development of hydrocarbon resources	1,662	1,662	1,661
Other gains and receipts	100	100	50
Total receipts	11,626,943	11,626,943	12,731,016
PAYMENTS			
Transfers to the State Budget	(9,337,000)	(9,337,000)	(9,337,000)
Reconstruction of Samur-Absheron Irrigation System	(80,221)	(80,221)	(80,221)
Transfers to the State Refugees Committee and Internally Displaced Peoples' Social Development Fund	(300,000)	(300,000)	(299,998)
Construction of new Baku-Tbilisi-Kars railway line	(132,311)	(132,311)	(57,040)
Education of Azerbaijani youth abroad	(33,680)	(33,680)	(33,494)

Financing of the construction of high speed fiber optic network providing an access to all settlements of Azerbaijan Republic	(100,000)	(100,000)	-
Financing of the share of Azerbaijan Republic in the construction project of the Oil-Gas and Petrochemical Consortium (OGPC)	(285,000)	(285,000)	-
Financing of the share of Azerbaijan Republic in the construction of “Star” oil refinery complex	(223,583)	(223,583)	(223,538)
Financing of the share of Azerbaijan Republic in the construction of the TANAP project	(800,000)	-	-
Financing of the share of Azerbaijan Republic in the construction of new drilling rig in the Caspian Sea	-	(40,100)	(39,999)
Expenses for managing the Fund ²	(58,140)	(58,140)	(45,917)
Total payments	(11,349,935)	(10,590,035)	(10,117,207)
Net receipts	277,009	1,036,909	2,613,809

The notes set out on pages 88 to 139 form an integral part of these consolidated financial statements.¹

¹ The Statement of comparison of budget and actual amounts only refer to the State Oil Fund of the Republic of Azerbaijan and excludes its subsidiaries.

² According to the decree #57 of the President of the Republic of Azerbaijan “On Ratifying the Budget of The State Oil Fund of the Republic of Azerbaijan for the year 2014” dated 19 December 2013 and the decree #134 of the President of the Republic of Azerbaijan “On Amendments and changes to the Budget of The State Oil Fund of the Republic of Azerbaijan for 2014” dated 10 April 2014.

Explanation of material differences between the annual original and final budget for which the Fund is held Publicly accountable, and the final annual budget and actual amounts are part of the annual report of the Fund.



*Shirvan School,
from
Gobustan geometric
flower motif
in 'shebeke'
(network)
Winter Garden
stone wall*

1. PRINCIPAL ACTIVITIES

The State Oil Fund of the Republic of Azerbaijan ("SOFAZ") was established by Decree #240 of the President of the Republic of Azerbaijan on the "Establishment of The State Oil Fund of the Republic of Azerbaijan" dated 29 December 1999 (the "Decree"). The purpose of SOFAZ is to ensure the accumulation, effective management, and use of income and other inflows generated

from agreements related to oil and gas exploration and development, as well as, from SOFAZ's own activities, for the benefit of citizens and future generations of the Republic of Azerbaijan. In accordance with the Decree and the Regulations (discussed below), SOFAZ is an extra-budget state organization, formed as a separate legal entity, which is accountable and responsible to the

President of the Republic of Azerbaijan. The consolidated financial statements include the financial statements of SOFAZ, its direct and indirect subsidiaries listed in the following table and after tax results of jointly controlled entity (together the "Fund"):

Subsidiary	% interest		Country	Date of establishment	Date of acquisition	Industry
	2014	2013				
SOFAZ Re Ltd.	100	100	Island of Jersey	22-May-12	-	Property management
SOFAZ Re UK L.P.	100	100	Island of Jersey	6-Aug-12	-	Property management
SOFAZ Re Min Ltd.	100	100	Island of Jersey	13-Aug-12	-	Property management
78, St James`s Street Unit Trust	100	100	Island of Jersey	2-Oct-12	-	Property management
JSC Tverskaya 16	100	100	Russian Federation	29-June-93	21-Dec-12	Property management
SOFAZ RE Europe Holding Sarl	100	100	Luxembourg	31-Oct-12	-	Property management
SOFAZ RE Europe Sarl	100	100	Luxembourg	31-Oct-12	-	Property management
SCI 8 Place Vendome	100	100	France	14-Nov-12	-	Property management
Pine Avenue Tower A	100	-	South Korea	30-Oct-11	31-Mar-14	Property management

SOFAZ's subsidiaries are entities which own the investment properties located in United Kingdom, Russia, France and South Korea as described in Note9.

Contributions into the Fund are made in accordance with the Regulation of the Fund ("Regulation") approved by Presidential Decree #434 dated 29 December 2000 as amended by Presidential Decrees #849 and #202 on "Amending

Certain Legislative Acts Regulating the Operations of The State Oil Fund of the Republic of Azerbaijan" dated 7 February 2003 and 1 March 2005, respectively, and Article 2.3 of the "Regulations on Development and Implementation of the Annual Program of Income and Expenses (Budget) of the Fund" approved by Presidential Decree #579 dated 12 September 2001 as amended by Presidential

Decrees #849 and #202 mentioned earlier. Pursuant to the Regulations of the Fund, contributions are received from the following sources:

a) Revenues generated from implementing agreements on exploration, development and production sharing for oil and gas fields in the territory of the Republic of Azerbaijan including the Azerbaijan Sector of the Caspian

Sea, as well as other agreements on oil and gas exploration, development and transportation entered into between the State Oil Company of the Republic of Azerbaijan ("SOCAR") or other authorized state bodies and investors, including:
i. Net revenues from the sale of hydrocarbons related to the share of the Republic of Azerbaijan (net of



expenditures incurred for hydrocarbons transportation, customs clearance and bank costs, marketing, insurance, and independent surveyor fees) excluding revenues related to the participating interest or investment of SOCAR in a project in which SOCAR is an investor, participant or a contracting party;

ii. Price adjustment revenues under Shah Deniz Phase I;

iii. Bonuses paid by investors under the production sharing agreements to SOCAR or an authorized state body in connection with oil and gas agreements;

iv. Acreage payments due to SOCAR and/or an authorized state body of the Republic of Azerbaijan from investors for the use of the contract area in connection with oil and gas exploration and development:

Dividends and profit participation revenues related to the share of the Republic of Azerbaijan in connection with oil and gas agreements, excluding revenues related to a participating interest or investment of SOCAR in a project in which SOCAR is an investor, participant or a contracting party;

v. Revenues generated from

oil and gas transported over the territory of the Republic of Azerbaijan with the use of the Baku-Supsa, Baku-Tbilisi-Ceyhan (“BTC”) and Baku-Tbilisi-Erzurum export pipelines;

vi. Revenues generated from transfer of assets from investors to SOCAR and/or an authorized state body within the framework of oil and gas agreements.

b) Revenues generated from investment, management, sale and other disposal of the Fund’s assets (including financial assets and assets contributed by investors within oil and gas agreements), other non-sale income or revaluation surplus of the Fund’s assets in its reporting currency (Azerbaijani manats), etc.;

c) Grants and other free aids;

d) Other revenues and receipts in accordance with the legislation of the Republic of Azerbaijan.

Under the provisions of the Fund’s Regulations approved by the President of the Republic of Azerbaijan, SOCAR or an authorized state body implements the collection of the fees and revenues listed above and their

transfers to the Fund.

The Regulations exclude the following from the list of sources of the Fund’s revenue and assets:

- The rental fees from the use of state property under contracts with foreign companies;

- Revenues from the sale of hydrocarbons related to the participating interest or investment of SOCAR in any project in which SOCAR is an investor, participant or a contracting party; and

- Other revenues generated from joint activities with foreign companies.

In 2014 and 2013, the Fund was a party to a custody agreement with the Bank of New York Mellon, and four (2013: four) investment management agreements with financial institutions with Deutsche Asset Management International GmbH, the International Bank for Reconstruction and Development (IBRD – World Bank Group), State Street Global Advisors (SSGA) and Union Bank of Switzerland (UBS). Under the custody agreements the financial institutions hold securities purchased by the Fund, whereas in accordance with the investment management agreements the financial institutions manage the Fund’s investments based on general investment

policies established by the Fund.

The Fund’s registered and actual office address is 111A, Heyder Aliyev Avenue, Baku, Azerbaijan, AZ1029.

These consolidated financial statements as of and for the year ended 31 December 2014 are authorized for issue by the Fund’s Management on 19 March 2015.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Public Sector Accounting Standards (“IPSAS”) issued by the International Public Sector Accounting Standards Board (“IPSASB”) of the International Federation of Accountants (“IFAC”). IPSAS are developed by adopting International Financial Reporting Standards (“IFRS”) to

the public sector context. IFRS comprise standards issued by the International Accounting Standards Board (“IASB”), and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”). The public sector refers to national governments, regional governments, local governments and related governmental entities. As permitted by IPSAS, the Fund follows the provisions

of IFRS pronouncements in the absence of equivalent IPSAS.

These consolidated financial statements have been prepared on the assumption that the Fund is a going concern and will continue in operation for the foreseeable future.

These consolidated financial statements are presented in thousands of Azerbaijani Manats (“AZN”), unless otherwise indicated. These consolidated

financial statements have been prepared under the historical cost convention, except for the measurement at fair value of financial assets at fair value through surplus or deficit, gold bullion, investment properties and buildings.

3. SIGNIFICANT ACCOUNTING POLICIES

CHANGES IN ACCOUNTING POLICIES

During the year the IPSASB published Conceptual Framework and approved 5 new standards:

IPSAS Board approved the following standards on Interests in Other Entities:

- IPSAS 34 ‘Separate Financial Statements’.

- IPSAS 35 ‘Consolidated Financial Statements’.

- IPSAS 36 ‘Investments in Associates and Joint Ventures’.

- IPSAS 37 ‘Joint Arrangements’.

- IPSAS 38 ‘Disclosure of Interests in Other Entities’.

The standards update and replace three existing IPSASs: IPSAS 6 ‘Consolidated and Separate Financial Statements’, IPSAS 7 ‘Investments in Associates’ and IPSAS 8 ‘Interests in Joint Ventures’.

They are effective for annual financial statements covering periods beginning on or after 1 January 2017 and the Fund is currently assessing the impact of the new standards on its future financial statements.

These new standards have many similarities with their IFRS equivalents. They are part of the IPSASB’s strategy to converge IPSAS, to the extent appropriate, with IFRS. The new standards however also address the implications of public sector differences.

For example, IPSAS 35 acknowledges that control in the public sector often arises from rights other than traditional voting rights from shareholdings, i.e. rights conferred by binding arrangements (administrative or contractual arrangements, founding documents, rights conferred by a legislative or executive authority, etc.). It also provides guidance on and examples of such situations.



Tabriz School, from
Ardabil, floral motif
Water Feature Mosaic

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(THOUSANDS OF AZERBAIJANI MANATS)



BASIS OF CONSOLIDATION

Subsidiaries, which are those entities in which the Fund has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Fund and are no longer consolidated from the date that control ceases. All intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated in full; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Fund.

For subsidiaries acquired and treated as an asset acquisition, no deferred tax is recognized by the Fund in respect of the asset i.e. property at the time of acquisition.

If the Fund loses control

over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, the carrying amount of any non-controlling interests, the cumulative translation differences, recorded in equity; recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in statement of financial performance and reclassifies the parent's share of components previously recognized in equity to statement of financial performance.

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 Fund 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 consolidated statement of financial position at cost plus post-acquisition changes in the Fund's share of net assets of the jointly controlled entity, less distributions received and less any impairment

in value of the investment. The consolidated statement of financial performance of the Fund reflects the Fund's share of after tax results of the jointly controlled entity. The consolidated statement of changes in net assets/equity reflects the Fund's share of any income and expense recognised by the jointly controlled entity outside surplus and deficit. Financial statements of jointly controlled entities are prepared for the same reporting period as the Fund. Where necessary, adjustments are made to those financial statements to bring the accounting policies used into line with those of the Fund. The Fund 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.



RECOGNITION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

The Fund recognizes financial assets and liabilities on its statement of financial position when it becomes a party to the contractual obligations of the instrument. A purchase or sale of financial assets is recognized using trade date accounting (Resolution #32 dated 13 June 2007 issued by the Supervisory Board of The State Oil Fund of the Republic of Azerbaijan). The trade date is the date on which the Fund commits to purchase or sell an asset.

Financial assets and liabilities are initially recognized at fair value plus, in the case of a financial asset or financial liability not at fair value through surplus or deficit, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- The rights to receive cash flows from the asset have expired;
- The Fund has transferred its rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- The Fund either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the Fund either: (a) transfers the contractual rights to receive the asset's cash flows; or

(b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the Fund reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains in the statement of financial position. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the Fund assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Fund has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities

A financial liability is derecognized when the obligation is discharged, cancelled, or expires.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, deposits with original maturity of three months, and short-term, highly liquid investments i.e. money market funds, readily convertible to known amounts of cash and subject to low risk of changes in value, with an original maturity of three months or less. Cash on hand, cash in banks and deposits are carried at cost plus interest, if any.

FINANCIAL ASSETS AT FAIR VALUE THROUGH SURPLUS OR DEFICIT

Financial assets at fair value through surplus or deficit comprise equity and debt securities, and are classified as held for trading. A financial asset is classified as held for trading if it is:

- a) Acquired principally for the purpose of selling or repurchasing it in the near term;
- b) On initial recognition part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking;
- c) A derivative (except for a derivative that is a financial guarantee contract or a designated

and effective hedging instrument).

A financial asset other than a financial asset held for trading may be designated at fair value through surplus or deficit upon initial recognition if:

- d) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or recognizing the gains and losses on them on different bases; or
- e) The financial asset forms part of a group of financial assets or liabilities or both, which is managed and its performance is evaluated

on a fair value basis, in accordance with the Fund's documented risk management or investment strategy, and information about the grouping is provided internally on that basis the entity's key management personnel.

Financial assets at fair value through surplus or deficit are initially recorded and subsequently measured at fair value. The Fund uses quoted market prices and valuation model to determine fair value for financial assets at fair value through surplus or deficit. The fair value adjustment on financial assets at fair value through surplus or deficit is recognized in the statement of financial performance for the period as part of net

gain or loss on financial assets at fair value through surplus or deficit. The Fund does not reclassify financial instruments in or out of this category while they are held.

FINANCIAL INVESTMENTS HELD TO MATURITY

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Fund has the positive intention and ability to hold them to maturity. Investments intended to be held for an undefined period are not included in

this classification. Held to maturity investments are subsequently measured at amortized cost. Gains and losses are recognized in the statement of financial performance for the period when the investments are impaired, as well as through the amortization process.

GOLD BULLION

The Fund is involved in purchase of gold bullion for investment purposes with the intention of diversification of the investment portfolio with the ability to sell the gold in the future. The gold bullion is initially recognized and subsequently measured at

fair value, and classified at fair value through surplus or deficit as part of current assets.



INVESTMENT PROPERTIES

Investment properties are properties intended to earn rentals, or for capital appreciation, or both. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of existing investment properties at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of investment properties. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of financial performance in the period in which they arise. Fair values are evaluated annually by an accredited external, independent

valuer, applying a valuation model recommended by the International Valuation Standards Committee. Investment properties are derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from its disposal.

The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the consolidated statement of financial performance in the period of derecognition. Transfers are made to or from investment properties only when there is a change in use. For a transfer from investment properties to

owner-occupied properties, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied properties become investment properties, the Fund accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.



PROPERTY AND EQUIPMENT

The Fund's property and equipment are tangible assets held for administrative purposes with an expected useful life of more than one accounting period. Depreciation is charged on the carrying value of property and equipment and is

designed to write off assets over their useful economic lives. Depreciation is calculated on a straight line basis at the following estimated useful lives:

	Years
Buildings	50
Vehicles	7
Office equipment	4
Furniture	5
Other property and equipment	3

The carrying amounts of property and equipment other than buildings are reviewed at each reporting date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is the higher of fair value less costs to sell and value in use. Where carrying values exceed the estimated recoverable amount, assets are written down to their recoverable amount, impairment is recognized in the respective period and is included in operating expenses. After the recognition of an impairment loss the depreciation charge for property and equipment is adjusted in future periods to allocate the asset's revised carrying value, less its residual value (if any), on

a systematic basis over its remaining useful life.

A building held for administrative purposes is stated in the statement of the financial position at its revalued amount, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional independent appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any revaluation increase

arising on the revaluation of such buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to surplus or deficit for the period to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings is charged as an expense to the extent that it exceeds the balance, if any, held in the property revaluation reserve relating to a previous revaluation of that asset.

Market value of property is assessed using any of the following three methods:

- The comparable sales method which involves analysis of market sales prices for similar real estate property;
- The income-based method which assumes a direct relationship between revenues generated by the property and its market value;
- The costs method which presumes the value of property to be equal to its recoverable amount less any depreciation charges.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(THOUSANDS OF AZERBAIJANI MANATS)



INTANGIBLE
ASSETS

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over their useful economic lives of 10 years and assessed for impairment whenever there is an indication that the intangible asset may be

impaired. Amortization periods and methods for intangible assets with definite useful lives are reviewed at least at each financial year-end.

TAXATION

Income tax expense comprises current and deferred tax expense.

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit before tax as reported in the statement of the financial performance as it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Fund's current tax expense is calculated using tax rates that have been enacted during the reporting period.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be

available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is

calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax is charged or credited to surplus or deficit, except when it relates to items charged or credited directly to the net assets/equity, in which case the deferred tax is also dealt with the net assets/equity.

No deferred tax is recognized and the initial recognition exception applies if the temporary difference arises from the initial recognition of an asset or liability in a

transaction that:

- (a) is not a business combination; and
- (b) at the time of the transaction, affects neither accounting surplus nor taxable surplus (tax loss).

Deferred income tax assets and deferred income tax liabilities are offset and reported net in the statement of financial position if:

- The Fund has a legally enforceable right to set off current income tax assets against current income tax liabilities; and
- Deferred income tax assets and the deferred income tax

liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

The Republic of Azerbaijan also has various other taxes, which are assessed on the Fund's activities. These taxes are included as a component of operating expenses in the statement of financial performance.





CONTINGENCIES

Contingent liabilities are not recognized in the statement of financial position but are disclosed unless the possibility of any outflow in settlement is remote. A contingent asset is not recognized in the statement of financial position but disclosed when an inflow of economic benefits is probable.

NET ASSETS/EQUITY

As discussed in Note 1, in accordance with the Decrees and the Regulations, the Fund is an extra-budget state organization. All decisions regarding contributions to and transfers from the Fund are made based on the Decrees approved by the President of the Republic of Azerbaijan. Contributions/transfers received/made by the Fund represent contributions/withdrawals and, accordingly, are recognized through net assets/equity at the fair value of the consideration received/paid.

Transfers to the State Budget, as well as state institutions, state-owned entities and companies are recognized on the date of payment. All transfers are made within the approved budget of the Fund and transferred to the State Treasury of the Republic of Azerbaijan for payments to eligible budgetary beneficiaries (state institutions, state-owned entities and companies) based on their requests for payments.

RECOGNITION OF INCOME AND EXPENSE

Interest income is recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

Dividend income from financial assets at fair value through surplus or deficit is recognized in the statement of financial performance when the Fund's right to receive payment is established.

Other operating income including rental income is recognized on accruals basis, i.e. when these are earned.

Once a financial asset or a group of similar financial assets has been written

down (or partly written down) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest earned on assets at fair value is classified within interest income.

Expenses are recognized on accrual basis, i.e. when they are incurred.

FOREIGN CURRENCY TRANSLATION

The consolidated financial statements are presented in AZN, which is the Fund's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency, converted at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Gains and losses resulting from

the translation of foreign currency transactions are recognized in the consolidated statement of performance as foreign currency translation differences. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was

determined. Differences between the contractual exchange rate of a transaction in a foreign currency and the Central Bank exchange rate on the date of the transaction are included in gains less losses from dealing in foreign currencies. As at the reporting date, the assets and liabilities of the entities whose functional currency is different from the presentation currency of the Fund are translated into AZN at the rate of exchange ruling at the reporting date and, their

statements of financial performance are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken to the separate component of net assets/equity. On disposal of a subsidiary or an associate whose functional currency is different from the presentation currency of the Fund, the deferred cumulative amount is recognized in surplus or deficit in the consolidated statement of financial performance.

RATES OF EXCHANGE

The exchange rates used by the Fund in the preparation of the financial statements as at year-end are as follows:

	2014	2013
AZN/1 US Dollar	0,7844	0,7845
AZN/1 Euro	0,9522	1,0780
AZN/1 GB Pound	1,2173	1,2927
AZN/1 Russian Ruble	0,0133	0,0241
AZN/100 Korean (South) Won	0,0714	0,0743

OFFSET OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are offset and reported net on the statement of financial position when the Fund has

a legally enforceable right to set off the recognized amounts and the Fund intends either to settle on a net basis or to realize

the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify

for derecognition, the Fund does not offset the transferred asset and the associated liability.



4. SIGNIFICANT JUDGMENTS AND ESTIMATES

The preparation of the Fund's consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities at the reporting date and the reported amount of income and expenses during the year ended.

Management evaluates its estimates and judgments on an ongoing basis. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual

results may differ from these estimates under different assumptions or conditions. The following estimates and judgments are considered important in reflecting the Fund's financial condition and financial performance.

ACCOUNTING FOR CASH INFLOWS AND OUTFLOWS

As described in Note 1, the Fund receives cash inflows from revenues generated from various oil and gas activities carried out in the Republic of Azerbaijan. These cash inflows are made according to certain decrees of the President of the Republic of Azerbaijan. Cash outflows for major projects and contributions to the State budget are also made according to decrees of the President of the Republic of Azerbaijan. SOFAZ believes these inflows and outflows of funds represent contributed capital and withdrawals of capital, respectively. Accordingly,

SOFAZ recognises them as movements in equity in the consolidated statement of changes in net assets/equity. A strict interpretation of IPSAS would result in such cash inflows and outflows being accounted for as non-exchange transactions and require them to be recognised through the consolidated statement of financial performance. However, SOFAZ management believes that its accounting for the cash inflows and outflows fairly present the transactions and their substance, is consistent with the accounting practices of other sovereign

wealth funds with similar characteristics applying International Financial Reporting Standards and separates the performance of Management in managing the Fund from the net impact of the inflows and outflows of capital which are outside of its control. Moreover, selection of either of the above two accounting methods does not change the Fund's financial position.

VALUATION OF FINANCIAL INSTRUMENTS

Financial instruments that are classified at fair value through surplus or deficit are stated at fair value. The fair value of such financial instruments is the estimated amount at which the instrument could be exchanged between willing parties, other than in a forced or liquidation sale. If a quoted market price is available for an instrument, the fair value is calculated based on the market price. When valuation parameters are not observable in the market or cannot be derived from observable market prices, the fair value is derived through analysis of other observable market data appropriate for each product and pricing models which use a mathematical methodology based on accepted financial theories. Pricing models take into account the contract terms of the securities as well as market-based valuation parameters, such as interest rates, volatility, exchange rates and the credit rating of the counterparty.

Where market-based valuation parameters are absent, management will make a judgment as to its best estimate of that parameter in order to determine a reasonable reflection of how the market would be expected to price the instrument. In exercising this judgment,

a variety of tools are used including proxy observable data, historical data, and extrapolation techniques. The best evidence of fair value of a financial instrument at initial recognition is the transaction price unless the instrument is evidenced by comparison with data from observable markets. Any difference between the transaction price and the value based on a valuation technique is not recognized in the statement of financial performance on initial recognition. Subsequent gains or losses are only recognized to the extent that it arises from a change in a factor that market participants would consider in setting a price.

The Fund considers that the accounting estimates related to valuation of financial instruments where quoted markets prices are not available are a key source of estimating uncertainty because: (i) they are highly susceptible to change from period to period because it requires management to make assumptions about interest rates, volatility, exchange rates, the credit rating of the counterparty, valuation adjustments and specific feature of the transactions and (ii) the impact that recognizing a change in the valuations would have on the assets

reported in the statement of financial position as well as its surplus/(deficit) could be material.

Had management used different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available would have resulted that could have had a material impact on the Fund's reported net surplus.



IMPAIRMENT OF INVESTMENTS HELD TO MATURITY

The Fund holds investments in companies, including those that do not trade in an active market. Future adverse changes in market conditions or poor operating results	could result in losses that may not be reflected in an investment's current carrying value, thereby requiring an impairment charge in the future. The Fund regularly reviews its	investments to determine if there have been any indicators that the value may be impaired. These reviews require estimating the outcome of future events and determining	whether factors exist that indicate impairment has occurred.
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MEASUREMENT OF FAIR VALUE OF INVESTMENT PROPERTIES AND PROPERTY AND EQUIPMENT (BUILDING)

Fair value of investment properties as well as at the property and equipment (building) is determined by independent professionally qualified appraisers. Fair value is determined using the combination of internal	capitalization method (also known as discounted future cash flow method), sales comparison method and also based on the highest and best use method.	The estimates described above are subject to change as new transaction data and market evidence becomes available.
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5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	2014	2013
Deposits	1,019,569	841,559
Money market funds	816,305	84,012
Bank accounts	435,256	350,770
Cash on hand	1	-
Total cash and cash equivalents	2,271,131	1,276,341

MONEY MARKET FUNDS

Investments in money market funds represent share ownership in funds, payable on demand. Investments in money market funds are highly liquid. Money market	funds invest their assets in short-term debt and debt related instruments, such as commercial paper, certificates of deposit, bonds bearing floating interests, US treasury	bonds, Eurobonds and asset-backed securities. Interest and dividends payable to the Fund are reinvested. The Fund had the following investments in the money	market funds with AAA credit ratings:
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	2014	2013
BNP Paribas Global Liquidity Funds plc	266,204	-
BlackRock ICS-Institution Liquidity Funds plc	550,101	84,012
Total money market funds	816,305	84,012

BANK ACCOUNTS

Bank accounts were denominated in the following: currencies:

	2014	2013
USD + MSCI index*	93,770	173,131
AZN	319,993	169,564
RUB	4,714	776
AUD	73	83
EUR	502	3,924
GBP	5,640	3,284
TRY	1	8
KWR	10,564	-
Total bank accounts	435,256	350,770

* MSCI index includes developed world markets and consists of the following currencies: USD, EUR, GBP, AUD, CAD, CHF, DKK, HKD, ILS, JPY, NOK, NZD, SEK and SGD. These currencies are held in portfolios managed by external managers UBS and SSGA and amounted AZN 1,632 thousand	(2013: AZN 1,917 thousand). The Fund holds AZN accounts with the Central Bank of the Republic of Azerbaijan and the International Bank of Azerbaijan. At 31 December 2014 the Fund had AZN 319,951 thousand and AZN 42 thousand,	held at bank accounts in the Central Bank of the Republic of Azerbaijan and the International Bank of Azerbaijan (2013: AZN 169,534 thousand and AZN 30 thousand), respectively. Other accounts originated in foreign currencies were opened with non-resident banks with long-term	ratings BB/Ba3 (Standard & Poor's/ Fitch/Moody's) and above.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(THOUSANDS OF AZERBAIJANI MANATS)



DEPOSITS

The Fund's investments in deposits comprise:

	2014	2013
Turkiye Is Bankasi A.S. Istanbul	355,036	313,009
T.C. Ziraat Bankasi A.S.	309,158	131,238
Akbank T.A.S, Istanbul	263,286	109,338
Turkiye Garanti Bankasi AS	84,243	209,095
Bank IBA Moscow	7,846	-
Gazprombank, Moscow	-	78,817
VTB Bank JSC	-	49
BNP Paribas, London	-	13
Total deposits	1,019,569	841,559

As at 31 December 2014, the Fund placed AZN 1,019,569 thousand in deposits with non-resident banks maturing in January and March 2015 with credit ratings of BB/Ba3 (Standard & Poor's/ Fitch/ Moody's) and above.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH SURPLUS OR DEFICIT

Financial assets at fair value through surplus or deficit comprise:

	2014	2013
Corporate debt securities	8,404,616	8,335,808
Financial institution debt securities	7,018,026	6,148,773
Foreign government debt securities	5,338,809	8,918,059
Equity securities	1,545,175	1,130,519
Standard and Poor's Depository Receipt ("SPDR") Trust	13,616	12,226
Securities of USA agencies	-	3,198
Total financial assets at fair value through surplus or deficit	22,320,242	24,548,583

As at 31 December 2014 the Fund held AZN 1,293,510 thousand (USD 1,649,043 thousand) under asset management agreements with financial institutions ("external managers") including cash and cash equivalents (2013:

AZN 869,884 thousand (USD 1,108,839 thousand)). The management fees in 2014 to these institutions were AZN 651 thousand (2013: AZN 669 thousand). During 2014 and 2013 the Fund's external managers were Deutsche Bank AG,

the International Bank for Reconstruction and Development (IBRD – World Bank Group), State Street Global Advisors (SSGA) and UBS.

FOREIGN GOVERNMENT DEBT SECURITIES

Foreign government securities are represented by investments in debt securities issued by various sovereign and international organizations of Europe, Asia, Africa, Australia and America. These securities bear fixed interest ranging from 0.25% p.a. to 9.875%

p.a. and USD LIBOR, EURIBOR, GBP LIBOR with the spread ranging from +0.01% p.a. to +1.2% p.a. (2013: 0.125% p.a. to 9.875% p.a. and USD LIBOR, EURIBOR, GBP LIBOR with the spread ranging from +0% p.a. to +1.2% p.a.) and mature

during the period from January 2015 to November 2019 (2013: January 2014 to November 2018). As at 31 December 2014 total accrued interest on these securities amounted AZN 26,190 thousand (2013: AZN 43,907 thousand). These securities were

held in the portfolio managed both directly by the Fund as well as the Fund's external managers, Deutsche Bank AG and IBRD.

CORPORATE DEBT SECURITIES

Corporate debt securities are represented by investments in debt securities issued by corporations of Europe, Asia, Africa, Australia and America. These securities bear fixed interest ranging from 0.45% p.a. to 8.75% p.a. and USD LIBOR

and EURIBOR with the spread ranging from +0.20% p.a. to +1.75% p.a. (2013: 0.45% p.a. to 9.875% p.a. and USD LIBOR and EURIBOR with the spread ranging from +0.20% p.a. to +0.95% p.a.) and mature during the period from January 2015

to November 2020 (2013: January 2014 to June 2017). Discount securities are also included in this group. As at 31 December 2014 total accrued interest on these securities amounted AZN 112,333 thousand (2013: AZN 147,429 thousand). These securities were held

in the portfolio managed both directly by the Fund as well as the Fund's external manager Deutsche Bank AG.



FINANCIAL INSTITUTION DEBT SECURITIES

Financial institution securities are represented by investments in debt securities issued by various European, Asian, Australian and American financial institutions.

These securities bear fixed interest ranging from 0.80% p.a. to 7% p.a. and USD LIBOR, GBP LIBOR, EURIBOR and Australian Bank Bill Short Term Rate with the spread ranging from +0.19% p.a. to +1.28% p.a. (2013: 0.80% p.a. to 7.375% p.a. and USD LIBOR, GBP LIBOR, EURIBOR and Australian Bank Bill Short

Term Rate with the spread ranging from +0.14% p.a. to +2.5% p.a.) and mature during the period from January 2015 to January 2020 (2013: January 2014 to August 2017). Discount securities are also included in this group. As at 31 December 2014 total accrued interest on these securities amounted AZN 31,537 thousand (2013:

AZN 18,906 thousand). These securities were held in the portfolio managed both directly by the Fund as well as the Fund's external managers, Deutsche Bank AG and IBRD.

EQUITY SECURITIES

The carrying value of equity securities consists of the following at 31 December:

	2014	2013
Finance	567,027	584,129
Consumer	243,836	135,119
Telecommunication and information technologies	197,538	98,881
Industrial	124,600	71,630
Healthcare	139,783	68,549
Private equity	93,495	61,361
Energy	88,176	57,672
Materials	54,460	34,654
Utilities	35,886	18,524
Transportation	374	-
Total equity securities	1,545,175	1,130,519

SPDR TRUST

In its internally managed portfolio SOFAZ invests in S&P 500 stock index incorporated in the United States via SPDR Trust. S&P 500 index consists of a portfolio representing 500 large-cap stocks such as Apple Inc, Exxon Mobil Corp, Microsoft Corp, Johnson & Johnson, Berkshire Hathaway

Inc, Wells Fargo & Co, General Electric, Procter & Gamble, JPMorgan Chase & Co, and Pfizer Inc. The main sectors are IT, Health Care, Consumer and Financials.

7. FINANCIAL INVESTMENTS HELD TO MATURITY

Financial investments held to maturity comprise:

	2014	2013
Current portion of Financial investments held to maturity	110,974	313,381
Non-current portion of Financial investments held to maturity	2,388,565	428,673
	2,499,539	742,054

These are comprised of corporate bonds of:

	2014	2013
JSC Cenub Qaz Dehlizi (Southern Gas Corridor)	1,987,120	-
Azerbaijan (ACG) Ltd (AzACG Ltd)	300,939	328,489
Mercury Investments and Holdings Ltd.	211,480	413,565
	2,499,539	742,054



On 1 May 2014, 23 July 2014, 25 September 2014 and 28 November 2014 the Fund purchased bonds of Southern Gas Corridor at face values of USD 917,321 thousand, USD 1,246,355 thousand, USD 101,120 thousand and USD 252,200 thousand respectively. As of 31 December 2014 the carrying amount of these bonds equaled AZN 726,005 thousand, AZN 983,445 thousand, AZN 79,603 thousand and AZN 198,067 thousand respectively. The maturity dates of these bonds are 1 May 2024, 23 July 2024, 25 September 2024 and 28 November 2024 and coupons are 6-month USD LIBOR +1%.

On 28 February 2014 the Fund purchased bonds of Mercury Investments and Holdings Ltd. (which is a 100% owned subsidiary of the State Oil Company of Azerbaijan Republic) at face values of USD 69,492 thousand. As of 31 December 2014 the carrying amount of these bonds equaled to AZN 54,600 thousand (2013: AZN 252,977 thousand).

The maturity date of the bonds is 1 March 2015 and the coupon rate is 2% p.a. On 26 September 2012 the Fund purchased bonds of Mercury Investments and Holdings Ltd. at face value of USD 200,000 thousand. As of 31 December 2014 the carrying amount of these bonds equaled to AZN 156,880 thousand (2013: AZN 160,588 thousand). The maturity date of the bonds is 31 December 2027 and the coupon rate is 6-month USD LIBOR +1.335%.

The purchase was made in accordance with the decree #519 of the President of Azerbaijan Republic dated 27 October 2011 on "Rules on management of foreign currency assets of the State Oil Fund of the Republic of Azerbaijan". Main aim of the bond issuance is to improve and reconstruct the Ship Construction Plant of the Republic of Azerbaijan. On 5 July 2011 the Fund purchased bonds of AzACG Ltd. (which is a 100% owned subsidiary of State Oil Company of Azerbaijan Republic) at face value of USD 485,000

thousand. The purchase of the bonds was made under the framework of the "The framework (program) of the main directions of utilization of Oil Fund's assets for 2011" approved by the Decree of the President of the Republic of Azerbaijan dated 28 December 2010. According to the program SOFAZ may invest in the securities of oil and gas companies operating in the Caspian Sea basin. The issuer of these securities or its parent company should have a long-term investment grade credit rating. As of 31 December 2014 the carrying amount of these bonds equaled to AZN 300,939 thousand (2013: AZN 328,489 thousand). The maturity date of the bonds is 31 December 2024 and the coupon rate is 6-month USD LIBOR +1%. Annual principal repayment for the bonds is AZN 27,174 thousand (USD 34,643 thousand). The custodian service for holding securities is provided by the National Depository Center of the Republic of Azerbaijan. The

management of the Fund has intention and ability to hold the bonds until the scheduled maturity date for the purpose of earning of interest income over the holding period.

8. GOLD BULLION

In accordance with the "Rules on Holding, Placement and Management of Foreign Assets of The State Oil Fund of the Republic of Azerbaijan" approved by Decree #511 of the President of the Republic of Azerbaijan dated 19	June 2001 as amended by Decrees #607 dated 21 December 2001, #202 dated 1 March 2005, #216 dated 10 February 2010 and #519 dated 27 October 2011, gold bars conforming to the requirements of the London Bullion Market Association may be included in the	Investment Portfolio of the Fund.	Movements of gold bullion:
		As of 31 December 2014 there was no gold bullion deposited in foreign banks (2013: 325,000 fine troy ounces, AZN 309,652 thousand).	

	2014	2013
Opening balance at 1 January	924,331	624,735
Total purchase during the year	-	542,782
Net loss on revaluation of gold bullion	(22,187)	(243,186)
Closing balance at 31 December	902,144	924,331

9. INVESTMENT PROPERTIES

Movement of investment properties:

	2014	2013
Opening balance at 1 January	509,107	338,057
Purchase of "Pine Avenue Tower A" office complex	351,443	-
Purchase of "8 Place Vendome" complex	-	145,578
Fair value gains less losses	46,390	11,465
Effect of translation to presentation currency	(101,468)	14,007
Closing balance at 31 December	805,472	509,107

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Investment properties consist of “Gallery Actor”, mixed-use office and retail complex located in Moscow central business district at 16 Tverskaya Street, “78 St James’s Street” an office complex in London, “8 Place Vendome” office, retail and residential building located in Paris and “Pine Avenue Tower A” office complex located in Seoul, South Korea. All properties are leased out on a commercial basis.

	2014	2013
Rental income derived from investment properties	36,187	23,909
Direct operating expenses	(11,091)	(4,632)
Net operating income arising from investment properties carried at fair value	25,096	19,277

Detailed disclosure on fair value increase of investment properties:

Investment property	Fair value 2014	Change in fair value	Effect of translation to presentation currency	Fair value 2013*
"Gallery Actor", Tverskaya 16, Moscow	75,544	27,538	(57,090)	105,096
"St James Street" UT, London	235,365	1,745	(14,578)	248,196
"SCI 8 Palace Vendome", Paris	150,487	13,828	(19,153)	155,812
"Pine Avenue Tower A", Seoul	344,076	3,279	(10,645)	351,443*

*Fair value of “Pine Avenue Tower A”, Seoul presented as of 31st of March 2014, the date of its acquisition.

ESTABLISHMENT OF
SCI 8 PLACE VENDOME

On 19 March 2013, the Fund acquired via a special purpose vehicle, a mixed use office and retail complex SCI 8 Place Vendome located on Place Vendome 8, Paris, France from AXA Real Estate for EUR 135,000 thousand. SCI 8 Place Vendome is an indirect subsidiary of the Fund incorporated in France as a civil partnership with share capital of EUR 1,000 having its registered office in Paris, 6 place de Madeleine. SCI 8 Place Vendome is held by the Fund via two Luxembourg holding companies (the Luxcos): SOFAZ RE Europe Holding S.a.r.l. - a private limited company with a share capital of EUR 12,500 having its registered office in Luxembourg which is 100% held by the Fund and holds 0.1% of SCI 8 Place Vendome and SOFAZ RE Europe S.a.r.l. - a private limited company with a share capital of EUR 12,500 having its registered office in Luxembourg which is 100% held by SOFAZ RE Europe Holding S.a.r.l. and holding 99.9% of SCI 8 Place Vendome. During

2014, SCI 8 Place Vendome has contributed AZN 5,276 thousand (2013: AZN 3,533 thousand) of rental income and AZN 18,571 thousand profit (2013: AZN 4,651 thousand) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value increase of AZN 13,828 thousand (2013: AZN 1,424 thousand)).

ACQUISITION OF JSC
TVERSKAYA 16

On 21 December 2012, the Fund acquired 100% of voting shares of JSC Tverskaya 16. Its main activity is management of business and retail centre called “Gallery Actor” located in the Central Administrative District of Moscow, Russia. During 2014, JSC Tverskaya 16 contributed AZN 6,638 thousand (2013: AZN 8,524 thousand) of rental income and AZN 31,003 thousand profit (2013: AZN 6,228 thousand) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value increase of AZN 27,538 thousand (2013: AZN 1,967 thousand)). The

acquisition was accounted for as an asset acquisition.

ESTABLISHMENT OF
78 ST JAMES’S STREET
UNIT TRUST (THE
“UNIT TRUST”)

The Unit Trust was established by the Fund on 22 November 2012 under the provision of the Trust Instrument. SOFAZ Re Limited in its capacity as general partner of the SOFAZ RE UK L.P. has a 99% holding of the Unit Trust. SOFAZ Re Min Limited has a 1% holding of the Unit Trust. SOFAZ Re Limited, SOFAZ Re UK L.P. and SOFAZ RE Min Limited are ultimately owned by the State Oil Fund of Azerbaijan. The Unit Trust invests in real estate located in the United Kingdom and owns the office complex “78 St James’s Street”. The Unit Trust is established, resident and domiciled in Jersey, Channel Islands During 2014, the Unit Trust has contributed AZN 12,474 thousand (2013: AZN 11,852 thousand) of rental income and AZN 12,442 thousand profit (2013: AZN 18,241

thousand) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value increase of AZN 1,745 thousand (2013: AZN 8,074 thousand)). The Fund has no restrictions on the realizability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

ACQUISITION OF “PINE
AVENUE TOWER A”
OFFICE COMPLEX

On 31 March 2014 SOFAZ finalised the acquisition of prime office complex, Pine Avenue Tower A in Seoul, South Korea via acquisition of 100% interest in Beneficiary Certificates (“BCs”) in Real Estate Fund from Mirae Asset Management for KRW 469,007 million (AZN 346,250 thousand). SOFAZ’s team consisted of Cushman & Wakefield as commercial, Shin & Kim as legal, Kyobo as technical and KPMG as taxation advisers. Pine Avenue Tower A was built in 2011 and is one of the very few trophy assets

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recently completed in the Seoul CBD area. The purchase of the property has been realized through a competitive auction process organized by Mirae Asset Management on behalf of the four owners (NongHyup Bank, NongHyup Life insurance, Woori Bank and KDB Life Insurance). The gross floor area (GFA) of the property is approximately 65,000m². The asset is solely leased to S&K Group, one of

the largest conglomerates of South Korea. Since acquisition, “Pine Avenue Tower A” has contributed AZN 11,799 thousand of rental income and AZN 3,693 thousand loss to the net profit/(loss) before tax of the Fund (Net loss figure includes fair value increase of AZN 3,279 thousand (2013: nil)). As at 31 December 2014 investment properties are stated at fair value, which has been determined based

on valuations performed by professional valuation companies, the accredited independent appraisers. The appraiser is an industry specialist in valuing these types of investment properties. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm’s length transaction at the date of valuation. The fair

values of the properties have been primarily derived using prices for comparable properties, market information, discounted cash flow method (income approach) and the expert opinion of independent accredited valuers who have advised on current market levels.

10. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

The table below summarises the movements in the carrying amount of the Fund’s investments in jointly controlled entities.

	2014	2013
Carrying amount at 1 January	168,966	-
Additions to investments in jointly controlled entities	151,263	169,136
Share of after tax results of jointly controlled entities	(296)	(170)
Carrying amount at 31 December	319,933	168,966

On 21 June 2013, Caspian Drilling Company (90% share) and State Oil Company of Azerbaijan Republic (10% share) jointly established “SOCAR Rig Assets” LLC with the share capital of AZN 1000 (100 shares, nominal value of AZN 10 for each share). The main activity of the entity is financing the construction of a new sixth generation semi-submersible drilling rig for

operations in the Caspian Sea through funding from the shareholders’ proportion of their respective shares. On 5 July 2013, State Oil Fund of the Republic of Azerbaijan acquired all of the shares of Caspian Drilling Company for their nominal value. “SOCAR Rig Assets” LLC did not have any operations prior to acquisition by the Fund. After acquisition “SOCAR Rig Assets” LLC

was renamed “Azerbaijan Rigs” LLC. The Fund has contributed additional paid-in capital of AZN 320,399 thousand (2014: AZN 151,263; 2013: AZN 169,136) directly to the entity since the acquisition date. All strategic financial and operating decisions relating to the activity of the acquiree require the unanimous consent of both shareholding parties. The results of this

jointly controlled entity are incorporated in these consolidated financial statements using the equity method of accounting.

At 31 December 2014, the Fund’s interests in its jointly controlled entity and its summarised aggregate financial information, including total assets, liabilities, revenues and surplus or deficit, were as follows:

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Expenses	Surplus/(deficit)	% interest held	Country of incorporation
“Azerbaijan Rigs” LLC	46,863	306,394	(375)	-	-	(329)	(329)	90%	Azerbaijan
Total	46,863	306,394	(375)	-	-	(329)	(329)		

11. CAPITAL CONTRIBUTIONS

The movements in capital contributions to the Fund were as follows:

	2014	2013
Contributions received from sales of oil and gas	12,319,849	13,108,016
Bonuses	13,345	1,850
Pipeline transit tariffs	8,911	8,064
Acreage fees	1,662	1,832
Other	43	112
Total capital contributions	12,343,810	13,119,874

12. TRANSFERS BY THE FUND

During 2014 transfers to the State Budget, as well as to the state institutions, state-owned entities and companies were made in accordance with:

- Decree #57 of the President of the Republic of Azerbaijan “On Ratifying the Budget of The State Oil Fund of the Republic of Azerbaijan for the year 2014” dated 19 December 2013, “Program

on main directions of management of the funds of The State Oil Fund of the Republic of Azerbaijan for 2014 and;

- Decree of the President of the Republic of

Azerbaijan #134 “On Amendments and changes to the Budget of The State Oil Fund of the Republic of Azerbaijan for 2014” dated 10 April 2014.



13. INTEREST INCOME AND OTHER INVESTMENT INCOME

	2014	2013
Interest income on financial assets at fair value through surplus or deficit	442,306	415,208
<i>Interest income on assets carried at amortized cost:</i>		
Interest on term deposits	53,312	50,656
Income from financial investments held to maturity	24,402	9,635
Income from money market funds	1,544	1,557
Interest on demand deposits	54	66
<i>Other investment income</i>		
Dividend income	27,337	13,996
Total interest income	548,955	491,118

14. FOREIGN CURRENCY TRANSLATION DIFFERENCES

Net foreign currency translation differences comprise of:

	2014	2013
Net unrealized (loss)/gain on foreign currency translation differences	(1,589,105)	305,653
Net realized loss on foreign currency translation differences	(27,168)	(27,658)
Total net (loss)/gain on foreign currency translation differences	(1,616,273)	277,995

15. NET (LOSS)/GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH SURPLUS OR DEFICIT

Net (loss)/gain on financial assets at fair value through surplus or deficit comprises:

	2014	2013
Unrealized (loss)/gain on change in fair value adjustment	(165,039)	(4,711)
Realized loss on trading operations	(1,844)	(630)
Net (loss)/gain on financial assets at fair value through surplus or deficit	(166,883)	(5,341)

16. OTHER OPERATING INCOME

Other comprehensive income is comprised of:

	2014	2013
Rental income (Note 9)	36,187	23,909
Other	8,253	376
Total other operating income	44,440	24,285

17. OPERATING EXPENSES

Operating expenses are comprised of:

	2014	2013
Asset management fee (for acquisition of Pine Avenue Tower A property)*	(20,323)	-
Professional fees	(6,511)	(1,938)
Wages, salaries and employee benefits	(4,150)	(3,715)
Bank commissions	(2,861)	(2,332)
Rental expenses	(2,663)	(2,706)
Repair expenses	(2,499)	-
Other service expenses	(613)	(386)
Communication expenses	(495)	(503)
Depreciation and amortization	(326)	(395)
Other operating expenses	(4,309)	(2,413)
Total operating expenses	(44,750)	(14,388)

*This fee was originally the obligation of the sellers of Pine Avenue Tower A to the asset management company, Mirae Asset Management. During acquisition, an equivalent amount was deducted from the agreed purchase price and

paid in the form of additional share capital into Pine Avenue Tower A which subsequently made the required payment to the asset management company.



18. INCOME TAXES

The Fund provides for income taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of Russian Federation and Luxembourg which may differ from IPSAS.

According to the Presidential decree N- 509-IVQD dated 21 December 2012, and law of State Parliament regarding changes to the Tax Code of Azerbaijan Republic dated 29 December 2012 starting from 1 January 2013 SOFAZ is exempted from corporate income tax. All the Jersey companies are zero corporate income tax rated by virtue of being International Service Entities. As a result there are no temporary differences in respect of

SOFAZ's Azerbaijani and UK operations. Standard corporate income tax rates for companies operating in the Russian Federation comprised 20% for 2014 and 2013. Whereas Luxembourg and French subsidiaries are subject to income tax at a rate of 33.3% (2013: 33.3%). Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax

purposes. Temporary differences relate mostly to different methods of income and expense recognition as well as to recorded values of certain assets. The effective income tax differs from the statutory income tax rates. A reconciliation of the income tax expense based on statutory rates with actual is as follows:

	2014	2013
(Deficit)/surplus before income tax expense	(1,210,603)	541,778
Statutory tax rate	20%	20%
Theoretical income tax asset/(expense) at the statutory rate	242,121	(108,356)
Tax effect of permanent differences	(540)	4,202
Tax effect of income earned in UK and South Korea exempted from tax	6,588	-
(Deficit)/surplus generated in Azerbaijan exempted from tax	(249,103)	102,925
Income tax expense	(934)	(1,229)

19. NOTES ON STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Classification of items in the Fund's budget is done in compliance with the classification of state budget of the Republic of Azerbaijan and international standards.

The Fund's budget consists of revenue items and expenditure items.

The revenue items of the Fund's budget comprise the following:

- Revenues generated from implementing agreements on exploration, development and production sharing for oil and gas fields in the territory of the Republic of Azerbaijan including the Azerbaijan's sector of the Caspian Sea (Lake), as well as other agreements on oil and gas exploration, development and transportation entered into between the State Oil Company of the Republic of Azerbaijan or other authorized state body and investors.

- Revenues generated from the placement,

management, sale, or other utilization or out of sale revenues of the Fund's assets (including financial assets and assets handed over by investors within oil and gas contracts), revenues from asset revaluation in the reported currency (Azerbaijani manat) by the Fund and other;

- Grant and other free aid;
- Other revenues and receipts in accordance with the legislation.

The expenditure items of the Fund's budget comprise the following:

- Expenditures to finance the projects in compliance with the main directions (program) of the Fund's assets utilization;
- The Fund's operational expenditures, including administrative (staffing), involving external consultants and other expenditures.

Reconciliation of actual amounts from budgetary basis to the financial statement basis:

As required under IPSAS 24, the actual amounts presented on a comparable basis to the budget shall, where the consolidated financial statements and the budget are not prepared on a comparable basis, be reconciled to the actual amounts presented in the consolidated financial statements, identifying separately any basis, timing and entity differences. There may also be differences in formats and classification schemes adopted for presentation of consolidated financial statements and the budget.

Basis differences occur when the approved budget is prepared on a basis other than the accounting basis.

Timing differences occur when the budget period differs from the reporting period reflected in the consolidated financial statements. There are no timing differences for

the Fund for purposes of comparison of budget and actual amounts.

Entity differences occur when the budget omits entities that are part of the Fund for which the consolidated financial statements are prepared.

Presentation differences are due to differences in the format and classification schemes adopted for presentation of statement of cash flows and statement of comparison of budget and actual amounts.

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Reconciliation between the actual amounts on a comparable basis and the actual amounts in the statement of cash flow for the period ended 31 December 2014 is presented below:

	Operating	Investing	Financing	Effect of exchange rate changes on cash and cash equivalents	Total
Actual amount on comparable basis as presented in the Statement of comparison of budget and actual amounts	379,375	(38,086)	2,272,520	-	2,613,809
Presentation differences (changes in operating assets and liabilities)	(1,938,057)	-	-	-	(1,938,057)
Entity differences	9,023	(357)	-	86,993	95,660
Basis differences (accrual basis versus cash flows)	223,379	-	-	-	223,379
Actual Amount in the Statement of Cash Flows	(1,326,280)	(38,443)	2,272,520	86,993	994,791

The budget scope of the Fund is restricted to the budget of SOFAZ. It does not include budgets of subsidiaries which represents an entity difference in the reconciliation below:

Classification in Statement of comparison of budget and actual amounts	Actual amounts on comparable basis excluding subsidiaries	Entity difference	Actual amounts on comparable basis including subsidiaries
Receipts			
Contributions received from sales of profit oil and gas	12,319,847	-	12,319,847
Income from placement and management of assets	387,204	50,154	437,358
The oil and gas agreements signature or performance bonuses paid by investors to the State Oil Company of the Republic of Azerbaijan or an authorized state body	13,344	-	13,344
Income from transit of oil and gas through the territory of the Republic of Azerbaijan	8,910	-	8,910
Acreage fees by the foreign investors for use of the contract areas in connection with the development of hydrocarbon resources	1,661	-	1,661
Other gains and receipts	50	-	50
Total receipts	12,731,016	50,154	12,781,170
Payments			
Transfers to the State Budget	(9,337,000)	-	(9,337,000)
Reconstruction of Samur-Absheron Irrigation system	(80,221)	-	(80,221)
Transfers to the State Refugees Committee and Internally Displaced Peoples' Social Development Fund	(299,998)	-	(299,998)
Construction of new Baku-Tbilisi-Kars railway line	(57,040)	-	(57,040)
Education of Azerbaijani youth abroad	(33,494)	-	(33,494)
Financing of the share of Azerbaijan Republic in the construction of the STAR oil refinery project in Turkey	(223,538)	-	(223,538)
Transfer for "Southern Gas Corridor"	(39,999)	-	(39,999)
Expenses for managing the Fund	(45,917)	(33,191)	(79,108)
Total payments	(10,117,207)	(33,191)	(10,150,398)
Net receipts	2,613,809	16,963	2,630,770



20. BUSINESS COMBINATION

On 31 March 2014 the The State Oil Fund of the Republic of Azerbaijan (“SOFAZ”) acquired 100% of the share capital of Mirae Asset Euljiro	Tower (formerly known as Pine Avenue Tower A) located in 203 Euljiro 2 ga, Seoul, Korea and obtained control through its ability to cast a majority of votes	in the general meeting of shareholders. The acquired Property was initially owned by a fund managed by Mirae Asset Global Investment Management.	The acquisition-date fair value of the total purchase consideration and its components are as follows:
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Cash consideration paid	346,250
Total consideration transferred	346,250
Total purchase consideration and previously held interest in the acquiree	346,250

Acquisition related transaction costs of AZN 1,828 thousand were expensed as general and administrative expenses. The contractual acquisition arrangement included repayment of loan principal of AZN 137,632 thousand of the former owner. This	amount was transferred within the total cash consideration paid. The consideration paid by the Fund was based on results of an external appraisal, performed by Cushman and Wakefield - internationally recognised private and estate services company,	of the acquiree’s business taken as a whole. Details of the assets and liabilities acquired and goodwill arising are as follows:
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	Attributed fair value
Cash and cash equivalents	3,810
Property, plant and equipment	
Investment property	352,523
Other assets	1,160
Borrowings	(702)
Trade and other payables	(8,946)
Other liabilities	(1,597)
Fair value of identifiable net assets of subsidiary	346,250
Goodwill arising from the acquisition	-
Total purchase consideration and previously held interest in the acquiree	346,250
Less: Cash and cash equivalents of subsidiary acquired	(3,810)
Outflow of cash and cash equivalents on acquisition	342,440

The fair values of assets and liabilities acquired are based on discounted cash flow models and based on the estimations of Cushman and Wakefield Korea, commercial advisor of the Fund on this acquisition. Based on the purchase	agreement the following items were included in the purchase price allocation: Investment property valued at AZN 352,523 thousands (KRW 477,504,000). No goodwill arose on this business combination. The acquired subsidiary has	paid AZN 14,051 thousand as a dividend to the Fund during the year.
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21. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fund uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:	in active markets for identical assets or liabilities;	directly or indirectly; and	The Fund’s valuation approach and fair value hierarchy categorization for certain significant classes of financial instruments recognized at fair value are as follows:
• Level 1: quoted (unadjusted) prices	• Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either	• Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.	

At 31 December 2014	Level 1	Level 2	Level 3	Total
Financial assets at fair value through surplus or deficit	20,074,784	2,151,963	93,495	22,320,242

At 31 December 2013	Level 1	Level 2	Level 3	Total
Financial assets at fair value through surplus or deficit	20,880,762	3,606,460	61,361	24,548,583

Level 3 financial assets consist of 3 investments in International Finance Corporation (IFC) Private Equity funds (ALAC, GIF and Catalyst funds). IFC	ALAC (African, Latin American and Caribbean) Fund has been set up with the purpose of making investments in businesses in Africa, Latin America	and the Caribbean. IFC Catalyst fund is fund of funds structure private equity vehicle investing into emerging market focus funds. IFC GIF specializes	in making infrastructure investments into the emerging world.
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22. RISK MANAGEMENT

Management of risk is an essential element of the Fund’s operations. Risks inherent to the Fund’s operations are those related to credit exposures, liquidity, market and operational risks. A summary description of the Fund’s risk management policies in relation to those risks is discussed below.

CREDIT RISK

The Fund is exposed to credit risk which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Fund is subject to credit risk from its portfolio of cash and cash equivalents and its investments. The Fund manages its credit risk in accordance with the “Rules on Holding, Placement and Management of Foreign Currency Assets of The State Oil Fund of the Republic of Azerbaijan” approved by Decree #511 of the President of the Republic of Azerbaijan dated 19 June 2001 as amended by Decree #607 dated 21 December 2001, Decree #202 dated 1 March 2005, Decree #216 dated 10

February 2010, Decree #519 dated 27 October 2011 (hereinafter collectively referred to as the “Rules”), as well as “Program on Expensing of Assets of The State Oil Fund of the Republic of Azerbaijan for 2014” as approved by decree #57 of the President of the Republic of Azerbaijan, dated 19 December 2013.

Credit risk is managed and controlled through proper selection of investment assets, credit quality of investment assets and setting limits on the amount of investment per investment asset.

In accordance with decree of the President of the Republic of Azerbaijan “Program on Expensing

of Assets of The State Oil Fund of the Republic of Azerbaijan for 2014” dated 19 December 2013, the maximum weight of one financial institution or one investment in the investment portfolio is set at 15% of total amount of the investment portfolio.

In accordance with the “Rules”, foreign currency assets of the Fund could be invested in debt obligations with investment grade credit rating not less than Baa3 (Moody’s) or BBB- (Standard & Poor’s, Fitch) and up to 5% of foreign currency assets of the Fund could be placed into debt obligations that have credit rating not less than Ba3 (Moody’s) or BB- (Standard & Poor’s, Fitch).

The following table details the credit ratings of financial instruments held by the Fund. The credit rating is issued by internationally regarded agencies Standard & Poor’s, Fitch and Moody’s. If the agencies have assigned different credit ratings to an asset, the lowest one was used.

2014	AAA	AA	A	BBB	Non-investment rating	Securities without rating	Total
Cash and cash equivalents	835,269	-	96,296	1,331,677	7,889	-	2,271,131
Financial assets at fair value through surplus or deficit	3,038,722	3,645,482	7,532,609	6,573,465	80,414	1,449,550	22,320,242
Financial investments held-to-maturity	-	-	-	1,987,120	512,419	-	2,499,539

2013	AAA	AA	A	BBB	Non-investment rating	Securities without rating	Total
Cash and cash equivalents	85,201	1,104	165,832	1,024,174	30	-	1,276,341
Financial assets at fair value through surplus or deficit	6,525,683	3,531,232	7,560,755	5,698,302	90,520	1,142,091	24,548,583
Financial investments held-to-maturity	-	-	-	742,054	-	-	742,054

BANK
ACCOUNTS

In accordance with the “Rules”, currency settlement accounts of the Fund may be held in banks with long-term credit ratings not lower than AA- (Standard & Poor’s, Fitch) or Aa3 (Moody’s). The Fund is allowed to maintain funds in the Republic of Azerbaijan only in the Central Bank of the Republic of Azerbaijan and the International Bank of Azerbaijan.

DEPOSITORY
SERVICES

In accordance with the “Rules”, the Fund’s depository services may be provided by commercial banks and other financial institutions with long-term credit ratings not lower than A- (Standard & Poor’s), A- (Fitch) or A3 (Moody’s).

FINANCIAL
MARKET
COUNTERPARTIES

In accordance with the “Rules”, the Fund’s counterparties at international financial markets may involve commercial banks and other financial institutions with long-term investment credit ratings (Standard & Poor’s, Fitch or Moody’s).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(THOUSANDS OF AZERBAIJANI MANATS)



EXTERNAL MANAGERS

In accordance with the “Rules”, when an external manager is engaged in management of the Fund’s currency assets, the external manager or its principal founder should have investment credit ratings (not lower than Baa3 (Moody’s) or BBB- (Standard & Poor’s, Fitch)) or have at least five years of positive history of management of assets, or be experienced in managing assets with a value not less than one billion USD.

CURRENCY RISK

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Fund is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. “Program on main directions of Expensing of Assets of The State Oil Fund of the Republic of Azerbaijan for 2014” as approved by decree #57, dated 19 December 2013, specified requirements for Investment Policy (investment trend) of the Fund for 2014 and the currency basket of the Fund’s portfolio for 2014.

In accordance with these requirements, 50% of the total amount of the investment portfolio of the Fund invests in assets denominated in USD, 35% in assets denominated in EUR, 5% in assets denominated in GBP, whereas 10% of the total amount of the investment portfolio can be invested in currencies specified in an article 2.2.1 of Presidential decree #511 dated 19 June, 2001. In case of noncompliance the Fund is to rebalance the portfolio during 10 business days subsequent to the end of each quarter. As at 31 December 2014, 55.97% of the Fund’s investment portfolio was denominated

in USD (2013: 49.45%), 35.49% in EUR (2013: 41.60%) and 4.35% in GBP (2013: 4.47%).

The table below summarizes the Fund’s exposure to foreign currency exchange rate risk at the reporting date:

2014	AZN	USD + MSCI index*	EUR	GBP	TRY	AUD	RUB	KRW	Total
FINANCIAL ASSETS									
Cash and cash equivalents	319,994	650,073	941,999	7,411	336,304	73	4,714	10,564	2,271,131
Financial assets at fair value through surplus or deficit	-	11,999,136	8,670,576	1,173,507	-	137,005	340,018	-	22,320,242
Financial investments held to maturity	-	2,499,539	-	-	-	-	-	-	2,499,539
Total financial assets	319,994	15,148,748	9,612,575	1,180,918	336,304	137,078	344,732	10,564	27,090,912
FINANCIAL LIABILITIES									
Other financial liabilities	-	251	-	-	-	-	-	-	251
Total financial liabilities		251							251
Open position	319,994	15,148,497	9,612,575	1,180,918	336,304	137,078	344,732	10,564	27,090,661
	1.18%	55.92%	35.48%	4.36%	1.24%	0.51%	1.27%	0.04%	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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2013	AZN	USD + MSCI index*	EUR	GBP	TRY	AUD	RUB	Total
FINANCIAL ASSETS								
Cash and cash equivalents	169,564	196,674	499,402	3,528	327,497	83	79,593	1,276,341
Financial assets at fair value through surplus or deficit	-	12,193,893	10,550,837	1,187,992	-	144,496	471,365	24,548,583
Financial investments held to maturity	-	742,054	-	-	-	-	-	742,054
Total financial assets	169,564	13,132,621	11,050,239	1,191,520	327,497	144,579	550,958	26,566,978
FINANCIAL LIABILITIES								
Other financial liabilities	75	231	2,723	3,466	-	-	1,387	7,882
Total financial liabilities	75	231	2,723	3,466	-	-	1,387	7,882
Open position	169,489	13,132,390	11,047,516	1,188,054	327,497	144,579	549,571	26,559,096
	0.64%	49.45%	41.60%	4.47%	1.23%	0.54%	2.07%	

* MSCI index includes developed world markets and consists of the following currencies: USD, EUR, GBP, AUD, CAD, CHF, DKK, HKD, ILS, JPY, NOK, NZD, SEK and SGD. These currencies are held in portfolios

managed by external managers UBS and SSGA and allocated as follows:

	2014	2013
USD	608,149	338,733
EUR	118,605	78,079
GBP	82,118	56,290
AUD	29,354	18,933
CAD	41,624	24,930
CHF	36,415	22,612
DKK	6,030	3,081
HKD	11,982	7,241
ILS	2,282	1,246
JPY	83,149	53,680
NOK	2,562	2,085
NZD	514	288
SEK	12,072	8,030
SGD	5,942	3,755
Total	1,040,798	618,983

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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CURRENCY RISK SENSITIVITY

The tables below indicate the currencies to which the Fund had significant exposure at 31 December 2014 and 2013 on its monetary assets and its forecast cash flows. The

analysis calculates the effect of a reasonably possible movement of the currency rate against the AZN, with all other variables held constant on the statement of financial performance. The

effect on net assets/equity does not differ from the effect on the statement of financial performance.

Impact on surplus/(deficit) for the year			Impact on surplus/(deficit) for the year		
31 December 2014			31 December 2013		
AZN/USD	+20%	3,029,715	AZN/USD	+20%	2,625,456
	-20%	(3,029,715)		-20%	(2,625,456)
AZN/EUR	+20%	1,922,415	AZN/EUR	+20%	2,209,252
	-20%	(1,922,415)		-20%	(2,209,252)
AZN/GBP	+20%	235,546	AZN/GBP	+20%	237,648
	-20%	(235,546)		-20%	(237,648)
AZN/TRY	+20%	67,261	AZN/TRY	+20%	65,499
	-20%	(67,261)		-20%	(65,499)
AZN/AUD	+20%	27,416	AZN/AUD	+20%	28,916
	-20%	(27,416)		-20%	(28,916)
AZN/RUB	+20%	68,004	AZN/RUB	+20%	110,192
	-20%	(68,004)		-20%	(110,192)

COMMODITY PRICE RISK

The Fund is affected by the volatility of gold prices. The following table shows the effect of price changes in gold:

	31 December 2014		31 December 2013	
AZN/XAU	20%	-20%	20%	-20%
Impact on surplus/(deficit) for the year	180,429	(180,429)	184,866	(184,866)

GEOGRAPHICAL CONCENTRATION

2014	Azerbaijan	Europe	America	Asia	Africa	Australia and Oceania	Inter-national organizations	Total
FINANCIAL ASSETS								
Cash and cash equivalents	319,995	1,819,451	121,122	10,564	-	-	-	2,271,131
Financial assets at fair value through surplus or deficit	-	10,274,012	7,301,781	2,702,377	2,848	1,208,048	831,176	22,320,242
Financial investments held to maturity	2,499,539	-	-	-	-	-	-	2,499,539
Total financial assets	2,819,534	12,093,463	7,422,903	2,712,941	2,848	1,208,048	831,176	27,090,912
FINANCIAL LIABILITIES								
Other financial liabilities	45	206	-	-	-	-	-	251
Total financial liabilities	45	206	-	-	-	-	-	251
Net position	2,819,489	12,093,257	7,422,903	2,712,941	2,848	1,208,048	831,176	27,090,661

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2013	Azerbaijan	Europe	America	Asia	Africa	Australia and Oceania	Inter-national organizations	Total
FINANCIAL ASSETS								
Cash and cash equivalents	169,564	940,966	165,811	-	-	-	-	1,276,341
Financial assets at fair value through surplus or deficit	-	14,304,532	5,898,159	2,258,552	2,824	811,502	1,273,014	24,548,583
Financial investments held to maturity	742,054	-	-	-	-	-	-	742,054
Total financial assets	911,618	15,245,498	6,063,970	2,258,552	2,824	811,502	1,273,014	26,566,978
FINANCIAL LIABILITIES								
Other financial liabilities	98	7,784	-	-	-	-	-	7,882
Total financial liabilities	98	7,784	-	-	-	-	-	7,882
Net position	911,520	15,237,714	6,063,970	2,258,552	2,824	811,502	1,273,014	26,559,096

INTEREST RATE SENSITIVITY

At 31 December 2014 deposits and debt securities were interest-bearing and, therefore, were exposed to the interest rate risk. Depending on the market conditions the Fund is managing this risk by gradually increasing or decreasing

the duration of assets in the investment portfolio. Daily risk management and monitoring is performed within above set limits by the Risk Management Department.

The following table presents a net impact of change of

the fair value of securities, when market interest rate changed by 1%. Sensitivity analysis of interest rate risk has been determined based on “reasonably possible changes in the risk variable”. The level of these changes is determined by management and is

contained within the risk reports provided to key management personnel.

Impact on surplus/(deficit) before tax:

	31 December 2014		31 December 2013	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
Assets:				
Cash and cash equivalents	62	(62)	-	-
Financial assets at fair value through surplus or deficit	(191,745)	191,745	(132,532)	132,532
Net impact on surplus/(deficit) before tax	(191,683)	191,683	(132,532)	132,532

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(THOUSANDS OF AZERBAIJANI MANATS)



LIQUIDITY RISK

Management’s guiding policies are to maintain conservative levels of liquidity to ensure that the Fund has the ability to meet its obligations under all conceivable circumstances.

An analysis of the liquidity risk of financial position items is presented in the following tables:

2014	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
FINANCIAL ASSETS							
Cash and cash equivalents	2,263,285	7,846	-	-	-	-	2,271,131
Financial assets at fair value through surplus or deficit	1,945,410	1,893,882	6,142,616	10,574,417	205,102	1,558,815	22,320,242
Financial investments held to maturity	29,200	54,885	33,633	5,803	2,376,018	-	2,499,539
Total financial assets	4,237,895	1,956,613	6,176,249	10,580,220	2,581,120	1,558,815	27,090,912
FINANCIAL LIABILITIES							
Other financial liabilities	(251)	-	-	-	-	-	(251)
Total financial liabilities	(251)	-	-	-	-	-	(251)
Liquidity gap	4,237,644	1,956,613	6,176,249	10,580,220	2,581,120	1,558,815	27,090,661

2013	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
FINANCIAL ASSETS							
Cash and cash equivalents	1,189,735	86,606	-	-	-	-	1,276,341
Financial assets at fair value through surplus or deficit	1,184,691	2,407,007	9,268,211	10,546,499	-	1,142,175	24,548,583
Financial investments held to maturity	29,539	-	283,842	108,709	319,964	-	742,054
Total financial assets	2,403,965	2,493,613	9,552,053	10,655,208	319,964	1,142,175	26,566,978
FINANCIAL LIABILITIES							
Other financial liabilities	(7,882)	-	-	-	-	-	(7,882)
Total financial liabilities	(7,882)	-	-	-	-	-	(7,882)
Liquidity gap	2,396,083	2,493,613	9,552,053	10,655,208	319,964	1,142,175	26,559,096

PRICE RISK

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Fund is exposed to price risks of its products which are subject to general market and specific fluctuations. Daily risk management is performed by the Risk Management Department.

	31 December 2014		31 December 2013	
	1% increase in securities price	1% decrease in securities price	1% increase in securities price	1% decrease in securities price
Impact on surplus/(deficit) before tax	220,555	(220,555)	243,376	(243,376)
Impact on net assets/equity	220,555	(220,555)	243,376	(243,376)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Fund cannot expect to eliminate all operational risks, but a control framework and monitoring and responding to potential risks could be effective tools to manage the risks. Controls should include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

23. TRANSACTIONS WITH RELATED PARTIES

Related parties or transactions with related parties, as defined by IPSAS 20 “Related party disclosures”, represent parties that directly, or indirectly through one or more intermediaries: control, or are controlled by, or are under common control with, the Fund; have an interest in the Fund that gives them significant influence over the Fund; and that have joint control over the Fund. Transactions with related parties are described in Notes 5, 7, 8, 10, 11, 12 and 25.

All government entities and their subsidiaries are considered to be entities under common control with the Fund. Transactions with such entities are disclosed below as related party transactions:

Related parties	Year	Contributions received from related parties	Transfers to related parties	Carrying value of bonds acquired from related parties	Interest income on bonds acquired from related parties	Tax prepayments	Bank accounts with related parties	Precious metals	Off-balance sheet transactions
State Oil Company of the Republic of Azerbaijan	2014	11,858,475	-	-	-	-	-	-	-
	2013	12,757,672	-	-	-	-	-	-	-
Azerbaijan Gas Supply Company	2014	410,332	-	-	-	-	-	-	-
	2013	301,136	-	-	-	-	-	-	-
Operating Companies	2014	74,955	-	-	-	-	-	-	-
	2013	60,954	-	-	-	-	-	-	-
The State Budget	2014	-	9,337,000	-	-	-	-	-	-
	2013	-	11,350,000	-	-	-	-	-	-
Ministry of Finance of the Republic of Azerbaijan	2014	-	-	-	-	-	-	-	278,274
	2013	-	-	-	-	-	-	-	284,824

Ministry of Tax of the Republic of Azerbaijan	2014	-	-	-	-	16,739	-	-	-
	2013	-	-	-	-	20,510	-	-	-
“Azerbaijan melioration and water-sludge system” OSC	2014	-	80,221	-	-	-	-	-	-
	2013	-	173,934	-	-	-	-	-	-
The Ministry of Transportation	2014	-	57,040	-	-	-	-	-	-
	2013	-	25,672	-	-	-	-	-	-
The State Refugees Committee and Internally Displaced People’ Social Development Fund	2014	-	299,998	-	-	-	-	-	-
	2013	-	299,990	-	-	-	-	-	-
Central Bank of the Republic of Azerbaijan	2014	-	-	-	-	-	319,951	901,974	-
	2013	-	-	-	-	-	169,534	613,064	-
“Star” oil refinery complex (SOCAR)	2014	-	223,538	-	-	-	-	-	-
	2013	-	372,590	-	-	-	-	-	-
Ministry of Education of the Republic of Azerbaijan	2014	-	33,494	-	-	-	-	-	-
	2013	-	33,008	-	-	-	-	-	-
International Bank of Azerbaijan	2014	-	-	-	-	-	42	-	-
	2013	-	-	-	-	-	30	-	-
Azerbaijan (ACG) Ltd (AzACG Ltd)	2014	-	-	271,739	4,053	-	-	-	-
	2013	-	-	328,489	4,838	-	-	-	-
Mercury Investments and Holdings Ltd	2014	-	-	211,480	8,376	-	-	-	-
	2013	-	-	413,565	4,797	-	-	-	-
Ministry of Economy and Industry of the Republic of Azerbaijan	2014	-	39,999	-	-	-	-	-	-
	2013	-	-	-	-	-	-	-	-



KEY MANAGEMENT PERSONNEL

The senior management group consists of the Fund's Executive Director and heads of administrations. The aggregate remuneration of members of the senior

management group and the number of managers determined on a full-time equivalent basis receiving remuneration within this category are:

	2014	2013
Aggregate remuneration	97	109
Number of persons	3	3

24. COMMITMENTS AND CONTINGENCIES

OFF-BALANCE SHEET TRANSACTIONS

On 11 August 2006 the Fund signed an Asset Management Agreement on "Granting free budget (balance) Funds to trustworthy management" with the Ministry of Finance of the Republic of Azerbaijan. According to this agreement free budget

Funds of the Ministry of Finance of the Republic of Azerbaijan are to be transferred to and managed by the Fund within the asset management rules set in the agreement with the Ministry of Finance of the Republic of Azerbaijan. The Fund manages these

assets free of charge, on behalf of the Ministry of Finance and in favor, at the expense and at the risks of the Ministry of Finance of the Republic of Azerbaijan. At 31 December 2014 assets received under the above agreement were AZN 278,274 thousand (USD

292,533 thousand and EUR 51,262 thousand) (2013: AZN 284,824 thousand (USD 292,408 thousand, EUR 51,196 thousand and GBP 186 thousand)) including accrued interest.

LEGAL PROCEEDINGS

In 2004, a legal action totaling approximately six million USD was brought against the Government of the Republic of Azerbaijan along with a number of Azerbaijan governmental institutions, including the Ministry of Communications and High Technologies of the Republic of Azerbaijan, the State Oil Company of

the Republic of Azerbaijan and the Fund. This legal action was brought by First International Merchant Bank (the "Claimant Bank") in the District Court of Rotterdam (the "Court"), the Netherlands. In an interim-verdict dated 24 December 2008, the Court ruled that the Claimant Bank should submit additional evidence

supporting the major facts on legal proceeding. Further, in a verdict dated 17 February 2010 (the "Verdict"), the Court has rejected the claims of the Claimant Bank. Currently, the claim is at the court of appellate jurisdiction. The Court has engaged The International Legal Institute in The Hague, the Netherlands (the "IJI") with

the aim to gather further information on certain aspects on the laws of the Republic of Azerbaijan. The IJI has rendered its final report to the Court and the parties on 7 November 2014. The Management of the Fund believes that there is no possibility of any outflow in the settlement and there is no need for provision.

CAPITAL EXPENDITURE
COMMITMENTS

At 31 December 2014, the Fund has contractual capital expenditure commitments in respect of the new administrative office building totalling AZN 9,849 thousand (2013:

18,953 AZN thousand). The Fund believes that future net surplus will be sufficient to cover this and any similar such commitments.

OPERATING
ENVIRONMENT

The Fund is established and operates in the Republic of Azerbaijan and its subsidiaries operate in Russia, Jersey, United Kingdom, France, South Korea and Luxembourg. Laws and regulations affecting the business environment in these

countries are subject to rapid changes and the Fund's and subsidiaries assets and operations could be at risk due to negative changes in the legal, regulatory, and political environment.

25. EVENTS AFTER THE REPORTING PERIOD

RECEIVABLES AND TRANSFERS

In accordance with Presidential Decree # 443 on "Ratifying the Budget of The State Oil Fund of the Republic of Azerbaijan for 2014" dated 19 January 2015, the Fund's budgeted inflows and outflows for 2015 are estimated at AZN 10,246,611 thousand and AZN 11,813,909 thousand, respectively. The following main types of outflows for 2015 are budgeted:

- Transfer to the State Budget of the Republic of Azerbaijan – AZN 10,338,000 thousand;
- Financing of the measures for improvement of social conditions of refugees and internally displaced

people– AZN 150,000 thousand;

- Construction of new Baku-Tbilisi-Kars railway line – AZN 111,487 thousand;
- Reconstruction of Samur-Absheron irrigation system – AZN 90,000 thousand;
- Financing the State Program on Education of Azerbaijan youth in foreign countries during 2007-2015 – AZN 44,088 thousand;
- Financing of the share of Azerbaijan Republic in the construction of Cenub Gaz Dehlizi project–

AZN 997,016 thousand;

- Expenses related to managing the Fund – AZN 33,318 thousand.
- The following main types of income for 2015 are budgeted:
- Income from the sale of Azerbaijan Republic's share in carbohydrogens - AZN 9,741,175 thousands;
 - Acreage fees by the foreign investors for use of the contract areas in connection with the development of hydrocarbon resources – AZN 1,568 thousands;

- Income from transit of oil and gas through the territory of the Republic of Azerbaijan - AZN 9,410 thousands;
- Income from management and placement of assets- AZN 494,357 thousands;
- Other income and incomings based on Legislation of Azerbaijan Republic- AZN 100 thousands.



APPENDIX
SOVEREIGN WEALTH FUNDS
GENERALLY ACCEPTED PRINCIPLES AND PRACTICES
“SANTIAGO PRINCIPLES”
SELF-ASSESSMENT

APRIL, 2015

NARRATION OF PRINCIPLES / SUB-PRINCIPLES	RESPONSES
A. Legal Framework, Objectives, and Coordination with Macroeconomic Policies.	
GAPP 1. PRINCIPLE The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).	Legal framework of SOFAZ is clearly defined in the “Statute of the State Oil Fund of the Republic of Azerbaijan” (hereinafter “Statute of SOFAZ”) approved by the decree of the President of the Republic of Azerbaijan.
GAPP 1.1. SUBPRINCIPLE The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.	SOFAZ is a legal entity separate from the government or central bank. The Fund’s operation is guided by the Constitution and laws of the Republic of Azerbaijan, Presidential Decrees and resolutions, and the Fund’s Regulations.
GAPP 1.2. SUBPRINCIPLE The key features of the SWF’s legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.	All relevant documents related to the legal basis and structure and the legal relationships between SOFAZ and the other government agencies are publicly disclosed and they are available on the Fund’s website.
	For further information: http://www.oilfund.az/en/content/25

GAPP 2. PRINCIPLE

The policy purpose of the SWF should be clearly defined and publicly disclosed.

SOFAZ was established for the purpose of accumulation and management of the revenues generated from implementation of oil and gas agreements.

SOFAZ’s primary objectives are to help maintain macroeconomic stability in the country (neutralize negative impact of the currency inflows) and to generate wealth for present and future generations.

Above discussed purpose of establishment, as well as the primary objectives are publicly disclosed on the Funds website.

For further information:
<http://www.oilfund.az/en/content/25/9>
<http://www.oilfund.az/en/content/3>

GAPP 3. PRINCIPLE

Where the SWF’s activities have significant direct domestic macroeconomic implications, those activities should be closely coordinated with the domestic fiscal and monetary authorities, so as to ensure consistency with the overall macroeconomic policies.

According to its bylaws, SOFAZ is not permitted to invest domestically. Expenditures of SOFAZ constitute part of the consolidated state budget approved by the Parliament. According to Budget System Law the consolidated state budget is being prepared in close consultation with all relevant government entities (Ministry of Finance, Ministry of Economy and Industry, etc.) and involvement of SOFAZ.

For further information:
<http://www.oilfund.az/en/content/25/154>
<http://www.oilfund.az/en/content/25/156>
http://www.oilfund.az/uploads/budget%20system-1_eng.pdf



GAPP 4. PRINCIPLE There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF’s general approach to funding, withdrawal, and spending operations. GAPP 4.1. SUBPRINCIPLE The source of SWF funding should be publicly disclosed. GAPP 4.2. SUBPRINCIPLE The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.	SOFAZ’s Funding and Withdrawal rules are clearly defined by the “Statute of SOFAZ” and “Rules on the preparation and execution of the annual program of revenues and expenditures (budget) of the State Oil Fund of the Republic of Azerbaijan” (hereinafter “Rules on the budget of SOFAZ”) which are publicly disclosed on the Fund’s website. For further information: http://www.oilfund.az/en/content/25/154 http://www.oilfund.az/en/content/25/156 http://www.oilfund.az/uploads/budget%20system-1_eng.pdf
GAPP 5. PRINCIPLE The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or as otherwise required, for inclusion where appropriate in macroeconomic data sets.	SOFAZ submits monthly statistical reports to the President and Ministry of Finance, as well as quarterly and yearly reports to the State Statistical Committee. SOFAZ also reports on its revenues and expenditures to the Parliamentary Chamber of Accounts and on other relevant information to the Ministry of Taxes, State Social Protection Fund and other relevant government agencies. Additionally, SOFAZ regularly provides the relevant information on its activities to the World Bank and International Monetary Fund. All the relevant statistical data pertaining to the fund, is publicly disclosed on the Fund’s website (audited annual reports, quarterly statements, etc.) For further information: http://www.oilfund.az/en/content/25/154 http://www.oilfund.az/en/content/25/156 http://www.oilfund.az/uploads/budget%20system-1_eng.pdf

B. Institutional Framework and Governance Structure GAPP 6. PRINCIPLE The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.	SOFAZ has a three-tier governance structure, with the President of the country being a supreme governing and reporting authority for the Fund. SOFAZ’s activities are overseen by a Supervisory Board which is headed by the Prime Minister and consists of the Vice-Speaker of Parliament, Minister of Finance, Minister of Economy and Industry, Governor of the Central Bank and the Economic Advisor to the President. The operational management of SOFAZ is vested in the Executive Director. The relevant duties and responsibilities of the President of the country, Supervisory Board and Executive Director are clearly defined in the “Statute of SOFAZ”. For further information: http://www.oilfund.az/en/content/25/154
GAPP 7. PRINCIPLE The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF’s operations.	The objectives of SOFAZ are clearly defined in “Statute of SOFAZ” approved by the President of the Republic of Azerbaijan. Please see also the response on GAPP 5 and 6. For further information: http://www.oilfund.az/en/content/25/154



GAPP 8. PRINCIPLE The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.	The Supervisory Board of the Fund, which is headed by the Prime Minister and consists of the Minister of Finance, Governor of the Central Bank, Minister of Economy and Industry, Vice-Speaker of Parliament and the Economic Advisor to the President, have a clear mandate and adequate authority and competency to fulfil its functions. All roles and responsibilities of the Supervisory Board are clearly defined in the relevant legislation. For further information: http://www.oilfund.az/en/content/25/154
GAPP 9. PRINCIPLE The operational management of the SWF should implement the SWF’s strategies in an independent manner and in accordance with clearly defined responsibilities.	“Statute of SOFAZ”, “Rules on management of foreign currency assets of the State Oil Fund of the Republic of Azerbaijan” (hereinafter “Investment guidelines”) and “Rules on the budget of SOFAZ” clearly define the role and responsibilities of the Executive Director. In accordance with these role and responsibilities Executive Director has independence in operational management. For further information: http://www.oilfund.az/en/content/25/154 http://www.oilfund.az/pub/tiny_upload/Inv_guide.pdf http://www.oilfund.az/en/content/25/156
GAPP 10. PRINCIPLE The accountability framework for the SWF’s operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.	Accountability framework of SOFAZ is clearly defined in the “Statute of SOFAZ”, “Investment guidelines”, “Rules on the budget of SOFAZ” and Budget System Law all of which are available on the Fund’s website. Fund produces and publicly discloses audited annual reports and quarterly reports. Information about Fund’s activities is also disseminated through regular press conferences and published on the Fund’s website. See also response on GAPP 5. For further information: http://www.oilfund.az/en/content/25/154 http://www.oilfund.az/pub/tiny_upload/Inv_guide.pdf http://www.oilfund.az/en/content/25/156 http://www.oilfund.az/uploads/budget%20system-1_eng.pdf

GAPP 11. PRINCIPLE An annual report and accompanying financial statements on the SWF’s operations and performance should be prepared in a timely fashion and in accordance with recognized international or national accounting standards in a consistent manner.	Since the start of its operations, SOFAZ has prepared annual reports and accompanying financial statements. All financial statements are prepared in accordance with International Public Sector Accounting Standards (“IPSAS”) issued by the International Public Sector Accounting Standards Board (“IPSASB”) of the International Federation of Accountants (“IFAC”). IPSAS are developed by adopting International Financial Reporting Standards (“IFRS”) to the public sector context. All annual reports and accompanying financial statements are published on the Fund’s website. For further information: http://www.oilfund.az/en/content/25/154 http://www.oilfund.az/en/account
GAPP 12. PRINCIPLE The SWF’s operations and financial statements should be audited annually in accordance with recognized international or national auditing standards in a consistent manner.	Since the start of its operations SOFAZ has been audited by reputable international audit firms. In line with the Public Procurement Law, the Fund conducts open market tender processes to select its auditor. Price Waterhouse Coopers has been appointed to audit SOFAZ financial statements for years 2013-2015. All annual reports and accompanying financial statements are available on the Fund’s website. SOFAZ also has an internal auditor who prepares periodic internal audit reports. For further information: http://www.oilfund.az/en/content/25/154 http://tender.gov.az/new/docs/tlotroa.doc
GAPP 13. PRINCIPLE Professional and ethical standards should be clearly defined and made known to the members of the SWF’s governing body, management and staff.	Professional and ethical standards are clearly defined in the “Investment Guidelines”. Management and staff of the Fund have to comply with ethical norms and rules of the International Financial Markets Association (ACI, Paris) and “Rules of Ethical Conduct for the Employees of SOFAZ”. For further information: http://www.oilfund.az/pub/tiny_upload/Inv_guide.pdf http://www.oilfund.az/en_US/about_found/etik-davranis-qaydalari.asp



GAPP 14. PRINCIPLE

Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.

Fund's activities related to third parties are based on economic and financial grounds. Fund's "Investment Guidelines" and "Investment Policy" regulate SOFAZ's dealing with third parties.

All aspects of dealing with external managers are clearly defined in relevant documentation about Fund's activity. Appointment of external managers is carried out in compliance with the current legislation of Azerbaijan Republic on "State Procurement". External managers are selected on the basis of the criteria, such as credit rating of manager, assets under management, experience in the asset management industry, proposed rate of return and risk, proposed fees schedule etc. Compliance of the external managers' investments to their mandate is monitored daily. Performance of external managers' portfolios is monitored monthly.

For further information:

http://www.oilfund.az/pub/tiny_upload/Inv_guide.pdf

http://www.oilfund.az/uploads/Inv_policy1.pdf

GAPP 15. PRINCIPLE

SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.

Fund conducts its operations and activities in host countries in compliance with all applicable regulatory and disclosure requirements of those host countries.

GAPP 16. PRINCIPLE

The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.

Fund's governance framework, objectives and its operational independence are clearly defined in the relevant legislation.

For further information:

<http://www.oilfund.az/en/content/25/154>

GAPP 17. PRINCIPLE

Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in international financial markets and enhance trust in recipient countries.

Audited financial statements are published in Fund's annual report, which is publicly available. Quarterly reports and all other relevant financial information about the Fund's activities are published on the Fund's website. Disclosed financial information includes AUM, asset allocation, benchmark, annual rates of return, etc.

For further information:

<http://www.oilfund.az/en/account>

<http://www.oilfund.az/en/content/20/249>

C. Investment and Risk Management Framework

GAPP 18. PRINCIPLE

The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner or the governing body(ies), and be based on sound portfolio management principles.

"Investment Guidelines" and "Investment Policy" set up SOFAZ's asset management framework and ensure the transparency in its investment decisions. Among the others, they define strategic asset allocation, currency composition, benchmarks, risk limits, minimum requirements for the Fund's external managers and limitations on the investment directions, as well as the credit quality limits for Fund's counterparties (custodian banks, correspondent banks, etc.).

GAPP 18.1. SUBPRINCIPLE

The investment policy should guide the SWF's financial risk exposures and the possible use of leverage

Derivatives (i.e. swaps, forwards, futures, etc) may only be used for hedging or optimizing the currency composition and asset allocation of the Investment Portfolio.

GAPP 18.2. SUBPRINCIPLE

The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.

For policies and procedures related to the Fund's external managers please see our response on GAPP 14.

GAPP 18.3. SUBPRINCIPLE

A description of the investment policy of the SWF should be publicly disclosed.

Fund's "Investment guidelines" and "Investment Policy" are available on its website.

For further information:

http://www.oilfund.az/pub/tiny_upload/Inv_guide.pdf

http://www.oilfund.az/uploads/Inv_policy1.pdf



GAPP 19. PRINCIPLE

The SWF's investment decisions should aim to maximize risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.

GAPP 19.1. SUBPRINCIPLE

If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed

GAPP 19.2. SUBPRINCIPLE

The management of an SWF's assets should be consistent with what is generally accepted as sound asset management principles.

According to its "Investment Policy", Fund's investment decisions should aim at maximizing the risk adjusted returns. Fund's all investment decisions are made purely on an economic and financial basis according to the sound asset management principles.

See also response on GAPP 18.

For further information:
http://www.oilfund.az/uploads/Inv_policy1.pdf

GAPP 20. PRINCIPLE

The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.

According to its bylaws, SOFAZ is not permitted to invest domestically. In line with the "Investment guidelines", SOFAZ makes investment decisions independently of the government. Institutional and legal framework of SOFAZ has been designed in a way that the Fund cannot seek or take advantage of any privileged information.

For further information:
http://www.oilfund.az/pub/tiny_upload/Inv_guide.pdf
<http://www.oilfund.az/en/content/25/154>

GAPP 21. PRINCIPLE

SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.

SOFAZ started to invest in equities in 2012 and has chosen not to exercise its ownership rights at this stage.

GAPP 22. PRINCIPLE

The SWF should have a framework that identifies, assesses and manages the risks of its operations.

Identification, assessment and management of the risks of the Fund's operations play crucial role in the Fund's overall management framework. SOFAZ's risk management system is supported with appropriate legal framework ("Investment Guidelines", "Investment Policy", etc), a specialized risk unit (Risk Management Department), internal and external audit functions and tools like RiskManager 4 by RiskMetrics and proprietary models.

GAPP 22.1. SUBPRINCIPLE

The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.

"Investment Guidelines" and "Investment Policy" set the main principles of risk management framework and clearly define limits on major factors for market, credit, concentration and liquidity risks. Certain pre-trade limits are set based on these factors. Furthermore, these risk factors are monitored on a daily basis via regular risk and performance reports. In addition to the factors set in the "Investment Guidelines" and "Investment Policy", a more in-depth analysis and monitoring of the market risk is performed on a regular basis through: interest rate sensitivity analysis (key rate durations, PV01, etc.), risk concentration analysis (duration by groups, VaR by groups, marginal VaR, etc.), tail events (conditional VaR, stress tests) and scenario analyses.

GAPP 22.2. SUBPRINCIPLE

The general approach to the SWF's risk management framework should be publicly disclosed.

Operational risk is managed in accordance with Fund's Operational Manual and business continuity planning.

For further information:
http://www.oilfund.az/pub/tiny_upload/Inv_guide.pdf
http://www.oilfund.az/uploads/Inv_policy1.pdf

GAPP 23. PRINCIPLE

The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.

Comprehensive reports on assets of SOFAZ (including information on breakdown of investment portfolio by foreign currencies, asset class, credit ratings, maturities and geographic regions) are disseminated through the quarterly press releases. The performance of the Fund’s investments is measured according to best industry standards and reported on an annual basis. Annual reports and quarterly statements are posted on the Fund’s website.

For further information:
<http://www.oilfund.az/en/account>

GAPP 24. PRINCIPLE

A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.

This report was first published on SOFAZ’s official website in April, 2011 and it is reviewed on an annual basis.

