

SOFAZ 2025

State Oil Fund of the Republic of Azerbaijan

Pillar 1: Legal

Legal framework, objectives, and coordination with macroeconomic policies

Principle 1

1. The legal framework for the SWF should be sound and support its effective operation and the achievement of its stated objective(s).

1.1. The legal framework for the SWF should ensure legal soundness of the SWF and its transactions.

1.2. 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.

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.

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 SOFAZ's Regulations.

These provisions ensure SOFAZ's operational independence by establishing a clear legal foundation that separates the Fund from direct governmental or central bank control. The Statute and related laws define its mandate, governance, and decision-making procedures, preventing external interference in daily management. Moreover, the public disclosure of all governing documents promotes transparency and accountability, reinforcing the Fund's autonomous functioning.

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:

<https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf>

Principle 2

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

Since its establishment in 1999, the assets of SOFAZ have expanded remarkably from just USD 270 million to approximately USD 70 billion as of Q3 2025. This impressive growth underscores the Fund's prudent management and effective investment strategy, with its total assets now equivalent to about 94% of Azerbaijan's GDP — a testament to SOFAZ's pivotal role in the country's macroeconomic stability and long-term wealth preservation.

For further information:

<https://www.oilfund.az/storage/images/rt3csc0jvm.pdf>

<https://www.oilfund.az/en/fund/about/mission>

Principle 3

3. 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 SOFAZ submits its medium-term forecasts twice a year to the Ministry of Finance and the Ministry of Economy. Based on these projections and within the framework of the fiscal rule the Ministry of Finance determines the upper expenditure limit for SOFAZ. When formulating budget projections, key macroeconomic assumptions are jointly agreed upon and aligned across institutions. For example, both SOFAZ and the Ministry of Finance use the same oil price assumption during the budget preparation process.

The Ministry of Finance then submits the consolidated budget, which includes SOFAZ's key fiscal indicators, to the Economic Council and subsequently to Parliament for discussion. The Ministry of Finance also releases the preliminary consolidated fiscal indicators, in which SOFAZ's main budget parameters are incorporated, and publishes them on its official website.

For further information:

Statute of SOFAZ: <https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf>

Rules on the Preparation and Execution of the Annual Program of Revenues and Expenditures:

<https://www.oilfund.az/storage/images/vvfbtvgrpz.pdf>

The Law of Azerbaijan Republic on Budget System: <https://www.oilfund.az/storage/uploads/emcjt8wiz.pdf>

Principle 4

4. 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.

4.1. The source of SWF funding should be publicly disclosed.

4.2. The general approach to withdrawals from the SWF and spending on behalf of the government should be publicly disclosed.

The Supervisory Board exercises general control over accumulation and spending of the Fund's assets.

Source of revenue

The Fund's revenue is generated from the sale and other proceedings (bonuses, acreage payments) from hydrocarbon production within the existing production sharing agreements the territory of the Republic of Azerbaijan including the Azerbaijani sector of the Caspian.

Withdrawal of the Fund's Assets

The Fund's assets are utilized in accordance with the main directions (program) approved by the President of the Republic of Azerbaijan. The Fund's assets may be used for solving the most important nation-wide problems, as well as for construction and reconstruction of strategically significant infrastructure facilities, for the purpose of the country's socioeconomic development. Information regarding approved directions for utilization of the Fund's assets for each year, as well as an annual report concerning their actual disbursement is published in the press

Spending

Funds spending operations are managed by "Rules on the budget of SOFAZ" which are publicly disclosed on SOFAZ's website.

The forecast of expenditure items shall take into account the necessity to promote development and increase the competitiveness of the non-oil sector of the national economy and shall be based on a macroeconomic forecast of the socio-economic development of the Republic of Azerbaijan

SOFAZ's Funding and Withdrawal rules are clearly defined by the "Statute of SOFAZ" and "Rules on the budget of SOFAZ" which are approved by the President of Azerbaijan and publicly disclosed on SOFAZ's website.

For 3-year period (2022-2024) SOFAZ's revenues and expenditure amounted to approximately USD 33 billion and USD 19 billion, respectively.

Major Projects Financed by SOFAZ Since Inception

1. **Heydar Aliyev Baku–Tbilisi–Ceyhan Pipeline Project** – Financed Azerbaijan's share in the construction of this key export route transporting crude oil from the Caspian Sea to the Mediterranean.
2. **Baku–Tbilisi–Kars Railway Project** – Funded by SOFAZ to improve regional transport connectivity between Azerbaijan, Georgia, and Turkey.
3. **Southern Gas Corridor** – Financed Azerbaijan's equity participation in this strategic gas pipeline system connecting the Caspian region to European energy markets.
4. **Oguz–Gabala–Baku Water Supply Project** – Ensured financing for the large-scale pipeline delivering clean drinking water to Baku from the Oguz–Gabala region.
5. **Samur–Absheron Irrigation System Reconstruction** – Financed modernization of the irrigation infrastructure to improve agricultural productivity and water resource management.
6. **Improvement of Living Conditions for Refugees and Internally Displaced Persons** – Supported the construction of housing, social infrastructure, and community facilities for IDPs.

7. **State Program on Education of Azerbaijani Youth Abroad** – Financed by SOFAZ to support the education of Azerbaijani students at top international universities, fostering human capital development.

For further information: <https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf>

<https://www.oilfund.az/storage/images/reydixurrb.pdf>

<https://www.oilfund.az/storage/uploads/emcjtf8wiz.pdf>

Principle 5

5. 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, as well as quarterly and yearly reports to the State Statistical Committee, Ministry of Finance and Central Bank of Azerbaijan Republic. SOFAZ also reports on its revenues and expenditures to the Parliamentary Chamber of Accounts and on other relevant information to the State Tax Service under the Ministry of Economy, and other relevant government agencies. Additionally, SOFAZ regularly provides the relevant information on its activities to the World Bank and International Monetary Fund.

Data submitted by SOFAZ to the Ministry of Finance and Central Bank are incorporated into Azerbaijan's official national accounts and balance of payments statistics, ensuring accurate reflection of the country's external assets and fiscal revenues. In addition, information provided to the IMF, World Bank and Rating Agencies supports international monitoring under various international initiatives enhancing Azerbaijan's global fiscal and economic reporting credibility.

All the relevant statistical data pertaining to the Fund is publicly disclosed on SOFAZ's website (annual reports audited by Big Four auditors, quarterly statements, etc.).

For further information:

<https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf>

<https://www.oilfund.az/storage/images/vvfbtvgrpz.pdf>

<https://oilfund.az/storage/uploads/emcjtf8wiz.pdf>

<https://www.oilfund.az/en/report-and-statistics/report-archive>

Pillar 2: Institutional

Institutional Framework and Governance Structure.

Principle 6

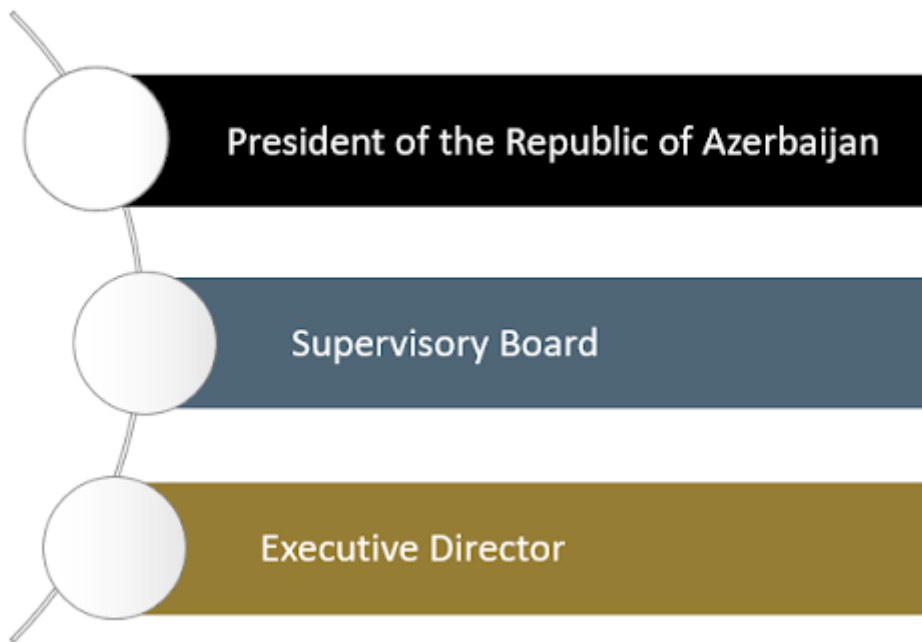
6. The governance framework for the SWF should be sound and establish a clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.

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 Deputy Speaker of the Parliament, Minister of Finance, Minister of Economy, Governor of the Central Bank, Advisor to the President of the Republic of Azerbaijan on Economy and Innovative Development Policy And Advisor to the President of the Republic of Azerbaijan on Economic Policy and Industry.

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”.

Governance Structure



For further information:

<https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf>

Principle 7

7. 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 Supervisory Board consists of representatives of executive and legislative powers, including ministers and members of Parliament. The Supervisory Board's composition – consisting of seven members – is approved by the President of the Republic of Azerbaijan. Board oversees the Fund's draft annual budget, annual report and financial statements, and its members are appointed by the President.

Brief bios of the current members of the Supervisory Board:

Ali?Asadov (Chairman) — Prime Minister of the Republic of Azerbaijan. A trained economist and experienced policymaker, he has held senior posts including Assistant to the President for Economic Affairs and plays a central role in shaping Azerbaijan's economic and fiscal strategy.

Musa?Gasimli — Deputy Speaker of the Parliament of Azerbaijan. is a historian and academic with a long record in public service. His appointment reinforces the role of parliamentary oversight in ensuring

transparency and accountability within SOFAZ's governance framework.

Shahmar Movsumov — Assistant to the President of Azerbaijan and Head of the Department of Economic Issues and Innovative Development Policy of the Presidential Administration. Appointed to the Board in December 2019. He previously served as Executive Director of SOFAZ (2006-2019) and held senior roles at the Central Bank.

Natig Amirov — Assistant to the President on Economic Policy and Industrial Issues. He was appointed to the Supervisory Board in December 2019. His role links the Fund's governance with industrial and economic-policy priorities of the government.

Sahil Babayev — Minister of Finance of the Republic of Azerbaijan. His participation ensures that the Fund's oversight is connected directly with fiscal policy and financial governance.

Mikayil Jabbarov — Minister of Economy of the Republic of Azerbaijan. His involvement reflects the alignment of the Fund's operations with broader economic strategy and development goals.

Taleh Kazimov — Chairman of the Central Bank of the Republic of Azerbaijan. His role brings monetary and macro-financial policy oversight into the Fund's governance framework.

For further information:

<https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf>

Principle 8

8. 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, Deputy Speaker of the Parliament, Advisor to the President of the Republic of Azerbaijan on Economy and Innovative Development Policy and Advisor to the President of the Republic of Azerbaijan on Economic Policy and Industry, 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:

<https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf>

<https://oilfund.az/en/fund/Governance/supervisory>

Principle 9

9. 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.

Among his other responsibilities, the Fund's Executive Director:

- Prepares proposals regarding main directions (program) for utilization of the Fund's assets and submits them for approval to the President of the Republic of Azerbaijan together with the opinion of the Supervisory Board;
- Prepares an annual report on the Fund's operations and submit it to the President of the Republic of Azerbaijan together with the opinion of the Supervisory Board;
- Prepares cost estimates for managing the Fund and submit them to the President of the Republic of Azerbaijan for approval;
- Appoints and dismisses employees of the Fund in a manner determined by the legislation, and apply encouragement and punishment measures to them;

For further information:

<https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf>

<https://www.oilfund.az/storage/images/daafr06kpe.pdf>

Principle 10

10. 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 Fund’s website.

- The Fund is accountable to the President of the Republic of Azerbaijan.
- The Fund submits its financial report, including the auditor’s opinion, to the President of the Republic of Azerbaijan no later than June 30, and publishes it online and in the media.
- The Fund shall produce quarterly statements and an annual report on the Fund's budget execution and investment portfolio, and submit them to the Supervisory Board of the Fund and the President of the Republic of Azerbaijan

In addition, SOFAZ ensures regular and transparent communication with the public. On a quarterly basis, the Fund shares up-to-date performance results and key financial indicators with the media, providing insights into its investment activities and operational outcomes. Furthermore, twice a year SOFAZ organizes comprehensive Media Briefing sessions, where senior management presents detailed updates on the Fund’s financial performance, strategic initiatives, and market outlook, and responds to questions from journalists to promote openness and accountability.

See also response on GAPP 5.

For further information:

<https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf>

<https://www.oilfund.az/storage/images/daafr06kpe.pdf>

<https://www.oilfund.az/storage/uploads/emcjt8wiz.pdf>

Principle 11

11. 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.

The deadline for the publication of the Annual Report is typically set for June 30 each year, and SOFAZ has consistently met this timeline since its establishment. This regular and timely disclosure underscores the Fund's strong commitment to transparency, accountability, and adherence to international reporting standards.

All financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

All annual reports and accompanying financial statements are published on SOFAZ's website.

For further information:

<https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf>

<https://www.oilfund.az/en/report-and-statistics/report-archive>

Principle 12

12. 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, which we rotate every three years in line with the best global practices. 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 the years 2022-2025. SOFAZ conducts 3 year rotation of the external auditor

Based on latest audit and review, PwC provided recommendations related to internal control framework, financial forecasting and private investments.

All annual reports and accompanying financial statements are available on the SOFAZ's website.

For further information:

<https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf>

<https://www.oilfund.az/en/report-and-statistics/report-archive>

Principle 13

13. Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management, and staff.

Professional and ethical standards are clearly defined in SOFAZ's Rules of Ethical Conduct.

According to the Rules of Ethical Conduct all staff shall act in accordance with relevant legislation, while maintaining the highest levels of ethical standards and professionalism. The Rules of Ethical Conduct outline expectations such as maintaining honesty, fairness, and impartiality. These Rules of Ethical Conduct among others include rules addressing conflicts of interest, the prevention of corruption and regulation of gifts, and reporting any ethical violations. New employees are introduced to the Rules of Ethical Conduct as part of their onboarding process.

Regular compliance training for employees covers essential subjects such as anti-corruption processes, conflicts of interest, updates on regulatory changes. Ongoing training and knowledge-sharing initiatives play a key role in deepening organizational awareness of risk and compliance reinforcing compliance culture.

For further information:

<https://www.oilfund.az/en/fund/Governance/behavior-rules>

Principle 14

14. 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 SOFAZ'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 based on 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.

The process of manager selection begins with defining a mandate aligned with SOFAZ's strategic objectives, return targets, and risk parameters. A market screening identifies reputable asset managers meeting SOFAZ's eligibility criteria on experience, credit quality, and AUM size. Shortlisted candidates participate in an RFI/RFP process covering investment philosophy, performance history, ESG integration, compliance, and fees. Proposals are reviewed by a cross-functional team, and recommendations are submitted to the Investment Committee for approval. Following legal documentation and onboarding, managers are continuously monitored against benchmarks, risk limits, and mandate compliance through regular performance and risk reporting.

For further information:

<https://www.oilfund.az/storage/images/daafr06kpe.pdf>

<https://www.oilfund.az/en/investments/investment>

Principle 15

15. 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.

SOFAZ conducts its operations and activities in host countries in compliance with all applicable regulatory and disclosure requirements of those host countries. The Fund's comprehensive compliance program comprises internal policies, procedures, controls, monitoring, and risk reporting. We ensure that our internal policies, procedures, and systems are appropriately designed and implemented, consistent with applicable laws to advance the Fund's objectives while managing legal and compliance risks appropriately.

The Fund continuously monitors legislative and regulatory developments in host countries to timely identify, analyze and manage legal and compliance risks, where necessary local legal and tax advice is obtained. Internal policies, procedures, and systems reflect and address these changes.

The Investment Department works closely with legal, risk and compliance teams to ensure adequate management of legal and regulatory compliance risks related to the Fund's investment activities.

Principle 16

16. 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.

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

Furthermore, information on governance framework, objectives and operational independence is publicly available on SOFAZ's website (the Fund section of SOFAZ's website). (See GAPP 6 above)

Objectives:

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

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- Preserving macroeconomic stability by limiting the impact of oil price fluctuations on the state budget.
- Ensuring inter-generational equality with regard to the country's oil wealth and accumulate and preserve oil revenues for future generations
- Financing major national scale projects to support socio-economic progress

For the governance framework and operational independence of SOFAZ see:

<https://oilfund.az/en/fund/Governance/information>

Operationally independent:

Except for rights and responsibilities assigned by Presidential Decrees and by the Statute the Fund:

- does not have any rights, responsibilities and does not bear any commitments to the Government of the Republic of Azerbaijan, other government bodies, including ministries, state committees, public institutions, enterprises and organizations and financial institutions, as well as to any social
- does not bear any responsibility for commitments or guarantees of the Government of the Republic of Azerbaijan, other government bodies, public enterprises, institutions and organizations.

For further information:

<https://www.oilfund.az/storage/images/dv1m5w3l2k.pdf>

Principle 17

17. 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 SOFAZ's annual report, which is publicly available. Quarterly reports and all other relevant financial information about SOFAZ's activities are published on its website. Disclosed financial information includes assets under management, asset allocation by regions, currencies and asset classes, annual return figures etc.

As of Q3 2025:

SOFAZ's assets under management: 70 162 million USD

SOFAZ's portfolio breakdown by asset class

Fixed income and money market instruments	34.7%
Equities	25.8%
Real Estate and Infrastructure	6.7%
Gold	32.8%

SOFAZ's portfolio by geographical regions

North America	24.8%
Europe	29.1%
Asia	8.5%
Middle East	1.4%
Australia/New Zealand	1%

For further information:

<https://www.oilfund.az/en/report-and-statistics/report-archive> <https://...>

Pillar 3: Investment

Investment and Risk Management Framework.

Principle 18

18. 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.

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

18.2. 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.

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

The “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 SOFAZ’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.).

Investment policy outlines key risk management requirements of the investment portfolio, including interest rate risk, credit risk and liquidity risk.

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

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

For further information:

<https://www.oilfund.az/storage/images/daafr06kpe.pdf>

<https://www.oilfund.az/en/investments/investment>

Principle 19

19. 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.

19.1. 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.

19.2. 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.

See also response on GAPP 18.

For further information: <https://www.oilfund.az/en/investments/investment>

Principle 20

20. 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. The institutional and legal framework of SOFAZ has been designed in a way that SOFAZ cannot seek or take advantage of any privileged information. As part of its compliance program, the Fund’s compliance function monitors for compliance with Investment Guidelines and Investment Policy in managing entrusted assets. These

documents serve as the basis for all investments and risk management at SOFAZ and ensure transparency in its investment decisions. Among the others, these documents stipulate eligible assets, asset and currency allocations, benchmarks, risk limits, as well as other aspects of portfolio management.

For further information:

<https://www.oilfund.az/storage/images/daafr06kpe.pdf> <https://www.oilfund.az/storage/images/cotiii74r3.pdf>

Principle 21

21. 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 established its proxy voting framework in October 2024 to support responsible ownership and long-term value creation. Aligned with our ESG strategy and investment policy, this framework enables active, transparent engagement on governance matters, helping to safeguard the financial value of our investments and uphold strong corporate practices. Disclosure of our proxy voting activities is publicly available on our website

Since its implementation, SOFAZ has voted on 671 proposals across 86 shareholder meetings in 18 countries, covering a range of environmental, social, and governance topics. This initiative reinforces SOFAZ's role as an engaged and responsible shareholder, helping to ensure that investee companies uphold strong governance while contributing to broader ESG goals.

Principle 22

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

22.1. 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.

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

Identification, assessment and management of the risks of the Fund's operations play a crucial role in the Fund's overall management framework. SOFAZ's risk management system is supported with appropriate legal framework ("Investment Guidelines", "Investment Policy"), a specialized Risk Management Department, consisting of 2 sub-divisions:

1. Asset allocation, risk and performance management
2. Alternative investments risk management division

Within the risk management function the unit actively uses tools like MSCI RiskManager, MSCI Real Assets and proprietary models.

SOFAZ assesses its market risk exposure on daily basis using reputable external risk management systems. The Fund's risk reports goes beyond capturing losses driven by market volatility and includes scenarios analysis. Besides traditional well-known stress tests that the fund assesses its potential P/L losses, SOFAZ conducts bespoke scenario analyses reflecting recent market dynamics and policy developments. A recently

introduced scenario in the Fund's main risk report evaluates the potential implications of an inflation resurgence triggered by non-traditional measures in trade policies.

For more information about the functions and responsibilities of Risk Management department see the following link:

www.oilfund.az/storage/images/pldvl2bmfy.pdf

"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.

In April 2024, a Strategic Planning and Corporate Development team was established with a core mandate that includes comprehensive operational risk management. The team conducts in-depth, process-level risk assessments across all business units.

For more information about the functions and responsibilities of the Strategic Planning and Corporate Development unit see the following link:

https://www.oilfund.az/storage/images/strateji_fnl.pdf

Principle 23

23. 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 shared through the quarterly press releases. The performance of SOFAZ's investments is measured according to the best industry standards and reported on an annual basis. Annual reports and quarterly statements are posted on SOFAZ's website.

SOFAZ uses ICE BofA Fixed Income indices for fixed income strategies and MSCI Stock market indices for public equity exposures. Fund fixed income strategies (excluding liquidity and local tranche) generated 7.7% percent return overperforming its respective benchmarks by 22bps for the period of 2023-2024. Meanwhile, public equity sub-portfolio generated 47.1% return achieving 4 bps of alpha over its respective benchmarks for the same period. The fund is not seeking deploying active strategies in public rather uses private market opportunities to generate alpha over public markets.

For alternative asset classes we also use globally recognized benchmarks selected and customized to reflect risk profile of our investments.

For further information:

<https://www.oilfund.az/en/investments/investment>

Principle 24

24. 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.