THE STATE OIL FUND OF THE REPUBLIC OF AZERBAIJAN

ANNUAL REPORT

2015

CONTENT

ABOUT SOFAZ

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.

SOFAZ 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 SOFAZ was approved in 2000.

The cornerstone of SOFAZ's philosophy is to ensure intergenerational equality with respect to the benefit from the country's oil wealth.

Objectives

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

1. Supporting macroeconomic stability, participating in ensuring fiscal-tax discipline and 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.

SOFAZ's mission is to transform depletable hydrocarbon reserves into financial assets generating perpetual income for current and future generations.

Legal framework

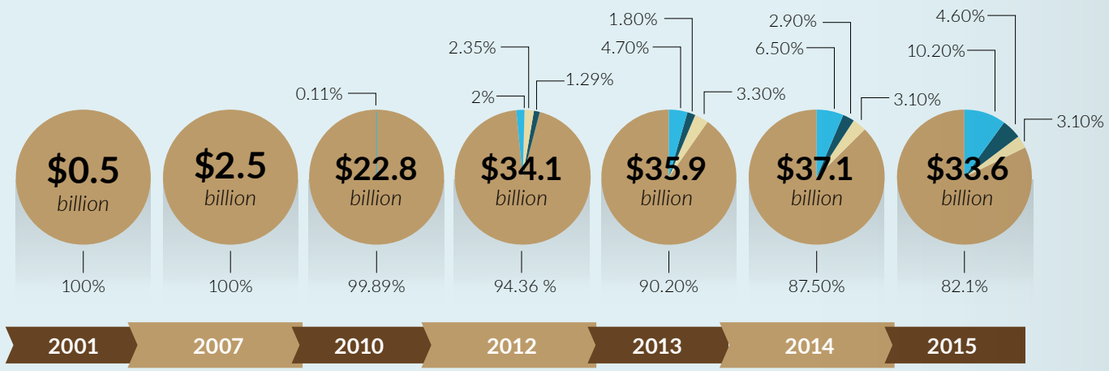
SOFAZ's operations are guided by the Constitution and laws of the Republic of Azerbaijan, Presidential decrees and resolutions, SOFAZ Statute and the Fund's regulations.

SOFAZ's funding and withdrawal rules are clearly defined by the "Statute of State Oil Fund of the Republic of Azerbaijan" and the "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 SOFAZ. In compliance with this law, SOFAZ can only execute the expenditures envisaged by its budget.

SOFAZ'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" SOFAZ's investment decisions should aim at maximizing the risk adjusted returns. According to the "Investment Guidelines", SOFAZ makes investment decisions independently.

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.



2001
- First investments were made.

2007
- Awarded with UN Public Service Award.
- Assets increased to over USD 2 billion.

2010
- First investments into private equity were made.

2012
- Assets increased to over USD 30 billion.
- First investments into public equity, gold and real estate were made.
- New currencies were introduced to the portfolio.
- Commitment to IFC Catalyst Fund.

2013
- Commitment to IFC Infrastructure Fund.
- Total amount of gold purchased reached 30 tons.

2014
- Further investments were made to public equity and real estate.
- First time public equity indexes were replicated in house.
- SAA was amended.
- Transfer of the purchased gold to Azerbaijan was completed.

2015
- Investment was made to Japan property market.
- First investments through private property started.
- Investments were made to European stock markets through MSCI Europe ex-UK index.

Fixed Income · Equities · Gold · Real Estate

Note: The diagram illustrates year by year AuM and breakdowns of the investment portfolio by asset class

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

SOFAZ's realitions 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.

Teamwork

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 realitionships, praising personal, achievements and encouraging teamwork contribute to the establishment as well as further development of professional work environment.

Trust

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.

Transparency

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.

FACTS AT GLANCE

Chart 2.1.
Growth in SOFAZ assets
(USD billion)

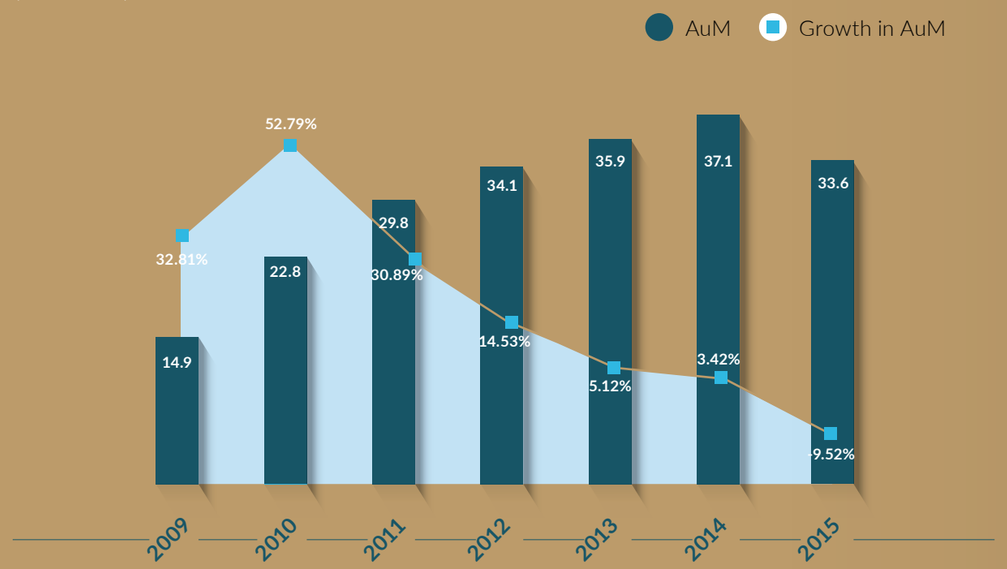


Chart 2.2.
Annualized rate of return on portfolio

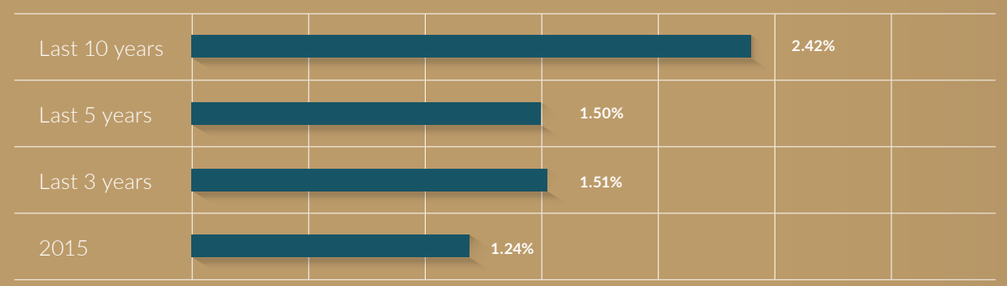


Chart 2.3.
Currency composition

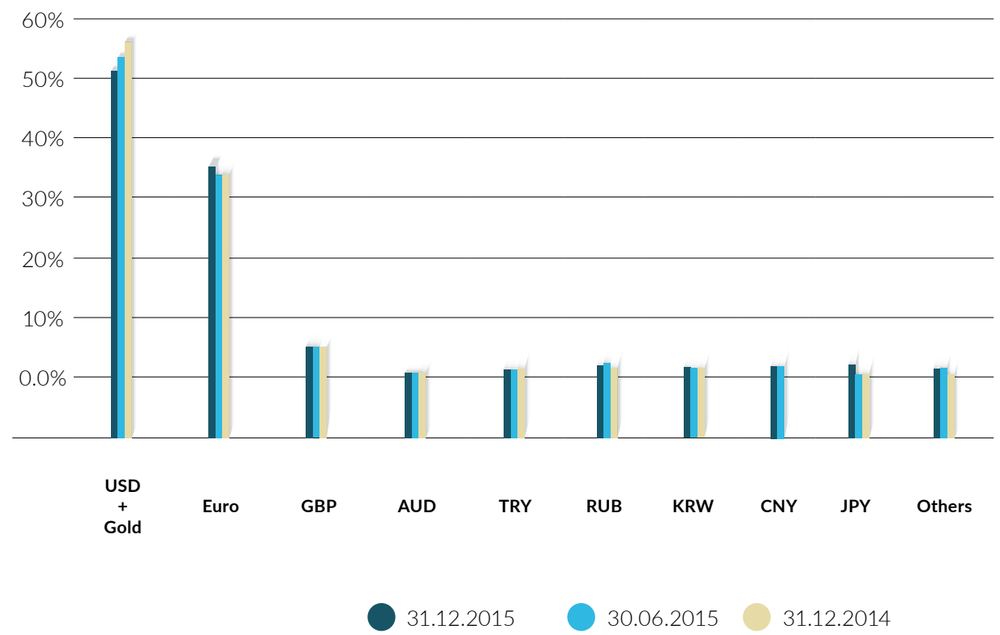
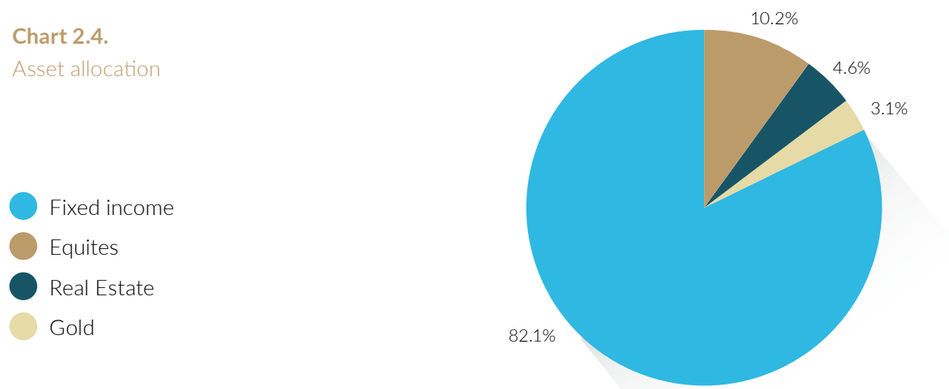


Chart 2.4.
Asset allocation



GOVERNANCE AND TRANSPARENCY

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 entirely on a 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 of the Republic of Azerbaijan

Elman RUSTAMOV
Governor of the Central Bank of the Republic of Azerbaijan

The Supervisory Board held 3 meetings in 2015.

On January 8, 2015 the Supervisory Board chaired by Mr. Artur Rasizade, the Prime Minister of the Republic of Azerbaijan and the Chairman of the Supervisory Board discussed SOFAZ draft budget for 2015, including the major directions of its investment policy and recommended its draft annual operating expenditures for the approval by the President of the Republic of Azerbaijan.

The subsequent meeting of SOFAZ's Supervisory Board was held on June 1, 2015, where SOFAZ's 2014 annual report, the audit findings of financial activities, and the Fund's budget execution were discussed and deemed satisfactory. The Prime Minister Artur Rasizade

was re-elected as the Supervisory Board's Chairman-in-office for the next term.

On October 30, 2015, the Supervisory Board discussed the Oil Fund's draft annual budget for 2016, including the major directions of its investment policy as well as draft annual operating expenditures, and submitted for the approval by the President of the Republic of Azerbaijan. The Supervisory Board also approved a transition of the SOFAZ's accounting framework from International Public Sector Accounting Standards (IPSAS) to International Financial Reporting Standards (IFRS). In addition, SOFAZ's new Accounting Policy and the Chart of Accounts were considered acceptable.

Executive Director

SOFAZ'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 SOFAZ 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 offices 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:

- Fixed income and money market division;
- Equity and alternative investment division;
- Real estate division.

Risk Management Department (Middle Office)

The Risk Management Department is responsible for assessing 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:

- Risk and performance measurement division;
- External asset management/ Research division.

Settlements Department (Back Office)

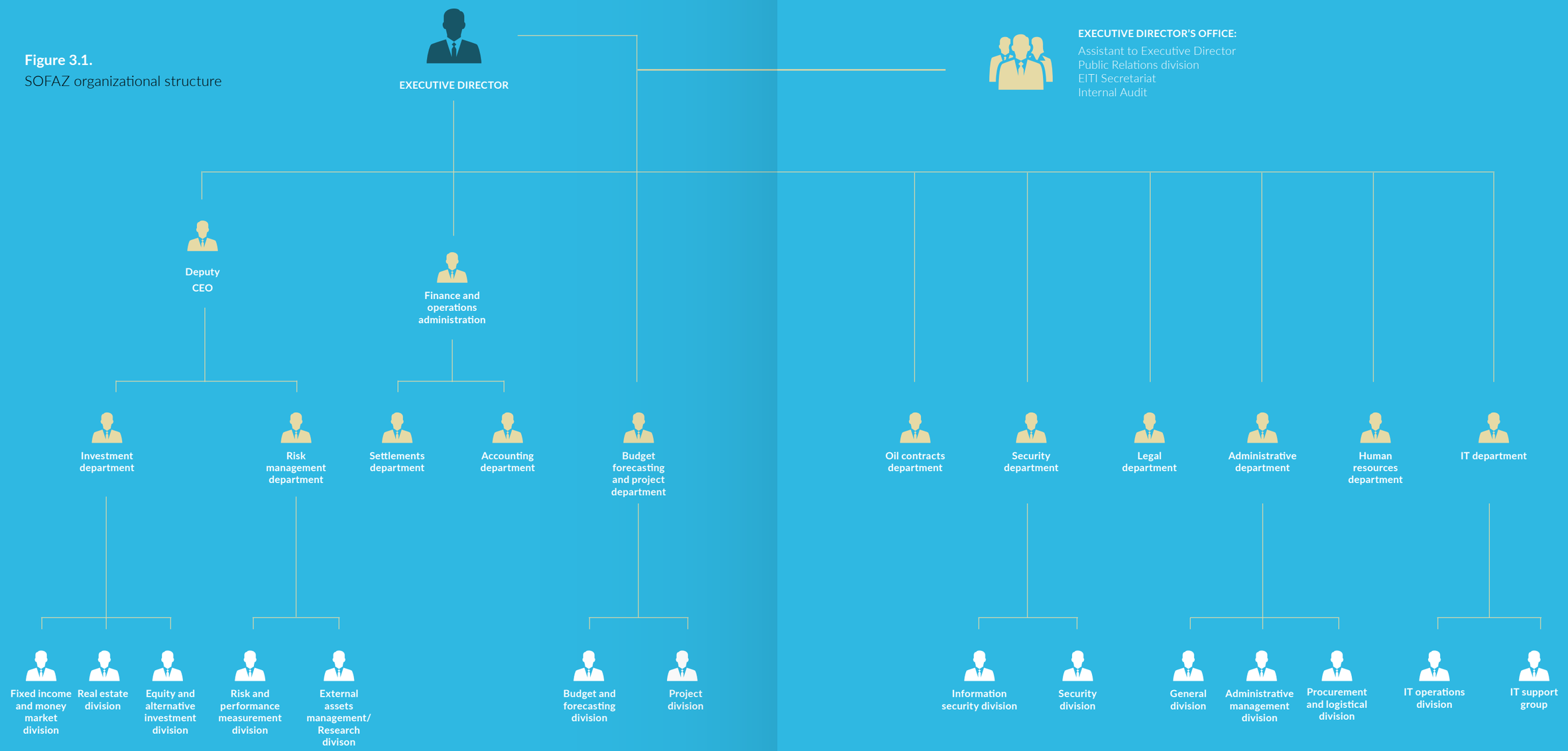
Settlements department operates under the Fund's Finance and Operations Administration.

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 made to the organizational structure Budget and forecasting and Project divisions were established within the Budget forecasting and Projects department.

Figure 3.1.
SOFAZ organizational structure



Rules of ethical conduct

Rules of ethical conduct came into force in December 2013. This document outlines the Fund's attitude towards ethical behavior and professional conduct (Confidentiality of information, anti-corruption measures, corporate values, environment, etc.)

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

3.2. TRANSPARENCY AND ACCOUNTABILITY

SOFAZ's financial performance in 2015 was audited by Price Waterhouse Coopers.

Transparency and accountability have been the key principles in SOFAZ's operations since its inception. Regular auditing of the financial statements by a reputable international audit firm is used as the primary safeguard to ensure the transparency of SOFAZ operations.

SOFAZ's public relations are managed in accordance with its Information Policy. This policy was developed to properly coordinate and effectively manage SOFAZ'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, investment activity and etc.

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 with CEO participation are held for media representatives in order to keep them updated on SOFAZ's activities.

SOFAZ always takes an interest in answering questions of public, and replies to all verbal and written Fund-related enquiries directed to SOFAZ 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 the former British Prime Minister, Tony Blair. The first EITI conference was held in London on June 17, 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, Energy, Finance, Taxes, Ecology and Natural Resources, the State Statistical Committee and SOCAR.

The EITI is a voluntary initiative, supported by companies, governments, investors and civil society organizations. The decisions of governements to join 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.

The EITI is implemented according to updated Memorandum of Understanding on implementing the EITI in Azerbaijan which was signed by the EITI Committee, local and foreign oil and gas companies and the Increasing Transparency in the Extractive Industries Coalition of NGOs in 2014 (first Memorandum was signed in 2004). 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 relevant 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.

SOFAZ has continued its activities on EITI implementation during 2015.

In 2015, 7 Multi-stakeholder Group's (MSG) meetings on implementation of EITI were held.

On January 1, 2015 the Validation under the new EITI Standard in Azerbaijan was commenced and, as a result, Azerbaijan's EITI status was downgraded from the "Compliant" to the "Candidate" on April 14-15 at the EITI Board meeting held in Brazzaville, Congo.

In April, 2015 the Coalition of

Azerbaijan Non-government Organizations for "Improving Transparency in Extracting Industries" (NGO Coalition) held series of events named "Roundtables in regions" supported by the World Bank and SOFAZ in Shirvan, Neftchala and Gadabay. The events were aimed at increasing the awareness of citizens, representatives of Civil Society and local authorities.

On May 5, 2015, the meeting of the MSG on implementation of EITI in Azerbaijan with the participation of the executive director of the Natural Resource Governance Institute Daniel Kaufmann was held at SOFAZ.

On June 30, 2015, EITI 2014 Activity Report on implementation was published.

On July 16, 2015, 2013 EITI Report was approved by the MSG and disclosed. The report was prepared under the 2013 EITI Standard's requirements.

On July 30, 2015 the training on improvement of professionalism in filling of EITI reports and increasing of EITI report quality for members of EITI Memorandum - local and foreign companies operating in mining field was held at SOFAZ. Members of NGO Coalition also participated in the training.

On September 23, 2015, the workshop on "Validation – corrective actions and action steps for the compliant status" with the participation of the representative of EITI International Secretariat, Dyveke Rogan and MSG members was held at SOFAZ. The aim of the workshop was to foster broad discussions on action steps which should be undertaken for the compliant status of Azerbaijan in the EITI.

On September 29, 2015, the Head of the Azerbaijan EITI Secretariat, Farid Farzaliyev participated as a speaker at the "7th International Conference on improvement of the EITI in Kazakhstan" in Astana, Kazakhstan.

On October 8, 2015, the President of the Republic of Azerbaijan received the Chair of the International Board of the EITI, Clare Short. Views on prospects of Azerbaijan`s participation in EITI were discussed at the meeting.

On October 8, 2015, the meeting of the MSG on implementation of EITI in Azerbaijan with the participation of Clare Short was held at SOFAZ.

On October 13-15, 2015, F.Farzaliyev and two members of the MSG Azerbaijan participated at regional workshop for the National Coordinators and MSG members in Istanbul, Turkey.

On October 21-22, 2015, the 30th EITI Board meeting was held in Berne, Switzerland. Delegation headed by the Chairman of the National EITI Commission, a member of the EITI International Board and the Executive Director of SOFAZ Shahmar Movsumov participated in the meeting. Appropriate discussions were conducted and decisions were made.

On November 12, 2015, SGC Upstream, a company recently launched in Azerbaijan, signed the Instrument of Accession to MOU. After signing the Instrument of Accession to MOU, SGC Upstream submitted its relevant inputs into the 19th EITI report (2014 EITI report) on payments to the government of Azerbaijan. Thereby, 39 extractive sector companies joined Memorandum of Understanding on implementation of the EITI in Azerbaijan.

On November 23, 2015, the roundtable of the presentation of EITI NGO Coalition's opinion on the 2013 EITI Report was held by the EITI NGO Coalition with the support of the Council on State Support to NGOs under the Auspices of the President of the Republic of Azerbaijan. The event was held for the representatives of governmental organizations, international organizations, embassies, civil society institutions and mass media.

On November 25, 2015, the regional conference dedicated to the first national report of Tajikistan on its EITI implementation and the development of the regional cooperation was held in Dushanbe, Tajikistan. The representatives of Azerbaijan EITI Secretariat participated in that conference as speakers.

On December 9-10, 2015, the 31st EITI Board meeting was held in Kiev, Ukraine. Delegation headed by Sh. Movsumov participated in the meeting. Appropriate discussions were conducted and decisions were made.

International Forum of Sovereign Wealth Funds

The International Forum of Sovereign Wealth Funds (IFSWF or Forum) was established by the International Working Group of Sovereign Wealth Funds, at the 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.

SOFAZ 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 seventh annual meeting in Milan, Italy on September 29-30, 2015. IFSWF advanced on its commitments made in Doha in 2014 by discussing the knowledge sharing among IFSWF members, investment and risk management practices, as well as making progress on its internal governance issues. Forum selected its new Board members (Abu Dhabi Investment Authority, Qatar Investment Authority, GIC Private Limited and China Investment Corporation) and also announced that 9th annual meeting in 2017 will be hosted by JSC Samruk-Kazyna in Kazakhstan.

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.

NATIONAL ECONOMY AND SOFAZ

4.1. MACROECONOMIC DEVELOPMENT

The drastic fall of the global oil prices to atypical level, that began in the second half of 2014 continued throughout the last year as well.

Hence, the average price for a barrel of crude oil constituted USD 52 while it fell all the way down to USD 37 by the end of 2015. At the same time, having sluggish growth by 3.1% only instead of 3.5% as predicted by the International Monetary Fund (IMF), the global economy repeatedly underperformed. Thus, the global growth rate was lower than that of the preceding year for the second time in a row. Taken separately, developed and developing countries have grown by 1.9% and 4.0%, respectively. Based on the 2015 economic dynamics, the IMF issued a 3.2% growth forecast for the upcoming year while the World Bank (WB), being more pessimistic, estimated it at the level of 2.9%. These uncomfortable trends could not leave the economy of Azerbaijan unaffected, whose major export revenues are formed out of the hydrocarbon sales.

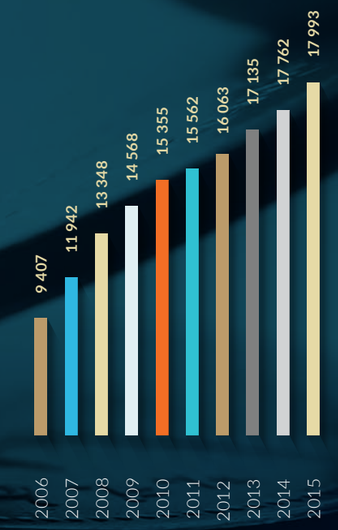
Bearing in mind the sharp deterioration of Azerbaijan's positive trade balance and serious pressures upon the national currency and its exchange rate, while also aware of the need to keep currency reserves at the critical level and to protect international competitiveness of the Azerbaijan economy, the Central Bank of the Republic of Azerbaijan (CBAR) undertook the first devaluation of the Azerbaijani manat in February 2015, thereafter the official USD exchange rate to AZN grew from 0.78 to 1.05 (34.6%), while after the Bank's decision to unpeg the currency and switch to a floating regime, the exchange rate rose further up by 47.6% to reach 1.55.

In 2015, the GDP volume grew, compared to 2014, by 1.1% in real terms and constituted AZN 54.4 billion (the growth rate equalled 2.8% in 2014 and 5.8% in 2013). The GDP per capita in 2015 was AZN 5 703.7, particularly levelled off since 2014. However, when purchasing power parity is also accounted for, the GDP per capita is found to have grown by 4.2%.

Chart 4.1.1.
GDP per capita, Purchasing Power Parity (in current international dollar)

Note: the 2015 data is an estimate made in the April 2016 IMF report

Source: IMF



In spite of certain economic meltdown, overall household income in nominal terms rose by 5.7% in 2015, reaching AZN 41.7 billion. Average income per capita grew by 4.5% up to AZN 4 380.1 a year, while average monthly salary increased by 5.0% to constitute AZN 466.4. As to the expenditure breakdown, 72.1% of these incomes were channeled into consumption, 9.1% - into paying taxes, social insurance and voluntary membership fees, 15.9% were devoted to household saving and 2.9% to paying interest rates on credits due.

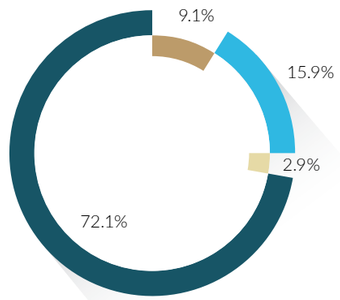


Chart 4.1.2.
Expenditure structure of the household income in 2015

Source: The State Statistical Committee of the Republic of Azerbaijan

- Consuption
- Taxes and social insurance fees and voluntary membership dues
- Saving
- Interest rate payments on credits

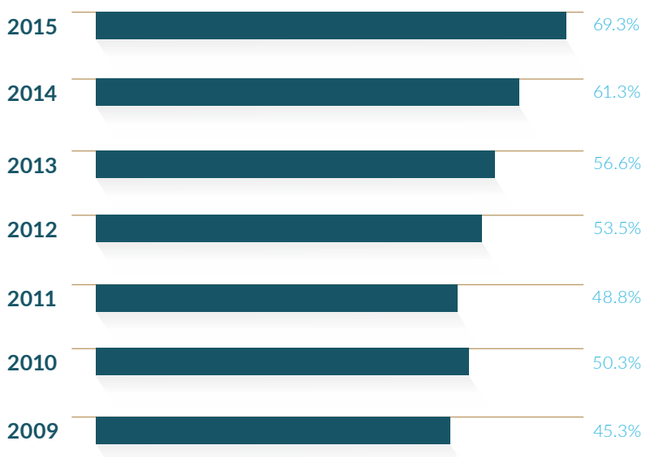


Chart 4.1.3.
The share of non-oil sector in the GDP

Source: The State Statistical Committee of the Republic of Azerbaijan

After subtracting all mandatory and voluntary disbursements, the overall disposable income amounted to AZN 36.7 billion, which was 2.2% higher compared to the previous year. The 69.3% of the country's GDP fell into the non-oil sector share.

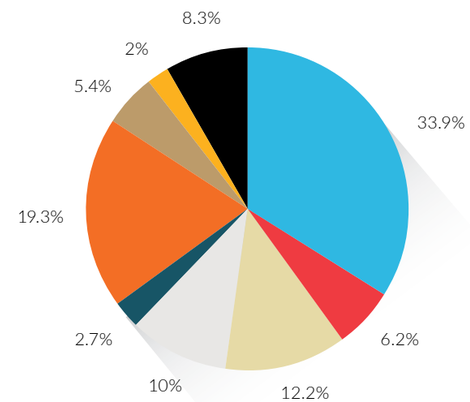


Chart 4.1.4.
The GDP structure

Source: The State Statistical Committee of the Republic of Azerbaijan

- Industry
- Agriculture, forestry and fishery
- Construction
- Trade, repaire of vehicles
- Accommodation of tourists and catering
- Social and other services
- Transportation and storage
- Information and communication
- Net taxes on goods and services

The structure of the GDP which in 2015 totalled AZN 54 352.1 million was as follows: 52.3% fell into the share of the production of goods, 39.4% - to services, while net taxes on goods and imports accounted for the remaining 8.3%. Compared to 2014, the production of value added in real terms increased by 1.1% in the non-oil sector and 1.2% in the oil sector. Though industry still remains the largest sector in Azerbaijan's GDP, its share has been constantly decreasing in the recent years. The role of the services in the GDP has grown, its overall share increasing from 33.6% to 39.4%. In the reference year, construction sector experienced a 13.4% deterioration.

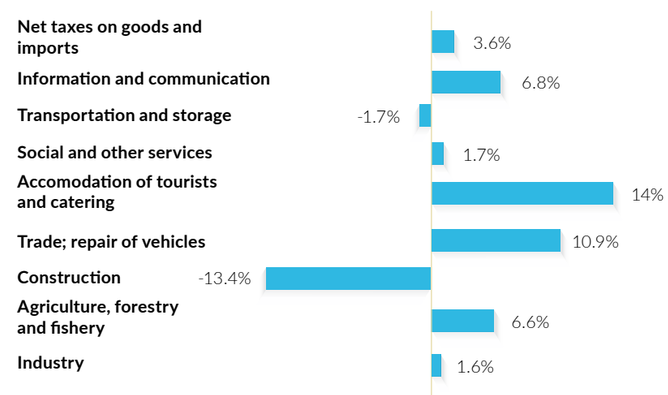


Chart 4.1.5.
Sectoral growth rates

Source: The State Statistical Committee of the Republic of Azerbaijan

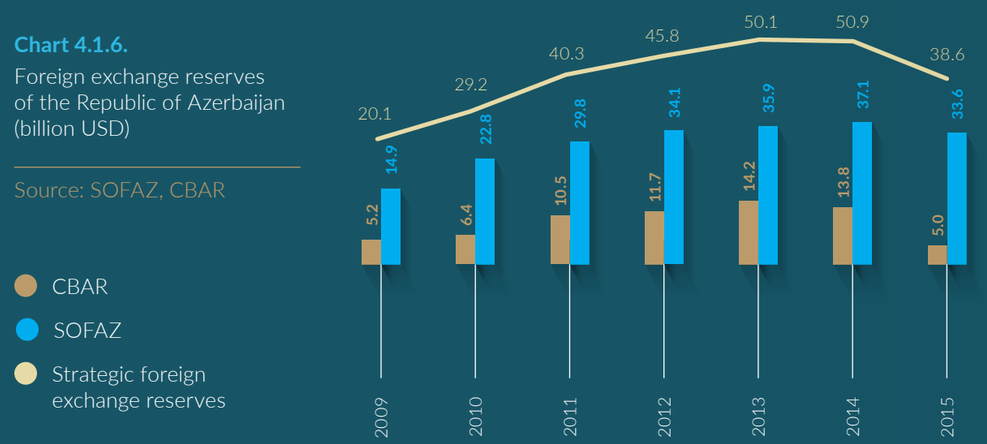
Strategic foreign exchange reserves

As of 31 December 2015, total foreign exchange reserves of the Republic of Azerbaijan amounted to USD 38 590.8 million, 87% (USD 33.57 billion) of which, were formed by the SOFAZ's assets (see Chart 4.1.6.). The decrease in the reserves by 24.1% (USD 12 271.6 million), observed in the reference year, resulted from the CBAR's monetary interventions taken to shield the currency from the negative impact of plummeting crude oil price.

Chart 4.1.6.

Foreign exchange reserves of the Republic of Azerbaijan (billion USD)

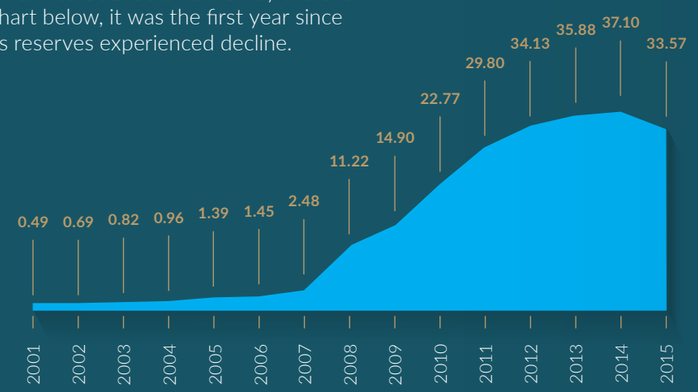
Source: SOFAZ, CBAR



During the reference year SOFAZ's reserves experienced a drawdown of USD 3.53 billion or 9.5% and shrank to USD 33.57 billion by the end of the year. As illustrated in the chart below, it was the first year since the Fund's establishment when its reserves experienced decline.

Chart 4.1.7.

The assets of SOFAZ in 2001-2015 years (as of 31.12.2015, billion USD)



In the recent years, the share of SOFAZ's assets in the country's GDP has been increasing consistently, and reached 63.4% in 2015.

The SOFAZ savings level decreased by 9.5% in 2015 as the Fund experienced a budget deficit. All in all, throughout the years of 2001-2015, total SOFAZ revenues constituted USD 124.9 billion. USD 33.57 billion or 26.9% of those assets were set aside as strategic reserves.

Chart 4.1.8.

SOFAZ assets to GDP ratio

Source: SOFAZ, State Statistics Committee of the Republic of Azerbaijan

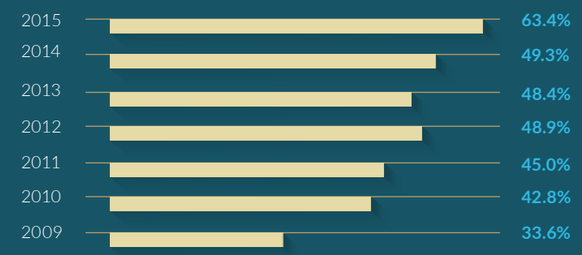
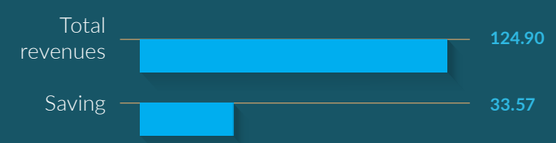


Chart 4.1.9.

SOFAZ's reserve level, 2001-2015 (USD billion)



Securing Fiscal sustainability

Revenues of the state budget amounted to AZN 17 498.0 million in 2015, AZN 8 130 million or 46.4% of which were financed with transfers from SOFAZ. The budget deficit was -0.5% of the GDP in 2015.

Chart 4.1.10.

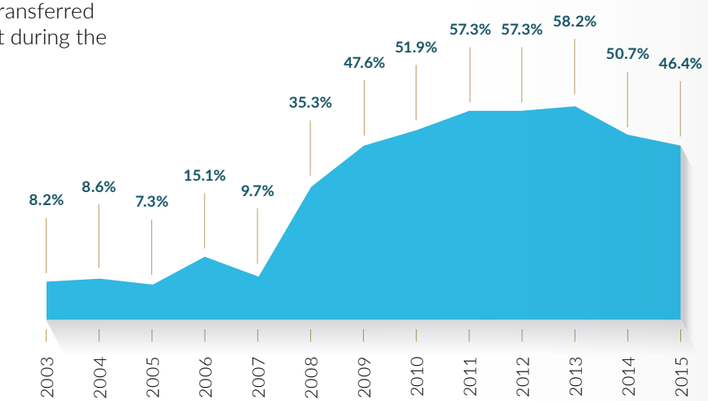
State budget deficit/proficit as a share of GDP in 2009-2015 (percentages)

Source: CBAR

Overall, AZN 63.9 billion were transferred from SOFAZ to the state budget during the period from 2003 to 2015.

Chart 4.1.11.
SOFAZ transfers as a percentages of state budget revenues, 2003-2015

Source: State Statistical Committee of the Republic of Azerbaijan

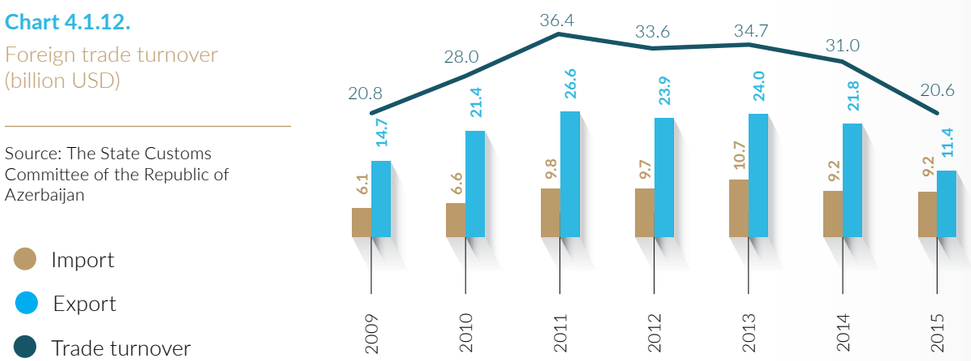


Foreign trade

According to the State Customs Committee of the Republic of Azerbaijan, the foreign trade turnover accounted for USD 20.6 billion, while the export constituted USD 11.4 billion and the import USD 9.2 billion thereof. In 2015, a reduction in the volume of foreign trade turnover by 33.4% compared to the relevant indicator of the previous year was observed, while export declined by 47.6% and import rose by 0.4%.

Chart 4.1.12.
Foreign trade turnover (billion USD)

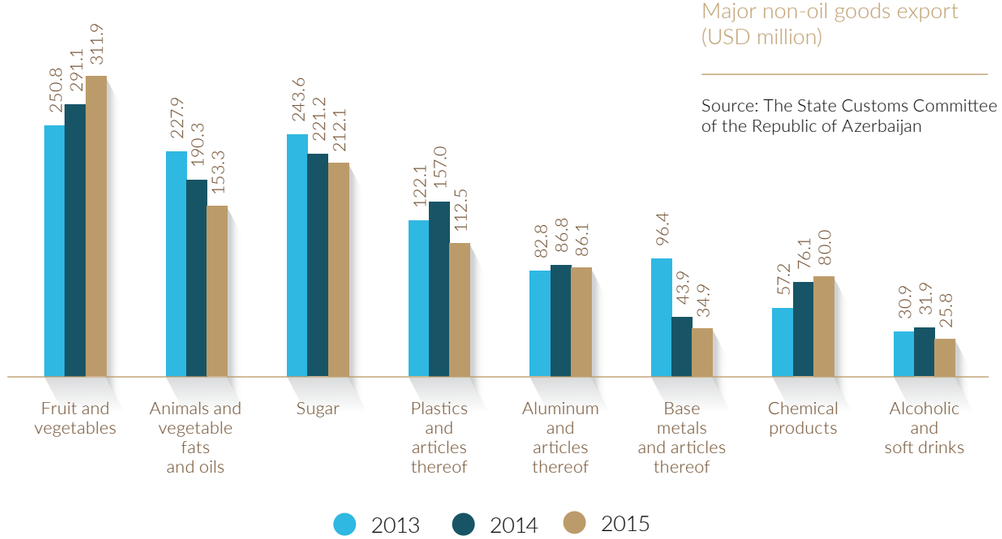
Source: The State Customs Committee of the Republic of Azerbaijan



In 2015, non-oil export mainly consisted of production of fruit and vegetables, animal or vegetable fats and oils, sugar, plastics and articles thereof, aluminum and articles thereof. As the chart 4.1.13. depicts, although the export of fruits, vegetables, alcoholic and soft drinks, and sugar has increased over the years, export of other non-oil goods has decreased. Export of animal or vegetable fats and oils, as well as plastics and articles thereof decreased by 19.5% and 28.4%, respectively.

Chart 4.1.13.
Major non-oil goods export (USD million)

Source: The State Customs Committee of the Republic of Azerbaijan



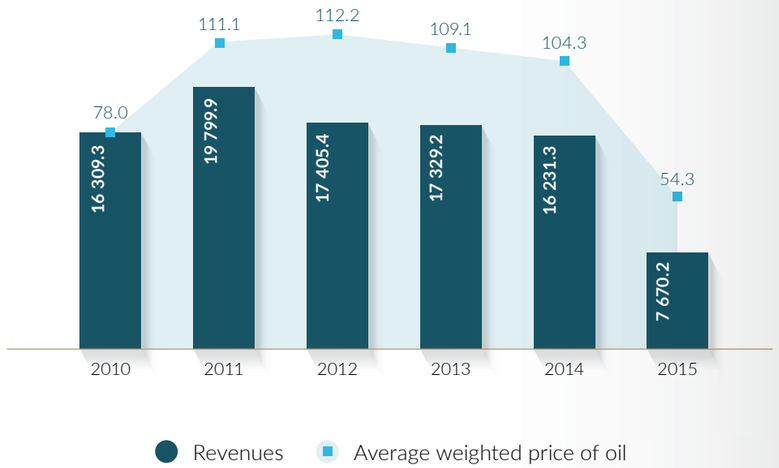
4.2. SOFAZ'S REVENUES

Low prices in the global oil market brought about a downfall in the SOFAZ's proceeds from hydrocarbon sales. Simultaneously, the Fund's assets, expressed in AZN terms grew following the appreciation of exchange rates of the foreign currencies included in the SOFAZ investment portfolio against AZN. In the reference year ending on 31 December 2015, the SOFAZ's revenues were obtained from the sales of the Republic of Azerbaijan's share of hydrocarbons, the fees paid to Azerbaijan for transit of oil and gas through its territory, bonus payments, acreage fees and revenues from the management of the Fund's assets recorded a total of AZN 7 721.1 million (USD 7 670.2 million). In 2015, the revenues decreased by 53% compared to the previous year's results.

Proceeds from sales of the Republic of Azerbaijan's share of hydrocarbons

The weighted average price of profit oil sold during 2015 being USD 54.3 and the net price after the deduction of the related costs - USD 48.06, a total of USD 7 229.1 million or AZN 7 369.6 million was generated from the sales of the oil produced in the Republic of Azerbaijan and offshore fields in the Azerbaijani sector of the Caspian Sea in accordance with Product Sharing Agreements (PSA).

Chart 4.2.1.
SOFAZ's revenues (USD million) and oil price (USD) dynamics

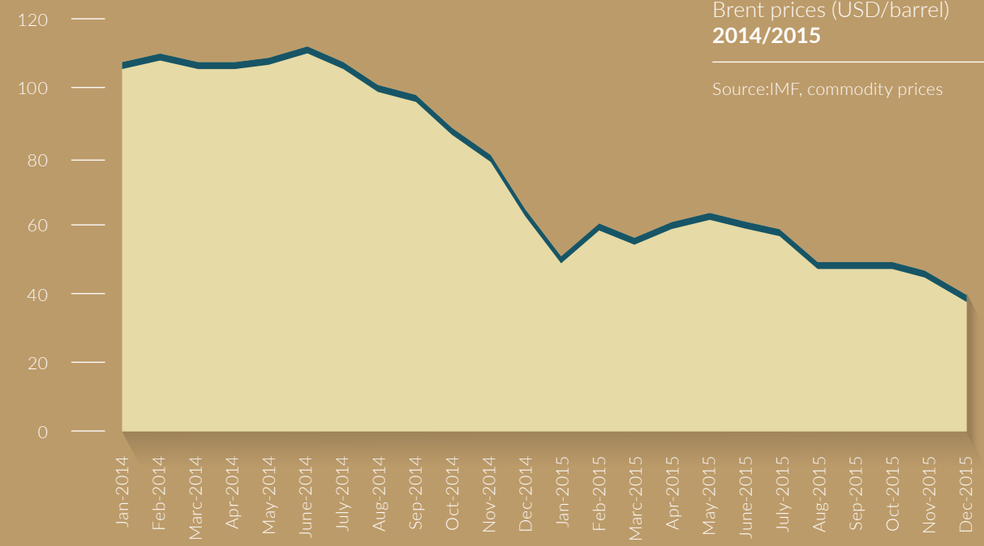


OIL PRICE DYNAMICS IN 2015

Despite optimistic forecasts, the downward trend in oil prices commenced in the second half of 2014 and accelerated further in 2015. Consequently, the crude oil prices plummeted to USD 36 per barrel by the end of the year, the record low since 2009. In 2015, the average yearly price equalled USD 49/barrel for the WTI blend and USD 52/barrel for the Brent. In October 2015, the IMF issued a conservative projection for 2016, predicting the oil price to stabilize at the level of USD 51 per barrel. Yet, the price downfall took even a more dramatic pace since then, justifying the analysts' claims that the new period of cheap oil would last long, to hold true.

Chart 1.
Brent prices (USD/barrel)
2014/2015

Source:IMF, commodity prices



Research undertaken by the world's leading analytical agencies found out the following factors to be mainly responsible for this remarkable decrease in the prices of crude oil:

- Record-high supply in the global markets. The prolonged period when the oil prices consistently fluctuated above USD 100, enabled oil companies to invest in highly risky and costly production of oil from the shale and tar sands. The USA and Canada, have increased their production by about 5 million barrels per day since 2010. Reinforced by the unexpected increase in the oil production in politically unstable Iraq and Lybia, this supply glut - the amount of unsold oil daily added into storage currently reaches 2 million barrel - is driving the prices down.

- Sluggish demand growth. The second biggest oil importer and the locomotive of the global economic growth, China, in 2015 had its lowest growth rate in many years and thus positive effects of cheap oil on the global demand turned out to be far weaker than expected. The first month of 2016 exposed weaknesses of the Chinese economy even further, supporting pessimistic estimates of the demand growth.

- Aggressive market policies pursued by the by the Organization of the Petroleum Exporting Countries (OPEC) member states. Earlier on when oil prices dropped down, Saudi Arabia, being the key market player, used to curb its production in order to regulate the market. However, at their meeting in December 2015 the member states failed to agree on decreasing the production quota that now stands at the level of 30 million barrel per day. This inaction can be explained by various

political and economic contradictions between the cartel members as well as the Gulf states' concerted policy aimed at squeezing expensive shale oil out of the market. The expectations of the ever more increasing market share of OPEC due to the restart of oil exports from Iran contributed to the downward pressure on the oil futures prices, too.

94.9% of all the profit made out of the sales of profit oil and gas, or USD 6 858 million was obtained from the oil and gas produced at the Azeri-Chirag-Guneshli offshore field.

Chart 4.2.2.

Structure of SOFAZ's revenues, 2015 (USD milion)

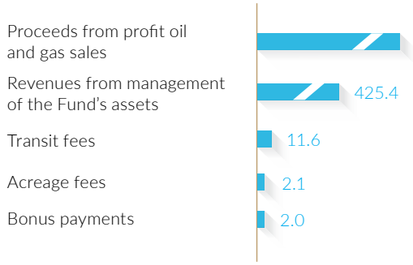
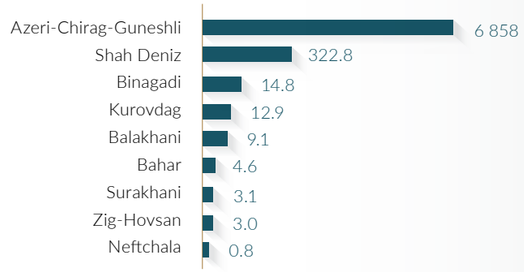


Chart 4.2.3.

Distrubution structure of inflows from the sale of profit oil and gas by fields during 2015 (USD million)



Revenues from the asset management

In 2015, SOFAZ's assets were invested in fixed income, equities, real estate and gold. The Fund's revenues from asset management totaled USD 425.4 million, while the average rate of return constituted 1.24%.

Bonus payments

In the reference year, SOFAZ's revenues from bonuses paid by investors for signing and fulfilling oil and gas contracts amounted to AZN 2.1 million or USD 2 million. Bonus payments inflows from companies are represented in the Table 4.2.1.

Table 4.2.1.

Bonus proceeds to SOFAZ in 2015

Transferor	Oilfield	Date	Amount	
			USD	AZN
NICO	Shah Deniz	29.01.2015	1 457	1 142.9
LUKOIL (Shah-Deniz Limited)	Shah Deniz	29.01.2015	1 457	1 142.9
TPOC	Shah Deniz	29.01.2015	2 768	2 171.2
STATOIL	Shah Deniz	29.01.2015	2 258	1 771.2
BP Exploration (Azerbaijan) Limited	Shah Deniz	04.02.2015	4 200	3 294.5
Bahar Energy	Bahar	29.05.2015	2 000 000	2 098 800.0
Total			**2 012 140**	**2 108 322.7**

Transit fees

In 2015, another revenue inflow was generated from transportation of oil and gas through the territory of Azerbaijan (transit fees). AZN 11.6 million or USD 11.6 million of transit fees were transferred by Azerbaijan International Operating Company (AIOC) to the SOFAZ's budget. The issuance date and amount of the SOFAZ's proceeds from the transit fees are presented in the Table 4.2.2.

Table 4.2.2.

SOFAZ's proceeds from the transit fees in 2015

Transferor	Date	Amount	
		USD million	AZN million
AIOC	07.01.2015	1.0	0.8
AIOC	12.02.2015	1.0	0.7
AIOC	12.03.2015	1.0	1.0
AIOC	14.04.2015	1.0	1.1
AIOC	14.05.2015	1.0	1.0
AIOC	11.06.2015	1.0	1.1
AIOC	14.07.2015	1.0	1.0
AIOC	02.09.2015	0.6	0.6
AIOC	15.09.2015	1.0	1.1
AIOC	13.10.2015	1.0	1.0
AIOC	17.11.2015	1.0	1.1
AIOC	08.12.2015	1.0	1.1
Total		**11.6**	**11.6**

Acreage fees

Proceeds paid by the foreign investors operating hydrocarbon assets for utilization of the contract areas totaled AZN 2.2 million or USD 2.1 million. The acreage fees are represented in the Table 4.2.3.

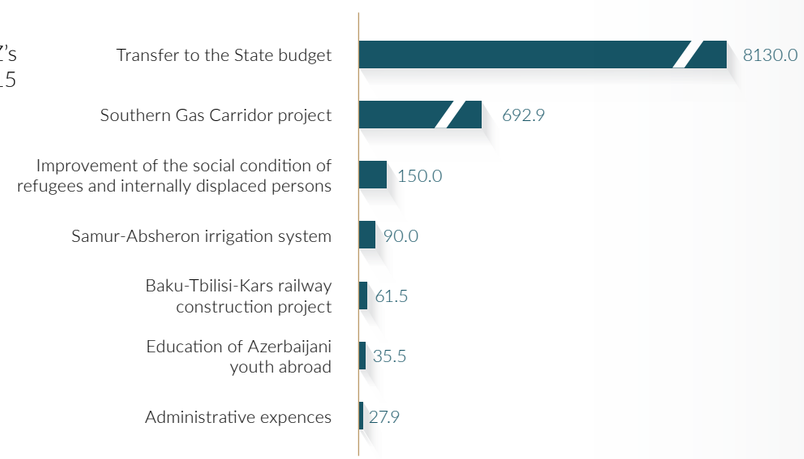
Table 4.2.3.
Proceeds from the acreage fees in 2015

Transferor	Oilfield	Date	Amount	
			USD million	AZN million
BP Exploration (Azerbaijan)	Shafag-Asiman	25.06.2015	2.1	2.2
Total			**2.1**	**2.2**

4.3. SOFAZ'S EXPENDITURES

In 2015, SOFAZ's expenditures were equal to AZN 9 187.8 million (USD 9 202.0 million). The greatest share of the total expenditures (88.5% or AZN 8 130.0 million) accrued from the annual transfer to the state budget, followed by the expenditures on the SOFAZ funded projects (11.2% or AZN 1 029.9 million) and SOFAZ's administrative expenses at 0.3% (AZN 27.9 million) of total.

Chart 4.3.1.
Structure of SOFAZ's expenditures in 2015 (AZN million)



Transfer to the state budget

In order to mitigate the negative impact of low oil prices on SOFAZ assets, the amount of transfer channeled into the state budget has been reduced from AZN 10 388.0 million to AZN 8 130.0 million, saving AZN 2 258 million.

Chart 4.3.2.
Structure of SOFAZ's expenditures in 2001-2015

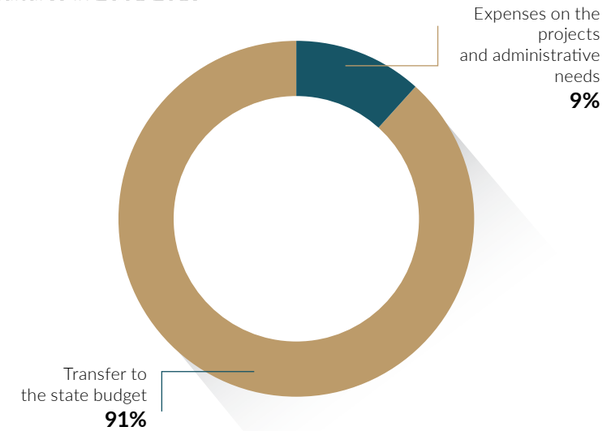
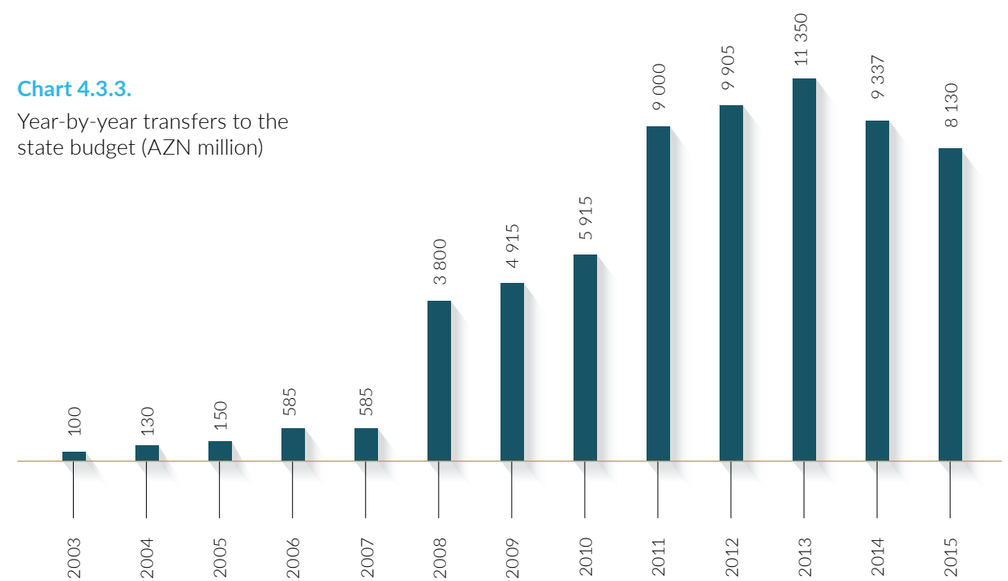


Chart 4.3.3.
Year-by-year transfers to the state budget (AZN million)



In 2015, the transfers to the state budget from SOFAZ comprised 46.4% and 45.7% of the state budget revenues and expenditures, respectively.

Chart 4.3.4.
The share of transfers in the state budget income

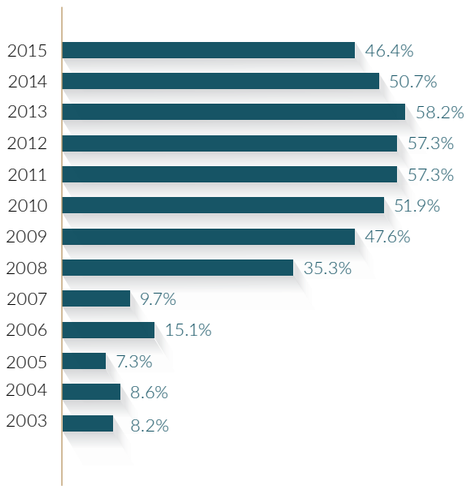
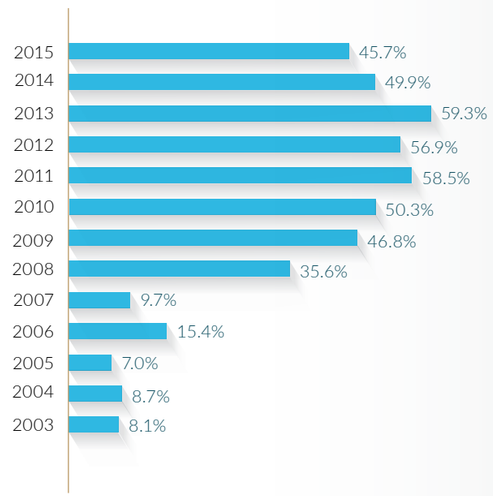


Chart 4.3.5.
The share of transfers in the state budget expenditures



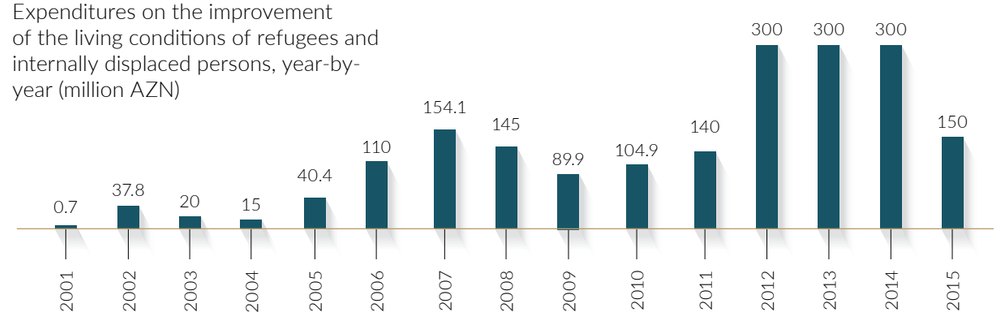
Funding of social and infrastructure projects

SOFAZ plays a significant role in financing social and infrastructure projects of strategic national importance.

The improvement of the social and economic conditions of refugees and internally displaced persons

This project, one of those financed by SOFAZ in 2015, contributed to poverty reduction efforts taken in Azerbaijan. In total, AZN 1.91 billion were allocated by the Fund within the framework of this project. In the reference year, SOFAZ allocated AZN 150 million with the purpose of ameliorating living conditions of the refugees and internally displace persons (Chart 4.3.6.).

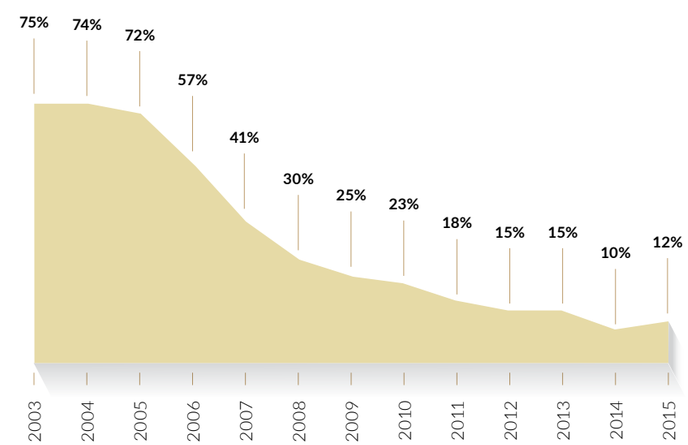
Chart 4.3.6.
Expenditures on the improvement of the living conditions of refugees and internally displaced persons, year-by-year (million AZN)



The aforementioned funds were allocated for the construction of 94 modern residential blocks providing the living space of 2.9 million square meters, where 49 000 families, or 243 000 persons were settled. In addition, 150 schools, 6 music colleges, 1 art school, 1 culture palace, 50 cultural centers, 59 kindergartens, 58 medical centers, and 2 Olympic sport complexes were built, while 718km of highways, 960km of water pipelines, 1605km of transmission lines, 442km of gas pipelines, 66km of communication lines, 26km of heating lines, 89km of sewerage lines, 163km of drainage network and 830 transformers of different powers were completed within these residential blocks. The measures taken succeeded in decreasing the poverty rate among the refugees and internally displaced persons from 75% in 2002 to 12% in 2015.

Chart 4.3.7.
Poverty rate among the refugees and internally displaced persons

Sourse: Social Development Fund of Displaced Persons of the Republic of Azerbaijan



Reconstruction of the Samur-Absheron irrigation system

The project on the reconstruction of the Samur-Absheron irrigation system, being part of the current strategy of maintaining food security in Azerbaijan, aims at creating a reliable source of water supply for the cities of Baku and Sumgayit, preventing energy losses incurred from water transportation and using this spare capacity to produce 25 MWT of energy. The continuation of building works on the Takhtakorpu water reservoir, Velvelichay-Takhtakorpu and Takhtakorpu-Jeyranbatan water channels which are parts of the Samur-Absheron project, have been included into the action plan for the "State Program on Ensuring Reliable Supply of the Food Projects for the Population of Azerbaijan in the years 2008-2015". This project, since its initiation in 2006, has been funded by SOFAZ.

The Samur-Absheron irrigation system will make a significant contribution to satisfying the growing demand for potable water in Baku, Sumgayit and residential areas of the Absheron peninsula. The Takhtakorpu water reservoir, Velvelichay-Takhtakorpu and Takhtakorpu-Jeyranbatan water channels, once launched, are expected to improve the irrigation of 150 thousand hectares of cultivated land and to make 30 thousand hectares more arable again. This will create new opportunities for agricultural development. Along with that, the Shamkirchay water reservoir which is now being built, is expected to cater for the irrigation of some 75 thousand hectares of land more.

The construction of the Takhtakorpu water reservoir, Velvelichay-Takhtakorpu and Takhtakorpu-Jeyranbatan channels was fulfilled as part of the "Reconstruction of the Samur-Absheron irrigation system" project, and these facilities were officially launched on 28 September 2013 with the participation of the President of the Republic of Azerbaijan.

The construction works within the framework of the second stage of the project were initiated in the late 2013. This stage envisaged the construction of water intake facilities and water transmission channels (first of all, at the rivers Qusarchay, Qudyalchay and Jaqajuq), improvement of water supply for the lands already irrigated and commissioning of newly irrigated lands in the Shabran, Siyazan and Khizi districts, as well as consultancy services regarding the aforementioned works.

As of 1 January 2016, AZN 1 239.6 million (USD 1 527.3 million) have been transfered from SOFAZ with the purpose of financing the "Reconstruction of the Samur-Absheron irrigation system" project, including AZN 90.0 million (USD 89.7 million) in the reference year.

INVESTING IN HUMAN CAPITAL

Financing the "State Program on Education of Azerbaijani Youth abroad in the years 2007-2015"

SOFAZ finances the "State Program on Education of Azerbaijani Youth Abroad in the years 2007-2015" that aims at fulfilling the idea of transforming black gold into human capital. In 2015, the Fund allocated, according to the orders of the Ministry of Education, AZN 35.5 million in total, including AZN 16.8 million allocated for accommodation, AZN 17.2 million to cover education costs, approximately AZN 0.8 million for travel expenditures, AZN 0.5 million for insurance costs, AZN 0.1 million for visa and registration and AZN 0.1 million for other expenses. Since 2008, the Fund has spent on this project overall AZN 156.8 million. As of 31 December 2015, the number of students financed by the Fund within the framework of this project is 3 283. Within the framework of the State Program, the majority of the students are educated in such countries as the United Kingdom (28.9%), Turkey (22.2%), Germany (12.5%), Canada (7.2%), the Netherlands (5.3%) and Russia (3.8%).

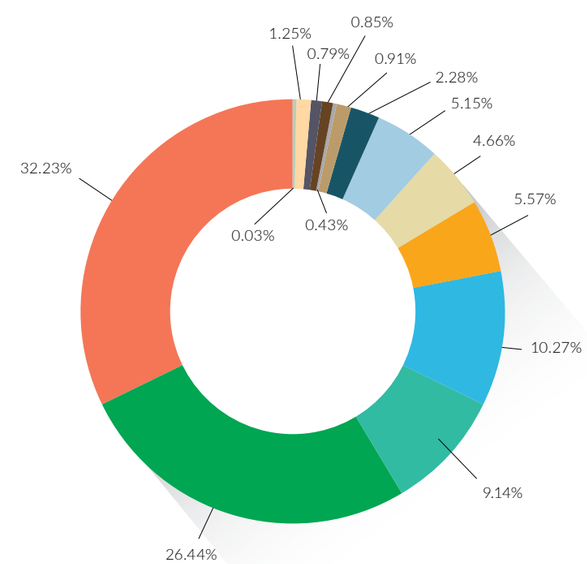


Chart 4.3.8.
Distribution of the students financed by the State Program, by the area of study

Human capital and economic development

Social changes that higher education brings by more efficient governance, dissemination of entrepreneurial spirit, improvement in healthcare services, increasing private investment- exert a positive impact on the overall quality of life, thus triggering sustainable economic development in the long run. The OECD emphasizes the salient contribution education makes to the formation of human capital, creation of knowledge bases, preservation of various skills and capabilities and improvements in their efficiency. According to an analysis undertaken among the developed countries, during the period of 1994-2005 progress in higher education on average caused 0.1%-0.7% increase in the productivity of labour per year. Another research shows that an increase in the major parameters of higher education equal to one standard deviation results on average in 1.3% more of annual economic growth, while in economically open countries this influence is even higher, reaching 2.5%.

The investigations conducted by the World Bank within the framework of the Knowledge Economy Index (KEI) approach demonstrate the dramatic extent of the role played by higher education in accelerating economic development. In the developing countries, there is a strong need, above all, in professionals aware of the latest achievements of applied sciences and capable of implementing high technologies; that's why these countries are recommended to preoccupy themselves with obtaining specialists in mathematics, engineering and precise sciences. The experience of Asian "tiger" economies serves as the best example for this thesis, namely the fact that the investments these countries made in higher education have paid off in the long run even more than in the shorter timeframe. On the other side, the primacy of quality over quantity is stressed as well: even a limited number of specialists with exceptional knowledge and skills are perfectly capable of improving the efficiency of economic management and accelerating the processes of technological catch-up. In order to maximize the positive contribution of education, the World Bank recommends building up robust information and communications infrastructure, the system of innovation implemention and, most significantly, sound management and business frameworks fitting contemporary standards.

Financing the share of the Republic of Azerbaijan in the charter capital of the "South Gas Corridor" Closed Joint Stock Company

In accordance with the Decree of the President of the Republic of Azerbaijan from 25th February of 2014, the "South Gas Corridor" closed joint stock company was established with its charter capital of USD 100 million, 51% of which is owned by the Azerbaijani government and the remaining 49% by SOCAR. The company's purpose is to facilitate the management of such projects as the second stage of exploitation works at the "Shah Deniz" gas-condensate field, the expansion of the South Caucasus Pipeline, the construction of the Trans-Anatolian Pipeline and the Trans-Adriatic Pipeline. According to the paragraph 2.1. of the aforementioned Decree, SOFAZ is responsible for the financing of the company's state-owned shares, while their ownership and management are vested to the Ministry of Economy. In 2015, SOFAZ transferred AZN 692.9 million (USD 685.9 million) to the Ministry of Economy to finance the state-owned shares of the Company. During the years of 2014-2015, the Fund allocated AZN 732.8 million (USD 736.9 million) in total to this project.

Funding of 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, 76km of which will pass through Turkey and 26km through Georgia, as well as restoring and rebuilding the 160km of Georgia's Marabda-Akhalkalaki railway. In 2015, SOFAZ allocated USD 51.5 million (AZN 61.5 million) to finance this project. Throughout the years 2007-2015, SOFAZ spent in total USD 588.1 million (AZN 485.7 million) on this project.

INVESTMENT REPORT

5.1. INVESTMENT STRATEGY

SOFAZ's investment strategy is aimed at maximizing long-term risk adjusted returns.

Broad diversification among the asset classes and across the countries, along with monitoring and analysis 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 to ensure the transparency in its investment decisions. SOFAZ's 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" sets the general principles of SOFAZ's asset management framework. Along with the 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. 2015 Investment Policy defined 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 2015, 82.1% of the investment portfolio comprised of fixed income and money market securities while 10.2%, 3.1% and 4.6% were invested in equities, gold, and real estate, respectively.

Graph 5.1.1.
Target Asset allocation

SOFAZ's investment portfolio is predominantly allocated to assets denominated in USD (50%), EUR (35%) and GBP (5%), whereas the remaining 10% is allocated to the assets denominated in other currencies specified in the "Investment Guidelines".

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

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

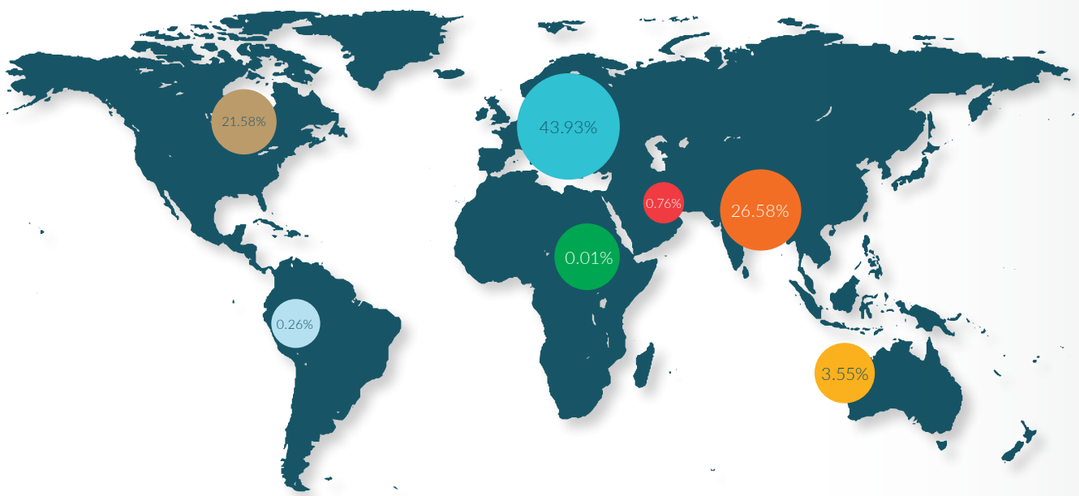
Global asset classes	Portfolio asset classes	Strategy employed	Implemenation methods
Traditional	Public Equity	Exposure through direct and indirect ownership of global equities	MSCI World, MSCI Europe ex UK, S&P 100, strategic stake in VTB Bank
	Fixed Income	Exposure to bonds and money market instruments	Sovereign, supranational, agency and corporate investment grade bonds and money market instruments
Alternative	Private Equity	Exposure through fund and project investments	Commitments to IFC AMC managed funds Investment in the charter capital of the Azerbaijan Rigs LLC, formed with the participation of SOFAZ (90%) and SOCAR (10%).
	Real Estate	Exposure through direct commercial property stakes	Direct property stakes in: Moscow, London,Paris, Seoul and Tokyo; Indirect exposure through funds
	Commodity	Exposure through physical purchase	Investments in gold

Internal Portfolio Management

One of the unstated missions of SOFAZ is to promote and to enhance asset management industry standards in Azerbaijan. Therefore, the Fund puts special emphasis on bringing all asset classes under internal management as it builds extensive knowledge and expertise in the field. At the end of the year under review, 92.9% of the investment portfolio was managed internally.

Chart 5.1.2.

SOFAZ's investment portfolio breakdown by geographic regions



- Europe
- Asia
- North America
- South America
- Australia/Oceania
- Middle East
- Africa
- International financial organizations 3.33%

External managers

As of December 2015, 7.1% of SOFAZ's investment portfolio was 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.

For fixed income portfolio:

- World Bank – the World Bank Treasury manages over USD 224 million (0.7% of assets);
- Deutsche Bank Advisors – manages more than USD 100 million (0.3% of assets).

For equity portfolio:

- UBS Asset Management – manages more than USD 1 248 million (3.7% of assets)
- State Street Global Advisors (SSgA) – manages more than USD 804 million (2.4% of assets).

5.2. SOFAZ INVESTMENT PORTFOLIO

GLOBAL ECONOMY REVIEW

Global growth divergence

Consistent fall in commodity prices including oil prices, the Greek and Chinese crisis, devaluation of the Yuan, and European Central Bank Quantitative Easing (ECB QE) announcement were among the prominent events of the last year. FED rate hike was initially blueprinted at the year-start. However, economic changes forced FED to defer the timing of the first monetary tightening until December.

2015 was hallmarked by heterogeneity of the economic growth across the world. As in the previous year, accelerating developed countries outperformed slowing emerging economies. Falling commodity prices played a significant role in a slowdown of global growth. The global economy failed to breach the forecasted 3.1% level and expanded only by 2.9% (Purchasing Power Parity

(PPP)). The GDP growth rate for the developed countries, including the United States (2.4%), Japan (0.5%) and Germany (1.7%), reached 2.1% compared to 1.5% in the previous year. For emerging countries, those are net commodity importers (China, India, and South Korea), growth rate remained at 6% for the previous 3 years. China and India benefited from oil price disinflation, despite the fact that China had to use up about 6% of currency reserve and the Yuan depreciated against the USD. On the other side, India built up record currency reserve in order to prevent its currency from appreciating further.

Global inflation had risen far less than expected. In commodity-importing economies in particular, disinflation created favorable conditions for consumer spending. In the given period, a fall in inflation rates was observed across the Eurozone. The German Consumer Price Index (CPI) resulted in 0.13% inflation for the end of the year. Coming to the United States, consumer prices increased by 0.7% year-on-year in December of 2015, higher than 0.5% in the previous month but below the market expectations of 0.8%.

Chart 5.2.1.

GDP growth rate in major economies (2010-2015, percentages)

Source: Bloomberg

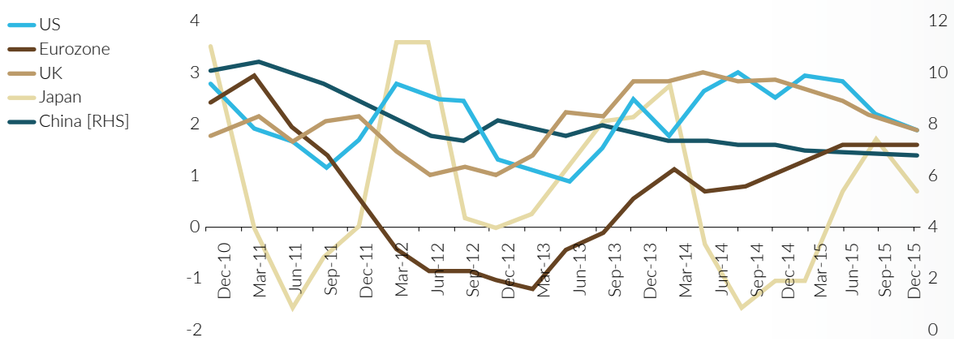
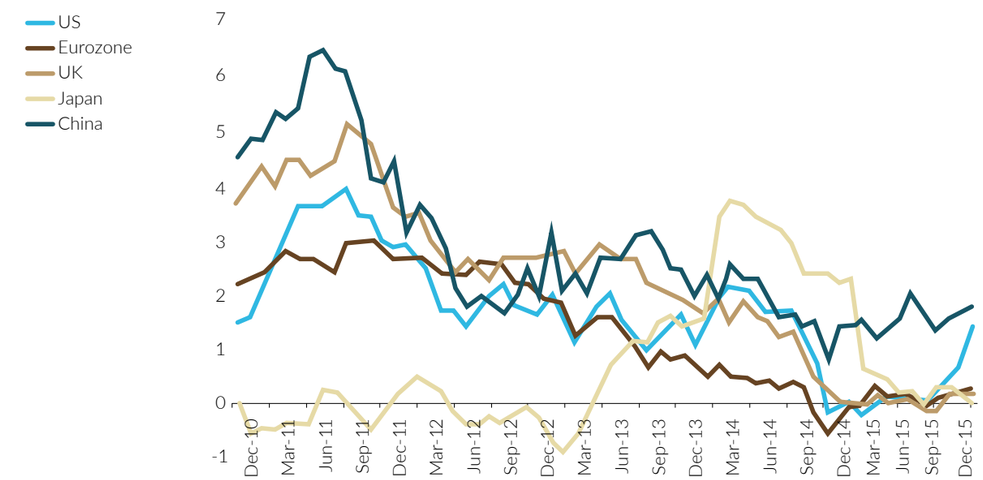


Chart 5.2.2.

Inflation rates in major economies (2010-2015, percentages)

Source: Bloomberg



ECB and FED – leading players in shaping global economy of 2015

Monetary easing in most economies together with low unemployment statistics contributed to the feeling of future economic growth. Unemployment in the Eurozone fell to its lowest level in three years, hitting 10.5% in the year-end. In Q4 this indicator for the US and UK was recorded at 5% and 5.1%, respectively.

In 2015 ECB announced further measures to stimulate the Eurozone economy. Thus it began full-scale QE, along with cutting interest rates to record lows and purchasing sovereign debt and primary papers. In the beginning of the year ECB launched the Extended Asset Purchase Programme (EAPP) with the aim to acquire 60 billion EUR per month.

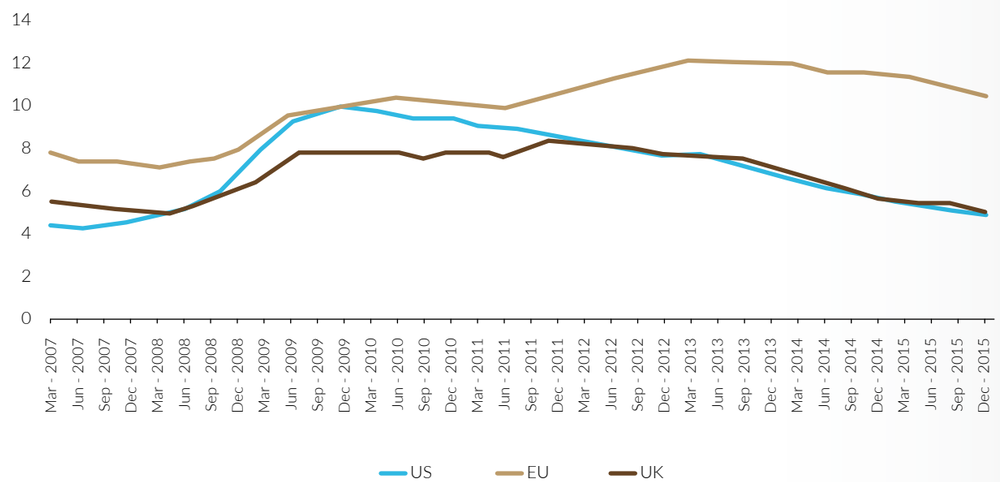
However, the second quarter of the year disappointed investors with the so called Perfect Storm: Greek and Chinese crisis, and falling commodity prices. Geopolitical tensions, China's slowdown, anticipation of the FED rate hike as well as low oil prices created a stressful climate for investors.

Political turmoil in Greece and economic crisis lasting since 2009 raised concerns regarding sustainability of the government debt. The crisis also resulted in a general collapse of the Greek economy. Debt negotiations between Greece and its

Chart 5.2.3.

Unemployment rates in US, Eurozone and UK (2007-2015, percentages)

Source: Bloomberg



creditors relieved the tension as the government agreed to a new adjustment programme in July.

Among the emerging economies, devaluation of the Chinese Yuan by nearly 4% was one of the biggest movements and surprises to the markets. In order to combat deflationary pressures and slowing economy, China stepped up monetary easing with several rate cuts throughout the year. The one-year lending rate changed from 5.6% to 4.35%, the one-year deposit rate from 2.75% to 1.50%, and finally reserve requirement rate was reduced to 17.50% at the end of the year compared to 19.50% at the beginning of the year.

A decrease in interest rates prompted investors to move away from the bond market making equity market more attractive. On the other side, unusual structure of China's stock market is very vulnerable to large swings. Thus, the big sell-off in China in July led to the crash in Shanghai stock market by 30% over the three weeks. Later in August on Black Monday the Shanghai stock was down again by 8.5%.

The year-end was hallmarked by announcement of 6-month extension to ECB QE programme, from September 2016 to March 2017, and a 10bps cut in deposit rate. ECB also added state, agency and supranational securities, semi-public securities and local debt to the list of securities that can be bought under the repurchase program.

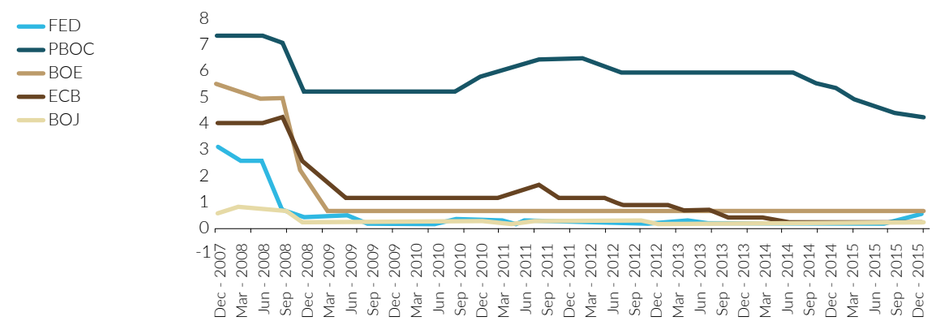
Economic situation in emerging countries, particularly Chinese slowdown, made the FED postpone the move in interest rates from spring to the end of the year. Finally, in December 2015 the FED approved a quarter-point increase in its target funds rate, after seven years of the most accommodative monetary policy in US history. The improved employment numbers and high growth rate created favorable conditions for FED to implement rate hike, first time after almost a decade.

Overall, 2015 marked itself as an eventful year of highly accommodative monetary policies, with the major central banks pursuing their monetary easing along with the rate hike in the US, thus, stipulating the divergence in monetary policies.

Chart 5.2.4.

Central Banks' benchmark interest rates (2007-2015, percentages)

Source: Bloomberg



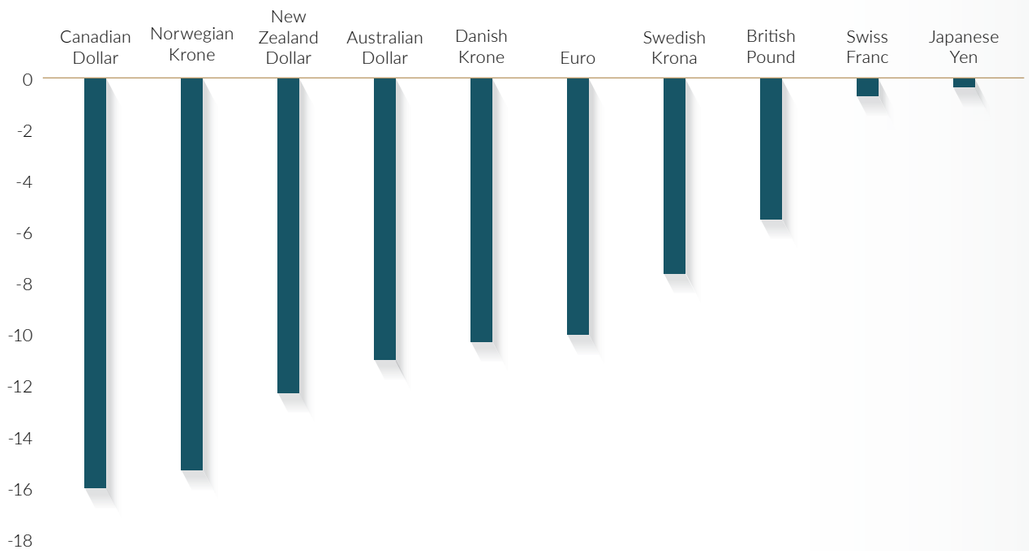
2015 was a year full of economic and financial turbulences, which no wonder created opportunities for volatility increase in exchange rates as well. Falling commodity prices greatly contributed to a stronger US dollar, leading to its appreciation against many currencies. A similar situation could be observed with other currencies of the developed countries, such as the appreciation in GBP and CHF which also strengthened against currencies of the commodity dependent economies.

Commodity-dependent emerging economies suffered from the decrease in commodity prices. Brazilian Real performed the worst falling by 25%.

Chart 5.2.5.

G10 currency performance in 2015 against USD (percentages)

Source: Bloomberg



Oil prices ended the year below USD 40 per barrel, marking the lowest level since 2009. Ongoing fall in oil prices led to the sustained excess of crude oil supply as OPEC's production continued to increase during the year. Meetings of OPEC in the course of the year have not changed oil production quota. Finally, the end of the Q4 was marked by even lower oil prices, as consensus in crude oil supply was not achieved.

Chart 5.2.6.

Oil prices in 2015 (USD)

Source: Bloomberg

FIXED INCOME MARKETS

Historically lowest yields in Germany

In Europe, bonds showed mixed performance despite the relative size of the Asset Purchase Program (APP). Overall Eurozone markets experienced heightened volatility, particularly in long maturities due to ECB officials' statements throughout the year. Front-end of the German sovereign yield curve was pushed to record negative levels due to ECB's unprecedented expansionary policies. 5 year Bunds was at negative rate territory consistently during the year, while 3 month Bill stood at -0.55% at the end of 2015.

Chart 5.2.7.
Germany sovereign yield curve (percentages)

Source: Bloomberg

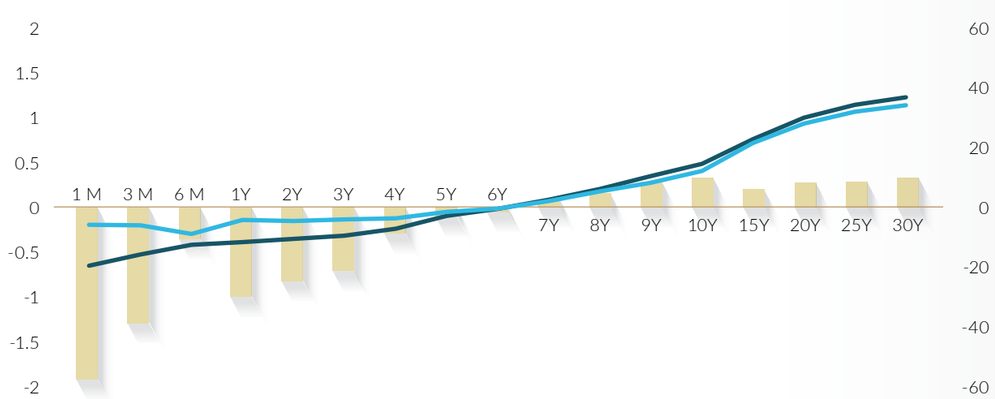
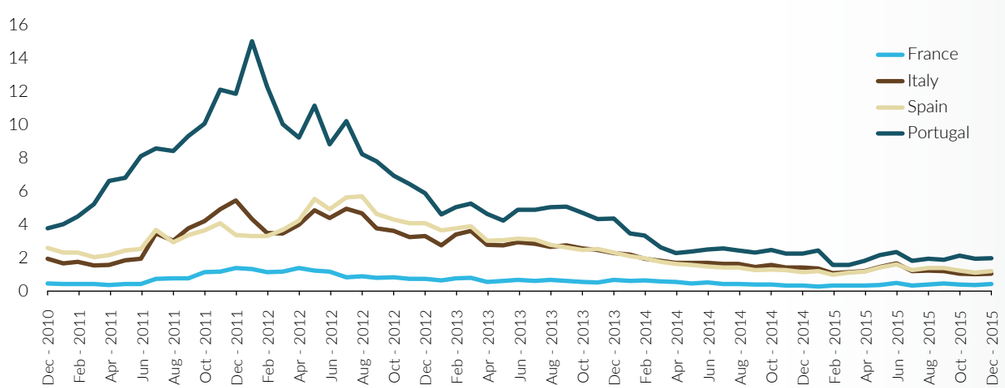


Chart 5.2.8.
10 year yield spread against Germany (percentages)

Source: Bloomberg



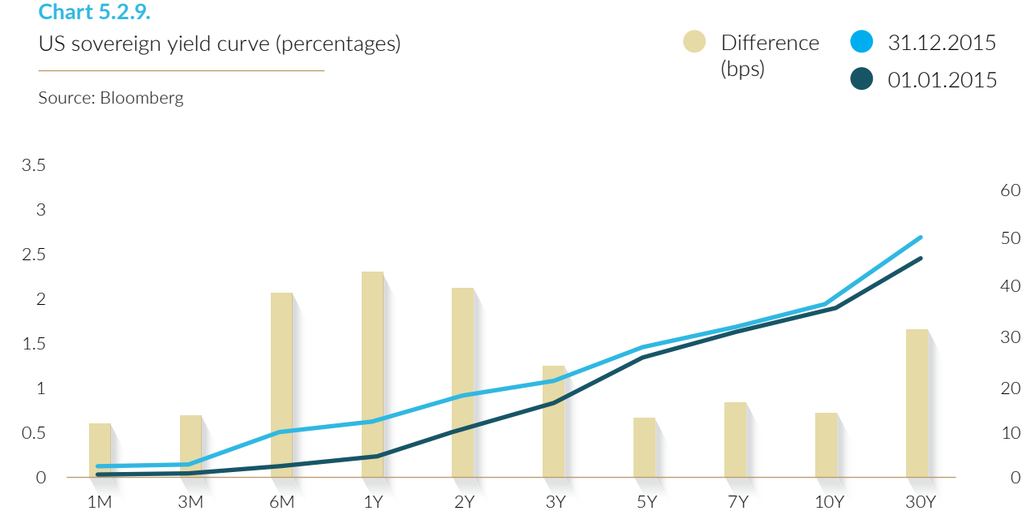
Taking just European 10-year yields, despite historically low spreads on periphery countries, only Italy boasted relatively favorable performance last year, due to its political stability. It is likely that without the turmoil in Greece, the political agitation in Catalonia and the presence of general elections in Portugal and Spain, the performances of other non-core country debts would have been similar to or even better than those of BTPs (Italian sovereign bonds).

The first rate hike in almost a decade

In the US short dated notes suffered from the first hike in the FED funds rate since 2006, while 10 year and 30 year yields only gained 10 bps and 25 bps despite much higher nominal growth. US FED's multiple adjustments in terms of wording, downward revisions to dot plots and growth projections also played a role in capping the rise in rates. While the massive UST sales by the Chinese authorities and oil producing countries made investors fear the worst for the US market for a while, they were largely offset by the return of Japanese investors and the renewed appetite of US investors seeking an alternative to the overvalued European market.

Chart 5.2.9.
US sovereign yield curve (percentages)

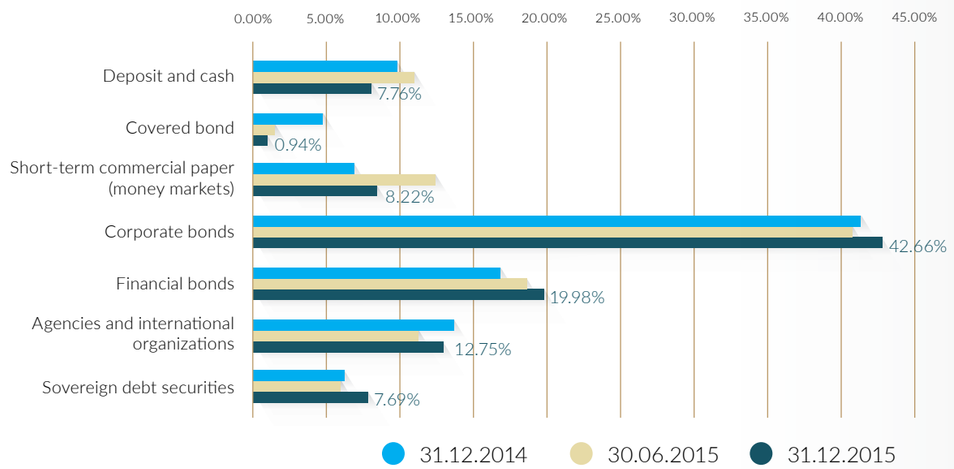
Source: Bloomberg



SOFAZ's Fixed Income Investments

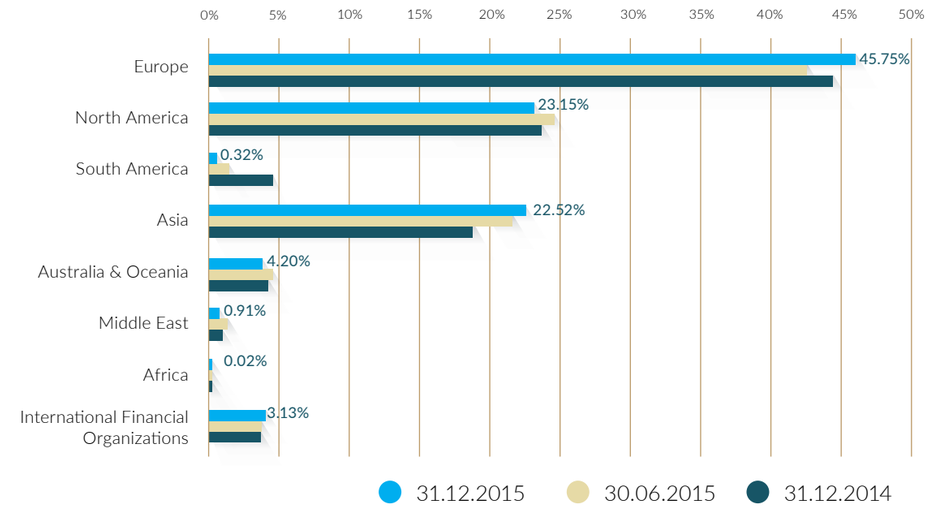
In 2015, our exposure to State-Supra-Agencies (SSAs) was kept approximately equal to its level in the previous year and the strategy of reallocating funds into Financial and Corporate bonds offering yield pick-up was continued. Exposure to the short-term commercial papers was also kept at the same level due to lower money-market yield levels and lack of opportunities.

Chart 5.2.10.
Breakdown of fixed income portfolio by product types (percentages)



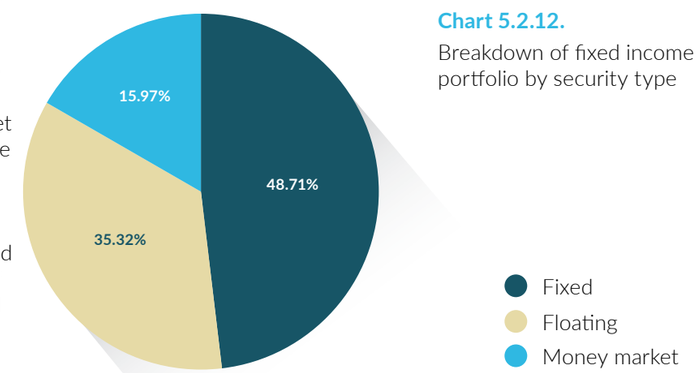
During the year under review, SOFAZ pursued the strategy of achieving geographical diversification of the fixed income portfolio. SOFAZ slightly increased its exposure to Europe (45.75%), whereas the exposure to North America was maintained almost the same with a slight decrease from approximately 25% in 2014 to 23.15% in 2015. Also, SOFAZ increased its exposure to emerging countries by introducing a new currency to its portfolio – CNY.

Chart 5.2.11.
Breakdown of fixed income portfolio by geographical distribution (percentages)



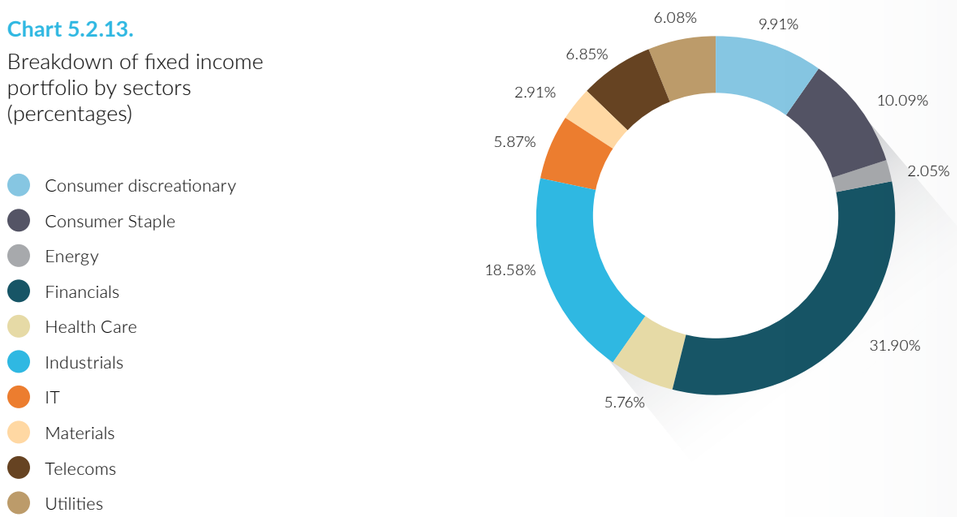
The portion of fixed coupon securities was decreased to 48.71% in 2015 from 53% in the previous year and the overall fraction of floating rate notes and money market securities was increased. The aim of this strategy was to benefit from potential rate hikes, increase in yields and widening spreads in the bond markets. 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 5.2.12.
Breakdown of fixed income portfolio by security type



Fixed income portfolio is well diversified across different industry sectors. The sectors receiving highest allocations were the same as in the previous year: financials, industrials, consumer staples and consumer discretionary.

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



EQUITY INVESTMENTS

Equity market review

2015 was featured with high level of volatility. Overall, with the ECB's QE, 2015 was expected to be a good year for European equities and it ended with European stocks outperforming their US peers.

In 2015, with all indices generally declining as part of a downward trend, US market did better than others in terms of USD as the S&P 500 was down about -0.7% while DJ EuroStoxx and FTSE 100 were down -3% and -10%, respectively. Nonetheless, the S&P had its worst cycle of volatility since 2011, as oil had not experienced similar price volatility since 2009. During the year household spending had been the main growth driver while spending from corporate investments remained stable in US. The negative level of foreign trade deteriorated even further throughout the year due to the dollar's persistent appreciation.

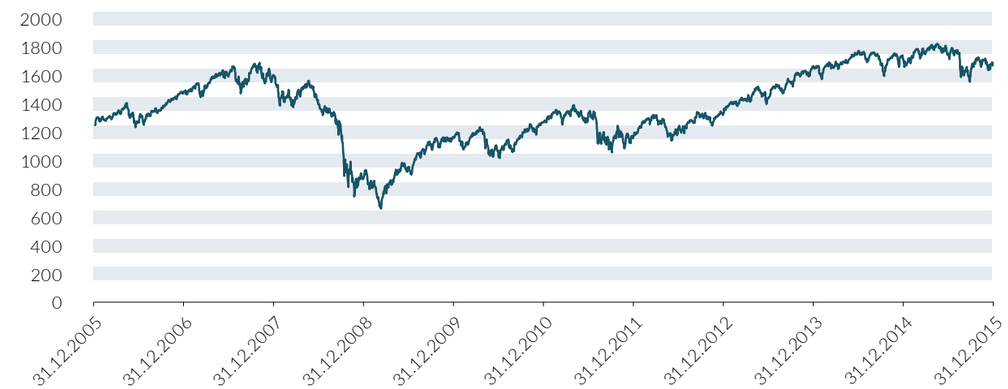
During 2015, DJ EuroStoxx Index returned 8% in local currency while FTSE 100 fell by around -4.9% as UK markets were particularly hit due to over-representation in directly oil related sectors. In terms of size, midcaps (+8.1%) significantly outperformed large caps (+4.8%). Due to the sharp decline in oil prices, sectors sensitive to the commodities trend (basic resources, oil, chemicals, energy sector) underperformed considerably whereas other sectors benefited from low-oil condition due to stimulated consumption (food & beverages, luxury goods) or due to decrease in operating costs (construction, airlines).

Japanese economy was driven back into another recession caused by China's slowdown which triggered the government's next stimulus programme.

The leading Japanese market index, Nikkei 225, posted an annual return of +0.04%.

Chart 5.2.14.
MSCI World Index (2005-2015, index points)

Source:Bloomberg



Equity portfolio

By the end of 2015, SOFAZ had increased its public equity portfolio to 7.7% of total AUM, compared to 5.1% in 2014. Throughout the year, public equity investments generated a local return of 3.64%.

The Fund mitigates portfolio volatility by investing the largest proportion of the equity portfolio into the well diversified MSCI World index. The return of the portfolio tracking MSCI World accounted for -0.05% in 2015.

SOFAZ's internally managed portfolio which is benchmarked to S&P 100 index (comprised of 101 blue chip stocks of USA) generated return of +2.66% throughout the year.

SOFAZ continues to hold an equity stake in VTB bank, a state-controlled Russian bank. In 2015, the local currency denominated return equaled 20.17%.

During 2015, SOFAZ increased its tactical allocation to European equities by investing EUR 800 million into MSCI ex-UK index benchmarked mandate. Return of the portfolio tracking MSCI ex-UK index was -6.44% in Euro terms in 2015.

PRIVATE EQUITY

Private Equity market review 2015

Private Capital markets witnessed another healthy year of capital raising with USD 288 billion aggregate capital raised by 689 Private Equity funds throughout the year. Total Private Equity AUM currently stands at USD 2.4 trillion. Given 1 620 market exits valued at some USD 416 billion, buyout funds exit value had dropped slightly since 2014. Venture capitalists engaged in 9 241 financings with a record aggregate value of USD 136 billion. Dry powder levels stood at USD 755 billion which led to the strengthened competition among funds over deals in the market.

Private Equity portfolio

By the end of 2015, SOFAZ had 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.

In 2015, SOFAZ hired Neuberger Berman, one of the largest US-based asset managers, to manage USD 200 million private equity separate account. SOFAZ will be investing in Buyout, Mezzanine, Growth funds and co-investments in the Developed Markets, primarily in North America and Western Europe through the mandate.

Chart 5.2.15.
Breakdown by sectors

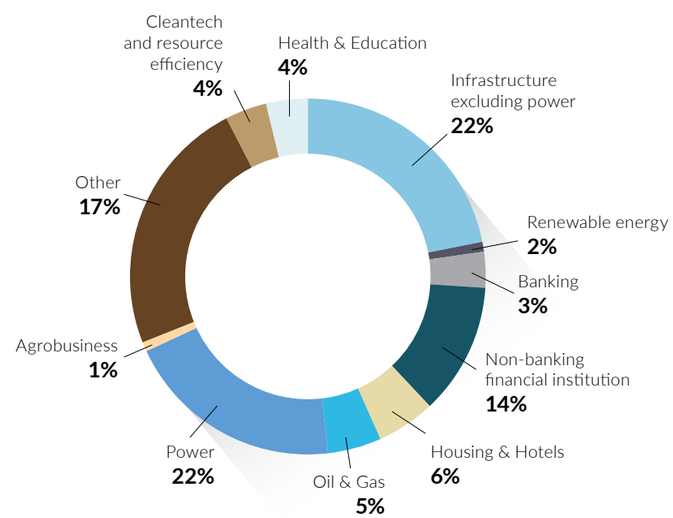
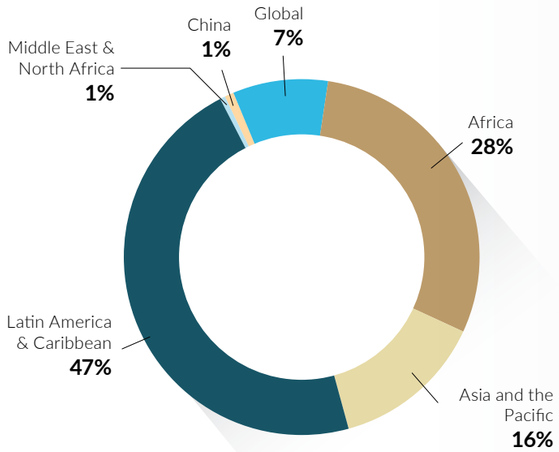


Chart 5.2.16.
Breakdown by regions



Investment to the new, semi-submersible drilling rig

In 2015, SOFAZ invested USD 287.6 million (AZN 300.6 million) in the charter capital of the Azerbaijan Rigs LLC, formed with the participation of SOFAZ (90%) and SOCAR (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 SOCAR and is the owner of existing drilling rigs in the Caspian Sea.

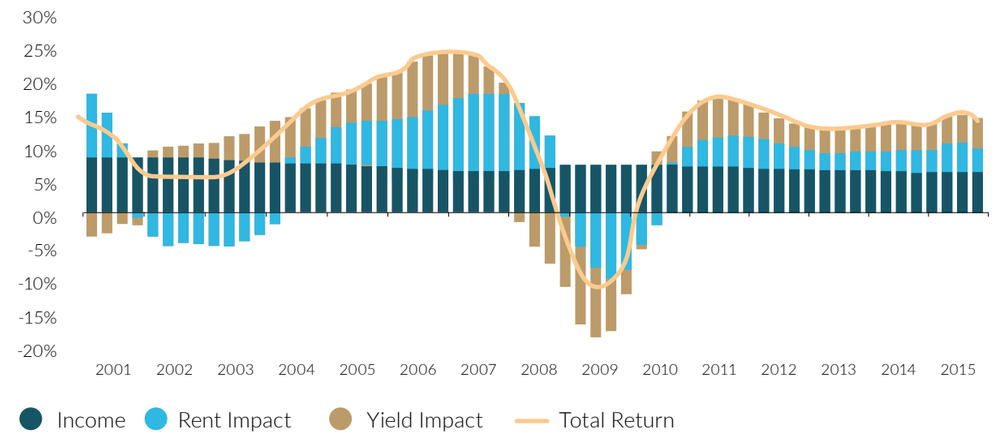
Real Estate Market highlights

For the past three years there has been a period of steady growth in global real estate trade volumes around the world. The global real estate market was USD 12.9 trillion in size in 2015 and it is projected to be capable of growing to USD 23.9 trillion by 2020. During 2015, the major global real estate markets were in better shape and capital markets were supported by improving corporate occupier demand across all the main global regions and property sectors. Furthermore, asset prices have reached all-time high which has led to a reduction in the number of buyers.

Last year, 14.0 million square meters of new office space was delivered globally, which is the highest record since 2009 and represents a 29% increase on 2014. This notwithstanding, the market, successfully absorbed this additional new space and global vacancy rates continued to decline. In 2015, prime rents across the three major commercial property types (office, retail and industrial) grew by 2.8% globally. Capital value appreciation on prime assets stood at 8.5% in 2015, broadly matching the levels of 2014. In the meantime, macroeconomic environment is expected to keep improving, and it may potentially provide a further boost to the strengthening global real estate market.

Chart 5.2.17.
Estimated unlevered prime property market returns (percentages, annually)

Source: Cushman & Wakefield, CoStar, JLL, CBRE, Colliers, Pramerica Real Estate Investors.



Europe

In Europe, conditions for real estate investors remain attractive, thanks to a combination of steady economic growth, extensive monetary policy support, and an abundance of capital targeting property acquisitions. During 2015 total Commercial Real Estate (CRE) investment reached EUR 246.3 billion (over EUR 100 billion was invested into the office sector and nearly EUR 70 billion into the retail sector), just surpassing the previous record year of 2007. Across Europe, in particular, rental growth remained elusive and the price of core assets drove up in "gateway" cities such as London, Paris, Milan and Berlin. In line with expectations, London and Paris filled the top two spots in the table of the most liquid markets in Europe in 2015.

Chart 5.2.18.
European investment activity (EUR, billion)

Source: Cushman & Wakefield Research

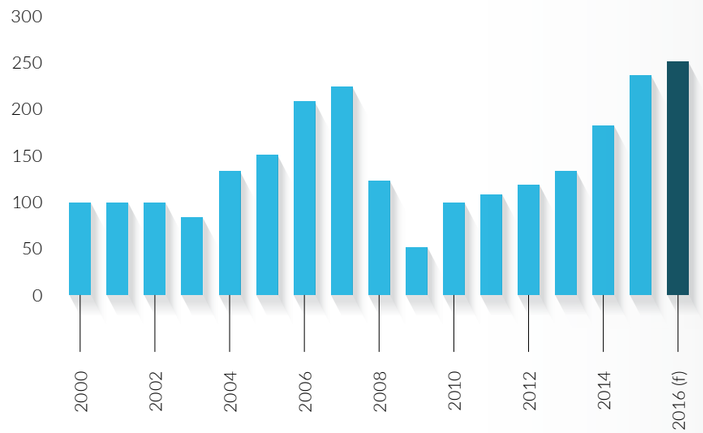
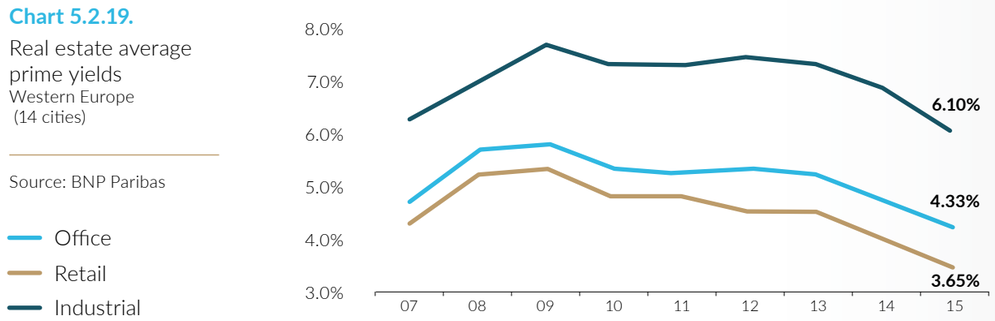


Chart 5.2.19.
Real estate average prime yields
Western Europe
(14 cities)

Source: BNP Paribas

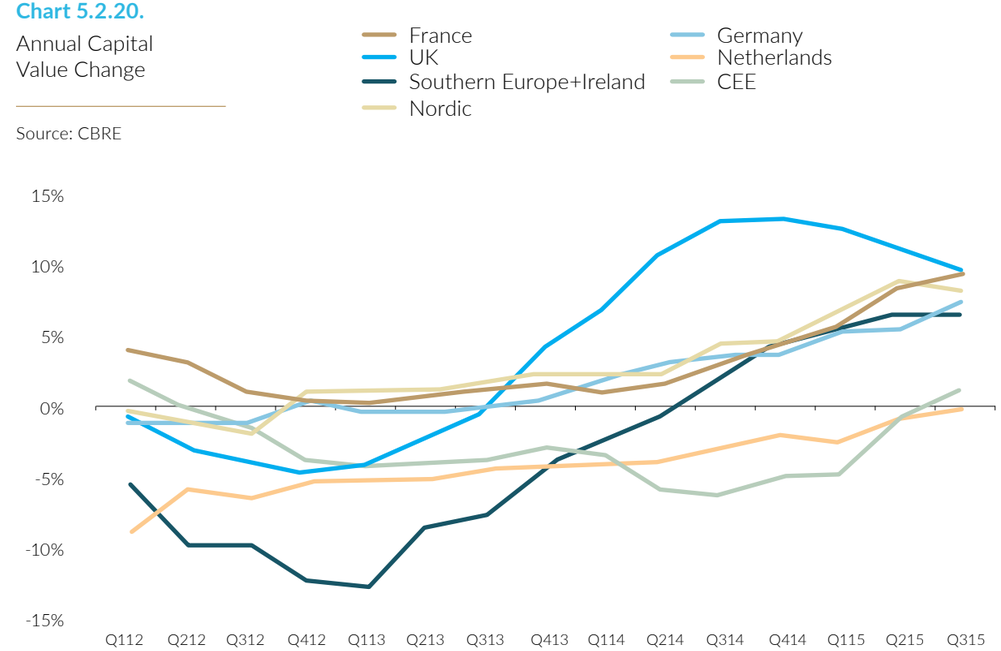


Among the top three European markets, there was quite a significant divergence in performance between the UK, France and Germany over the course of 2015. The German market was particularly strong, with 14% year-on-year growth. By contrast, the UK saw a marked drop in the final quarter of 2015 relative to 2014, which pulled full-year volumes down by 11% against 2014. In France, 2015 was also featured with a comparatively weak Q4 with volumes at USD 10.7 billion, which resulted in a full-year 16% fall from the 2014's total.

An increase in the multitude of transactions in 2015 pushed prices up. Average prime yields for Europe stood at 4.6% in 2015. Capital growth at all the property levels grew by 1.7% with the yield impact once again being the sole reason behind.

Chart 5.2.20.
Annual Capital Value Change

Source: CBRE



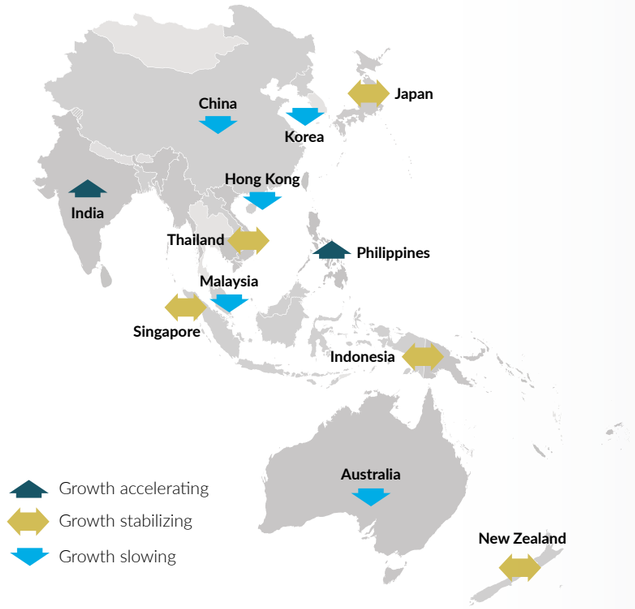
Asia Pacific (APAC)

Asia Pacific was in a slowdown period, with the total property investment activity in 2015 down by about a quarter compared to 2014. This was due to the all-time high asset prices, the economic slowdown in China and some major investors being more focused on outbound (rather than domestic) investment opportunities. Investors in Japan and Australia retained a strong appetite for high quality core assets. Market sentiment deteriorated in China as foreign investors turned more cautions amid an increase in market uncertainty and the ongoing devaluation of the RMB.

Chart 5.2.21.

Asias Economic performance 2015/2016

Source: Heitman Research

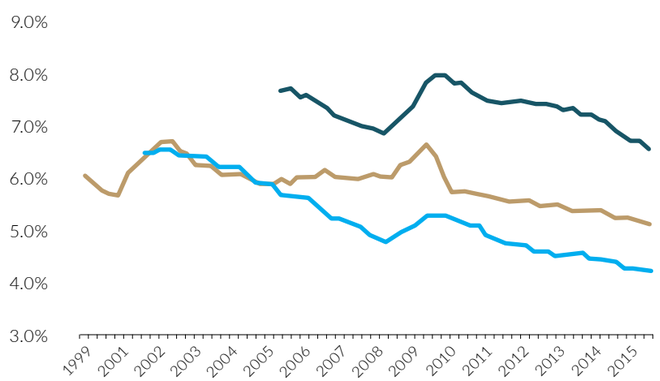


Despite relatively high levels of new completions in Asia Pacific, improving absorption helped the regional vacancy rate to edge down further to 10.6% in 2015. Demand for office space increased in 2015, with net absorption of 4.6 million square meter. Shenzhen and Tokyo were the most active markets.

Chart 5.2.22.

Aggregate regional yields

Source: Heitman Research



Investment volumes across Asia Pacific's commercial real estate markets finished the full-year 2015 slightly down (by 6% year-on-year) at USD 123.6 billion.

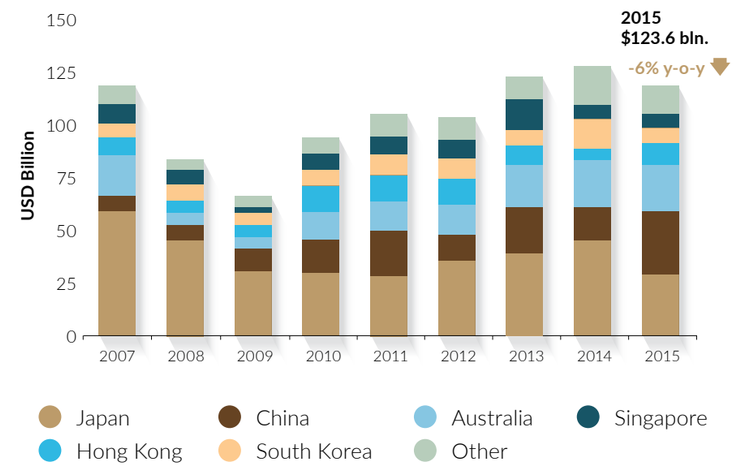
The combination of increased international capital and falling policy rates/cost of debt has placed downward pressure on the yields of core assets.

The average net effective rental growth across Asia Pacific accelerated to 3.7% in 2015.The highest rental growth was led by Hong Kong (+13.3%) and the strongest uplift was seen in Sydney (+5.4%), followed by Bangalore (+3.8%) on the back of robust tenant demand. Improved business sentiment also contributed to the rental growth gathering pace in Tokyo (+2.8%).

Chart 5.2.23.

Direct Commercial Real Estate Investment 2007-2015

Source: JLL (Real Estate Intelligence Service)



Figures refer to transactions over USD 5 million in office, retail, hotels and industrial.

Current Real Estate Portfolio

Acquisitions in 2015

Kirarito Ginza

In August 2015, SOFAZ acquired 98% interest in Kirarito Ginza, a landmark retail property located in Chou Avenue, the most prestigious retail location in Tokyo. The property was sold by an SPC vehicle named GK John for JPY 52.3 billion. Mitsubishi UFJ Trust and Banking Corporation, holder of the remaining 2% stake also acts as the manager for the asset. Kirarito Ginza was completed in May 2014 and has gross floor area of 16 581.94 square meters with 12 floors above and 3 floors below the ground. The building is lent to 47 tenants. Weighted average lease term at the time of the acquisition was over 7 years.

Annual earnings

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

During 2015, rents mentioned below were collected from the five respective investments:

- London, 78 St James Street, GBP 9 648 048;
- Paris, 8 Place Vendome, EUR 5 860 400;
- Moscow, 16 Tverskaya, RUB 349 659 436 RUB;
- Seoul, Pine Avenue Tower A, KRW 31 071 645 406;
- Tokyo, Kirarito Ginza, JPY 722 169 920.

In 2015, the initiated redevelopment program continued in Actor Gallery, Moscow. As a result of this program, net operating income fell compared to 2014, associated with the loss of rental income and capital expenditure. In 2015, SOFAZ subsidiary Tverskaya 16 OAO has signed a long-term lease agreement with a globally established retail company for the retail part of Actor Gallery. After the completion of the redevelopment works in the retail part of the building, the company will move to Actor Gallery in March 2017.

All five assets were independently valued at the end of 2015. The valuation results and valuation companies are as below:

- 78 St James Street, Knight Frank LLP, GBP 217 000 000.
- 8, Place Vendome, BNP Paribas Real Estate, EUR 164 610 000
- Tverskaya 16, Cushman & Wakefield, RUB 5 400 000 000
- Pine Avenue Tower A, Kyungil Appraisal, KRW 492 100 000 000
- Kirarito Ginza, Daiwa Real Estate Appraisal JPY 52 600 000 000

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 2013, SOFAZ began to transfer the purchased gold to Azerbaijan. By the end of 2015, 30 169 kg of gold has been transferred to Azerbaijan and temporarily stored in the vaults of the CBAR.

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 Internal Resolution No.5 dated April 21, 2009. In accordance with this methodology, AZN, USD and EUR are taken as the base currencies when calculating performance of the total investment portfolio. The performance is calculated without taking into account currency exchange fluctuations. The performance of each sub-portfolio is measured in the respective (local) currency and in USD selected as the base currency (provided the impact of the currency component is indicated).

SOFAZ rate of return in 2015

The total rate of return of SOFAZ's investment portfolio was 1.24% in 2015. Annualized 10-year return was 2.42%. Annual returns since 2006 and cumulative monthly returns of SOFAZ's investment portfolio in 2015 are illustrated in charts 5.3.1 and 5.3.2, respectively:

Chart 5.3.1.

SOFAZ investment portfolio: rate of return

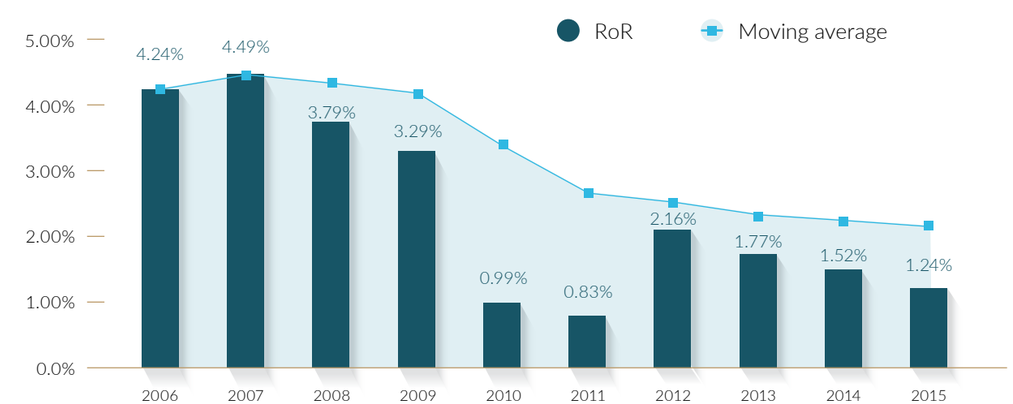
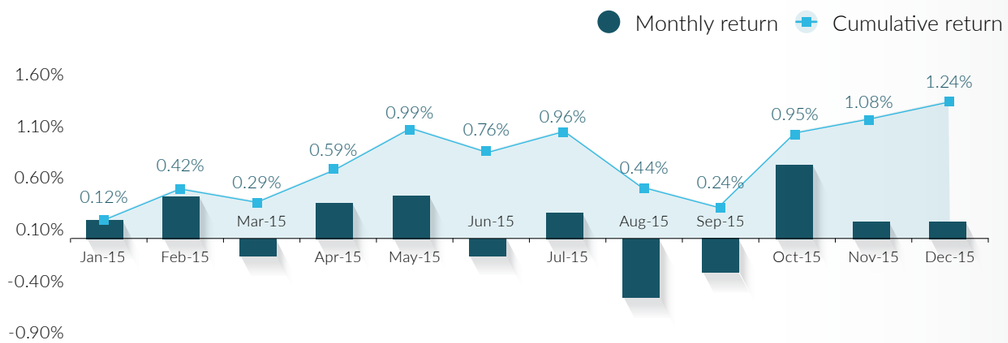


Chart 5.3.2.

Cumulative monthly performance

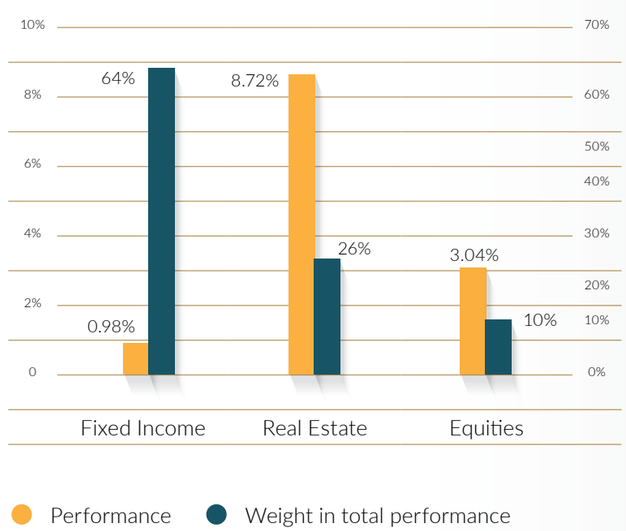


In 2015, annual returns for fixed income, real estate and equity (public and private) investments were 0.98%, 8.72% and 3.04%, respectively, while their corresponding contributions to the total performance of the investment portfolio (1.24%) accounted for 0.79%, 0.32% and 0.13%.

Individual performances of the asset classes and weights of their contributions in total performance are illustrated in Chart 5.3.3.

Chart 5.3.3.

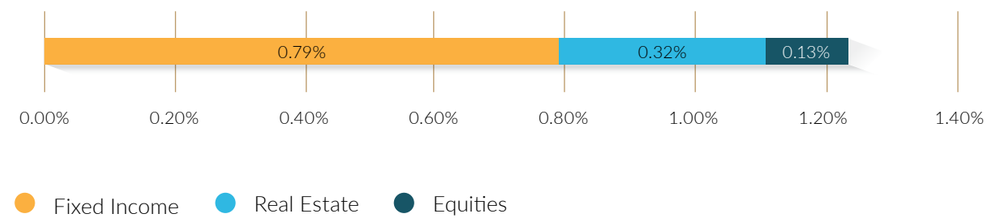
Performance of asset classes and weights of their contributions in total performance (1.24%)*



*Performance of the Gold investments is not included into the total performance results because it is treated as FX effect.

Chart 5.3.4.

Contribution to total performance by asset class*



*Performance of the Gold investments is not included into the total performance results because it is treated as FX effect.

Chart 5.3.5.

Cumulative monthly fixed income performance

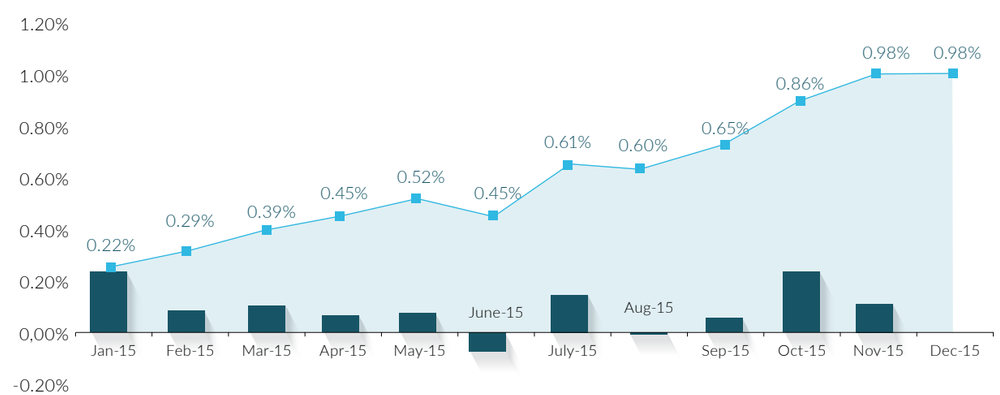
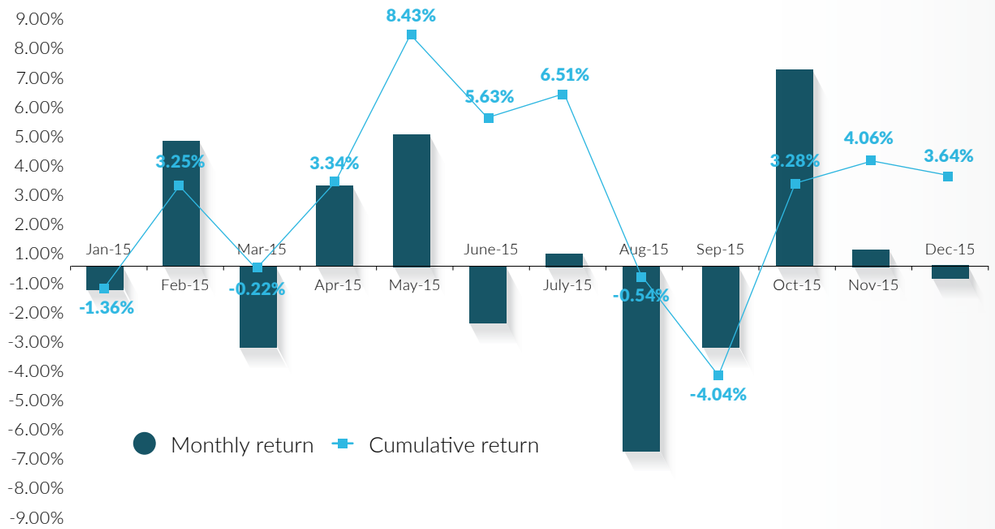


Chart 5.3.6.
Public equity performance



In 2015 SOFAZ embarked on passive replication of MSCI Europe ex UK Index. Compared to that of 2014, this year's public equity portfolio exhibited a more modest return of 3.64%. Cumulative monthly returns of public equity portfolio are shown in the Chart 5.3.6.

To monitor the divergence of risks and returns of SOFAZ sub-portfolios from benchmarks, tracking errors are continually observed. 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 31.12.2015, the tracking errors on an annual basis were 10 bps and 9 bps for the MSCI World index mandate portfolios managed by the SSGA and the UBS repectively, and 18 bps for the MSCI Europe ex UK index mandate portfolio managed by the UBS.

5.4. RISK MANAGEMENT

Risk management and risk monitoring procedures of SOFAZ include analysis across risk classes. Market risk and credit risk indicators, as well as other relevant measures, are reported both internally and externally. Market risks are analyzed at country, position, and risk factor levels. Our measures to assess the market risk include Value at Risk, tracking error, scenario analysis, stress tests etc. For the purpose 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.

As of 31.12.2015, the Fund's 20 day horizon 95% VaR accounted for USD 329 million compared to USD 337 million at the end of the previous year.

Chart 5.4.1.
Contribution to total VaR by asset classes

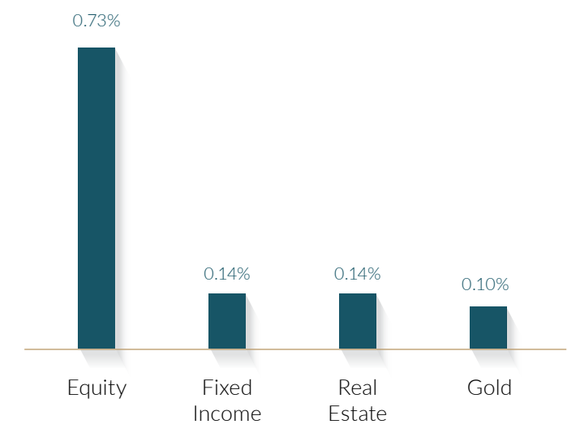


Chart 5.4.2.
Contribution to total equity VaR

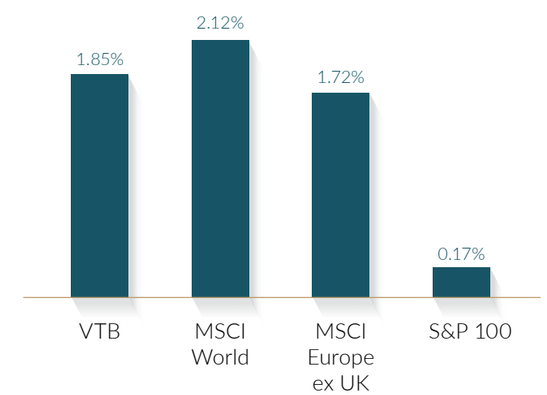
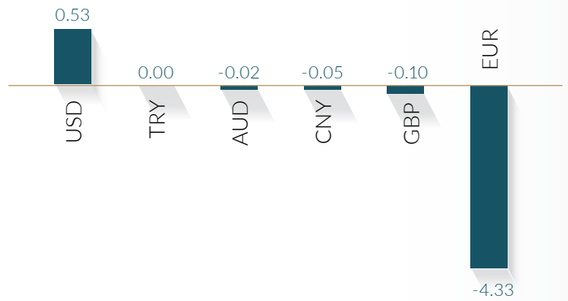
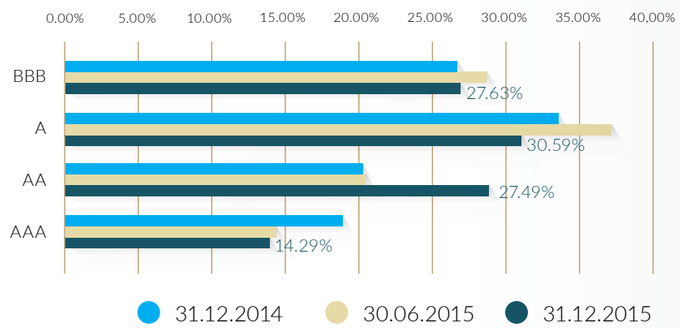


Chart 5.4.3.
Contribution to total fixed income VaR (bps)



Credit risk management is another crucial part of SOFAZ's risk procedures. The Fund's "Investment Guidelines" sets restrictions on the credit ratings of issuers and securities. The Chart 5.4.4. represents the change in the composition of the portfolio by credit rating from 2014 to 2015.

Chart 5.4.4.
Composition of the portfolio by credit ratings



SOFAZ'S 2015 BUDGET EXECUTION

In 2015, the revenues of SOFAZ's budget constituted AZN 7 721.1 million or USD 7 670.2 million meaning that the sum envisaged in the budget plan (AZN 10 246.6 million) was executed at 75.4%.

The actual budget expenditures in 2015 equalled to AZN 9 187.8 million or USD 9 202.0 million, 77.8% (AZN 11 813.9 million) of the estimated amount. The overall budget deficit of SOFAZ amounted to AZN 1 466.7 million or USD 1 531.8 million. Due to the appreciation of currencies and assets comprising the SOFAZ's portfolio against the Azerbaijan manat, SOFAZ recorded AZN 23 217.8 million of extra-budgetary revenues. On the other hand, USD 1 998.2 million of extra-budgetary expenses were incurred as a result of the fluctuations in exchange rates between the US dollar and other foreign currencies.

Revenues

In 2015, the revenues accrued to SOFAZ were formed from the sales of the Republic of Azerbaijan's share of hydrocarbons, fees paid to Azerbaijan for the oil and gas transit through its territory, bonus payments, acreage fees and revenues from management of the Fund's assets.

In 2015, revenues from the sale of profit oil and gas constituted AZN 7 369.6 million or USD 7 229.1 million being executed at the 75.7% of the estimated level of AZN 9 741.2 million. Thus, lower than expected oil prices resulted in the 24.3% underfulfilment of the respective income article. While in 2015, SOFAZ budget crude oil production from the ACG field was forecasted equal to 30.2 million tons or 221.0 million barrels, the actual production volume in this field amounted to 231.6 million barrels. Moreover, the SOFAZ's budget forecasts predicted the crude oil export price to constitute of USD 90.0 per barrel, while, in reality, the weighted average sale price and net price of profit oil sold during the previous year were close to USD 54.3 and USD 48.06, respectively.

Acreage fees paid by the foreign investors due to the use of carbohydrate resources represented another source of income for SOFAZ in 2015. In accordance with the terms of the agreement concluded between SOCAR, BP Exploration Limited and a SOCAR-affiliated company and regulating oil prospecting, exploitation and production sharing at the Shafag-Asiman offshore field situated in the Azerbaijani sector of the Caspian Sea, USD 2.1 million, or AZN 2.2 million of acreage fees were paid to SOFAZ. The upsurge in the exchange rate of the AZN against USD resulted in the actual AZN value of the fees being 41.4% higher than the estimated one (AZN 1.57 million).

The revenues obtained from the transit of oil and gas through the territory of Azerbaijan amounted to USD 11.6 million, or AZN 11.59 million in the reference year. The higher than expected exchange rate of the AZN resulted in the actual AZN value of the fees being 23.2% higher than the envisioned one (AZN 9.41 million).

In 2015, SOFAZ received AZN 2.11 million, or USD 2 million of bonus payments not envisioned in its budget. The fees were paid as part of the Agreement on exploration, reconstruction, exploitation works and production sharing at the Bahar and Qum Deniz field in the Azerbaijani sector of the Caspian Sea in recognition of the compliance with the contractor's duty of increasing daily production volume 1.5 times throughout 90 consecutive days.

The revenues accrued to SOFAZ from the management of its asset portfolio equalled USD 425.4 million or AZN 335.6 million in 2015. The average annual profitability of the assets stood at the level of 1.24%. Thus, the execution rate of this revenue item constituted 67.9% only.

Table 6.1.

SOFAZ's revenues in 2015

№	Sources of revenue	Amount of revenues (million AZN)		Execution rate
		envisioned	actual	
1.	Net income obtained from the sales of hydrocarbons falling into the share of Azerbaijan (excluding expenditures on transportation, customs clearance and banking services, independent surveyor services, marketing and insurance, as well as the shareholder incomes received by the SOCAR in the capacity of investor, shareholder or partner in different projects it is a party to)	9 741.8	7 369.58	75.7
2.	Acreage fees paid by investors per land they use for the exploitation of hydrocarbon reserves	1.57	2.22	141.4
3.	Fees from the transit of oil and gas through the territory of the Republic of Azerbaijan	9.41	11.59	123.2
4.	Bonus payments made by investors within the framework of signing or executing oil and gas contracts	0.00	2.11	
5.	Revenues obtained from the management of the SOFAZ's assets	494.36	335.58	67.9
6.	Other revenues and incomes under the legislation	0.10	0.00	0
	Total revenues	**10 246.62**	**7 721.08**	**75.4**
	Extrabudgetary revenues		**23 217.8**	

Extrabudgetary revenues

As the devaluation of the national currency undertaken by the Central Bank of the Republic of Azerbaijan increased the relative value of the currencies and assets constituting the Oil Fund's portfolio against the Azerbaijan manat, AZN 23 217.8 million of extrabudgetary revenues accrued to SOFAZ, AZN 22 501.0 million thereof stemming from the rising exchange rate of the USD, EURO, GBP and some other currencies and AZN 716.8 million from the increased value of the gold reserves.

Expenditures

The Fund's budget expenditures in 2015, initially planned to equal AZN 11 813.9 million, were executed at the 77.8% level and amounted to AZN 9 187.8 million (USD 9 202.0 million). In the reference year, the Fund's expenditures structure was as follows:

Within the framework of the SOFAZ's 2015 budget execution, AZN 150.0 million was spent on financing measures aimed at ameliorating social and living conditions of the refugees and internally displaced persons, thus the respective budget item was fully executed at the 100% level.
In total, a sum worth AZN 1 907.7 million was allocated on these purposes between 2001 and 2015.

The transfer from the SOFAZ to the state budget in 2015 constituted AZN 8 130.0 million, 78.3% of the sum envisioned in the budget project (AZN 10 388.0 million).

The budget for financing the project on the reconstruction of the Samur-Absheron irrigation system in 2015 was executed at the 100% level (AZN 90 million).

AZN 61.5 million or USD 51.5 million were put into financing of the Baku-Tbilisi-Kars- Railway project, amounting to 55.2% of the initially projected sum of AZN 111.5 million. Overall, the SOFAZ has allocated AZN 485.7 million (USD 588.1 million) for this project since 2007. According to the information provided by the Ministry of Transport of the Republic of Azerbaijan, the ordering party to the project, the 44.8% lower than expected execution of the project in 2015 was due to such factors as unfavourable weather conditions in the construction area throughout the considerable part of the year, the harsh relief structure of the land and the failure of the Georgian government to provide quarries required for the land under the project on time.

The "State Program on the education abroad of the Azerbaijani youth in the years of 2007-2015" was financed by the Fund at AZN 35.5 million, with 80.6% of the sum initially allocated for the respective budget item (AZN 44.1 million). Out of this sum, provided according to the orders from the Ministry of Education of the Republic of Azerbaijan, AZN 16.8 million was allocated to living expenses, AZN 17.2 million to the tuition fees, approximately AZN 0.8 million to transportation costs, AZN 0.5 million to medical insurance, AZN 0.1 million to cover visa and registration costs and AZN 0.1 million for other expenses. As of 31 December 2015, the number of students whose studies abroad were covered by the Fund within the framework of this program reached 3 283.

In order to ensure the second stage of the exploitation works at the "Shah Deniz" gas-condensate field, enlargement of the South Caucasus Pipeline as well as the management of Trans-Anatolian and Trans-Adriatic pipelines, the "South Gas Corridor" Closed Joint-Stock Company (SGC CJC) was established in accordance with the Decree of the President of the Republic of

Azerbaijan from 25 February 2014. The charter capital of the company set up by SOCAR constitutes 100 million USD, 51% thereof is owned directly by the state and 49% by SOCAR. According to the paragraph 2.1. of the aforementioned Decree, SOFAZ is responsible for the financing of the company's state-owned shares, while their ownership and management are vested to the Ministry of Economy. In 2015, AZN 692.9 million (USD 685.9 million) were contributed by SOFAZ into financing the Company's assets directly owned by the Azerbaijani government, 69.5% of the projected amount (AZN 997 016.2 thousand). The reasons why AZN 304.2 million out of the initially projected budget expenditures on the project were not ordered, are the sale of the 30% share of the TANAP project to BOTASH and 12% to BP that brought SGC CJC the profit of the size of USD 265.6 million invested into financing the project, as well as the shift of the certain works' timing to the next year.

SOFAZ's administrative expenses equalled AZN 27.9 million, or 83.8% of the respective expenses in the budget plan (AZN 33.3 million) in 2015.

In 2015, extrabudgetary expenditures of the size of USD 1 998.2 million were formed due to the changes in the exchange rates of the currencies constituting the SOFAZ investment portfolio, against the US dollar, as well the change in the price of gold.

Table 6.2.
SOFAZ's expenditures in 2015

№	Expenditure items	Amount of expenditures (million AZN)		Execution rate
		Confirmed	Actual	
1.	Financing measures aimed at ameliorating social and living conditions of the refugees and internally displaced persons	150.0	150.0	100.0
2.	Transfer from the State Oil Fund to the state budget in 2015	10 388.0	8 130.0	78.3
3.	Financing the project on the reconstruction of the Samur-Absheron irrigation system	90.0	90.0	100.0
4.	Financing of the Baku-Tbilisi-Kars railway project	111.5	61.5	55.2
5.	State Program on the education abroad of the Azerbaijani youth in the years of 2007-2015	44.1	35.5	80.5
6.	Financing the share of the Azerbaijan Republic in Southern Gas Corridor	997.0	692.9	69.5
7.	The Fund's administrative expenses	33.3	27.9	83.8
	Total expenses	**11 813.9**	**9 187.8**	**77.8**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report

Contents

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 2015 and the consolidated statements of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers Audit Azerbaijan LLC

01 April 2016
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

In thousands of Azerbaijani Manats	Notes	2015	2014	2013
Assets				
Non-current assets				
Financial assets at amortised cost	11	4,726,083	2,388,565	428,673
Investment properties	13	2,233,689	805,472	509,107
Property and equipment, net		145,878	1,472	8,456
Other non-current and intangible assets		4,288	144,459	106,364
Investments in joint venture	14	631,895	319,933	168,966
Total non-current assets		**7,741,833**	**3,659,901**	**1,221,566**
Current assets				
Cash and cash equivalents	8	3,361,406	2,271,131	1,276,341
Trading Securities	9	38,823,295	22,226,747	24,487,222
Other financial assets at fair value through profit or loss	10	396,969	93,495	61,361
Financial assets at amortised cost	11	139,828	110,974	313,381
Gold bullion	12	1,618,895	902,144	924,331
Other current assets		33,023	18,118	23,254
Total current assets		**44,373,416**	**25,622,609**	**27,085,890**
TOTAL ASSETS		**52,115,249**	**29,282,510**	**28,307,456**
Equity				
Contributed capital	15	28,292,786	30,067,186	27,794,666
Revaluation reserves		-	-	3,800
Foreign currency translation reserve		886,175	(80,176)	6,817
Accumulated (loss)/profit		22,874,134	(720,036)	494,291
Equity attributable to the Fund		52,053,095	29,266,974	28,299,574
Non-controlling interest		13,809	-	-
Total equity		**52,066,904**	**29,266,974**	**28,299,574**
Liabilities				
Non-current liabilities	**16**	**32,467**	**-**	**-**
Current liabilities		**15,878**	**15,536**	**7,882**
TOTAL LIABILITIES		**48,345**	**15,536**	**7,882**
TOTAL EQUITY AND LIABILITIES		**52,115,249**	**29,282,510**	**28,307,456**

The notes set out on pages 88 to 153 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

In thousands of Azerbaijani Manats	Notes	2015	2014
Interest income and other investment income	17	609,731	548,955
Net gain /(loss) on foreign currency translation differences	18	22,460,879	(1,616,273)
Net fair value loss on financial assets at fair value through profit or loss	19	(280,607)	(166,883)
Net fair value gain/(loss) on gold bullions	12	716,751	(22,186)
Net fair value gain on revaluation of investment properties	13	50,380	46,390
Rental income		61,377	36,187
Other operating income		706	8,253
Total operating income/(loss)		**23,619,217**	**(1,165,557)**
Operating expenses	20	(35,133)	(44,750)
Share of after tax results of joint venture	14	11,358	(296)
Profit/(loss) before income tax expense		**23,595,442**	**(1,210,603)**
Income tax expense	22	(1,162)	(935)
Net profit/(loss) for the year		**23,594,280**	**(1,211,538)**
Items that will not be reclassified subsequently to profit or loss			
Revaluation of premises and equipment		-	(3,800)
Items that may be reclassified subsequently to profit or loss			
Translation of financial information of foreign operations to presentation currency		970,802	(86,993)
Other comprehensive income / (loss) for the year		**970,802**	**(90,793)**
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		**24,565,082**	**(1,302,331)**
Profit/(loss) is attributable to:			
- The Fund		23,594,170	(1,211,537)
- Non-controlling interest		110	-
Profit/(loss) for the year		**23,594,280**	**(1,211,537)**
Total comprehensive income /(loss) is attributable to:			
- The Fund		24,560,521	(1,302,331)
- Non-controlling interest		4,561	-
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		**24,565,082**	**(1,302,331)**

The notes set out on pages 88 to 153 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

		Attributable to the Fund					Non-controlling Interest	Total Equity
In thousands of Azerbaijani Manats	Note	Contributed capital	Property revaluation reserve	Currency translation reserve	Retained earnings/ (deficit)	Total		
At 1 January 2014		**27,794,666**	**3,800**	**6,817**	**494,291**	**28,299,574**	**-**	**28,299,574**
Profit / (loss) for the year		-	-	-	(1,211,538)	(1,211,538)	-	**(1,211,538)**
Other comprehensive income		-	(3,800)	(86,993)	-	(90,793)	-	**(90,793)**
Total comprehensive loss for 2014		**-**	**(3,800)**	**(86,993)**	**(1,211,538)**	**(1,302,331)**	**-**	**(1,302,331)**
Contribution received	15	12,343,810	-	-	-	12,343,810	-	12,343,810
Disposal of building		-	-	-	(2,789)	(2,789)	-	(2,789)
Transfers to the State Budget	21	(9,337,000)	-	-	-	(9,337,000)	-	(9,337,000)
Transfers for construction of "Star" oil refinery complex	21	(223,538)	-	-	-	(223,538)	-	(223,538)
Transfers to the State Refugees Committee and Internally Displaced Peoples' Social Development Fund	21	(299,998)	-	-	-	(299,998)	-	(299,998)
Transfers for the reconstruction of Samur-Absheron Irrigation system	21	(80,221)	-	-	-	(80,221)	-	(80,221)
Transfers for the construction of new Baku-Tbilisi-Kars railway line	21	(57,040)	-	-	-	(57,040)	-	(57,040)
Transfers for the State Program on "Education of Azerbaijani youth abroad"	21	(33,494)	-	-	-	(33,494)	-	(33,494)
Transfer for the "Southern Gas Corridor"	21	(39,999)	-	-	-	(39,999)	-	(39,999)

The notes set out on pages 88 to 153 form an integral part of these consolidated financial statements.

		Attributable to the Fund					Non-controlling Interest	Total Equity
In thousands of Azerbaijani Manats	Note	Contributed capital	Property revaluation reserve	Currency translation reserve	Retained earnings/ (deficit)	Total		
Balance at 31 December 2014		**30,067,186**	**-**	**(80,176)**	**(720,036)**	**29,266,974**	**-**	**29,266,974**
Profit / (loss) for the year		-	-	-	23,594,170	23,594,170	110	23,594,280
Other comprehensive income		-	-	966,351	-	966,351	4,451	970,802
Total comprehensive income for 2015		**-**	**-**	**966,351**	**23,594,170**	**24,560,521**	**4,561**	**24,565,082**
Contributions received	15	7,385,505	-	-	-	7,385,505	-	7,385,505
Establishment of GK001, the subsidiary in Japan		-	-	-	-	-	9,248	9,248
Transfers to the State Budget	21	(8,130,000)	-	-	-	(8,130,000)	-	(8,130,000)
Transfers to the State Refugees Committee and Internally Displaced Peoples' Social Development Fund	21	(149,998)	-	-	-	(149,998)	-	(149,998)
Transfers for the reconstruction of Samur-Absheron Irrigation system	21	(89,998)	-	-	-	(89,998)	-	(89,998)
Transfers for the construction of new Baku-Tbilisi-Kars railway line	21	(61,522)	-	-	-	(61,522)	-	(61,522)
Transfers for the State Program on "Education of Azerbaijani youth abroad"	21	(35,538)	-	-	-	(35,538)	-	(35,538)
Transfer for the "Southern Gas Corridor"	21	(692,849)	-	-	-	(692,849)	-	(692,849)
Balance at 31 December 2015		**28,292,786**	**-**	**886,175**	**22,874,134**	**52,053,095**	**13,809**	**52,066,904**

The notes set out on pages 88 to 153 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

In thousands of Azerbaijani Manats	Notes	2015	2014
Cash flows from operating activities:			
Profit/(loss) before income tax expense		23,595,442	(1,210,603)
Adjustments to reconcile result to net cash used in operating activities			
Depreciation of property and equipment		5,829	138
Amortization of intangible assets		458	56
Unrealized loss on change in fair value of financial assets at fair value through profit or loss		347,336	165,039
Net unrealized (gain)/loss on foreign currency translation differences		(21,490,077)	1,589,105
Net (gain)/loss on revaluation of gold bullion	12	(716,751)	22,187
Fair value gain on revaluation of investment properties	13	(50,380)	(46,390)
Share of after tax results of joint venture	14	(11,358)	296
Change in interest accruals		(143,493)	(33,434)
Changes in operating assets and liabilities:			
(Increase)/decrease in financial assets at fair value through profit or loss	9,10	(270,203)	433,845
Increase in financial assets at amortised cost	11	-	(1,750,566)
Increase in investment properties	13	(450,590)	(347,743)
Increase in investment in joint venture	14	(300,604)	(151,263)
Decrease in tax receivables other than income tax		-	3,765
(Increase)/decrease in other assets		(14,908)	2,526
Increase/(decrease) in current liabilities		342	(3,238)
Net cash used in operating activities before income tax		**501,043**	**(1,326,280)**
Income tax paid		(1,162)	-
Net cash used in operating activities after income tax		**499,881**	**(1,326,280)**

In thousands of Azerbaijani Manats	Notes	2015	2014
Cash flows from investing activities:			
Purchase of property and equipment		-	(292)
Purchase of intangible assets		(10,522)	(63)
Net cash used in investing activities		**(10,522)**	**(355)**
Cash flows from financing activities:			
Contributions received	15	7,385,505	12,343,810
Transfers to the State Budget	21	(8,130,000)	(9,337,000)
Transfers for the reconstruction of Samur-Absheron Irrigation system	21	(89,998)	(80,221)
Transfers to the State Refugees Committee and Internally Displaced Peoples' Social Development Fund	21	(149,998)	(299,998)
Transfers for the construction of new Baku-Tbilisi-Kars railway line	21	(61,522)	(57,040)
Transfers for the State Program on "Education of Azerbaijani youth abroad"	21	(35,538)	(33,494)
Transfers for construction of "Star" oil refinery complex	21	-	(223,538)
Transfer for the "Southern Gas Corridor"	21	(692,849)	(39,999)
Proceeds from non-current liabilities		17,208	(38,088)
Net cash from financing activities		**(1,757,192)**	**2,234,432**
Effect of exchange rate changes on cash and cash equivalents		**2,358,108**	**86,993**
Net increase in cash and cash equivalents		**1,090,275**	**994,790**
Cash and cash equivalents, beginning of the year	**8**	**2,271,131**	**1,276,341**
Cash and cash equivalents, end of the year	**8**	**3,361,406**	**2,271,131**
Operating cash flows from interest and dividend received		655,671	515,521

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. INTRODUCTION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2015 for the State Oil Fund of the Republic of Azerbaijan (the "SOFAZ") and its subsidiaries (the "Fund"). SOFAZ was incorporated and is domiciled in the Azerbaijan Republic.

1. Principal Activity

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 and its direct and indirect subsidiaries listed in the following table and the after tax results of it's joint venture (together the "Fund"):

Subsidiary	% interest			Country	Date of establishment	Date of acquisition	Industry
	2014	2013	2012				
SOFAZ Re Ltd.	100	100	100	Island of Jersey	22-May-12	-	Property management
SOFAZ Re UK L.P.	100	100	100	Island of Jersey	6-Aug-12	-	Property management
SOFAZ Re Min Ltd.	100	100	100	Island of Jersey	13-Aug-12	-	Property management
78, St James`s Street Unit Trust	100	100	100	Island of Jersey	2-Oct-12	-	Property management
JSC Tverskaya 16	100	100	100	Russian Federation	29-Jun-93	21-Dec-12	Property management
SOFAZ RE Europe Holding Sarl	100	100	100	Luxembourg	31-Oct-12	-	Property management
SOFAZ RE Europe Sarl	100	100	100	Luxembourg	31-Oct-12	-	Property management
SCI 8 Place Vendome	100	100	100	France	14-Nov-12	-	Property management
Pine Avenue Tower A	100	-	-	South Korea	30-Oct-11	31-Mar-14	Property management
GK001 LLC	98	-	-	Japan	21-Aug-15	26-Aug-15	Property management
SOFAZ RE Fund	100	-	-	Luxembourg	27-May-15	-	Investment management
SOFAZ PE Fund	100	-	-	Luxembourg	28-Sep-15	-	Investment management

SOFAZ`s subsidiaries are entities which own investment properties located in United Kingdom, Russia, France, South Korea and Japan as described in Note 13.

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) 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. Contributions 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 portion 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 adjustments under Shah Deniz Phase I;

III. Bonus payments - the

fees payable by foreign oil companies to State Oil Company of Azerbaijan Republic or other relevant authorities of the Republic of Azerbaijan due to signing of an oil contract and its implementation;

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;

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

VI. Contibutions 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-Erzerum export pipelines;

VII. Contributions 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 listed above and transfers them to SOFAZ.

The Regulations exclude the following from the list of sources of the Fund's contribution and assets:

- The rental fees from the use of state property under contracts with foreign companies;
- Contributions 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 proceeds generated from joint activities with foreign companies.

In 2015 and 2014, the Fund was a party to a custody agreement with the Bank of New York Mellon, and five (2014: four) investment management agreements with financial institutions, namely 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.

SOFAZ'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 2015 are authorized for issue by the Fund's Management on 01 April 2016.

Presentation currency. These consolidated financial statements are presented in thousands of Azerbaijani Manats ("AZN"), unless otherwise stated.

2. Presentation of Financial Statements

Statement of compliance – these consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").These are the Fund's first financial statements prepared in accordance with IFRS and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. Prior to transition the consolidated financial statements of the Fund were prepared and issued in accordance with International Public Sector Accounting Standards ("IPSAS") under the accruals basis and there are no changes on retained earnings/(accumulated loss) on transition. There was a change in classification of financial assets at fair value through profit or loss.

Based on the following, the Fund has adopted a decision on appropriateness of IFRS transition:

- IFRS is more appropriate for operational features of the Fund that have significantly been expanded in recent years;
- IFRS is used in most sovereign funds, which enables benchmarking of the Fund with funds in other countries;
- Based on developments in the financial sector, IFRS is more comprehensive and subject to more regular updates than IPSAS.

It should be noted that IFRS transition is limited to technical requirements, and with consideration of the fact that IPSAS is based on IFRS, the transition did not have a significant effect on the Fund's financial statements. Refer to Note 6.

3. Operating Environment of the Fund

Azerbaijan continues economic reforms and development of its legal, tax and regulatory frameworks towards a market economy. The future stability of the Azerbaijan economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Following a significant drop in crude oil prices, the Azerbaijani manat devalued by 34% against the US dollar on 21 February 2015 and a further 47% on 21 December 2015. Following the second devaluation, the Central Bank of the Republic of Azerbaijan announced transition of manat to a floating exchange rate. The exchange rates have not materially changed since year-end to 30 March 2016.

Low prices in the global oil market brought about a downfall in the SOFAZ's proceeds from hydrocarbon sales. Simultaneously, the Fund's assets, expressed in manat terms, grew following the appreciation of exchange rates of the foreign currencies included in the SOFAZ investment portfolio, against the manat.

The Azerbaijani government announced plans to accelerate reforms and support to the economy in response to the current economic challenges with the intention of attracting foreign investment and boosting the non-oil industry sectors of the economy.

The Fund's Management is monitoring these developments in the current environment and taking precautionary measures as it considers necessary in order to support the sustainability and development of the Fund's business in the foreseeable future.

4. Summary of Significant Accounting Policies

Basis of preparation

These consolidated financial statements have been prepared in accordance with IFRS under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value, and by the revaluation of premises and equipment, investment properties, gold bullions, and financial instruments categorised at fair value through profit or loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The Fund presents its consolidated statement of financial position separating current and non-current assets and liabilities. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented.

Consolidated financial statements

Subsidiaries are those investees, including structured entities, that the Fund controls because the Fund (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Fund has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Fund may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Fund assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Fund from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Fund, and are deconsolidated from the date on which control ceases. The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

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

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. SOFAZ and all of its subsidiaries use uniform accounting policies consistent with the Fund's policies.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by SOFAZ. Non-controlling interest forms a separate component of the Fund's equity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Fund, liabilities incurred by the Fund to the former owners of the acquiree and the equity interests issued by the Fund in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 Income Taxes;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Fund entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and.
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interest that are present ownership interests and entitle their holders to a proportionate share of the entity's equity in the event of liquidation may be initially measured either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interest are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Fund in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance

with IAS 39 Financial Instruments: Recognition and Measurement, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Fund's previously held equity interest in the acquiree is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Fund reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Fund's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of profit or loss and other comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Fund's policy for goodwill arising on the acquisition of an associate or joint ventures is described below.

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 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.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Fund's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Fund's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Fund's net investment in the joint ventures), the Fund does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.
Unrealised gains on transactions between the Fund and its joint ventures are eliminated to the extent of the Fund's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Financial statements of joint ventures 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.

Disposals of subsidiaries, associates or joint ventures

When the Fund ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Fund had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate or joint venture is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

Non-controlling interest

Non-controlling interest represent the portion of profit or loss and equity of subsidiaries not owned, directly or indirectly, by the Fund.

Non-controlling interest are presented separately in the consolidated statement of profit or loss and within equity in the consolidated statement of financial position, separately from Fund's equity.

Financial instruments - key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available. Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between

levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 23.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Initial recognition of financial instruments

Trading securities and other financial instruments at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Fund commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

The Fund uses discounted cash flow valuation techniques to determine the fair value of investments that are not traded in an active market. Differences may arise between the fair value at initial recognition, which is considered to be the transaction price, and the amount determined at initial recognition using a valuation technique with level 3 inputs. Any such differences are initially recognised within assets or liabilities and are subsequently amortised on a straight line basis over the term of the investments. The differences are immediately recognised in profit or loss if the valuation uses only level 1 or level 2 inputs.

Derecognition of financial assets

The Fund derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Fund has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership, but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose restrictions on the sale.

Derecognition of 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 amortised cost plus interest, if any.

Trading securities

Trading securities are financial assets which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are securities included in a portfolio in which a pattern of short-term trading exists. The Fund classifies securities into trading securities if it has an intention to sell them within a short period after purchase, i.e. within 3-6 months.

The Fund may choose to reclassify a non-derivative trading financial asset out of the fair value through the profit or loss category if the asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of fair value through the profit or loss category only in rare circumstances arising from a single event that is unusual and highly unlikely to reoccur in the near term. Financial assets that would meet the definition of loans and receivables may be reclassified if the Fund has the intention and ability to hold these financial assets for the foreseeable future, or until maturity.

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

a) 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

b) 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.

Trading securities are carried at fair value. The Fund uses quoted market prices and valuation model to determine fair value for financial assets at fair value through profit or loss. The fair value adjustment on trading securities is recognized in the statement of profit or loss for the period

as part of net gain or loss on financial assets at fair value through profit or loss. Interest earned and dividend income on trading securities are included in interest income and other investment income in profit or loss and disclosed separately in the notes to the financial statements.

Other securities at fair value through profit or loss

Other securities at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Management designates securities into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Fund's key management personnel. Recognition and measurement of this category of financial assets is consistent with the above policy for trading securities.

Investment securities held to maturity

This classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Fund has both the intention and ability to hold to maturity. An investment is not classified as a held-to-maturity investment if the Fund has the right to require that the issuer repay or redeem the investment before its maturity, because paying for such a feature is inconsistent with expressing an intention to hold the asset until maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Investment securities held to maturity are carried at amortised cost.

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 with gains or losses recognised in profit or loss.

Investment properties

The fair value of the Fund's investment property is determined based on reports of independent appraisers, who hold a recognised and relevant professional qualification, and who have had recent experience of the valuation of property in similar locations and of similar category.

Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately. Gains or losses on disposal of investment property are calculated as proceeds less carrying amount. Where the Fund disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in profit or loss for the year within net gain from fair value adjustment on investment property.

In certain circumstances the Fund may dispose of a property other than at fair value, such as when there are special terms or circumstances allowing the parties to the transaction to obtain a benefit which would not generally be available to other market participants. In such circumstances, the carrying value immediately prior to the sale is adjusted to the estimated fair value at the disposal date, and any difference between proceeds and the carrying amount is recorded separately in profit or loss for the year within realised gains or losses on disposal of the investment property.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost for accounting purposes.

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under IAS 16. Any resulting increase in the carrying amount of the property is recognised in profit or loss for the year to the extent that it reverses a previous impairment loss, with any remaining increase credited directly to other comprehensive income. Any resulting decrease in the carrying amount of the property is initially charged against any revaluation surplus previously recognised in other comprehensive income, with any remaining decrease charged to profit or loss for the year.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Fund, and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Premises and equipment

The Fund's premises and equipment are tangible assets held for administrative purposes with an expected useful life of more than one accounting period. Premises and equipment are stated at cost less accumulated depreciation and provision for impairment, where required.

Premises are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised revaluation surplus in equity; all other decreases are charged to profit or loss for the year. The revaluation reserve for premises included in equity is transferred directly to retained earnings when the revaluation surplus is realised on the retirement or disposal of the asset. If there is no market based evidence of fair value, fair value is estimated using an income approach.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year to the extent it exceeds the previous revaluation surplus in equity. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

Depreciation

Land and construction in progress are not depreciated. Depreciation on other items of premises and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

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

The residual value of an asset is the estimated amount that the Fund would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 (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.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Income tax

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 profit or loss 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 profit or loss, except when it relates to items charged or credited directly to the equity, in which case the deferred tax is also dealt with the 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 profit nor taxable profit (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 profit or loss and other comprehensive income.

Provisions

Provisions are recognised when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that the Fund will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material)

Trade and other payables

Trade payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost.

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.

Equity reserves

The reserves recorded in equity (other comprehensive income) on the Fund's consolidated statement of financial position include:

- 'Foreign currency translation reserve' which is used to record exchange differences arising from the translation of the net investment in foreign operations;
- 'Property revaluation reserve' which comprises revaluation reserve of land and building;
- 'Other capital reserve'.

As discussed in Note 15 and 21, 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 and approved by the Decrees of the President of the Republic of Azerbaijan.

Contributions/transfers received/made by the Fund represent contributions/withdrawals and, accordingly, are recognized through net 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 profit or loss is recognized in the statement of profit or loss 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 SOFAZ'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 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 profit or loss in the consolidated statement of profit or loss and other comprehensive income.

	2015	2014	2013
AZN/1 US Dollar	1.5594	0.7844	0.7845
AZN/1 Euro	1.7046	0.9522	1.0780
AZN/1 GB Pound	2.3133	1.2173	1.2927
AZN/1 Russian Ruble	0.0216	0.0133	0.0241
AZN/100 Korean (South) Won	0.1328	0.0714	0.0743
AZN/100 Japanese Yen	1.2946	0.6515	0.7449

Rates of exchange

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

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

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.

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 equity.

Valuation of financial instruments

Financial instruments that are classified at fair value through profit or loss 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 profit or

loss and other comprehensive income 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 profit/(loss) could be material.

Management uses different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments where quoted market prices are not available using their own knowledge and capabilities, as well as, data obtained from it's custodians (mainly Bank of New York Mellon) and Bloomberg.

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.

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.

Staff costs and related contributions

Wages, salaries, contributions to the Azerbaijan State Social Insurance Fund, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Fund. The Fund has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

5. Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Fund makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

The Fund does not consolidate structured entities that it does not control. As it can sometimes be difficult to determine whether the Fund does control a structured entity, management makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the structured entity in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over a structured entity, but when considered together make it difficult to reach a clear conclusion. In cases where more arguments are in place towards existence of control, the structured entity is consolidated. Were the Fund not to consolidate the assets, liabilities and the results of these consolidated structured entities, the net effect on the statement of financial position would be a decrease in net assets of AZN 234,919 thousand (31 December 2014: nil; 31 December 2013: nil) and decrease in profit by AZN 2,992 thousand (2014: nil; 2013: nil). Refer to Note 27 for further information about the Fund's exposure to structured entities.

6. First-time Adoption of IFRS

These consolidated financial statements are the Fund's first annual consolidated financial statements that comply with IFRS. The Fund's IFRS transition date is 1 January 2014. Subject to certain exceptions, IFRS 1 requires retrospective application of the version of IFRS valid as of 31 December 2015 in preparing the opening IFRS statement of financial position at 1 January 2014 and in subsequent periods up to the end of the first IFRS reporting period. In preparing these consolidated financial statements, the Fund has applied the mandatory exceptions and has elected to apply the following optional exemptions:

Exceptions from retrospective application, which are mandatory under IFRS 1 are:

(a) Derecognition of financial assets and liabilities exception. Financial assets

and liabilities derecognised before the transition to IFRS are not re-recognised under IFRS. Management did not choose to apply the IAS 39 derecognition criteria from an earlier date.

(b) Hedge accounting exception. The Fund does not apply hedge accounting.

(c) Estimates exception. Estimates under IFRS at 1 January 2014 and 31 December 2014 should be consistent with estimates made for the same dates under previous accounting framework, unless there is evidence that those estimates were in error.

There are no effects of the transition from International Public Sector Accounting Standards ("IPSAS") to IFRS at 1 January 2014, 31 December 2014 and for the year ended 31 December 2014.

Trading securities are carried at fair values determined based on quoted market prices. There is no change on consolidation of subsidiaries and joint venture from IPSAS to IFRS. The Fund's operating, investing and financing cash flows reported under IPSAS did not significantly differ from IFRS.

7. New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2016 or later, and which the Fund has not early adopted.

IFRS 9 "Financial Instruments: Classification and Measurement" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018).

Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Fund is currently assessing the impact of the new standard on its consolidated financial statements.

Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38 (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016).

In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Fund is currently assessing the impact of the new standard on its financial statements.

IFRS 15, Revenue from Contracts with Customers (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018).

The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Fund is currently assessing the impact of the new standard on its financial statements.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016).

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Fund is currently assessing the impact of the new standard on its financial statements.

Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Fund is currently assessing the impact of the new standard on its financial statements.

Disclosure Initiative Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards. The Fund is currently assessing the impact of the new standard on its financial statements.

Disclosure Initiative – Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017).
The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Fund is expecting an impact of the amendment on its financial statements.

Investment Entities: Applying the Consolidation Exception Amendment to IFRS 10, IFRS 12 and IAS 28 (issued in December 2014 and effective for annual periods on or after 1 January 2016).
The Standard was amended to clarify that an investment entity should measure at fair value through profit or loss all of its subsidiaries that are themselves investment entities. In addition, the exemption from preparing consolidated financial statements if the entity's ultimate or any intermediate parent produces consolidated financial statements available for public use was amended to clarify that the exemption applies regardless whether the subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10 in such ultimate or any intermediate parent's financial statements. The Fund is currently assessing the impact of the new standard on its financial statements.

IFRS 16 "Leases" (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019).
The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Fund is currently assessing the impact of the new standard on its financial statements.

Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).
The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Fund is currently assessing the impact of the new standard on its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Fund's consolidated financial statements.

8. Cash and Cash Equivalents

Cash and cash equivalents comprise:

In thousands of Azerbaijani Manats	2015	2014	2013
Short-term deposits	1,793,488	1,019,569	841,559
Money market funds	1,162,216	816,305	84,012
Bank accounts	405,701	435,256	350,770
Cash on hand	1	1	-
Total cash and cash equivalents	**3,361,406**	**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:

In thousands of Azerbaijani Manats	2015	2014	2013
BNP Paribas Global Liquidity Funds plc	-	266,204	-
BlackRock ICS-Institution Liquidity Funds plc	1,147,079	550,101	84,012
The Goldman Sachs Group, Inc	15,137	-	-
Total money market funds	**1,162,216**	**816,305**	**84,012**

Bank accounts

Bank accounts were denominated in the following currencies:

In thousands of Azerbaijani Manats	2015	2014	2013
AZN	198,418	319,993	169,564
USD	156,559	91,632	171,848
GBP	6,298	5,665	3,384
CNY	2,421	-	-
CHF	1,386	82	63
AUD	1,062	308	297
EUR	3,579	540	4,074
RUB	8,345	4,714	776
KRW	1,513	10,564	-
CAD	355	446	109
HKD	225	67	107
NOK	158	7	10
DKK	164	18	7
NZD	95	40	4
JPY	24,956	1,006	333
SGD	63	68	100
SEK	53	45	34
ILS	45	60	52
TRY	6	1	8
Total bank accounts	**405,701**	**435,256**	**350,770**

At 31 December 2015 the Fund had AZN 198,371 thousand and AZN 47 thousand (2014: AZN 319,951 thousand and AZN 42 thousand; 2013: AZN 169,534 thousand and AZN 30 thousand) held at bank accounts in the Central Bank of the Republic of Azerbaijan and the International Bank of Azerbaijan, 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.

Deposits

The Fund's investments in deposits comprise:

In thousands of Azerbaijani Manats	2015	2014	2013
T.C. Ziraat Bankasi A.S.	388,396	309,158	131,238
Akbank T.A.S, Istanbul	233,744	263,286	109,338
Turkiye Is Bankasi A.S. Istanbul	584,165	355,036	313,009
IBA, Moscow	-	7,846	-
Turkiye Garanti Bankasi AS	587,183	84,243	209,095
Gazprombank, Moscow	-	-	78,817
BNP Paribas, London	-	-	13
VTB Bank JSC	-	-	49
Total deposits	**1,793,488**	**1,019,569**	**841,559**

As at 31 December 2015, the Fund placed AZN 1,793,488 thousand (31 December 2014: AZN 1,019,569 thousand; 31 December 2013: AZN 841,559 thousand) in deposits with non-resident banks maturing in January and February 2016 with credit ratings of BB/Ba3 (Standard & Poor's/ Fitch/Moody's) and above.

The credit quality of cash and cash equivalents balances may be summarised (based on Standard and Poor's/Fitch/ Moody's ratings) as follows at 31 December 2015:

In thousands of Azerbaijani Manats	Cash on Hand	Bank Account	Short term Deposit	Money Market Funds	Total
Neither past due nor impaired (at fair value)					
AAA	-	-	-	1,162,216	1,162,216
AA	-	26,342	-	-	26,342
A	-	170,924	-	-	170,924
BBB	-	199,795	622,141	-	821,936
BB	-	8,640	1,171,347	-	1,179,987
Securities without rating	1	-	-	-	1
Total cash and cash equivalents	**1**	**405,701**	**1,793,488**	**1,162,216**	**3,361,406**

The credit quality of cash and cash equivalents balances may be summarised (based on Standard and Poor's/Fitch/Moody's ratings) as follows at 31 December 2014:

In thousands of Azerbaijani Manats	Cash on Hand	Bank Account	Short term Deposit	Money Market Funds	Total
Neither past due nor impaired (at fair value)					
AAA	-	18,964	-	816,305	835,269
A	-	96,296	-	-	96,296
BBB	-	319,953	1,011,723	-	1,331,676
BB	-	43	7,846	-	7,889
Securities without rating	1	-	-	-	1
Total cash and cash equivalents	**1**	**435,256**	**1,019,569**	**816,305**	**2,271,131**

The credit quality of cash and cash equivalents balances may be summarised (based on Standard and Poor's/Fitch/Moody's ratings) as follows at 31 December 2013:

In thousands of Azerbaijani Manats	Cash on Hand	Bank Account	Short term Deposit	Money Market Funds	Total
Neither past due nor impaired (at fair value)					
AAA	-	1,190	-	84,012	85,202
AA	-	1,091	13	-	1,104
A	-	165,831	-	-	165,831
BBB	-	182,628	841,546	-	1,024,174
BB	-	30	-	-	30
Total cash and cash equivalents	**-**	**350,770**	**841,559**	**84,012**	**1,276,341**

Interest rate analysis of cash and cash equivalents is disclosed in Note 24.
Information on related party balances is disclosed in Note 26.

9. Trading Securities

Trading securities comprise:

In thousands of Azerbaijani Manats	2015	2014	2013
Agency/Supranational bonds	5,485,835	3,503,719	5,449,196
Corporate bonds	22,084,832	12,646,013	10,493,842
Sovereign bonds	3,310,346	1,549,124	2,575,694
Equity securities	4,002,867	1,451,680	1,069,158
Money Market	3,534,182	1,874,413	3,481,968
Covered Bond	405,233	1,188,182	1,405,137
SPDR Trust	-	13,616	12,227
Total trading securities	**38,823,295**	**22,226,747**	**24,487,222**

As at 31 December 2015 the Fund held AZN 3,708,059 thousand (USD 2,377,875 thousand), (2014: AZN 1,293,510 thousand (USD 1,649,043 thousand); 2013: AZN 869,884 thousand (USD 1,108,839 thousand)) under asset management agreements with financial institutions ("external managers") including cash and cash equivalents. The management fees in 2015 to the external managers were AZN 1,357 thousand (2014: AZN 651 thousand; 2013: AZN 669 thousand). During 2015, 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.

Agency/Supranational bonds

These bonds are represented by investments in debt securities issued by international organizations of Europe, Asia and America. These securities bear fixed interest ranging from 0.5% p.a. to 8.75% p.a. and USD LIBOR, EURIBOR, GBP LIBOR with the spread ranging from +0.01% p.a. to +1.2% p.a. (2014: from 0.25% p.a. to 9.875% p.a. and USD LIBOR, EURIBOR, GBP LIBOR with the spread ranging from +0.03% p.a. to +0.75% p.a; 2013: from 0.5% p.a. to 8.125% 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 2016 to June 2020 (2014: from January 2015 to June 2019; 2013: from January 2014 to November 2018).

As at 31 December 2015 total accrued interest on these securities amounted AZN 20,344 thousand (2014: AZN 9,092 thousand; 2013: AZN 7,743 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 bonds

Corporate bonds are represented by investments in debt securities issued by corporations of Europe, Asia, Australia and America. As at 31 December 2015 these securities bear fixed interest ranging from 0.06% p.a. to 8.625% p.a. and USD LIBOR, GBP Libor,EURIBOR and Australian Bank Bill Short Term Rate with the spread ranging from +0.17% p.a. to +2.02% p.a.,(2014: 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: from 0.45% p.a. to 9.875% p.a. and USD LIBOR and EURIBOR with the spread ranging from +0.14% p.a. to +2.5% p.a) and mature during the period from January 2016 to December 2020, (2014: from January 2015 to November 2020; 2013: from January 2014 to August 2017). As at 31 December 2015 total accrued interest on these securities amounted AZN 264,260 thousand (2014: AZN 155,520 thousand; 2013: AZN 162,817 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 and IBRD.

Sovereign bonds

Sovereign bonds are represented by investments in debt securities issued by various European, Asian, Australian, Africa and American institutions. As at 31 December 2015 these securities bear fixed interest ranging from 0.25% p.a. to 10.7% p.a. and USD and GBP LIBOR with the spread ranging from +0.05% p.a. to +0.63% p.a.(2014: 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: from 0.125% p.a. to 9.875% p.a. and USD LIBOR, GBP LIBOR, EURIBOR and Australian Bank Bill Short Term Rate with the spread ranging from +0.03% p.a. to +0.4% p.a) and mature during the period from January 2016 to July 2020,(2014: from January 2015 to January 2020; 2013: from January 2014 to June 2017). As at 31 December 2015 total accrued interest on these securities amounted AZN 35,537 thousand (2014: AZN 31,537 thousand; 2013: AZN 35,693 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 investments consists of investments in the following sectors at 31 December 2015, 2014 and 2013:

In thousands of Azerbaijani Manats	2015	2014	2013
Finance	1,352,269	567,027	584,129
Consumer	804,190	243,836	135,119
Telecommunication and information technologies	512,123	197,538	98,881
Industrial	392,007	124,600	71,630
Healthcare	483,772	139,783	68,549
Energy	171,518	88,176	57,672
Materials	176,381	54,460	34,654
Utilities	109,869	35,886	18,524
Transportation	738	374	-
Total equity securities	**4,002,867**	**1,451,680**	**1,069,158**

These securities were held in the portfolio managed both directly by the Fund as well as the Fund's external managers, SSGA and UBS.

Trading securities are carried at fair value which also reflects any credit risk related write-downs. As trading securities are carried at their fair values based on observable market data using bid prices from Bloomberg and BONYM, the Fund does not analyse or monitor impairment indicators.

Analysis by credit quality of debt trading securities is as follows at 31 December 2015:

In thousands of Azerbaijani Manats	Agency/ Supranational bonds	Corporate bonds	Sovereign bonds	Money Market	Covered Bond	Total
Neither past due nor impaired (at fair value)						
AAA	827,077	4,582	106,570	-	46,233	984,462
AA	1,677,155	1,595,104	706,115	371,369	255,643	4,605,386
A	1,923,103	11,726,284	759,155	1,336,831	103,357	15,848,730
BBB	1,058,500	8,758,862	1,708,902	1,825,982	-	13,352,246
BB	-	-	29,604	-	-	29,604
Total neither past due nor impaired	**5,485,835**	**22,084,832**	**3,310,346**	**3,534,182**	**405,233**	**34,820,428**
Total debt trading securities	**5,485,835**	**22,084,832**	**3,310,346**	**3,534,182**	**405,233**	**34,820,428**

Analysis by credit quality of debt trading securities is as follows at 31 December 2014:

In thousands of Azerbaijani Manats	Agency/ Supranational bonds	Corporate bonds	Sovereign bonds	Money Market	Covered Bond	Total
Neither past due nor impaired (at fair value)						
AAA	1,806,193	-	330,508	-	902,021	3,038,722
AA	1,289,647	1,535,050	360,597	78,402	286,161	3,549,857
A	247,366	6,258,166	33,989	979,472	-	7,518,993
BBB	160,513	4,774,254	822,159	816,539	-	6,573,465
BB	-	78,543	1,871	-	-	80,414
Total neither past due nor impaired	**3,503,719**	**12,646,013**	**1,549,124**	**1,874,413**	**1,188,182**	**20,761,451**
Total debt trading securities	**3,503,719**	**12,646,013**	**1,549,124**	**1,874,413**	**1,188,182**	**20,761,451**

Analysis by credit quality of debt trading securities is as follows at 31 December 2013:

In thousands of Azerbaijani Manats	Agency/ Supranational bonds	Corporate bonds	Sovereign bonds	Money Market	Covered Bond	Total
Neither past due nor impaired (at fair value)						
AAA	4,000,527	136,424	983,595	-	1,405,137	6,525,683
AA	1,071,604	1,387,402	39,206	1,033,020	-	3,531,232
A	3,700	5,498,164	407,660	1,650,577	-	7,560,101
BBB	373,365	3,457,287	1,069,278	798,371	-	5,698,301
BB	-	14,565	75,955	-	-	90,520
Total neither past due nor impaired	**5,449,196**	**10,493,842**	**2,575,694**	**3,481,968**	**1,405,137**	**23,405,837**
Total debt trading securities	**5,449,196**	**10,493,842**	**2,575,694**	**3,481,968**	**1,405,137**	**23,405,837**

The credit ratings are based on Standard & Poor's ratings where available, or Moody's or Fitch rating converted to the nearest equivalent on the Standard & Poor's rating scale. The debt securities are not collateralised.

10. Other Financial Assets at Fair Value through Profit or Loss

In thousands of Azerbaijani Manats	2015	2014	2013
IFC Funds	238,590	93,495	61,361
Real Estate Funds	158,379	-	-
Total other financial assets at fair value through profit or loss	**396,969**	**93,495**	**61,361**

The Fund irrevocably designated the above financial assets, which are not part of its trading book, as at fair value through profit or loss. The financial assets meet the criteria for classification at fair value through profit or loss because key management personnel assess performance of the investments based on their fair values in accordance with a strategy documented in the investment strategy.

The IFC Funds are comprised of three independent investment funds: IFC Global Infrastructure Fund (IFC GIF), IFC Catalsyt Fund (IFC CF) and IFC African, Latin American and Caribbean Fund (IFC ALAC). IFC GIF is formed with the purpose of identifying, acquiring, holding and disposing of a portfolio of equity or equity related infrastructure investments in emerging markets. As of 31 December 2015 the fair value of Fund's investment in IFC GIF was AZN 112,874 thousand (2014: AZN 31,505 thousand; 2013: AZN 14,077 thousand). IFC CF was formed with the purpose of investing in a portfolio of limited partnerships or equivalent interests of investment funds or other pooled investment vehicles ("Investee Funds"), and direct co-investments primarily focused on resource efficiency and developing low-emission products and services in emerging markets. As of 31 December 2015 the fair value of Fund's investment in IFC CF was AZN 16,696 thousand (2014: AZN 3,766 thousand; 2013: AZN 1,386 thousand). IFC ALAC is formed with the purpose of identifying, acquiring, holding and disposing a portfolio of equity or equity related investments in the African, Latin American and Caribbean regions. As of 31 December 2015 the fair value of Fund's investment in IFC ALAC was AZN 109,020 thousand (2014: AZN 58,224 thousand; 2013: AZN 48,897 thousand). All declared dividends are reinvested in above mentioned funds by SOFAZ.

Real estate Funds are comprised of investments into two real estate funds: AXA Real Estate Investment Manager Pan European Value Added Venture (PEVAV) and Pramerica European Value Partners Ltd Partnership S.C.S (EVP). The Fund has invested into these funds through its Luxembourg subsidiary, Sofaz Re Fund. The PEVAV fund has been established to implement value-added real estate strategies within targeted European countries including the UK, Germany, France, Spain, Italy, Netherlands, Poland and the Nordic/Scandinavian region. As of 31 December 2015 the fair value of Fund's investment in PEVAV was AZN 88,070 thousand (2014: nil). EVP is a real estate fund formed to acquire real estate assets in the Eurozone, targeting mainly France, Germany, Italy and Spain, with a value-add investment profile. As of 31 December 2015 the fair value of Fund's investment in EVP was AZN 70,309 thousand (2014: nil).

11. Financial Assets at Amortised Cost

Financial assets at amortised cost comprise:

In thousands of Azerbaijani Manats	2015	2014	2013
Current portion of financial assets at amortised cost	139,828	110,974	313,381
Non-current portion of financial assets at amortised cost	4,726,083	2,388,565	428,673
Total financial assets at amortised cost	**4,865,911**	**2,499,539**	**742,054**

These are comprised of corporate bonds of:

In thousands of Azerbaijani Manats	2015	2014	2013
JSC Cenub Qaz Dehlizi (Southern Gas Corridor)	4,006,976	1,987,120	-
Azerbaijan (ACG) Ltd (AzACG Ltd)	544,214	300,939	328,489
Mercury Investments and Holdings Ltd.	314,721	211,480	413,565
Total financial assets at amortised cost	**4,865,911**	**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 2015 the carrying amount of these bonds equaled AZN 1,463,963 thousand, AZN 1,983,079 thousand, AZN 160,530 thousand, AZN 399,403 thousand, respectively (2014: 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. The financial asset matured during the year 2015 and as of 31 December 2015, the carrying amount of the bond is nil (31 December 2014: AZN 54,600 thousand). 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 2015, 2014 and 2013 the carrying amount of these bonds equaled to AZN 299,405 thousand, AZN 156,880 thousand and AZN 160,588 thousand, respectively. 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 2015 the carrying amount of these bonds equaled to AZN 559,529 thousand (2014: AZN 300,939 thousand; 2013: AZN 298,951 thousand). The maturity date of the bonds is 31 December 2024 and the coupon rate is 6-month USD LIBOR + 1%.

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.

Analysis by credit quality of financial assets at amortised cost at 31 December 2015 is as follows:

In thousands of Azerbaijani Manats	Corporate bonds	Total
Neither past due nor impaired		
BBB	4,006,977	4,006,977
BB	858,934	858,934
Total neither past due nor impaired	**4,865,911**	**4,865,911**
Total financial assets at amortised cost	**4,865,911**	**4,865,911**

Analysis by credit quality of financial assets at amortised cost at 31 December 2014 is as follows:

In thousands of Azerbaijani Manats	Corporate bonds	Total
Neither past due nor impaired		
BBB	1,987,120	1,987,120
BB	512,419	512,419
Total neither past due nor impaired	**2,499,539**	**2,499,539**
Total financial assets at amortised cost	**2,499,539**	**2,499,539**

Analysis by credit quality of financial assets at amortised cost at 31 December 2013 is as follows:

In thousands of Azerbaijani Manats	Corporate bonds	Total
Neither past due nor impaired		
BBB	742,054	742,054
Total neither past due nor impaired	**742,054**	**742,054**
Total financial assets at amortised cost	**742,054**	**742,054**

The credit ratings are based on Standard & Poor's ratings where available, or Moody's or Fitch rating converted to the nearest equivalent on the Standard & Poor's rating scale.

Refer to Note 23 for the disclosure of the fair value of each class of investment securities at amortised cost. Information on related party investments at amortised cost is disclosed in Note 26.

12. 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:

In thousands of Azerbaijani Manats	2015	2014	2013
Opening balance at 1 January	**902,144**	**924,331**	**624,735**
Total purchase during the year	-	-	542,782
Net fair value gain/(loss) on gold bullions	716,751	(22,187)	(243,186)
Closing balance at 31 December	**1,618,895**	**902,144**	**924,331**

13. Investment Properties

Movement of investment properties:

In thousands of Azerbaijani Manats	2015	2014	2013
Investment properties at fair value at 1 January	**805,472**	**509,107**	**338,057**
Additions	459,837	351,443	145,578
Fair value gains/(losses)	50,380	46,390	11,465
Effect of translation to presentation currency	918,000	(101,468)	14,007
Investment properties at fair value at 31 December	**2,233,689**	**805,472**	**509,107**

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, "Pine Avenue Tower A" office complex located in Seoul, South Korea and "Kirarito Ginza" retail complex located in Tokyo, Japan. All

properties are leased out on a commercial basis.

As at 31 December 2015 investment properties are stated at fair value, which has been determined based on valuations performed by professional valuation companies, the accredited independent appraisers. The appraisers are recognized industry specialists 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 valuators who have advised on current market levels.

Detailed disclosure on fair value increase of investment properties:

Investment property	Fair value 2015	Change in fair value	Effect of translation to presentation currency	Additions	Fair value 2014
"Gallery Actor", Tverskaya 16, Moscow	116,640	(4,866)	45,962	-	75,544
"St James Street" UT, London	501,986	37,196	229,425	-	235,365
"SCI 8 Palace Vendome", Paris	280,594	7,366	122,617	124	150,487
"Kirarito Ginza" , Tokyo	680,960	1,505	219,822	459,633	-
"Pine Avenue Tower A", Seoul	653,509	9,179	300,174	80	344,076
	2,233,689	**50,380**	**918,000**	**459,837**	**805,472**

Investment property	Fair value 2014	Change in fair value	Effect of translation to presentation currency	Additions	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)	-	248,198
"SCI 8 Palace Vendome", Paris	150,487	13,828	(19,154)	-	155,813
"Pine Avenue Tower A", Seoul	344,076	3,279	(10,646)	351,443	-
	805,472	**46,390**	**(101,468)**	**351,443**	**509,107**

Establishment of SCI 8 Place Vendome

On 19 March 2013, the Fund acquired via a special purpose vehicle, a mixed use office, retail and residential 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 2015, SCI 8 Place Vendome has contributed AZN 6,682 thousand (2014: AZN 5,276 thousand; 2013: AZN 3,533 thousand) of rental income and AZN 11,116 thousand profit (2014: AZN 18,571 thousand; 2013: AZN 4,651 thousand) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value increase of AZN 7,366 thousand (2014: 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 Business District of Moscow, Russia. During 2015, JSC Tverskaya 16 contributed AZN 4,846 thousand (2014: AZN 6,638 thousand; 2013: AZN 8,524 thousand) of rental income and AZN 2,903 thousand loss (2014: AZN 31,003 thousand profit; 2013: AZN 6,228 thousand profit) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value decrease of AZN 4,866 thousand (2014: increase AZN 27,538 thousand; 2013: AZN 1,967 thousand)).

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 2015, the Unit Trust has contributed AZN 15,174 thousand (2014: AZN 12,474 thousand; 2013: AZN 11,842 thousand) of rental income and AZN 50,246 thousand profit (2014: AZN 12,442 thousand; 2013: AZN 18,241 thousand) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value increase of AZN 37,196 thousand (2014: 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 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 65,000 m². The asset is solely leased to S&K Group, one of the largest conglomerates of South Korea. During the year ended 2015, "Pine Avenue Tower A" has contributed AZN 28,142 thousand (2014: AZN 11,799 thousand) of rental income and AZN 32,366 thousand profit (2014: AZN 3,693 thousand loss) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value increase of AZN 9,179 thousand (2014: AZN 3,279 thousand)).

Establishment of Kirarito Ginza

SOFAZ made an investment in the amount of 51,989 million JPY (AZN 455,736 thousand) to an operator entity ("OE") under a Tokumei Kumiai ("TK") agreement on 21 August 2015. This investment formed 98% of the capital of the OE. 2% is held by the Asset Managers ("AM"), AM-Mitsubishi UFJ Trust and Banking Corporation. SOFAZ is free to sell this investment(right to cashflows) in the OE at any time. The OE invested proceeds from investors in an investment property, a retail complex in Ginza, Tokyo, for 52,434 million JPY (AZN 459,633 thousand), including investment-related acquisition costs. For detailed information, refer to the Note 24.

Since acquisition, "Kirarito Ginza" has contributed AZN 6,533 thousand (2014: nil) of rental income and AZN 5,520 thousand profit (2014: nil) to the net profit/(loss) before tax of the Fund (Net profit figure includes fair value increase of AZN 1,505 thousand (2014: nil)).

14. Investments in Joint Ventures

The table below summarises the movements in the carrying amount of the Fund's investments in joint ventures.

In thousands of Azerbaijani Manats	2015	2014	2013
Carrying amount at 1 January	**319,933**	**168,966**	**-**
Additions to investments in joint venture	300,604	151,263	169,136
Share of after tax results of joint venture	11,358	(296)	(170)
Carrying amount at 31 December	**631,895**	**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 300,604 thousand in 2015 (2014: AZN 151,263 thousand; 2013: AZN 169,136 thousand) directly to the entity. 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 joint venture are incorporated in these consolidated financial statements using the equity method of accounting.

At 31 December 2015, the Fund's interests in its joint venture and its summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Other income	Expenses	Profit/ (loss)	% interest held	Country of incorporation
"Azerbaijan Rigs" LLC	169,770	536,392	(4,052)	-	-	16,010	(3,391)	12,619	90%	Azerbaijan

At 31 December 2014, the Fund's interests in its joint venture and its summarised aggregate financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Revenue	Other income	Expenses	Profit/ (loss)	% interest held	Country of incorporation
"Azerbaijan Rigs" LLC	46,863	306,394	(375)	-	-	-	(329)	(329)	90%	Azerbaijan

15. Capital Contributions

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

In thousands of Azerbaijani Manats	2015	2014	2013
Contributions received from sales of oil and gas	7,369,582	12,319,849	13,108,016
Bonuses	2,108	13,345	1,850
Pipeline transit tariffs	11,595	8,911	8,064
Acreage fees	2,220	1,662	1,832
Other	-	43	112
Total capital contributions	**7,385,505**	**12,343,810**	**13,119,874**

16. Non-Current Liabilities

In thousands of Azerbaijani Manats	2015	2014	2013
Tenancy deposits	30,934	-	-
Other	1,533	-	-
Total non-current liabilities	**32,467**	**-**	**-**

Tenancy deposits comprise of prepayments made by tenants for Kirarito Ginza, the investment property in Tokyo with the amount of AZN 16,164 thousand and Pine Avenue Tower A, the investment property in Seoul with the amount of AZN 14,770 thousand.

17. Interest Income and Other Investment Income

In thousands of Azerbaijani Manats	2015	2014
Interest income on financial assets at fair value through profit or loss	432,953	442,306
Interest income on assets carried at amortized cost:		
Interest on term deposits	72,202	53,312
Income from financial assets at amortised cost	46,545	24,402
Income from money market funds	2,884	1,544
Interest on demand deposits	104	54
Other investment income		
Dividend income	55,043	27,337
Total interest and other investment income	**609,731**	**548,955**

18. Foreign Currency Translation Differences

Net foreign currency translation differences comprise of:

In thousands of Azerbaijani Manats	2015	2014
Net unrealized gain/(loss) on foreign currency translation differences	22,505,807	(1,589,105)
Net realized loss on foreign currency translation differences	(44,928)	(27,168)
Total net gain /(loss) on foreign currency translation differences	**22,460,879**	**(1,616,273)**

19. Net Fair Value Loss on Financial Assets at Fair Value Through Profit or Loss

Net loss on financial assets at fair value through profit or loss comprises:

In thousands of Azerbaijani Manats	2015	2014
Unrealized loss on change in fair value adjustment	(347,336)	(165,039)
Realized gain/(loss) on trading operations	66,729	(1,844)
Net loss on financial assets at fair value through profit or loss	**(280,607)**	**(166,883)**

20. Operating Expenses

Operating expenses are comprised of:

In thousands of Azerbaijani Manats	2015	2014
Asset management fee	(6,682)	(20,323)
Professional fees	(2,138)	(6,511)
Wages, salaries and employee benefits	(5,306)	(4,150)
Bank commissions	(1,508)	(2,861)
Rental expenses	(2,118)	(2,663)
Repair expenses	(3,520)	(2,499)
Other service expenses	(1,989)	(613)
Communication expenses	(604)	(495)
Depreciation and amortization	(6,403)	(326)
Other operating expenses	(4,865)	(4,309)
Total operating expenses	**(35,133)**	**(44,750)**

21. Transfers by the Fund

During 2015 transfers to the State Budget, as well as to the state institutions, state-owned entities and companies were made in accordance with:

- Decree #443 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 2015" dated 19 January 2015, "Program on main directions of management of the funds of The State Oil Fund of the Republic of Azerbaijan for 2015.

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

22. 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, Luxembourg and France.

According to the Presidential decree № 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. According to double taxation treaty with Japan, gains from Tokumei Kumiai investments is exempt from taxation in this country.

Standard corporate income tax rates for companies operating in the Russian Federation comprised 20% for 2015 and 2014. Whereas Luxembourg and French subsidiaries are subject to income tax at a rate of 33.3% (2014: 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.

23. Fair Value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31-Dec-15				31-Dec-14				31-Dec-13			
In thousands of Azerbaijani Manats	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets at fair value												
Financial Assets												
Trading securities	**38,823,295**	**-**	**-**	**38,823,295**	**20,074,784**	**2,151,963**	**-**	**22,226,747**	**20,880,762**	**3,606,460**	**-**	**24,487,222**
- Agency/Supranational bonds	5,485,835	-	-	5,485,835	2,864,470	639,249	-	3,503,719	4,161,627	1,287,569	-	5,449,196
- Corporate bonds	22,084,832	-	-	22,084,832	11,858,280	787,733	-	12,646,013	9,052,442	1,441,400	-	10,493,842
- Sovereign	3,310,346	-	-	3,310,346	1,549,124	-	-	1,549,124	2,499,739	75,955	-	2,575,694
- Equity securities	4,002,867	-	-	4,002,867	1,451,680	-	-	1,451,680	1,069,158	-	-	1,069,158
- Money Market	3,534,182	-	-	3,534,182	1,874,413	-	-	1,874,413	3,481,968	-	-	3,481,968
- Covered Bond	405,233	-	-	405,233	463,201	724,981	-	1,188,182	603,601	801,536	-	1,405,137
- SPDR Trust	-	-		-	13,616	-	-	13,616	12,227	-	-	12,227
Other financial assets at fair value through profit or loss	**-**	**-**	**396,969**	**396,969**	**-**	**-**	**93,495**	**93,495**	**-**	**-**	**61,361**	**61,361**
- IFC Funds	-	-	238,590	238,590	-	-	93,495	93,495	-	-	61,361	61,361
- Real Estate Funds	-	-	158,379	158,379	-	-	-	-	-	-	-	-
Non-financial Assets	**1,618,895**	**2,233,689**	**136,804**	**3,989,388**	**902,144**	**805,472**	**-**	**1,707,616**	**924,331**	**509,107**	**-**	**1,433,438**
- Investment properties	-	2,233,689	-	2,233,689	-	805,472	-	805,472	-	509,107	-	509,107
- Gold bullions	1,618,895	-	-	1,618,895	902,144	-	-	902,144	924,331	-	-	924,331
- Property and equipment, net	-	-	136,804	136,804	-	-	-	-	-	-	-	-
Total assets recurring fair value measurements	**40,442,190**	**2,233,689**	**533,773**	**43,209,652**	**20,976,928**	**2,957,435**	**93,495**	**24,027,858**	**21,805,093**	**4,115,567**	**61,361**	**25,982,021**

Level 3 financial assets consist of investments in International Finance Corporation Private Equity funds (IFC ALAC, IFC GIF and IFC CF) and Real Estate funds (PEVAV and Pramerica). Refer to Note 10.

The valuation technique, inputs used in the fair value measurement for investment properties and private equity investments are as follows:

Income and sales comparison method were used during the valuation of the office and retail complex "Actor Gallery" with the 10% and 90% weights, respectively. The significant input was used is a discount rate in a range between 12%-14%. For the sales comparison method, the significant input was adjusted sale price in RUR per square meter in a range between RUR 456,184 - RUR 949,342 (AZN 9,854 - AZN 20,506), which is adjusted based on the location and area of the similar real estate properties.

St James Street real estate has been valuated using income and market approach. The discount rate of 3.75% and price per square feet in a range between GBP 1,344 – GBP 2,309 (AZN 3,139 – AZN 5,341) was used as significant inputs for valuation.

For the valuation of Place Vendome property, both income and market approach was used. 3%-3.9% discount rate and prices per square meter of the comparative real estates were included in calculations.

Market and income approach with the weight of 50% was used for the valuation of Pine Avenue. The maximum and minimum value for both valuation was calculated. The significant input in the market approach was the estimated unit price per square meter in the range between KRW 7,000,000 - KRW 7,700,000 (AZN 9,296 - AZN 10,226). For the income approach, the significant input was the discount rate in a range between 5.2%-5.7%.

Income approach method was also used in the valuation of Kirarito Ginza property. The estimated discount rate of 2.7% derived through analysis of comparable data and adding risk premiums associated with the property to the yield on financial assets.

Private equities are valued using discounting cash-flow method or market approach method. For the IFC Funds, discounting cash-flow method is used for revaluation, where discount rate is considered as a significant input for valuation. For the purposes of valuation 12% discount rate was applied.

For equity securities, increases in the EBITDA multiple would each lead to an increase in estimated value. However, an increase in the discount for lack of marketability would lead to a decrease in value. No interrelationships between unobservable inputs used in the Fund's valuation of its Level 3 equity investments have been identified.

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2015 is as follows:

In thousands of Azerbaijani Manats	Other securities at fair value through profit or loss Corporate shares
Fair value at 1 January 2015	**93,495**
Gains recognised in profit or loss for the year	97,243
Purchases	206,231
Fair value at 31 December 2015	**396,969**

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2014 is as follows:

In thousands of Azerbaijani Manats	Other securities at fair value through profit or loss Corporate shares
Fair value at 1 January 2014	**61,361**
Losses recognised in profit or loss for the year	(759)
Purchases	32,893
Fair value at 31 December 2014	**93,495**

A reconciliation of movements in Level 3 of the fair value hierarchy by class of instruments for the year ended 31 December 2013 is as follows:

In thousands of Azerbaijani Manats	Other securities at fair value through profit or loss Corporate shares
Fair value at 1 January 2013	**33,798**
Losses recognised in profit or loss for the year	(1,282)
Purchases	28,845
Fair value at 31 December 2013	**61,361**

b) Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and carrying value of assets not measured at fair value are as follows:

	31-Dec-15				31-Dec-14				31-Dec-13			
In thousands of Azerbaijani Manats	**Level 1**	**Level 2**	**Level 3**	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Carrying value**	**Level 1**	**Level 2**	**Level 3**	**Carrying value**
Assets												
Financial assets at amortised cost												
- Corporate bonds	-	4,865,911	-	4,865,911	-	2,499,539	-	2,499,539	-	742,054	-	742,054
Other financial assets												
- Trade receivables	-	673	-	673	-	-	-	-	-	-	-	-
Total Assets	**-**	**4,866,584**	**-**	**4,866,584**	**-**	**2,499,539**	**-**	**2,499,539**	**-**	**742,054**	**-**	**742,054**
LIABILITIES												
Other financial liabilities												
- Trade payables	-	9,181	-	9,181	-	251	-	251	-	7,882	-	7,882
Total LIABILITIES	**-**	**9,181**	**-**	**9,181**	**-**	**251**	**-**	**251**	**-**	**749,936**	**-**	**749,936**

The fair values in level 2 and level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

24. Financial 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").

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 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.

2015	AAA	AA	A	BBB	Non-investment rating	Securities without rating	Total
Cash and cash equivalents	1,162,216	26,342	170,924	821,936	1,179,987	1	**3,361,406**
Trading securities	984,462	4,605,386	15,848,730	13,352,246	29,604	4,002,867	**38,823,295**
Financial assets at amortised cost	-	-	-	4,006,977	858,934	-	**4,865,911**
2014	**AAA**	**AA**	**A**	**BBB**	**Non-investment rating**	**Securities without rating**	**Total**
Cash and cash equivalents	835,269	-	96,296	1,331,676	7,889	1	**2,271,131**
Trading securities	3,038,722	3,645,482	7,532,609	6,573,465	80,414	1,356,055	**22,226,747**
Financial assets at amortised cost	-	-	-	1,987,120	512,419	-	**2,499,539**
2013	**AAA**	**AA**	**A**	**BBB**	**Non-investment rating**	**Securities without rating**	**Total**
Cash and cash equivalents	85,202	1,104	165,831	1,024,174	30	-	**1,276,341**
Trading securities	6,525,683	3,531,232	7,560,101	5,698,302	90,520	1,081,384	**24,487,222**
Financial assets at amortised cost	-	-	-	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).

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.

"Rules on Management of Foreign Currency Assets of the State Oil Fund of the Republic of Azerbaijan" specified requirements for Investment Policy (investment trend) of the Fund for 2015 and the currency basket of the Fund's portfolio for 2015. 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 2015, 50.16% of the Fund's investment portfolio was denominated in USD (2014: 55.97%; 2013: 49.45%), 38.18% in EUR (2014: 35.49%; 2013: 41,60%) and 4.66% in GBP (2014: 4.35%; 2013: 4.47%).

The table below summarizes the Fund's exposure to foreign currency exchange rate risk for the year ended 31 December 2015:

2015	AZN	USD	EUR	GBP	TRY	AUD	RUB	Other	Total
Financial assets									
Cash and cash equivalents	198,419	1,200,378	1,245,187	109,557	567,024	1,062	8,345	31,434	3,361,406
Trading Securities	-	17,475,757	16,729,904	2,100,069	27,790	298,648	654,832	1,536,295	38,823,295
Other Securities at Fair Value Through Profit or Loss	-	238,590	158,379	-	-	-	-	-	396,969
Financial assets at amortised cost	-	4,865,911	-	-	-	-	-	-	4,865,911
Other financial assets	673	-	-	-	-	-	-	-	673
Total financial assets	**199,092**	**23,780,636**	**18,133,470**	**2,209,626**	**594,814**	**299,710**	**663,177**	**1,567,729**	**47,448,254**
Financial liabilities									
Other financial liabilities	-	608	1,103	6,253	-	-	922	295	9,181
Total financial liabilities	**-**	**608**	**1,103**	**6,253**	**-**	**-**	**922**	**295**	**9,181**
Open position	**199,092**	**23,780,028**	**18,132,367**	**2,203,373**	**594,814**	**299,710**	**662,255**	**1,567,434**	**47,439,073**

The table below summarizes the Fund's exposure to foreign currency exchange rate risk for the year ended 31 December 2014:

2014	AZN	USD	EUR	GBP	TRY	AUD	RUB	Other	Total
Financial assets									
Cash and cash equivalents	319,994	646,667	942,808	7,934	336,304	308	4,714	12,402	2,271,131
Trading Securities	-	11,476,155	8,788,403	1,255,077	-	166,125	340,018	200,969	22,226,747
Other Securities at Fair Value Through Profit or Loss	-	93,495	-	-	-	-	-	-	93,495
Financial assets at amortised cost	-	2,499,539	-	-	-	-	-	-	2,499,539
Total financial assets	**319,994**	**14,715,856**	**9,731,211**	**1,263,011**	**336,304**	**166,433**	**344,732**	**213,371**	**27,090,912**
Financial liabilities									
Other financial liabilities	-	251	-	-	-	-	-	-	251
Total financial liabilities	**-**	**251**	**-**	**-**	**-**	**-**	**-**	**-**	**251**
Open position	**319,994**	**14,715,605**	**9,731,211**	**1,263,011**	**336,304**	**166,433**	**344,732**	**213,371**	**27,090,661**

The table below summarizes the Fund's exposure to foreign currency exchange rate risk for the year ended 31 December 2013:

2013	AZN	USD	EUR	GBP	TRY	AUD	RUB	Other	Total
Financial assets									
Cash and cash equivalents	169,564	194,222	499,752	4,412	327,497	297	79,593	1,004	1,276,341
Trading Securities	-	11,854,646	10,628,470	1,243,398	-	163,203	471,365	126,140	24,487,222
Other Securities at Fair Value Through Profit or Loss	-	61,361	-	-	-	-	-	-	61,361
Financial assets at amortised cost	-	742,054	-	-	-	-	-	-	742,054
Total financial assets	**169,564**	**12,852,283**	**11,128,222**	**1,247,810**	**327,497**	**163,500**	**550,958**	**127,144**	**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**	**12,852,052**	**11,125,499**	**1,244,344**	**327,497**	**163,500**	**549,571**	**127,144**	**26,559,096**

Currency risk sensitivity

The tables below indicate the currencies to which the Fund had significant exposure at 31 December 2015, 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 profit or loss and other comprehensive income. The effect on equity does not differ from the effect on the statement of profit or loss and other comprehensive income.

	Impact on profit/ (loss) for the year		Impact on profit/ (loss) for the year		Impact on profit/ (loss) for the year	
		31-Dec-15		**31-Dec-14**		**31-Dec-13**
AZN/USD	**20.00%**	4,756,005	**20.00%**	2,940,121	**20.00%**	2,570,410
	20.00%	(4,756,005)	**20.00%**	(2,940,121)	**20.00%**	(2,570,410)
AZN/EUR	**20.00%**	3,626,473	**20.00%**	1,949,269	**20.00%**	2,225,100
	20.00%	(3,626,473)	**20.00%**	(1,949,269)	**20.00%**	(2,225,100)
AZN/GBP	**20.00%**	440,675	**20.00%**	252,592	**20.00%**	248,869
	20.00%	(440,675)	**20.00%**	(252,592)	**20.00%**	(248,869)
AZN/TRY	**20.00%**	118,963	**20.00%**	67,261	**20.00%**	65,499
	20.00%	(118,963)	**20.00%**	(67,261)	**20.00%**	(65,499)
AZN/AUD	**20.00%**	59,942	**20.00%**	33,286	**20.00%**	32,700
	20.00%	(59,942)	**20.00%**	(33,286)	**20.00%**	(32,700)
AZN/RUB	**20.00%**	132,451	**20.00%**	68,946	**20.00%**	109,914
	20.00%	(132,451)	**20.00%**	(68,946)	**20.00%**	(109,914)

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-Dec-15		**31-Dec-14**		**31-Dec-13**
AZN/XAU	**20%**	**-20%**	**20%**	**-20%**	**20%**	**-20%**
Impact on profit/(loss) for the year	323,779	(323,779)	180,429	(180,429)	184,866	(184,866)

Geographical concentration

The geographical concentration of the Fund's financial assets and liabilities at 31 December 2015 is set out below:

2015	Azerbaijan	Europe	America	Asia	Africa	Australia and Oceania	International organizations	Total
Financial assets								
Cash and cash equivalents	198,420	2,978,239	155,985	28,762	-	-	-	3,361,406
Trading Securities	-	19,108,877	11,207,265	5,291,953	6,895	1,860,070	1,348,235	38,823,295
Other Securities at Fair Value Through Profit or Loss	-	158,379	-	-	-	-	238,590	396,969
Financial assets at amortised cost	4,865,911	-	-	-	-	-	-	4,865,911
Other financial assets	-	673	-	-	-	-	-	673
Total financial assets	**5,064,331**	**22,246,168**	**11,363,250**	**5,320,715**	**6,895**	**1,860,070**	**1,586,825**	**47,448,254**
Financial liabilities								
Other financial liabilities	13	8,873	-	295	-	-	-	9,181
Total financial liabilities	**13**	**8,873**	**-**	**295**	**-**	**-**	**-**	**9,181**
Net position	**5,064,318**	**22,237,295**	**11,363,250**	**5,320,420**	**6,895**	**1,860,070**	**1,586,825**	**47,439,073**

The geographical concentration of the Fund's financial assets and liabilities at 31 December 2014 is set out below:

2014	Azerbaijan	Europe	America	Asia	Africa	Australia and Oceania	International organizations	Total
Financial assets								
Cash and cash equivalents	319,995	1,819,451	121,122	10,563	-	-	-	2,271,131
Trading Securities	-	10,274,012	7,301,781	2,702,377	2,848	1,208,048	737,681	22,226,747
Other Securities at Fair Value Through Profit or Loss	-	-	-	-	-	-	93,495	93,495
Financial assets at amortised cost	2,499,539	-	-	-	-	-	-	2,499,539
Total financial assets	**2,819,534**	**12,093,463**	**7,422,903**	**2,712,940**	**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**	**2,712,940**	**2,848**	**1,208,048**	**831,176**	**27,090,661**

The geographical concentration of the Fund's financial assets and liabilities at 31 December 2013 is set out below:

2013	Azerbaijan	Europe	America	Asia	Africa	Australia and Oceania	International organizations	Total
Financial assets								
Cash and cash equivalents	169,564	940,966	165,811	-	-	-	-	1,276,341
Trading Securities	-	14,304,532	5,898,159	2,258,552	2,824	811,502	1,211,653	24,487,222
Other Securities at Fair Value Through Profit or Loss	-	-	-	-	-	-	61,361	61,361
Financial assets at amortised cost	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**

Other risk concentrations

Management monitors and discloses concentrations of credit risk by comparing reports from portfolios with investment policy of the Fund approved by the President of the Azerbaijan Republic. The Fund did not have any such significant risk concentrations at 31 December 2015, 2014 and 2013.

Interest rate sensitivity

At 31 December 2015 and 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 profit/(loss) before tax:

	31-Dec-15		31-Dec-14		31-Dec-13	
Assets:	**Interest rate 1%**	**Interest rate -1%**	**Interest rate 1%**	**Interest rate -1%**	**Interest rate 1%**	**Interest rate -1%**
Cash and cash equivalents	81	(81)	62	(62)	-	-
Financial assets at fair value through profit or loss	(390,559)	390,559	(190,941)	190,941	(132,532)	132,532
Net impact on profit/(loss) before tax	**(390,478)**	**390,478**	**(190,879)**	**190,879**	**(132,532)**	**132,532**

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:

2015	**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	2,925,899	435,507	-	-	-	-	3,361,406
Trading Securities	1,035,337	2,721,717	9,065,160	21,998,214	-	4,002,867	38,823,295
Other Securities at Fair Value Through Profit or Loss	-	-	-	-	396,969	-	396,969
Financial assets at amortised cost	73,332	-	-	-	4,792,579	-	4,865,911
Other financial assets	673	-	-	-	-	-	673
Total financial assets	**4,035,241**	**3,157,224**	**9,065,160**	**21,998,214**	**5,189,548**	**4,002,867**	**47,448,254**
Financial liabilities							
Other financial liabilities	(9,181)	-	-	-	-	-	(9,181)
Total financial liabilities	**(9,181)**	**-**	**-**	**-**	**-**	**-**	**(9,181)**
Liquidity gap	**4,044,422**	**3,157,224**	**9,065,160**	**21,998,214**	**5,189,548**	**4,002,867**	**47,457,435**

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**
Trading Securities	1,945,410	1,893,882	6,142,616	10,574,417	205,102	1,465,320	**22,226,747**
Other Securities at Fair Value Through Profit or Loss	-	-	-	-	-	93,495	**93,495**
Financial assets at amortised cost	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
Trading Securities	1,184,691	2,407,007	9,268,211	10,546,499	-	1,080,814	24,487,222
Other Securities at Fair Value Through Profit or Loss	-	-	-	-	-	61,361	61,361
Financial assets at amortised cost	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-Dec-15		31-Dec-14		31-Dec-13	
	1% increase in securities price	**1% decrease in securities price**	**1% increase in securities price**	**1% decrease in securities price**	**1% increase in securities price**	**1% decrease in securities price**
Impact on profit/(loss) before tax	385,797	(385,797)	220,555	(220,555)	243,376	(243,376)
Impact on net assets/equity	385,797	(385,797)	220,555	(220,555)	243,376	(243,376)

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.

25. 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 2015 assets received under the above agreement were AZN 659,405 thousand (31 December 2014: AZN 278,274 thousand; 31 December 2013: AZN 284,824 thousand) including accrued interest.

Legal proceedings

In 2004, a legal action totaling approximately six million USD was brought against the State of Azerbaijan represented by the Ministry of Communications and High Technologies of the Republic of Azerbaijan, along with 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 a verdict dated 17 February 2010 (the "Verdict"), the Court has rejected the claims of the Claimant Bank. After, the Claimant Bank has filed an appeal against the Verdict, and currently, the claim is at the court of appellate jurisdiction. On 22 September 2015 oral pleadings took place at the court of appeal, and after the oral pleadings the court of appeal has announced that it will render a verdict on 29 December 2015. Further, the date for rendering a verdict has been postponed for several times. The Management of the Fund believes that there is very low possibility of any outflow in the settlement and there is no need for provision in these financial statements.

26. Transactions with Related Parties

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Transactions with related parties are described in Notes 8, 11, 14, 15, 16 and 18.

Transactions between the Fund and its subsidiaries, which are related parties of the Fund, have been eliminated on consolidation and are not disclosed in this note. 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:

	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	Bank accounts with related parties	Precious metals	Off-balance sheet transactions
State Oil Company of the Republic of Azerbaijan	**2015**	**6,969,789**	-	-	-	-	-	-
	2014	11,858,475	-	-	-	-	-	-
	2013	12,757,672	-	-	-	-	-	-
Azerbaijan Gas Supply Company	**2015**	**348,399**	-	-	-	-	-	-
	2014	410,332	-	-	-	-	-	-
	2013	301,136	-	-	-	-	-	-
Operating Companies	**2015**	**67,318**	-	-	-	-	-	-
	2014	74,955	-	-	-	-	-	-
	2013	60,954	-	-	-	-	-	-
The State Budget	**2015**	-	**8,130,000**	-	-	-	-	-
	2014	-	9,337,000	-	-	-	-	-
	2013	-	11,350,000	-	-	-	-	-
Ministry of Finance of the Republic of Azerbaijan	**2015**	-	-	-	-	-	-	**659,405**
	2014	-	-	-	-	-	-	278,274
	2013	-	-	-	-	-	-	284,824
Azerbaijan Melioration and Water-sludge system OSC	**2015**	-	**89,998**	-	-	-	-	-
	2014	-	80,221	-	-	-	-	-
	2013	-	173,934	-	-	-	-	-
The Ministry of Transportation	**2015**	-	**61,522**	-	-	-	-	-
	2014	-	57,040	-	-	-	-	-
	2013	-	25,672	-	-	-	-	-
The State Refugees Committee and Internally Displaced People's Social Development Fund	**2015**	-	**149,998**	-	-	-	-	-
	2014	-	299,998	-	-	-	-	-
	2013	-	299,990	-	-	-	-	-
Central Bank of the Republic of Azerbaijan	**2015**	-	-	-	-	**198,372**	**1,618,591**	-
	2014	-	-	-	-	319,951	901,974	-
	2013	-	-	-	-	169,534	613,064	-
Star oil refinery complex (SOCAR)	**2015**	-	-	-	-	-	-	-
	2014	-	223,538	-	-	-	-	-
	2013	-	372,590	-	-	-	-	-
Ministry of Education of the Republic of Azerbaijan	**2015**	-	**35,538**	-	-	-	-	-
	2014	-	33,494	-	-	-	-	-
	2013	-	33,008	-	-	-	-	-
International Bank of Azerbaijan	**2015**	-	-	-	-	**47**	-	-
	2014	-	-	-	-	42	-	-
	2013	-	-	-	-	30	-	-
Azerbaijan (ACG) Ltd (AzACG Ltd)	**2015**	-	-	**4,006,976**	**2,364**	-	-	-
	2014	-	-	271,739	4,053	-	-	-
	2013	-	-	328,489	4,838	-	-	-
Mercury Investments and Holdings Ltd.	**2015**	-	-	**314,720**	**1,702**	-	-	-
	2014	-	-	211,480	8,376	-	-	-
	2013	-	-	413,565	4,797	-	-	-
JSC Cenub Qaz Dehlizi (Southern Gas Corridor)	**2015**	-	-	**544,214**	-	-	-	-
	2014	-	-	1,987,120	-	-	-	-
	2013	-	-	-	-	-	-	-
Ministry of Economy of the Republic of Azerbaijan	**2015**	-	**692,849**	-	-	-	-	-
	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:

	2015	2014	2013
Aggregate remuneration	106	97	109
Number of persons	3	3	3

27. Interests in Structured Entities

Consolidated structured entities

SOFAZ made an investment in the amount of 51,989 mln JPY (AZN 455,736 thousand) to an operator entity ("OE") under a Tokumei Kumiai ("TK") agreement. This investment formed 98% of the capital of the OE. 2% are held by the Asset Managers ("AM"), AM-Mitsunishi UFJ Trust and Banking Corporation.

The OE invested proceeds from investors in an investment property a retail complex in Ginza, Tokyo, for 52,300 mln JPY (AZN 458,462 thousand). The building meets the definition of an investment property under IAS 40. SOFAZ has signed an Agreement with the OE and developed a Strategic Plan, which is part of the Agreement (also part of the Asset Management Agreement with AM) and reflects SOFAZ's interests, and the OE (or AM) shall conduct and operate the business of the OE only according to Agreement (AM Agreement) and Strategic Plan.

TK agreement provides SOFAZ, with limited rights with respect to management and development of investment properties. As such SOFAZ's involvement in the management of the OE is limited to passive ownership rights. This makes the OE entity similar to unconsolidated structured entities category under IFRS 12, where structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to the administrative tasks only and the relevant activities are directed by means of contractual arrangements.

Based on the specific characteristics of the TK Agreement, the management concluded that a principal/agent relationship exists between SOFAZ and OE. According to IFRS 10, the investor should treat the decision making powers delegated to the agent as held by the investor/principal himself. The management performed analysis based on paragraph B60 of IFRS 10 and given the limited 2% investment by the AM, the OE is an agent of SOFAZ and hence, SOFAZ should consolidate the investee.

28. Events after the Reporting Period

In accordance with the Amendment dated 18 March 2016 to the "Decree #719 of the President of the Republic of Azerbaijan on the Approval of the Budget of the State Oil Fund of the Republic of Azerbaijan for 2016" dated 29 December 2015, the Fund's budgeted contributions and distributions for the year of 2016 are estimated at AZN 4,578.475 thousand and AZN 10,668,934 thousand, respectively.

The following main types of distributions for 2016 are budgeted:

- Transfer to the State Budget of the Republic of Azerbaijan – AZN 7,615,000 thousand;
- Financing of the measures for improvement of social conditions of refugees and internally displaced people – AZN 90,000 thousand;
- Construction of new Baku-Tbilisi-Kars railway line – AZN 137,622 thousand;
- Reconstruction of Samur-Absheron irrigation system – AZN 70,000 thousand;
- Financing the State Program on Education of Azerbaijan youth in foreign countries during 2007-2015 – AZN 36,558 thousand;
- Financing of the share of Azerbaijan Republic in the construction of Cenub Gaz Dehlizi project– AZN 2,355,318 thousand;
- Financing of the share of Azerbaijan Republic in the construction of the STAR oil refinery project in Turkey – AZN 331,776 thousand;
- Expenses related to managing the Fund – AZN 32,660 thousand

The Fund has invested USD 500,000 thousand (AZN 798,550 thousand) to the International Bank of Azerbaijan in the form of a deposit with the interest rate of 4%. The deposit is effective from the signing date of the deposit agreement, 18 March 2016 and will mature on 16 March 2017.

SOVEREIGN WEALTH FUNDS

Generally Accepted Principles and Practices
"Santiago Principles"
Self-Assessment

April, 2016

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, 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, 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, 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.

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.

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.

See also response on GAPP 18.

GAPP 19.2. Subprinciple

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

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.

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2016