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Doing Business and Investing in Azerbaijan

2017 Edition

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Why invest in Azerbaijan?

Azerbaijan lies at the heart of the international transport corridor between Europe and Asia

Azerbaijan is growing a highly educated and skilled workforce

The country has significant agricultural potential due to its fertile climate, which spans nine of the eleven existing climatic zones

Azerbaijan has substantial hydrocarbon reserves

The country enjoys favored trade status under an EU Partnership and Cooperation Agreement

Doing Business and Investing in Azerbaijan

Our Doing Business Guide is aimed to provide timely information about Azerbaijan's business environment.

For more in-depth information on doing business in Azerbaijan, please contact us at PwC Azerbaijan office in Baku.

PwC Azerbaijan

The Landmark Office Plaza III, 12th Floor 90A Nizami Street, AZ1010 Baku, Azerbaijan
www.pwc.com/az
Email: pwc.azerbaijan@az.pwc.com
Telephone: +994 12 497 2515
Facebook: www.facebook.com/PwCAzerbaijan

Foreword

It is my great pleasure to introduce the 2017 **PwC Guide on Doing Business and Investing in Azerbaijan** that describes the country's geography, history, business and investment climate. I believe this guide will be helpful for everyone who is interested in doing business and investing in Azerbaijan.

In this changing environment, our Guide aims to provide comprehensive and up-to-date information on conducting business in the country. This includes briefing on general economic and business conditions and commentary on the latest legal developments, regulatory framework, major tax and investment incentives.

This publication is aimed to serve as a tool for both domestic and foreign investors. We hope it is informative and useful to you. If you have any suggestions for ways we may improve future editions, we would be pleased to receive them.

From our office in Baku, PwC Azerbaijan has been serving clients in the country since 1995. Having started with 10 people, PwC Azerbaijan now employs more than 130 staff, including four partners and selected group of international specialists from six countries. PwC Azerbaijan serves business organizations, government bodies and public associations bringing them the benefit of more than 150 years of expertise, high-end knowledge and practical experience accumulated in PwC globally.

The Firm offers a wide spectrum of professional services, which have been developed to meet the ever-growing expectations of our clients. This breadth of services has allowed us to take on and successfully complete some of the largest and most technically challenging projects in Azerbaijan to date. We would welcome the opportunity to help you explore and take advantage of the investment opportunities in Azerbaijan.

Good luck!

Movlan Pashayev
Country Managing Partner

Azerbaijan Overview

Introduction

Azerbaijan is a post-soviet country that regained independence in 1991. Since 1994, the country's vast oil reserves have been attracting foreign investment to the economy, which consequentially made the oil and gas sector the main target of foreign investments. The modern-day Azerbaijan has managed to up-build relatively sophisticated communication and transportation infrastructure, as well as industrial, agricultural, educational, housing and healthcare sectors, although the oil and gas industry still accounts for the bulk of its exports.

Azerbaijan continues to develop its market infrastructure, including legal, tax and banking frameworks and links to the international business community. It presents a unique challenge to businesses entering Azerbaijan that wish to assess the real business risks and make reality-based decisions rather than relying on perceptions.

Given the region's significant potential, many around the world seem to be focusing more closely on the Caspian region as a whole. Despite the after-effects of the global financial crisis, there now appears to be a resurgence of interest in Azerbaijan among foreign investors.

The fluctuating commodity prices may have a negative impact on the emerging economy that is heavily dependent on hydrocarbon resources. Most of investors in the Azerbaijani economy should be aware of that and acknowledge the risks associated with investments in the country.

The Doing Business and Investing Guide outlines the key factors that foreign companies should consider when looking at possible investments in Azerbaijan.

Rather than providing detailed coverage of any topic, the details of which are constantly in flux, the Guide strives to cover a spectrum of key issues that Investors would include in their" mission checklist" when going to Azerbaijan.

Geography and climate

Azerbaijan is located on the shore of the Caspian Sea in Southwestern Asia, between Islamic Republic of Iran and Russian Federation. The Republic of Azerbaijan covers an area of 86,600 sq. km and shares common borders with Armenia, Islamic Republic of Iran, Georgia, Russian Federation and Turkey.

There are two main forms of relief in Azerbaijan: mountains and plains. 40% of the country is covered by mountain ranges, of which three major ones are Greater and Lesser Caucasus and the Talysh, surrounding the Kura-Araz lowland from the north, west and south-east areas.

Baku is the capital of Azerbaijan. It is located on the Absheron peninsula at the easternmost point of Azerbaijan.

The relief of Azerbaijan creates quite favourable conditions for the formation of a warm mild climate on the most part of the country. Azerbaijan has the mildest winter in the region. January is the coldest month of the year (air temperature is 0 C).

Azerbaijan operates within a single time zone. It is four hours (+4) ahead of GMT. In 2016 the Cabinet of Ministers of the Republic of Azerbaijan abolished daylight time changes.

Business offices are generally opened from 9:00 am to 6:00 pm, Monday through Friday. The Azerbaijani Labour Code stipulates an eight-hour working day. Most of shops and stores are generally opened whole week including weekends and public holidays. Azerbaijan uses the metric International System.

History

The roots of Azerbaijan stretch back to approximately the fourth century BC - the times of Caucasian Albania. Albania, also known as Arran in Azerbaijani, adopted Zoroastrianism before switching to Christianity prior to incursions by Muslim Arabs and, more importantly, Muslim Turks.

As an integral part of the Arabian Caliphate, the population of Azerbaijan underwent a mass conversion to Islam. Later Turkish conquests led to the Turkification of the nation and the creation of the Azerbaijani language, a close cuisine of Turkish. Azerbaijan then was integrated into the Russian Empire from 1813-1918. After the fall of Romanov Tsarist rule Azerbaijan enjoyed a brief spell of independence until 1920, when it was overwhelmed by Soviet forces and incorporated into the USSR.

The country proclaimed its independence in early 90's, the Constitution of independent Azerbaijan was adopted in 1995 and received nationwide support in a referendum.

Since 1988, a conflict arose between Azerbaijan and Armenia because of invasion of the latter on Nagorni Karabakh, primordially Azerbaijani lands. War broke out in 1988 when Nagorno-Karabakh tried to break away and annex itself to Armenia, and 30,000 died before a cease-fire agreement was reached in 1994. Final decision on the political status of Nagorno-Karabakh have yet to be determined.

People

According to the State Statistics Committee, the population of Azerbaijan was estimated at 9,802 thousand as of 1 December, 2016.

The most populous cities in Azerbaijan as of 1 January, 2016 are the following:

Cities	Population[1]
Baku	2,226
Sumgait	336
Ganja	330
Mingachevir	102
Nakhchivan	91

Azerbaijan is a melting pot of nationalities, cultures and religions. While ethnic Azerbaijanis are in the majority, the country is home to many other nationalities. Minorities include Russians, Talysh, Lezgis, Kurds, Mountain Jews, Georgians and Udines. All minorities in Azerbaijan have the constitutional right to education, media and cultural activities in their own language.

Azerbaijani is the official language of the country. Russian is also spoken and taught widely throughout Azerbaijan. The English language literacy has been significantly rising in the past 15 years along with German and French owing to the increasing number of international companies and popularity of overseas education.

Religion in Azerbaijan comprises different religious trends spread among the people and ethnic groups residing in the country. Those include Muslim Azerbaijanis, Lezgis, Talyshs, Kurds; Christian Slavs and European immigrants; Jews.

Currency

Since 1 January, 1994, Manat is the National currency and the only payment facility of the country.

In January 2006, Azerbaijan denominated its currency into the New Azerbaijani Manat (AZN), which was pegged to the US Dollar (US$) by the monetary policy of Central Bank of the Republic of Azerbaijan(CBAR) and exchange rate against the US Dollar was maximum US$ 1 = AZN 0.78.

In February 2015, the CBAR abandoned Manat's hard peg to the US$ and replaced by the US$-EUR basket due to the slump in oil prices.

In December 2015, there was the second devaluation (circa 50%) of AZN. Average January - February 2017 AZN/US$ rate is AZN 1.81 per US$ 1, while average AZN/EUR rate over the same period is AZN 1.94 per EUR 1.

In January 2017, CBAR has dropped it 4% exchange rate corridor applied to commercial banks to allow the currency to float freely.

Government structure

Azerbaijan is a presidential republic,

with the President as the head of state and the Prime Minister as the head of the Government. Executive power rests with the President, the Prime Minister and the Government (the Cabinet of Ministers). Legislative power is vested in the parliament, the National Assembly (Milli Majlis) of Azerbaijan.

Under the 1995 Constitution, the executive, legislative and judicial branches of Government in Azerbaijan are separate and independent from each other.

The President is also the Supreme Commander-in-Chief of Azerbaijan's armed forces.

The National Assembly of Azerbaijan (Milli Majlis)

Milli Majlis is the legislative branch of the Government in Azerbaijan.

The unicameral assembly currently consists of 125 deputies elected for each five-year term from single seat constituencies.

The most recent legislative election was held in November 2015. The New Azerbaijan Party (YAP) currently holds the majority of seats in Milli Majlis.

Among the responsibilities of the Milli Majlis are composition of the Central Election Committee, the Accounts Chamber and the Auditing Chamber.

Legal system

The legal system of Azerbaijan is broadly based on civil law.

The highest judicial authority in Azerbaijan is the Constitutional Court. The Constitutional Court resolves disputes between the legislative, executive and judicial branches of Government and gives formal interpretations of the Constitution and other laws.

Unlike the common law-based judicial systems of the United States and Great Britain, Azerbaijan's civil law-based system does not extensively or exclusively rely on case law or judicial precedent. The civil law of Azerbaijan considers the 1995 Constitution, acts adopted via referendum, and legislation passed by the Milli Majlis as the primary sources of law.

The Constitutional Court, the Supreme Court, the Appellate Court, the Administrativ-Economical Courts and the General Jurisdiction Courts hear those cases that are within their jurisdiction.

The courts consider international treaties to which Azerbaijan is a signatory as a source of law. International agreements take precedence over national law in case they contradict.

International Relations

Azerbaijan is a member of the United Nations, the Organization for Security and Cooperation in Europe (OSCE), NATO's Partnership for Peace, the Euro-Atlantic Partnership, the GUAM Organization for Democracy and Economic Development, the Commonwealth of Independent States (CIS), the European Bank for Reconstruction and Development, the Council of Europe, the International Monetary Fund, the World Bank, CFE Treaty Organization of the Black Sea Economic Cooperation, the Organization of Islamic Cooperation, World Health Organization (WHO), Non-Aligned Movement, Parliamentary Assembly of Turkic-speaking Countries (TURKPA), the International Organization for Migration, and the Asian Development Bank. The country has signed a bilateral investment treaty (BIT) with the US and Partnership and Cooperation Agreement with the EU.

Since the early 1990s, 20% of Azerbaijani territory has been occupied by Armenian troops. Azerbaijan and Armenia are still at war, although a temporary ceasefire has been in place since May 1994. As a result of hostilities, 800,000 ethnic Azerbaijanis have been displaced from their homes.

On 2 April 2016 Armenian troops broke the ceasefire. This unexpected conflict lead to the so called "Four Day War" between two countries. Settling the Nagorno-Karabakh conflict is the priority of Azerbaijan's foreign policy.

One of the main points of dispute in international relations of Azerbaijan within seabed of the Caspian is precise legal status of the latter, and particularly the territorial rights of the littoral states, is subject to dispute. A fundamental disagreement over the demarcation of territorial waters in the southern Caspian between Iran, Azerbaijan and Turkmenistan continues to pose a strategic threat to the development of offshore oil and gas fields.

Visa regime

Visa - an official document authorizing a foreigner or stateless person to enter or to leave the Republic of Azerbaijan, by crossing its border checkpoints in defined way, and to stay temporarily in the country for the period indicated in the visa (CIS countries are exempt from visa regime).

The Consular Department of the Azerbaijani Ministry of Foreign Affairs (MFA) issues single and multiple entry visas for individuals wishing to visit Azerbaijan. Single entry visas are issued from 30 up to 90 days. Multi entry visa is valid up to two years with duration not more than 180 days.

Asan Visa system has been introduced in 2016 to simplify the process of visa obtainment for foreigners and stateless persons arriving to Azerbaijan and to ensure efficiency and transparency of electronic visa systems. Foreigners and stateless persons may apply directly to ASAN Visa electronic system, enter all relevant information and pay the state duty for the visa application through the electronic portal. ASAN Visa System will send electronic visa directly to the applicant's personal email within three days. It should be noted that service is available only to the citizens and stateless persons permanently living in the countries indicated in the list of the Ministry of Foreign Affairs.

Foreign expatriates intending to travel Azerbaijan should obtain the entry visa through the nearest Azerbaijan embassies regardless the purpose of the trip. For some countries (for example Turkey), it is possible to obtain the visa directly in the airports. In case when expatriates intend to stay in Azerbaijan for a period longer than 3 days, they should be registered at the place of the stay upon their arrival.

Public Holidays 2017	
1-2 Jan	New Year's Holidays
20 Jan	Day of the Martyrs
8 Mar	International Women's Day
20-24 Mar	Novruz Bayram
9 May	Victory day Over Fascism
28 May	Republic Day
15 Jun	Day of National Salvation
26 June	Armed Forces Day
26-27 July	Ramazan Bayram
1-2 Sep	Gurban Bayram
18 Oct	National Independence Day
9 Nov	Flag Day
12 Nov	Constitution Day
17 Nov	National Restoration Day
31 Dec	Solidarity Day

Economy

Macroeconomic review

Throughout the 70-year Soviet period, Azerbaijan's economy had always been most industrially developed in the Caucasus.

Azerbaijan's high-level economic growth has been attributed to large and growing oil and gas exports, but some non-export sectors also featured double-digit growth, including construction, banking and real estate.

According to the State Statistics Committee report as of 1 January 2017, 34.3 % of the country's GDP share accounts for oil-gas sector. GDP of US$ 34.7 bln, US$ 3597.5 per capita were produced by country residents in 2016.

Decrease of production in the construction sector by 27.6 % was the main criteria affecting decrease of gross domestic product 3.8% of the current year compared with previous year indicators.

Azerbaijan still faces a number of challenges for its further development. Among those are the issues with effectiveness of the state governance along with the problem of corruption and monopoly.

Macroeconomic indicators	2014	2015	2016[2]
GDP (US$ bln)	75.2	53	34.67
GDP per capita (current US$*)	7990.3	5558.7	3597.5
Inflation	1.5%	4%	12.4%
Unemployment rate	4.9%	5%	n/a
Imports of goods and services (US$ bln)	9.2%	9.2%	7.7%
Exports of goods and services (US$ bln)	30.2%	16.6%	11,9%
Agriculture, value added (% of GDP)	5.3%	6.2%	5.6%

Oil and Gas

Hydrocarbons currently form the economic lifeblood of Azerbaijan's future. With the well-developed Azeri-Chirag-Guneshli (ACG) oilfield serving as the country's key oil production platform, Azerbaijan pumps up to 856 thousand bbl. The main economic driver involves export through the:

- Baku-Tbilisi-Ceyhan Pipeline (BTC)
- Baku-Novorossiysk Pipeline
- Baku-Supsa Pipeline

The level of oil production in Azerbaijan has been falling since 2010. As per the State Statistics Committee report, the country produced 41.03 million tons of oil in 2016 – 1.4% less than in 2015. Efforts to boost Azerbaijan's gas production are underway.

The geopolitically important Southern Gas Corridor between Azerbaijan and Europe is expected to open another, albeit, smaller source of revenue from gas exports, however, this is unlikely to compensate for the revenues that the oil sector has provided.

BP operates the Shah Deniz project (28.8% stake). Other partners in the PSA include TPAO (19%), Petronas (15.5%), SOCAR (10%), Lukoil (10%), Naftiran Intertrade Co. (10%) and SGC Upstream (6.7%)[3]. The South Caucasus Pipeline (SCP) operates to transfer Shah Deniz reserves from Baku to Erzurum, Turkey, via Tbilisi. The maximum discharge of the pipeline is 20 bln cubic meters per year. Shah Deniz Stage 2, or Full Field Development (FFD) is a large-scale project that will add a further 16 bcm of gas production to the approximately 9 bcm produced by Shah Deniz Stage 1.

The project is planned to be launched in late 2019 and is expected to supply 400 bcm of natural gas to Europe and Turkey while generating around 200 billion-dollar value in 25 years[4].

So far, this is the biggest natural gas contract signed in the Caspian region. SOCAR and Shah Deniz partners have also agreed terms for extending the Shah Deniz Production Sharing Agreement up to 2048. This project plans to expand the SCP through Azerbaijan and Georgia, to construct the Trans Anatolian Gas Pipeline (TANAP) across Turkey and the Trans Adriatic Pipeline (TAP) across Greece, Albania into Italy. The TANAP shareholders are: SOCAR (58.0%), BOTAS (30.0%) and BP (12.0%)[5]. The TAP shareholders are: SOCAR (20%), BP (20%), Snam S.p.A (20%), Fluxys (19%), Enagas (16%), Axpo (5%)[6].

State Oil Company of the Azerbaijan Republic (SOCAR)

SOCAR is the main player in the Oil and Gas market of Azerbaijan.

It is involved in exploring oil and gas fields, producing, processing, and transporting oil, gas, gas condensate, marketing petroleum and petrochemical products in domestic and international markets. SOCAR is also supplying natural gas to industry and the public in Azerbaijan. SOCAR has trading companies in Switzerland, Singapore, and United Arab Emirates.

State Oil Fund of the Republic of Azerbaijan (SOFAZ)

Established in December 2000, SOFAZ is an extra-budgetary fund designed to ensure macroeconomic stability for the future and promote investment in non-oil sectors of the economy. Another key reason for the establishment of SOFAZ was boosting the transparency of oil revenue management.

Currently, oil revenue profits from the development of new offshore oil fields row directly into SOFAZ. The assets of SOFAZ as of 1 January, 2017 have decreased by 1.27% compared to the beginning of 2016 (US$ 33,574.1 mln.) and stood at US$ 33,147 mln[7].

By withholding a large share of total oil revenues from the country's immediate income, SOFAZ helps to counter inflation as well as produces other positive effects on local economy.

Non-Oil Sector

The Azerbaijan`s economy is still dependent on oil and gas exports, which causes a significant devaluation of the national currency in line with dropping oil prices.

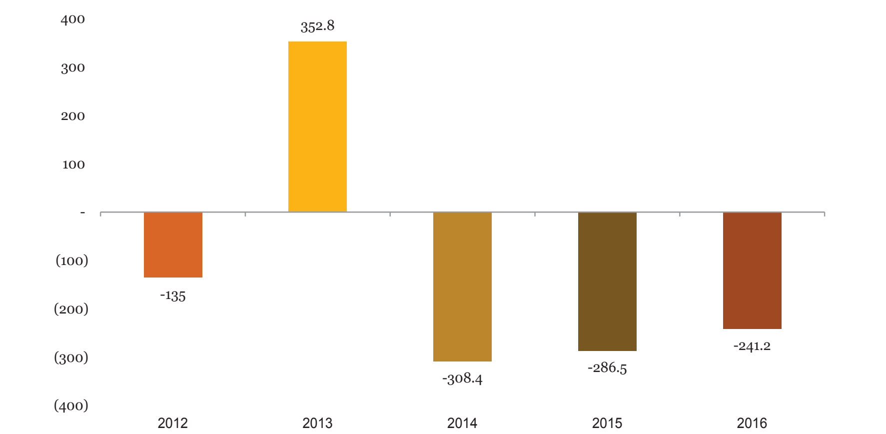
Diversification of the economy is one of the main priorities in the country's politics.

A number of significant steps has been taken for the development of non-oil industry and reducing its dependence on the production and export of oil and gas.

Banking

In 1991, Azerbaijan introduced legal and

State budget (million manats)[8]



institutional framework for national banking system and the Central Bank of the Republic of Azerbaijan (CBAR) was established in 1992. CBAR is the only regulator of monetary policy in the country and regulation of banking and payment systems. Currently there are 32 banks operating in the country.

Azerbaijan financial sector remains relatively small and undeveloped with limited institutional and capital resources. Moreover, performance of majority of lending institutions was affected by constraints stemming from weak lending capabilities, risk management and corporate governance. CBAR devalued the local currency twice - in February and December 2015. The AZN devaluation substantially increased the cost of the banks' foreign-currency liabilities, which exceed overall foreign assets. It has also reduced the quality of the domestic foreign-currency-denominated loan portfolio. Weakening economic uncertainty and AZN devaluation also affected the public confidence in banking that has been resulted in drastic decline in local currency deposits.

The government introduced its large-scale support programmes to selected banks in tackling these challenges. In 2015, the government announced special loan restructuring package for the International Bank of Azerbaijan (IBA) the state owned bank contributing to over 30% of total banking assets in the country. Meanwhile, high risk and non-performing loans from IBA were transferred to special purpose state-owned entity, Agrarkredit. Subsequently, IMF recorded almost 19% decline in total assets in period of July-October 2015, signaling significant write-offs in banking sector. In addition, IBA's liquidity has been supported by US$ 600 mln injection in capital by the state.

Simultaneously, CBAR has been relaxing capital-adequacy requirement in banking from 12% to 10% and introducing 100% deposit insurance coverage to bolster public confidence in financial sector and to reduce dollarization of the national economy.

Telecoms and IT

Coming into 2016 Azerbaijan's mobile subscriber numbers had passed the 10 mln milestone (110% penetration). The well-developed infrastructure of communication services covers about 99% of the country.

At present, Azerbaijan has three major mobile operators – Azercell (with 40% market share), Bakcell (33%) and Azerfon (25%) - covering almost the entire territory of the country excluding the occupied territories.

Almost 65% in the country are Internet users. Fibre Optic Broadband, which is currently being implemented, will cover approximately 60% of the country's internet market by 2017.

In early 2013, Azerbaijan has launched its first telecommunications satellite into orbit. Azerspace-1 satellite was set to provide digital broadcasting, internet access and data transmission for Azerbaijan, Central Asia, Europe and Africa over a mission life of 15 years.

The government subsequently announced that Azerspace-2, the country's second telecommunications satellite, is to be launched in 2018[9].

Construction

The construction business has evolved into a very competitive sector in Azerbaijan, with a number of strong local companies providing high-quality services for diverse projects, including the development of residential areas, business offices, hotels, etc.

Remarkable performance of this sector can be explained by low base effect and government's anti-crisis measures. As a result of the global financial crisis, construction had contracted by 8.2% in 2009. However, measures directed to increase liquidity in the local market, slow recovery of mortgage system and Government's investments into the sector helped to rebound construction by 20.3%. Approximately US$ 1,73 bln was used for the implementation of construction works in the country in January – February 2014, a 7.9% year on year rise compared to the corresponding period in 2013[10].

On 1 January 2013, the new Urban Planning and Construction Code of the Azerbaijan (the "Code") came into effect. Before this Code, the construction rules were set in separate laws.

Recently, due to the fall in oil prices there is an observable slowdown in the construction sector in Azerbaijan.

Agriculture

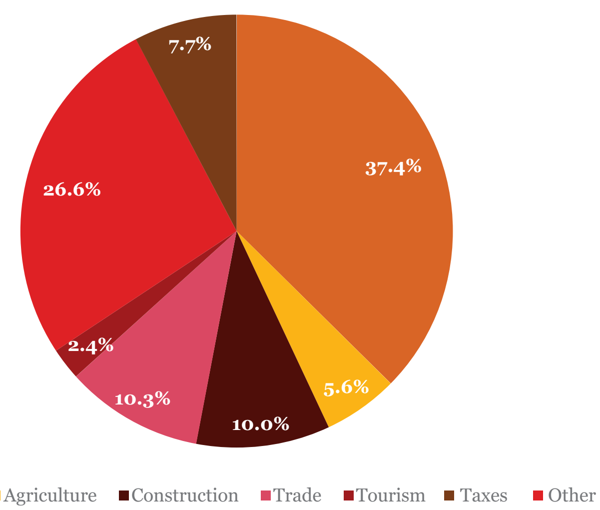
Azerbaijan has been one of the region's strongest agricultural centres since pre-Soviet times. The country's climatic and ecological diversity allows for differentiation in crop cultivation.

Following the break-up of the Soviet Union in 1991 and the dissolution of collectivized property, Azerbaijan has adopted a policy of deregulation and allowed up to 99% of its agricultural sector to be privatized.

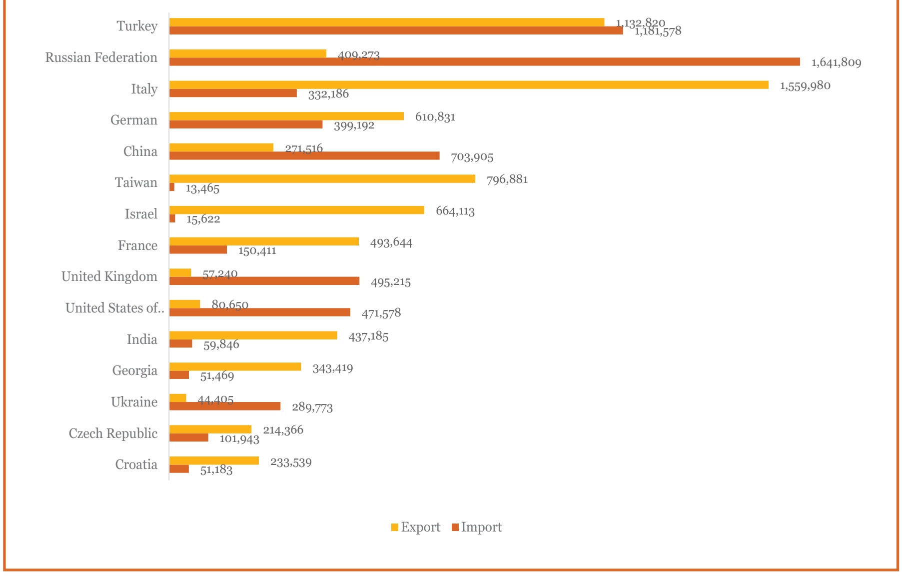
Following the privatization of farm properties, the focus of Azerbaijani agriculture has shifted to producing profit-yielding crops and increasing self-sufficiency. For instance, rice fields were replaced by grain fields in the 1990s, resulting in a rise in grain production up to 1.5 mln tonnes per year. According to State Statistic Committee, in 2016 3,065,100 tonnes of grain, 902,400 tonnes of potato, 1,269,300 tonnes of vegetable, 883,700 tonnes of fruit and berry, 464,600 tonnes of water-melon and melons, 134,500 tonnes of grape, 3598 tonnes of tobacco, 321,300 tonnes of sugar beet, 1015.7 tonnes of green tea leaf were gathered in Azerbaijan.

Azerbaijan continues to be strong in the cultivation of specialized, often rare, crops. Aside from cotton, tea, tobacco and vegetable production, the country produces other potentially valuable crops, including indigenous pink grapes, persimmon, and other rare crops.

Share in GDP in 2016 [11]



Azerbaijan foreign trade statistics January - December 2016 (thousand US$)[12]



Actual value of agricultural output in Azerbaijan amounted to AZN 3369,6 mln in 2016. Though agriculture employed over 36% of economically active population of Azerbaijan in 2016, it accounted for only 5.6 % of the country's GDP.

Tourism

The uniqueness of Azerbaijan as a touristic attraction is its natural location which creates different landscapes with own climate, flora and fauna.

The cultural diversity of Azerbaijan, caused by centuries of foreign intervention by different nations, formed the country's image of the "European charm of the Orient", which implicates a mix of Islam, ancient Caucasian culture and elements of European culture.

Business people currently account for the majority of foreign visitors to Azerbaijan. In 2016, local hotels greeted a huge flow of tourists coming from various countries like Russia, Georgia, Iran, UAE, etc. However, Azerbaijan offers substantial opportunities in tourism, with a number of international hotel chains, such as Four Seasons, Fairmont, Marriott, Sheraton, Hilton, Jumeirah, Holiday Inn, Park Inn, Hyatt.

Azerbaijan has a number of attractive historical sites, such as Shirvanshakh's palace, the Walled City of Old Baku, Sheki Khan Residence, while its eco diversity accounts for many natural resorts. The country's climatic zones offer the potential for developing mountain ski resorts, beach resorts, mineral baths and special unique medical health spas, like resort in Naftalan, which offers treatments using indigenous therapeutic oil.

Foreign trade relations

According to State Customs Committee in January-November, legal and natural entities of the Republic of Azerbaijan realised trade relations with 186 world countries, export of products was made to 116 countries and import from 177 countries in January-November, 2016. 36.2 % of trade turnover was share of EU countries, 13% of CIS member countries, and 50.8% of other countries. Foreign trade turnover on January-November, 2016 made US$ 21,650.8 mln taking into account value of statistically estimated exported crude oil and natural gas registered in the customs agencies but customs formalities of which not completed, including export value – US$ 13,118.4 mln, import value – US$ 8,532.4 mln and positive trade balance reached to US$ 4,586 mln.

Strategic roadmaps of national economy and its main sectors

The primary goal of development of Azerbaijan`s economy on the current stage is to speed up the diversification of the economy, to maintain the high pace of the development of the non-oil sector in the future regardless of the level of oil revenues, to increase competitiveness and to develop export possibilities.

Taking this priority into account, following strategic roadmaps were approved:

Strategic Roadmaps

- Strategic Roadmap on perspectives of the national economy of Azerbaijan
- Strategic Roadmap on development of logistics and trade in Azerbaijan
- Strategic Roadmap on development of oil and gas industry (including chemicals) in Azerbaijan
- Strategic Roadmap on development of housing at affordable prices in Azerbaijan
- Strategic Roadmap on production and processing of agricultural products in Azerbaijan
- Strategic Roadmap on development of professional education and education in Azerbaijan
- Strategic Roadmap on production of consumer goods in Azerbaijan at the level of small and medium-sized enterprises
- Strategic Roadmap on development of financial services in Azerbaijan
- Strategic Roadmap on development of heavy industry and engineering in Azerbaijan
- Strategic Roadmap on development of telecommunication and information technologies in Azerbaijan
- Strategic Roadmap on development of specialized tourism industry in Azerbaijan
- Strategic Roadmap on development of public utilities (electric and heat energy, gas and water) in Azerbaijan

Foreign investment

Investment climate

Azerbaijan's average annual economic growth rate was about 10% over the past few years. In 2009, despite the global financial crisis, Azerbaijan's rapidly developing economy grew by 9.4% and has continued its rapid expansion. According to Global Intelligence report, in 2016 GDP growth rate was at (-3.73)%.

As of 2014, almost 80% of the economy had been privatized. In 2015, the stock of foreign direct investment (FDI) in the Azerbaijani economy amounted from $7-7.5 billion with investment in the oil and natural gas sector constituting 88.5% of the total amount[13]. The World Bank reports on per capita FDI inflows rank Azerbaijan near the top among CIS and Eastern European countries. According to the WB, in 2004, private sector investments were accounting for 90.7% of total investments, and foreign investment accounted for 73.1%. However, since 2005 domestic public investments have gained pace, while private and foreign investments have been decreasing.

Foreign investment

Definition of a foreign investor

The following entities and individuals may be considered as foreign investors in Azerbaijan:

- Foreign legal persons;
- Foreign citizens, stateless persons, and citizens of Azerbaijan with a permanent residence abroad subject to registration in their country of residence for engaging in economic activity;
- Foreign states;
- International organizations.

General regime for foreign investments

Foreign investments are generally defined as all types of tangible and intangible rights, including intellectual property rights, contributed by foreign investors to entrepreneurial and other types of activities for the purpose of making a profit. They include, among other things, participation interest and shareholding in Azerbaijani companies, acquisition of immovable property (except land plot), acquisition of securities and other assets liable for purchase by foreign investors under Azerbaijani law, and contractual agreements with Azerbaijani individuals and legal entities that provide for other forms of foreign investments.

Azerbaijani law is evolving in accordance with the government's strategic goal of creating a welcoming environment for foreign businesses. Foreign investments are thus protected by guarantees provided under law. These include:

- Guarantee against deterioration of legislation: a foreign investor is assured that the laws governing its investment will remain in force for a period of 10 years from the initial investment.
- Guarantee against nationalization and requisition: foreign investors are guaranteed immediate, adequate and effective compensation in case of nationalization and requisition. Compensation should be commensurate to the amount of the investment at time of nationalization or requisition, payable in foreign currency and freely transferrable abroad.
- Guarantee of compensation of damages: foreign investors are entitled to compensation for damages, including compensations for lost profits resulting the illegal acts of state authorities;
- Guarantee of profit repatriation: foreign investors are entitled to repatriate profits derived from foreign investments subject to applicable taxes and duties.

The government is expected to continue its policy of supporting privately held enterprises, including those with foreign capital and owned or operated by foreign nationals.

There are no general trade barriers or embargos for the import of goods to Azerbaijan. Exports are not subject to customs duties or restrictions. Regulations exist only for the export of strategic commodities such as electricity, petrol, cotton and non- ferrous metals.

Registration of foreign investors in Azerbaijan

All companies operating in Azerbaijan are required to be registered. Without formal registration, a company may not do business in Azerbaijan (e.g., maintain a bank account, clear goods through customs, etc.). As a part of the ongoing business law reforms, a "One Stop Shop" principle was introduced effective 1 January, 2008. The registration procedures involving several governmental bodies (Ministry of Justice, Ministry of Taxes, Social Insurance Fund and Statistics Committee) have been eliminated, obligating businesses to register only with the Ministry of Taxes. The established period for state registration with the Ministry is officially set at three days for commercial organizations. Registration of non-commercial legal entities is conducted by the Ministry of Justice.

Legal forms of doing business by foreign investors

The law stipulates that any company with foreign investment operating in Azerbaijan must be organized as a joint-stock company, limited or additional liability company, partnership, or any other structure that is consistent with Azerbaijani law.

Business entities

Subsidiary

A subsidiary is an Azerbaijani legal entity with foreign ownership, which can be registered as a limited liability company or joint-stock company. Although such an enterprise may be owned by foreign nationals, it is considered as an Azerbaijani legal entity for tax, currency accounting, reporting and other requirements.

Representative Office (RO)

A RO is the locally registered presence of a foreign legal entity and has the "non-resident" status in regard to Azerbaijani tax, legal and currency regulations. If RO's activities are strictly limited to providing representative services to its head office, it is not subject to any profit taxes. A RO is responsible for the timely payment of all other applicable taxes to the tax authorities, such as personal income tax and social fund payments from employees.

Branch

The relevant legislation does not distinguish between a RO and a Branch. They are both subject to the same legal, tax, currency and reporting requirements. Branches are free of the requirement to have a charter fund and are able to channel income into overseas accounts, provided these accounts are duly registered with authorities in Azerbaijan. State duty for both Branch and RO registration is AZN 220 (approximately US$ 127).

Types of commercial legal entities

The Azerbaijani Civil Code stipulates the following legal forms for doing business in the country:

General Partnership (GP)

An enterprise established by two or more physical and/or legal persons. The owners of a GP have "unlimited" liability for the obligations of the GP.

Limited Partnership (LP)

An LP may be established by two or more physical and/or legal persons, with at least one of the participants bearing unlimited liability for the obligations of the LP and not participating in entrepreneurial activity.

Limited Liability Company (LLC)

An LLC is an enterprise which is established by one or more physical and/or legal persons. The legal fund of an LLC is divided into authorized shares as specified in its charter. The shareholders of an LLC have limited liability commensurate with their shares in the LLC.

Additional Liability Company (ALC)

The legal status of an ALC is similar to that of an LLC, with the exception that the participants of an ALC may assume liability in excess of their contributions.

Joint-Stock Company (JSC)

A JSC's structure is similar to that of an LLC. JSCs may be established either as "open" or "closed" business entities. An "open" JCS is able to offer its shares to investors, while a "closed" JSC can only redistribute its shares among its founder shareholders and other predetermined persons.

Under the Privatization Law, foreign investors may participate in Azerbaijan's mass privatization program by acquisition of the state privatization options.

Types of non-commercial legal entities

Public Association

Public Association is a non-profit organization established by individuals or legal entities to engage in activities of their common interest. Members of public association do not have any ownership rights over property or membership contributions allocated to an association. Public association does not carry any responsibility for its members, and so do its members.

Foundation

Foundation is a non-membership organization established by individuals and/or legal entities on the basis of their voluntary material contributions and aimed at social, charitable, cultural, educational and other socially useful purposes. Foundation's establishers are not it members. Thus, they do not participate in its management and all managerial decisions are made through governing bodies determined by its charter.

Union of legal entities

Union can be established by commercial or non-commercial entities to promote their business and non-business activities. Union is not responsible for its members, however, members are responsible for union's obligations at the amount of their contributions to the union's charter.

Branch and RO of foreign NGO

According to Azerbaijani laws, any foreign non-governmental organization is able to establish its Branch or a Representative Office in Azerbaijan Republic.

Public Legal Entities

Recently established law on Public Legal Entities governs procedures on establishment, operation and organization of public legal entities. According to the law, public legal entity, being not a state or a municipal body, may be established only either by the state, or by a municipality for the purposes of carrying common state or publicly important activities in Azerbaijan. A public legal entity has its own charter, property and charter capital formed by property contributed thereto by its founder(s). State and municipal property contributed to the public legal entity may be used only for the purposes indicated in its charter. Neither the state, nor municipalities are responsible for obligations of the public legal entity; they carry the risk for the damages caused in accordance with activity of the public legal entity to the extent of the value of the property contributed by them to the charter capital of the public legal entity. Incorporation, re-organization and liquidation of the public legal entity is regulated by the Civil Code of the Republic of Azerbaijan and its respective charter.

Licensing

The new Law on Licenses and Permits is aimed to create a favorable environment for the devolvement of business by simplifying the process of license and permits obtainment. Law shed lights to previously obscure aspects of license obtaining by setting out criteria for activities requiring license or permits; list of authorities granting licenses and permits and their powers and functions; rules of obtaining, renewal and termination of license; validity periods of licenses or permits, as well as amounts of state duties payable for that. Law introduced notion of Electronic Portal on Licenses and Permits and a Single Registry for Licenses and Permits.

Law brought new principles of state control over licenses and permits such as:

- a "One Stop Shop" principle;
- notion of silent consent in regard to issuance, renewal, suspension, resumption and cancellation of licenses and permits (in case if license issuing body does not respond to license or permit application within time frame established by the Law, such application will be treated as consented, and information regarding new license or permit shall automatically be added to the Single Registry for Licenses and Permits);
- proportionality of interests of entrepreneurs, society and state when issuing license and permits (for elimination of misconduct addressed to competition restrictions in the market); and
- analysis of regulatory body influence (analysis is made by the body issuing licenses and covers evaluation of impact of new laws on licensing and permits on entrepreneurship; evaluation of achievement of the goals set by the new laws).

Law defines "permit" as an official document granted by the authority issuing permits to exercise certain business activities or actions. Law contains an explicit list of 87 types of activities requiring obtainment of permits. Applications for license obtainment shall be made via Electronic Portal on License and Permits, which will enable to conduct all operations related to licensing (e.g. obtainment of licenses, their duplicates, and amendments thereto, renewal, suspension, resumption and termination thereof). Period of issuance of licenses and permits has been decreased to ten working days for license obtainment and seven working days for permit obtainment. Licenses are granted to an undefined period. Law reduced the list of licensable activities from 58 to 29 (including activities related to national security).

State duties for licenses now vary from AZN 220 (about US$ 127) to AZN 11,000 (about US$ 6,360).

Privatisation

Under the Privatization Law, the following are considered to be foreign investors:

- Foreign legal entities and their subsidiaries;
- Azerbaijani legal entities with participation of foreign investment in excess of 50% charter capital share;
- Foreign nationals;
- Stateless persons.

Privatization of state property began with the First Privatization Programme (1995-1998). Since 2002, the privatization of large enterprises has been under way, with approximately 2,000 medium to large enterprises having been privatized. The International Bank of Azerbaijan (IBA), the largest bank in the country, has been in the process of privatization since 1998, but 50.2% of the shares still remain in state hands. In December 2011, it was officially reported that PwC was a part of the consulting consortium which finalized the first preparatory stage of the project of privatization of the state share in the authorized capital of IBA. The second phase would involve the final preparation of necessary documentation for the privatization of the bank and final determination of a list of potential buyers[14].

State Migration policy

Adoption of Migration Code on 1 August 2013 was one of the measures aimed to implement the state policy in the sphere of migration.

The new Migration Code clarified grounds, terms and procedure of obtaining work permits, residence permits, visas. A number of restrictions regarding of extension of these permits is removed.

According to the amendments introduced to the Migration Code in 2016 heads and deputy heads of legal entities, founded in Azerbaijan by a foreign legal entity or a foreign individual, professionals of certain categories, invited to work into the country by legal entities established in Azerbaijan, or individuals - citizens of Azerbaijan have been included to the list of foreign persons exempted from applying for a work permit.

Government sets the list of severe penalties caused by failure to comply with requirements of Migration Code.

State policy in employment

Recent changes to the Labour Code of Azerbaijan set new procedure regarding verification of employment contracts. As per new rules employment contracts, amendments and termination takes effect after entering information into the e-system of the Ministry of Labour and Social Protection.

Taxation

Tax regimes

The Tax Code of the Republic of Azerbaijan adopted in 2001, currently has 223 articles and a number of old tax laws were abolished from it.

Briefly speaking, Azerbaijan currently has three different tax regimes: 1) the statutory tax regime; 2) Production Sharing Agreements (PSA) and 3) Host Government Agreements (HGA), which are exclusively for the BTC and South Caucasus pipelines.

The statutory tax regime applies to all legal entities (both local and foreign) with the exception of those that are governed by a PSA or HGA, each of which has its own tax rules. The PSA/ HGA tax regimes also generally apply to relevant oil operating companies, foreign investors serving as contractor parties and all Foreign Service companies working with such parties.

Azerbaijan has to date signed and ratified over 30 PSAs and HGAs for oil and gas production and transportation. Some of them have been terminated or remain dormant. Each PSA and HGA is subject to its own exclusive tax and accounting regime. PSAs and HGAs provide more favourable legal and tax regime (e.g., simpler reporting regime, deductibility of expenses, fixed rate of Profits Tax, exemption from certain taxes and duties, etc.) for its participants, contractor parties and subcontractors.

The following sections outline the statutory and PSA/HGA tax regimes in detail.

Statutory tax regime

By law foreign legal entities must register their representative or branch offices before conducting activities in Azerbaijan.

If a representative office or a branch halts its commercial activities, such representative office or branch should file a notification to the tax office no later than the date of cessation of the operations. The major taxes applicable under the statutory tax regime are outlined below.

Corporate income taxation (“CIT”)

CIT taxpayer might be either legal entities or representative or branch offices of foreign legal entities.

CIT is computed on the basis of an entity’s taxable profit. Taxable profit is generally equal to gross realization (receipts), minus deductible expenses, which are defined as any costs incurred in generating of income. The entity tax currently is 20%. CIT should be reported on annual basis, although current tax payments shall be made quarterly.

In addition to CIT paid by the non-resident entity’s permanent establishment, each amount repatriated by such permanent establishment from its net profit is subject to branch profit tax at the rate of 10%.

From 1 January 2013 profit of the residents of the industrial and technological parks is exempt of profit tax for the period of 7 years since registration as resident of the industrial and technological park.

Simplified tax

From 1 January 2016, persons with annual turnover of up to AZN 200,000 (approximately US$ 115,600) are eligible to be registered as Simplified Tax payers.

Persons rendering trade and catering services (e.g. restaurants, coffee shops, etc.) with annual turnover exceeding AZN 200,000 may choose to be a simplified taxpayers. Simplified tax rate for them is 6% for trading and 8% for catering services.

A special rate of simplified tax is set:
a) for the persons involved in residential and non-residential housing construction at a fixed amount of AZN 45 per square meter multiplied by an applied coefficient;

b) for the persons selling residential and non-residential premises (except for premises of individuals where he/she has been residing for at least 5 years) at a fixed amount of AZN 15 per square meter multiplied by an applied co-efficient; the applied co-efficient being determined by the regional executive authorities.

A special rate of simplified tax is set for operators of gambling games at a rate of 6% from gross receipts from game participants and for the sellers of such games at a rate of 4% from gross commission paid to the sellers by the operators.

Dividend withholding tax

A 10% Dividend Withholding Tax applies to both domestic and foreign shareholders and is levied in the currency in which the dividend is paid. Double taxation treaties (DTT) may reduce the rate at which dividend tax applies.

Other withholding taxes

Foreign legal entities without a permanent presence in Azerbaijan are subject to Withholding Tax on income, which is derived from the following sources:

Interest	10%
Rent and royalty	14%
Freight income	6%
Telecommunications services	6%
Financial leasing and insurance payment	4 %
Payments to an electronic wallet	10%
Other income	10%

From 1 January 2016 annual interest income of individuals on bank deposits placed in all banks in Azerbaijan, as well as dividends, discounts and interest income on investment securities paid by the issuer, are exempt from withholding taxes for 7 years.

Transfer Pricing

The transfer price is determined as the average price, being the sum of all prices established in comparable transactions between independent parties divided by the number of such transactions.

Taxes may be computed based on the transfer price for transactions concluded between the following persons:

- Azerbaijani resident and non-resident in a related party relationship;
- a permanent establishment of a non-resident in Azerbaijan and such non-resident person or any representative office, branch office or other unit of such non-resident in other countries;
- Azerbaijani resident and (or) Azerbaijani permanent establishment of non-resident person and persons established (registered) in a country with a favourable tax regime.

The transfer price is determined based on the following methodologies:

- Resale price method;
- Cost plus method;
- Comparable profit method;
- Profit split method.

The methods are used only if it is established that no comparable information on different transactions exists or it is not possible to obtain information on price of the goods in transactions between other persons.

Value Added Tax (VAT)

Generally, VAT is charged at the rate of 18% for each taxable operation and for the value of each taxable import. There are detailed requirements for registration and accounting for VAT, with penalties for non-compliance.

Starting 1 January 2016, legal entities and individuals with taxable transactions exceeding an annual threshold of AZN 200,000 (approximately US$ 115,600) must register as VAT payers.

Other companies carrying out business activity in Azerbaijan may register voluntarily. Only registered VAT payers may charge VAT and claim credit for input VAT. VAT is also applied to goods imported into Azerbaijan at customs unless exempt or 0% rated.

There is also the self-assessment of VAT (reverse-charge) for the services rendered by unregistered non- residents in Azerbaijan. In general, VAT paid on purchases (i.e., input VAT), is recoverable against the output VAT that is charged on the sale of manufactured goods or the provision of services in Azerbaijan.

From 1 January 2013, equipment, imported by residents of industrial and technology is exempt from VAT for the period of 7 years. The VAT exemption is also applicable to goods imported into special economic zones (excluding those that are subject to an excise tax). Additionally, certain categories of imported goods are exempt from VAT as defined by the Cabinet of Ministers.

Starting 1 May 2016, all types of goods imported based on relevant supporting documents by the residents of the industrial parks shall be exempted from VAT for the period of 5 years.

From 1 January 2017, import and sale of wheat, production and sale of flour and bread, sale of poultry meat is exempted from VAT.

All registered VAT taxpayers must pay the value of the goods (work, services) excluding VAT, to a normal bank account of the vendor, and the VAT amount (input VAT) must be remitted to the VAT deposit account, single treasury account created for the allocation of VAT.

Taxpayers will not be able to recover input VAT paid into any other account (i.e., not the VAT deposit account).

Failure to remit VAT into the VAT deposit account is subject to 50% penalty of the unpaid VAT amount. All VAT-registered taxpayers must issue electronic VAT invoices in AVIS (Automated Tax Information System) instead of paper ones.

Limitation of the cash settlements

Settlements over the below limits must be carried only cashless:

VAT payers:

- Over AZN 30,000 per calendar month. Effective from 1 January 2017.

Other taxpayers:

- Over AZN 15,000 per calendar month

Cash withdrawals

- 1% Simplified tax is calculated for cash withdrawals by legal entities and sole traders from their bank account.

Interest and penalties

Interest and penalties are applicable for failure to comply with tax legislation.

Interest on outstanding tax liabilities is currently being accrued at a rate of 0.1% per day. Penalties vary from 50% up to 100% of the amount of tax due.

Administrative penalties may be applied for failure to file declarations, register a taxpayer with the authorities, notify the authorities of a change of address, etc. Tax law violations have a three-year statute of limitation.

Mining tax

Legal entities and individuals involved in the recovery of minerals in Azerbaijan are obliged to pay the Mining Tax. The rate depends on the type of mineral extracted and varies from 3% to 26% of its total wholesale price.

Excise tax

Excise goods produced in or imported to Azerbaijan are subject to Excise Tax, unless said goods are specifically exempt. The following goods are considered excisable goods:

- Spirits, beer and all types of alcoholic beverages;
- Tobacco products;
- Petroleum products;
- Light vehicles (with the exception of motor transport means for special purposes, with special markings and equipment);
- Leisure and sports yachts, as well as other boats vehicles stipulated for the aforementioned purposes.

Since the 1 January 2015, all imported jewellery and household products made from precious metals, as well as processed, sorted, framed and fixed diamonds are included into the list of goods subject to excise tax.

Property tax

Companies operating in Azerbaijan are required to pay property tax at the rate of 1% of the fixed assets' average annual residual value.

Land tax

Land Tax is levied as a fixed payment. Individuals and/or entities who own or use land within Azerbaijan are subject to Land Tax. Except for agricultural lands, the land tax rate per 100 square meters of a land plot varies between 0.1-20 AZN depending on the purpose of the land - e.g., industry, construction, transportation, etc. - and its location.

The economic activity level of the land's tenant/owner does not influence the Land Tax payment.

From 1 April 2016, land tax rate for agricultural land is 10 AZN for every 100 square meters and must be paid to state budget except, agricultural lands which are used for purposes or other agricultural lands which are not used for its intended purpose because of irrigation, land reclamation and other agro-technical reasons.

Road tax

Since the 1 January 2015, all individuals engaged in production or import of vehicle gasoline, diesel fuel and liquefied gas to Azerbaijan are road taxpayers. Vehicle owners (excluding the road tax on transit) are expected to indirectly pay the road tax within the price of fuel. The Road Tax rate varies depending on vehicle engine volume, number of axles, weight carried, and how long the vehicle will be in Azerbaijan (for foreign vehicles).

Wholesalers - road tax rate for vehicle gasoline, diesel fuel and liquefied gas manufactured in Azerbaijan and directed to the national consumption (wholesale) is AZN 0.02 on wholesale price (including VAT and excise) for each litre of these mentioned items.

Importers - for vehicle gasoline, diesel fuel and liquefied gas imported into Azerbaijan, road tax is calculated at AZN 0.02 on the customs value, but not lower than wholesale market price (including VAT and excise), of each litre of the mentioned items.

Employment taxes and contributions

Income tax

From 1 January 2013, the maximum rate of Personal Income Tax is reduced to 25% starting from AZN 2,500 (approximately US$ 1,667) per month. Income Tax in Azerbaijan is hence charged at progressive rates of 14% or 25% of gross income. Taxable income of individuals engaging in entrepreneurial activity is subject to tax at 20%.

Social insurance fund

Employers and employees must make payments into the Social Insurance Fund. The employer pays the equivalent of 22% of an employee's gross salary, and employees pay 3% of their gross salary (withheld from their salary by the employer).

Foreign citizens, except from foreign employees working under the PSA/ HGA tax regime, are also subject to social insurance contributions.

Double tax treaties

Azerbaijan has ratified treaties to avoid double taxation with 48 countries. In the meantime, due to administrative barriers imposed by the Azerbaijani tax authorities, the benefits of double tax treaties have not been fully utilized. The tax authorities require that the majority of types of taxes due be paid before the taxpayer lays a treaty claim. Following the submission of the full payment, a non-resident enterprise may file a refund/offset claim for overpaid taxes. As the process of gaining a refund or an offset is tedious, lengthy, requires filing a great deal of paperwork and involves the risk of a tax audit, few taxpayers have chosen to file a treaty claim.

Production Sharing Agreement (PSA) tax regime

There are currently 24 ratified PSAs and 2 ratified HGAs, with an exclusive tax regime for each one. The PSA tax regimes are applicable to each contractor party (signatory to the PSA), the operating company, and the subcontractors (in particular, foreign subcontractors).

Foreign companies operating as PSA subcontractors in Azerbaijan are referred to as foreign subcontractors (FSC), and are subject to a simplified tax regime (withholding of tax in place of Profits Tax - 5% to 8%). This simplified corporate income tax regime does not apply to Azerbaijani legal entity subcontractors.

VAT (both input & output) and customs duties for activities conducted under the PSA regime are charged at a rate of 0%.

Customs regime

Goods imported into Azerbaijan are subject to imports duties (ranging from 0% to 15% per metric unit).

Azerbaijani law recognizes several customs regimes pertinent to goods imported into Azerbaijan. Such procedures as transit, customs storage, bonded warehouse, temporary import, and processing in/outside of customs territories may be of interest to foreign investors. If the import is temporary, no customs duties may be applied it, and it must be exported from Azerbaijan within a certain period of time. The deadline for exporting a temporary import is established by the customs authorities.

Goods brought into Azerbaijan under the temporary import regime should be exported without substantial changes to their form/structure. According to the destination VAT principle, VAT in Azerbaijan is payable (subject to an applicable customs regime) on the declared value of the goods (including assessed import duties and Excise Tax). Certain categories and types of goods are exempt from import duties and are subject to 0% VAT.

A customs clearance fee up to AZN 550 (approximately US$ 367) is applicable to nearly all imports/ exports. Exports are exempt from customs duties, except for certain types of metals and metal products. Under a PSA regime, contractors, their agents and subcontractors are entitled to import and re-export goods used in hydrocarbon activities free from import duties. Imports under a PSA regime are subject to 0% VAT. A similar regime applies under HGAs.

Labour and social relations

Labour law

Labour relations in Azerbaijan are covered extensively by the 1999 Labour Code, which comprises legislation different from the early 90s with a number of later lower-tier regulatory acts expanding the general code's provisions.

A standard working week is 40 hours. Overtime and work performed on days off (Saturdays, Sundays, public holidays and one mourning day) must be compensated at double daily rate.

Employment relations are established by the employment contract, which, in most cases, does not necessarily indicate a fixed term of employment. An employer must give an employee two months' notice of termination in the event the employee is made redundant. However, certain exceptions to this rule are available (e.g., in the case of a gross violation of the employee's duties). An employee can terminate their employment contract at any time but must give one month's notice.

Accounting

Accounting regulations are set out in the Law of the Azerbaijan Republic "On Accounting" (March 1995). In 2004, the Azerbaijani government took steps to improve the transparency of financial reporting and accelerate the economy's integration into the global financial system, as well as modernize the national accounting system and reporting with respect to the international standards by implementing the International Financial Reporting Standards (IFRS) in organizations involved in commercial activities.

All public interest entities in Azerbaijan must adhere to IFRS. Public interest entities are defined as credit organizations, insurance companies, private pension funds and legal entities with stock market share listings. Entities that meet at least two of the following criteria are also considered as public interest entities: 1) revenue of AZN 30 mln (approximately US$ 20 mln); 2) an average of 1,200 employees, and 3) a total balance sheet of AZN 100 mln (approximately US$ 66,7 mln). Commercial organizations must either follow IFRS, or the National Accounting Standards for Commercial Organizations (NASCO). Small businesses (with fewer than 40 employees and annual turnover less than AZN 200,000) are allowed to follow simplified accounting rules approved by the Ministry of Finance. Alternatively, they may choose to follow NASCO.

NASCO regulations are largely based on IFRS. However, their intention is not to duplicate IFRS, but to simplify the principles for implementation.

PwC Azerbaijan

PricewaterhouseCoopers Global (PwC) is one of the world's most extensive networks of professional services firms. In its current form, the network of firms was established in 1998 through the merger of Price Waterhouse and Coopers & Lybrand, both of which were headquartered in London. PwC posted revenues of US$ 35,9 billion for fiscal year 2016.

PwC Global employs 223,468 people in 157 countries.

PwC has retained its position as the number one professional services brand, and one of the world's top ten most powerful brands in the Brand Finance Index 2017.

The Brand Finance index is an annual assessment of the brand value of over 500 of the world's best known businesses. PwC achieved the highest score (AAA+) for the seventh year in a row assessing the brand as 'exceptionally strong and well managed'.

PricewaterhouseCoopers (PwC) Azerbaijan, established in 1995, is one of the country's first international professional services firms. The Firm has made significant investments in the local economy and community and will continue to do so.

In addition to the quality of the services, we provide to our clients, we are fully committed to the development of our people. In the past 20 years, we have trained and developed a large number of high quality professionals, many of whom are still with us, and some of whom have moved on to increase the level of expertise in the business community here in Azerbaijan.

PwC Azerbaijan employes 130 people, including selected group of international and local professionals from 6 countries led by four partners.

In 2016 PwC Azerbaijan announced about the appointment of two new partners: Michael Ahern, leading the Tax and Legal Practice, and Emin Shikhgayibov, leading the Advisory practice. Movlan Pashayev, the Country Managing Partner of PwC Azerbaijan, will continue leading the Firm and be focusing on the execution of the global and local strategy and working with select priority clients of the Firm. Petko Dmitrov is continuing as the Assurance leader.

With these appointments, PwC Azerbaijan now has four territory partners representing all lines of our service of assurance, advisory and tax and legal.

PwC Azerbaijan's wide range of skills and experience, along with local and international expertise, allow us to offer our clients the highest level of service and professional excellence.

We provide the full spectrum of client services, developed to be commensurate with evolving client expectations. This comprehensive service line has enabled us to accept and successfully complete some of the largest, most technically- challenging projects undertaken in Azerbaijan up to date. Our firm is widely recognized as a leader in its sector, and stakeholders regard PwC as the firm that sets the professional standard. Our opinions on matters of public policy are sought-after and highly regarded.

PwC Azerbaijan has the vast experience in the oil and gas industries, banking and financial services, telecommunications and consumer products sectors. We help organizations and individuals create the value they are looking for by delivering quality in assurance, tax, legal and advisory services. PwC's clients range from the world's leading multinational companies to new and growing enterprises, from large family businesses and governments to NGOs, and private individuals. We aim to create trust in society and solve important problems.

Assurance services

We have a team of around 45 strong specialists in Assurance, 5 out of them holding ACCA qualifications and local statutory auditing certification. We also have a local team of 4 risk management specialists, whom we supplement, if needed, with international experts to meet our clients' project needs. Our clients number oil and gas upstream and downstream, insurance, construction, manufacturing and service companies, banks as well as Government entities. We provide tailored assurance solutions to fit the clients' individual business requirements and adapt our audit approach to address the needs of small and large, private and state-owned, start-ups and mature, local and international businesses. Our audits draw on the full breadth and width of our global network in virtually any industry.

We audit under the International Standards of Auditing (ISA) providing an internationally required opinion which helps our clients both access international financing and expand the global horizons. With us, our clients can improve their external and internal financial reporting to match the information requirements of any stakeholders: owners, banks, financiers, debtors, creditors, employees, Government and society. We also help our clients to make a successful transition to comply with new regulatory requirements and strengthen corporate governance procedures.

Advisory services

We have a team over 20 individuals providing IT-related, management consulting and deals services to the public and private sectors in Azerbaijan. With a range of experience and expertise, this team can deliver projects locally and, where it will add value to our clients, in collaboration with other specialists from the PwC global network.

We thereby deliver the best solutions to our clients from strategy and market advice and business and IT improvement through to execution, including deals support and ERP system implementation.

Tax and Legal services

Consisting of 39 tax specialists and lawyers at the top of their profession, our Tax and Legal practice is the largest team in Azerbaijan.

We are organized around different aspects of tax and law, reflecting the need for in-depth specialist knowledge in each key area. We recognize that, in many cases, knowledge of tax and law must be embedded in a thorough understanding of industry. We have therefore developed specialized teams along industry lines, allowing us quickly assemble a team with the required tax and legal skills, as well as the relevant industry knowledge.

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Contacts

PwC Azerbaijan
The Landmark Office Plaza III
12th floor, 90A Nizami Street
AZ1010 Baku, Azerbaijan
Tel: 99412 497 2515
Fax: 99412 497 7411
www.pwc.com/az

Movlan Pashayev
Country Managing Partner
Email: movlan.pashayev@az.pwc.com

Emin Shikhgayibov
Partner, Advisory Leader
Email: emin.shikhgayibov@az.pwc.com

Michael Ahern
Partner, Tax & Legal Leader
Email: michael.ahrern@az.pwc.com

Petko Dimitrov
Partner, Assurance Leader
Email: petko.dimitrov@az.pwc.com

Arif Guliyev
Director, Tax Services
Email: arif.guliyev@az.pwc.com

Fahri Mustafayev
Director, Assurance Services
Email: fahri.mustafayev@az.pwc.com

Samir Hadjiyev
Director, Legal Services
Email: samir.hadjiyev@az.pwc.com

Zarina Zeynalova
Director, Advisory Services
Email: zarina.zeynalova@az.pwc.com