



Doing Business and Investing in Azerbaijan Guide

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Why to invest in Azerbaijan?

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

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

Azerbaijan has substantial hydrocarbon reserves

The country has significant agricultural potential due to its fertile climate

Azerbaijan is growing a highly educated and skilled workforce



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.

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Foreword



Movlan Pashayev
Country Managing Partner
PwC Azerbaijan

It is my great pleasure to introduce the 2022 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 the 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 140 staff, including three partners and a select 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.



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 for foreign investments. 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 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 favorable 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 (+3) ahead of GMT. In 2016 the Cabinet of Ministers of the Republic of Azerbaijan abolished daylight time changes.

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 the 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 Azerbaijan Democratic Republic was established in 1918. The Constitution of independent Azerbaijan was adopted in 1995 and received nationwide support in a referendum. Azerbaijan, the first parliamentary republic in the east, was one of the first countries in the world, and the very first majority-Muslim nation, to grant women equal political rights with men.

Nagorno-Karabakh conflict and future development of the region

From 1988 a conflict arose between Azerbaijan and Armenia because of the disputed territories of Nagorno-Karabakh. A war broke out in 1988 and ended with a cease-fire agreement in 1994. After 26 years, Nagorno-Karabakh conflict expanded again and Armenia and Azerbaijan started military operations on 27 September 2022. The 44-day war resulted in the liberation of the occupied territories. On 10 November 2020, the "Statement of the President of the Republic of Azerbaijan, the Prime Minister of the Republic of Armenia and the President of the Russian Federation" was adopted and a ceasefire agreement was signed. Currently, both parties of the former conflict are discussing opening of borders and airspace, transportation routes, delineation of the borders and possibly conclusion of a full fledged peace treaty.

The industrial potential of the Karabakh region presents lots of opportunities for the investors. To name just a few: rich water supply, agricultural produce, electricity, abundant minerals and recreation opportunities. More information about the potential of liberated territories is available here:

- https://www.researchgate.net/publication/349457210_Economic_Potential_of_the_Liberated_Territories_of_Azerbaijan_A_Brief_Overview
- <https://president.az/en/articles/view/48205>

People

According to the State Statistics Committee, the population of Azerbaijan was estimated at nearly 10 million people in 2020.

The most populous cities in Azerbaijan as of 1 January 2021 are the following:

City	Population
Baku	2,277,500
Ganja	313,300
Sumqayıt	265,150
Lankaran	240,300
Mingachevir	95,500
Saatli	87,000



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.

All minorities in Azerbaijan have the constitutional right to education, media, and cultural activities in their own language. 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. 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 the 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. Minorities include Russians, Talysh, Lezgis, Kurds, Mountain Jews, Georgians, and Udines.

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 – October 2018 AZN/US\$ rate is AZN 1.70 per US\$ 1, while average AZN/ EUR rate over the same period is AZN 2.08 per EUR 1.

In January 2017, CBAR has dropped its 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.

The most recent presidential election was held on 11 April 2018. The incumbent president, Ilham Aliyev, won with 86% of votes and was re-elected for the seven-year term.

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

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 February 2020.

The New Azerbaijan Party (YAP) currently holds the majority of seats in Milli Majlis.

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 Administrative-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. 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.

The statement of the President of the Republic of Azerbaijan, the Prime Minister of the Republic of Armenia and the President of the Russian Federation, signed on 10 November 2020, has put an end to the almost three-decades-old armed conflict between Armenia and Azerbaijan. The end of aggression and occupation has become a triumph of justice and international law.

With the end of the armed conflict in accordance with the Trilateral Statement, Azerbaijan entered into a new stage of post-conflict rehabilitation, reconstruction and reintegration.

One of the main points of dispute in international relations of Azerbaijan within seabed of the Caspian is the precise legal status of the latter, and particularly the territorial rights of the littoral states are subject to dispute. A fundamental disagreement over the demarcation of territorial waters.

In the southern Caspian between Iran, Azerbaijan and Turkmenistan continue to pose a strategic threat to the development of offshore oil and gas fields.



Relations with Caspian littoral countries

Azerbaijan has taken an active part in creating a legal framework for cooperation among Caspian littoral countries. The Third Summit of the Heads of State of Caspian Littoral Countries held in Baku in 2010 made an important contribution to the strengthening of close cooperation among our countries. The "Agreement on Cooperation in the Field of Security in the Caspian Sea" was signed during that Summit. It is of great importance from the point of view of security and maintaining stability in the region. For the first time at such a high level, it envisaged conceptual agreement on sovereignty and fishing zones. Participants in that Summit also agreed on the basic principles of cooperation among littoral states in the Caspian Sea. These principles include respect for the sovereignty, independence and territorial integrity of states, the transformation of the Caspian into a place of peace, good-neighborliness, and friendship.

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 the 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. A multi-entry visa is valid up to two years with duration, not more than 180 days.

Foreign expatriates intending to travel to Azerbaijan should obtain an entry visa through the nearest Azerbaijan embassy regardless of the purpose of the trip. For some countries (for example, Turkey), it is possible to obtain the visa directly in the airports. In a case when foreign residents intend to stay in Azerbaijan for a period longer than 10 days, they should be registered at the place of the stay upon their arrival.

ASAN Visa System will send electronic visa directly to the applicant's personal email within three days.

It should be noted that the service is available only to citizens and stateless persons permanently living in the countries indicated in the list of the Ministry of Foreign Affairs.

COVID-19- related restrictions

In view of the COVID-19 pandemic, Azerbaijan closed its borders for a number of countries and arrival of people from those jurisdictions is possible only on the basis of approval of the Operational Headquarters under the Cabinet of Ministers (<https://nk.gov.az/az/category/10/>). In this case visa formalization is done at the Azerbaijani border upon arrival of the person in Azerbaijan. From visa-free regime countries such an approval is still required for the citizens of Georgia.

We would like to highlight that since the situation with COVID-19 is getting better, the Cabinet of Ministers gradually extends the list of countries returning to the ordinary procedure of visits. To date, there are 70 countries from where the citizens are free to visit Azerbaijan by air as per the standard rules, provided that they have either vaccination passport, or immune certificate, as well as a certificate of a negative result of a PCR test for coronavirus passed within 72 hours before departure.

ASAN Visa system was inactive for a long time due to traveling restrictions. It recently resumed its activity again for a limited number of countries (<https://evisa.gov.az/en/>).

Economic overview

One of the main sources for ensuring the economic development of each country is investment flows. A favorable business environment has already been created in Azerbaijan, and serious measures have been taken recently to improve the business environment, develop the non-oil sector, and stimulate opportunities to attract investments. Thereby, Azerbaijan has twice taken the leading positions in the Doing Business 2009 and Doing Business 2019 reports, and was named one of the 20 most reforming countries in the Doing Business 2020 report.

As a result of implementing a record number of reforms mainly involving institutional changes among the 10 top improvers, to do business in Azerbaijan became easier, such as time and cost to get construction permit reduced significantly (time by 80 days and cost by 12.563 AZN), process of connecting electricity grid rationalized, as well as getting credit simplified.

Today, Azerbaijan has improved its own quality new economic model, expanding political and trade relations between Europe and Asia, and playing an important role in the implementation of huge projects along with the development of the Caucasus transportation corridor. As a result of the implementation of international projects, Azerbaijan has become an international transportation hub and transportation corridor in the last few years. A large shipyard has been built in our country. The use of the Alat International Sea Trade Port which is the largest in the Caspian Sea, and Baku-Tbilisi-Kars railways is a historic event.

The President of the Republic of Azerbaijan signed the Decree on the large-scale promotion of local non-oil products in foreign markets as "Made in Azerbaijan" on 5 October 2016.

In recent years, one of the most significant achievements of the Azerbaijan energy sector has been the delivery of the TANAP project to the European border. The TANAP and TAP projects, a key part of 3,500 kilometer-long Southern Gas Corridor connecting several countries, have been successfully completed.

Another important event in the field of energy in 2021 was the signing of the memorandum of understanding on joint exploration, and development of hydrocarbon resources of the Dostluq field in the Caspian Sea between the government of Turkmenistan and the Government of the Republic of Azerbaijan. With this historical event, Azerbaijan will be a transit country.

Public Holidays 2022	
1-2 January	New Year's Holidays
20 January	Day of the Mourning
8 March	International Women's Day
20-24 March	Novruz Bayram
2-3 May	Ramazan Bayram
9 May	Victory day Over Fascism
28 May	Republic Day
15 June	Day of National Salvation
26 June	Armed Forces Day
9-10 July	Gurban Bayram
8 November	Victory Day
9 November	Flag Day
31 December	Solidarity Day

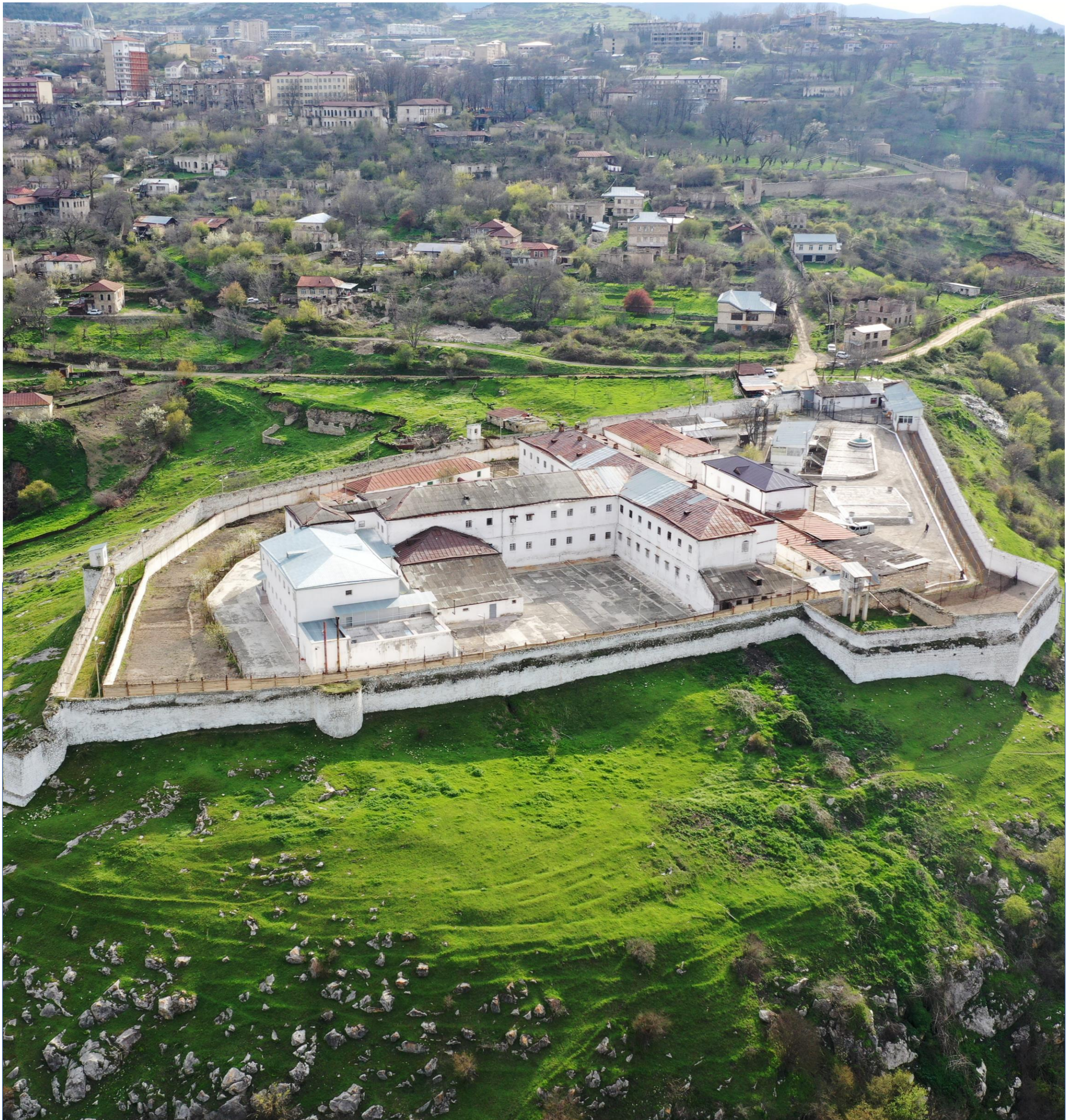
Also, this agreement will contribute to the realization of the Trans-Caspian energy pipeline. In terms of the development of our country's oil and gas strategy, the memorandum of understanding has great importance. This historic event will have a positive impact on the growth of the role of our country as a transit country and contribute to the realization of the Trans-Caspian energy pipeline.

On the 23rd anniversary of the Contract of the Century, the agreement signed on amendments on the production sharing and development of the Azeri-Chirag-Guneshli block in Baku in September 2017. According to this regulated agreement, the duration of the `Contract of the Century` extended until 2050.

New Oil Strategy`s achievements have become a dynamic economic development of the Azerbaijani state over time. In other words, The new oil strategy achieved its main goal by ensuring the country's energy security and proportional economic development.

More information about economic overview is available here:

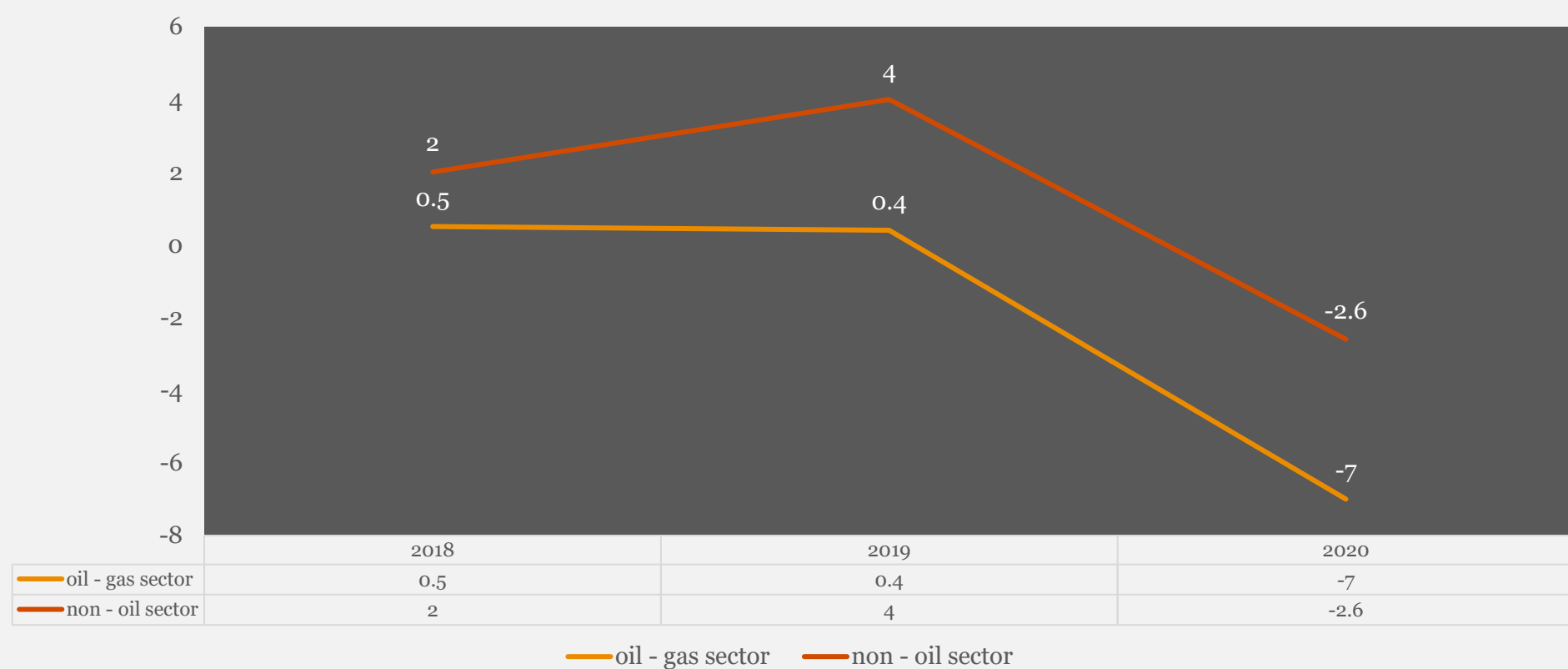
- <https://azerbaijan.az/en/information/401>



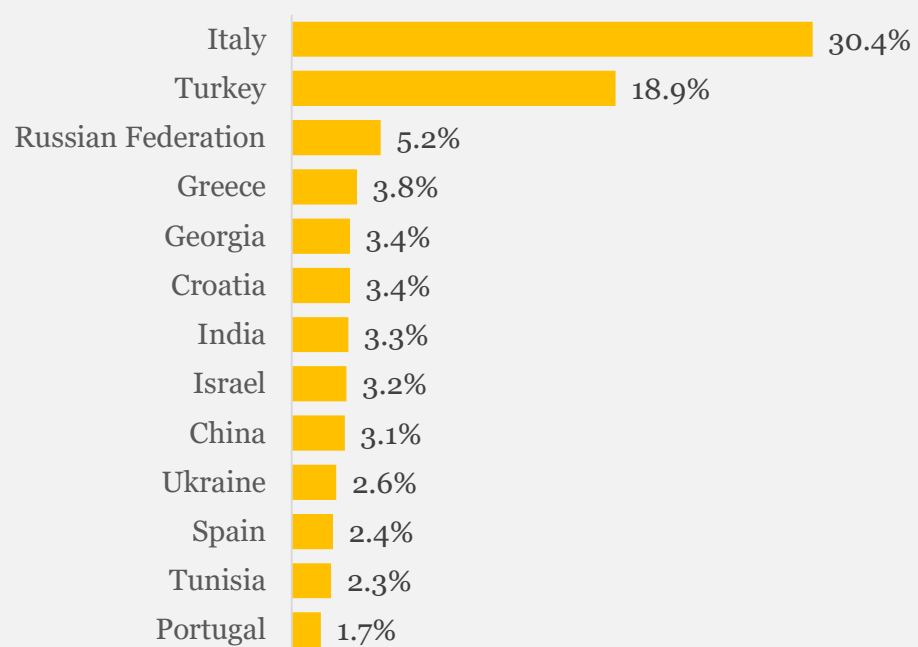
Macroeconomic review in figures

	GDP (bln. USD)	GDP per capita (USD)	Inflation (%)	Unemployment rate	Import of goods and services (in bln. USD)	Exports of goods and services (in bln. USD)	Share of Agriculture in GDP (%)
2018	47.1	4,798	2.30%	4.9	11.47	19.49	5.2
2019	48.2	4,864	2.60%	4.8	13.67	19.64	5.7
2020	42.6	4,272	2.80%	7.2	10.73	13.74	6.9

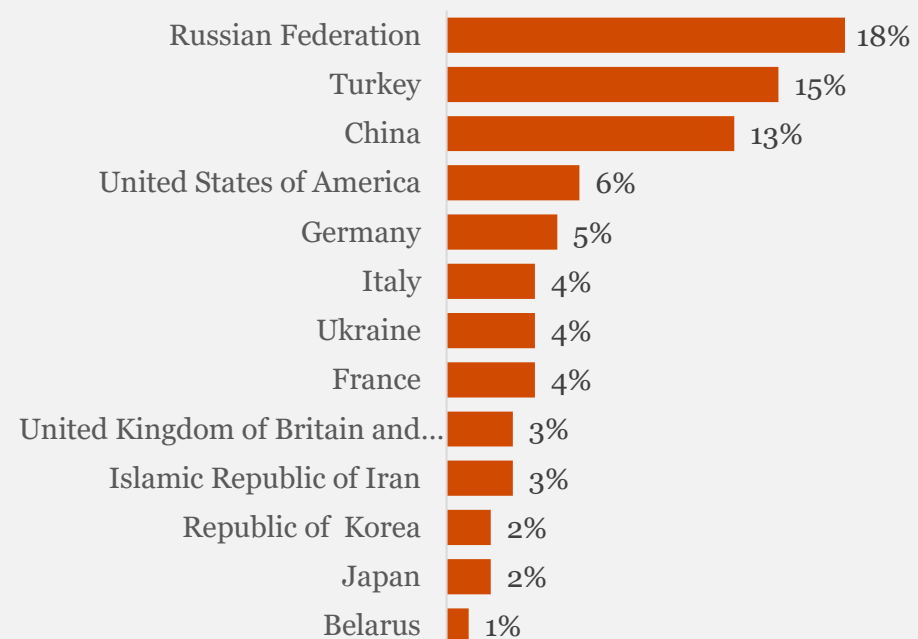
Real GDP growth by sectors



Main export countries



Main import countries





Foreign investment



General investment environment

Innovation and investment policy play a crucial role in terms of achieving many successes in the state economy. One of the important conditions for ensuring macroeconomic stability, economic growth, economic security, the competitiveness of the national economy, improving the living standards of the population and solving many socio-economic problems is the investment climate in the country. Azerbaijan became an attractive country in the world for investment. The creation of political and economic stability, favorable business and investment environment ensure the realization of any project. As a result of an improved business environment, equal rights and opportunities have been created for all investors. Also, strong protection policy and legislation in this area are attractive factors for investors. There is no discrimination against foreign and local investors. There are some favorable conditions for investors to create a favorable business environment.

As a result of works done in our country for the improvement of the investment climate, along with the number of companies investing in Azerbaijan, their geography is expanding. It is obvious that investors are only interested in investing in a stable country. So, the volume of investments in the Azerbaijani economy has now reached \$ 280 billion.

Azerbaijan acts as an investor country in a number of regional and global projects. It led Azerbaijan to become a geopolitical actor, as well as a country

with a growing international image.

Azerbaijan is one of the main initiators of billion invested in projects and the projects have been successfully completed. These projects include “East-West”, “North-South” transport corridors, Baku-Tbilisi-Ceyhan oil, Baku-Tbilisi-Erzurum gas pipeline, one of the priority energy projects for the European Union (Shah Deniz-2, the expansion of the South Caucasus pipeline), Southern Gas Corridor.

The regional projects initiated by Azerbaijan such as the Baku-Tbilisi-Kars railway, the New Baku International Sea Trade Port, and the construction of a railway between Azerbaijan and Iran, show new achievements in the development of transregional infrastructure.

Azerbaijan strengthened its position as a major investor and become one of the leading countries in the CIS in terms of the volume of investments in foreign economies in the region. According to the reports of the world's leading economic research centers, our country is characterized as a country that has become a geographical center of investment in the region.

Currently, work is underway to attract foreign investors to the liberated territories, and a number of countries are closely involved in the restoration of territories and the implementation of infrastructure projects.



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.

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. 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

According to the Law on Protection of Foreign Investment, the following entities and individuals are 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 engaging in economic activity;
- Foreign states;
- International organizations.

The 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 a case of nationalization and requisition. Compensation should be commensurate to the amount of the investment at the time of nationalization or requisition, payable in foreign currency and freely transferable abroad.
- Guarantee of compensation of damages: foreign investors are entitled to compensation for damages, including compensations for lost profits resulting 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.

In the light of above, the President signed an order dated 18.01.2018 on promoting investment activities and protection of rights of foreign investors in Azerbaijan.

The very point of the order is to pass a new law on investment activity covering state guarantee to investor's rights, rules on alternative dispute resolution and indemnifying damage.

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 not later than two days for commercial legal entities. Registration of non-commercial legal organizations (e.s public associations) 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 (represents and defends interests of the 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

A Branch carries out functions of Head Office totally or partially along with functions of RO. Branch and RO are broadly 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\$ 129).



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 the 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 the 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 its 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

The Union can be established by commercial or non-commercial entities to promote their business and non-business activities. The 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.

Public Legal Entities

Recently established law on public legal entities governs procedures on the 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 are 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 development 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 the 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 licenses and permits (for the 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.

Privatization

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 underway, 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.

State Migration policy

Adoption of the 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 are removed.

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.

Taxation

Tax regimes

The Tax Code of the Republic of Azerbaijan adopted in 2001, currently has 225 articles and a number of old tax laws were abolished from it.

Briefly speaking, Azerbaijan currently has different tax regimes: 1) the statutory tax regime encompassing also special tax regimes such as taxation in free zones and industrial and technological parks; 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 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 favorable 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, contracting 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. 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.

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Corporate income taxation (“CIT”)

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

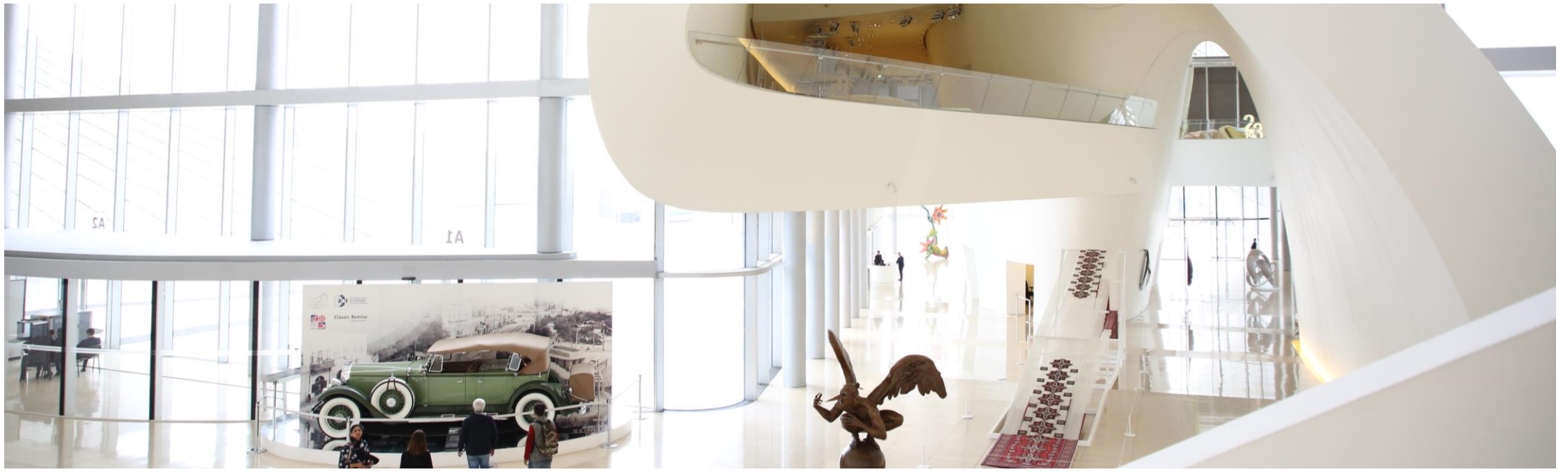
CIT is computed on the basis of an entity’s taxable profit. Taxable profit is generally equal to gross realization (receipts), minus deductible expenses, which are defined as any costs incurred in generating of income. The entity tax currently is 20%. CIT should be reported on an annual basis, although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

There are following tax exemptions regarding CIT:

- profit of legal entities from production of agricultural products (including by industrial methods);
- profit of the residents of the industrial and technological parks is exempt from profit tax for the period of 10 years from their registry date in industrial and technological park;
- income of the SME cluster company for a period of 7 years from the date of inclusion in the register of SME cluster companies;
- 50% of the income generated by the legal entity that received the investment promotion document for 7 years from the date of receipt of this document;
- 75% of the income generated from entrepreneurial activity by micro enterprises;

There are two methods of recognition for CIT purposes: Accrual method and Cash method. Medium-sized and large-sized businesses are not entitled to choose cash method. Small-sized businesses have to use accrual method from the 1st of January 2023. Micro-sized businesses may use the cash method or the accrual method, depending on their preferences.



Controlled Foreign Company

An enterprise registered in countries (territories) are subject to preferential taxation and that are not residents of the Republic of Azerbaijan is considered a “Controlled Foreign Company” in the following conditions and its income are taxed in the Republic of Azerbaijan:

- A person considered a resident of the Republic of Azerbaijan that directly or indirectly has the voting right for more than 50% in a foreign enterprise or possess more than 50% of its authorized capital or has the right to receive more than 50% of the profits of that foreign enterprise by its own or together with an interrelated resident or non-resident;
- If the actual taxes paid on the profit of a Controlled Foreign Company is 2 times or more lower than the corporate income tax payable on that profit in accordance with the tax legislation of the Republic of Azerbaijan;
- If more than 30% of the annual income of a foreign enterprise consists of such incomes: royalties, interest income, income from the sale of stocks and shares, income from financial services and from the sale of goods and services that do not create economic value.

Simplified tax

From 1 January 2016, persons with annual turnover of up to AZN 200,000 (approximately US\$ 117,650) are eligible to be registered as Simplified Taxpayers. Simplified tax is generally levied at 2% of the proceedings from the sales of goods, provision of services and works, as well as non-sale income (excluding incomes taxed at the source of payment). Persons rendering catering services (e.g. restaurants, coffee shops, etc.) with annual turnover exceeding AZN 200,000 are still eligible to be a simplified taxpayers. In this case Simplified tax rate for them is 8%.

Special tax rates apply in relation to the below stated activities and transactions:

- For the selling residential and non-residential premises by individuals (except for residential premises of individuals given that it is the only residential property of him/her and he/she has been residing there for at least 3 years) -AZN 15 per square meter multiplied by an applied co-efficient; the applied co-efficient being determined by the regional executive authorities;
- Income of sports betting operators and lottery organizers - 6% of the proceeds generated from the sale of tickets;
- Income of sports betting and lottery ticket sellers - 4% of the commissions paid to them by the operators and lottery organizers;
- Alienation of the land plots by individuals – for agricultural land plots in the amount of two times of land tax and for non-agricultural land plots AZN 0.5 per square meter of the area multiplied by the respective co-efficient of the location.

Below stated legal entities and individuals are not entitled to be simplified taxpayers:

- Non-public pension funds and public legal entities;
- Persons generating royalty and rent income;
- Wholesalers, excisable and compulsory markable goods manufacturers;
- Persons with a residual value of fixed assets owned at the beginning of the year more than AZN 1,000,000;
- Persons carrying out production activities with an average number of employees (actually involved) more than 10 people during the quarter;
- Persons engaging in provision of service whose quarterly sales to non-registered individuals does not exceed 30% of its total quarterly sales;
- Persons engaging in the types of activities that require a license (except for persons providing services under compulsory insurance contracts)

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:

Payment type	WHT Rate
Interest	10%
Rent and royalty	14%
Freight income	6%
Telecommunication services	6%
Insurance payments under risk insurance or reinsurance agreements	4%
Payments to an electronic wallet	10%
Payments to parties registered in countries with favourable tax regime	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 a 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 which is considered as interrelated, as well as any representative office, branch or other unit of that resident located in other states (territories);
- The permanent representative office of the non-resident in the Republic of Azerbaijan and the non-resident himself or any of his representative offices, branches and other divisions located in other states, any other person interdependent with that non-resident and located in another state;
- Between a resident of the Republic of Azerbaijan and (or) a permanent establishment of a non-resident in the Republic of Azerbaijan with entities established (registered) in countries with preferential taxation (low tax jurisdictions) ;
- Azerbaijani resident or a permanent establishment of non-resident in Azerbaijan and non-resident. Provided that,
 - persons have carried out operations on products traded on international commodity exchanges and (or);
 - total income of a resident or a Permanent Establishment of non-resident exceeds AZN 30 million during the tax year and the share of transactions with each non-resident in total income (expenses) exceeds 30%.



The transfer price is determined based on the following methodologies:

- Comparable uncontrolled price
- Resale price method;
- Cost plus method;
- Profitability method;
- Profit split method;
- Deemed profitability (conditional profitability) method prescribed in the Decree 55 of the Cabinet of Ministers dated 1 March 2001.

The method is used only if it is established that no comparable information on different transactions exists or it's 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\$ 117,650) 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.

Starting 1 January 2020, the accrual basis method for the recognition of taxable turnover for VAT purposes is canceled and replaced mainly with the cash basis method. Moreover, electronic tax invoices were cancelled and obligatory is the issuance of electronic delivery notes only. Taxpayers are expected to submit various types of electronic delivery notes depending on the nature of the transaction.

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 10 years since registration as a resident of the industrial and technological park. 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.

Effective from January 1, 2022, within 3 years, VAT will be applied to the trade surcharge at the wholesale and retail sale of foreign and local origin agricultural products, provided that all supporting purchase and sales documents are duly submitted. The amounts of VAT paid on purchased agricultural products are not claimable by the above-mentioned taxpayers for the same period.

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, a 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 the 50% penalty of the unpaid VAT amount.

Limitation of the cash settlements

Settlements over the below limits must be carried cashless by *VAT payers*:

- Over AZN 30,000 per calendar month (effective from 1 January 2017).

Limits for other taxpayers:

- Over AZN 15,000 per calendar month.

Note: Salaries, pensions, allowances, financial aid, benefits and other this type of compensations paid by the persons (with exception of the persons operating in the field of retail trade, catering and services, whose volume of operations are up to AZN 200,000 in any month of a consecutive 12-month period) have to be carried out only cashless.

Cash withdrawals:

- 1% Simplified tax is calculated for cash withdrawals and in some cases, for remittance to the individuals personal bank accounts.

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.

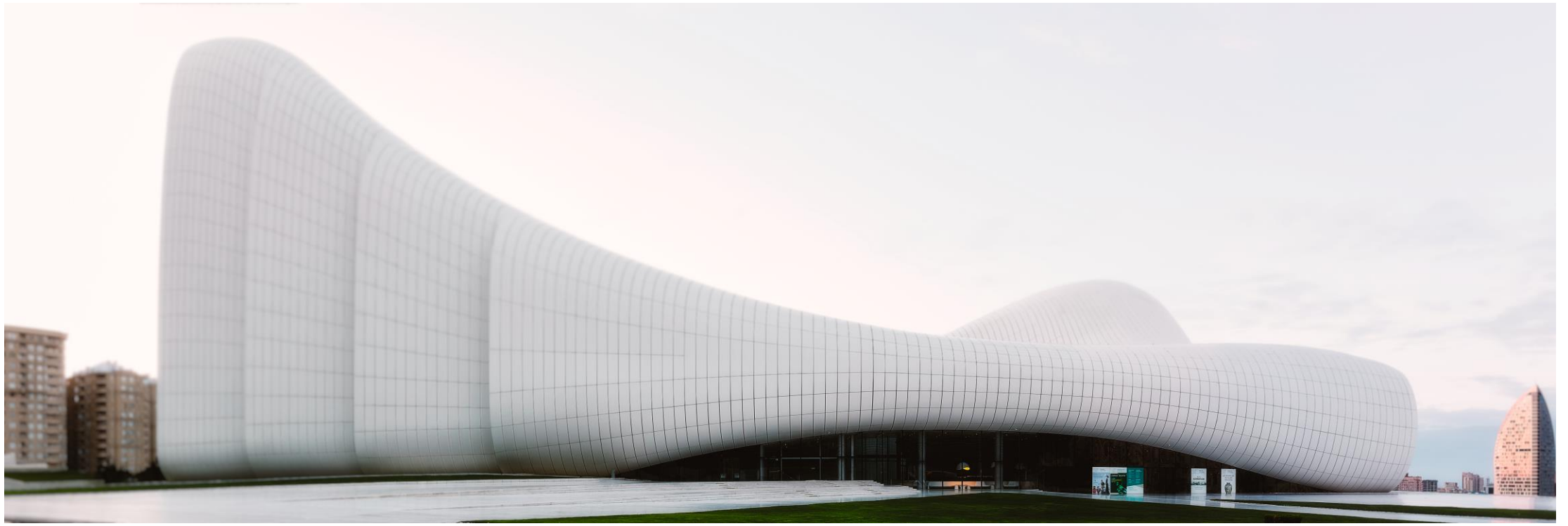
Administrative penalties may be applied for failure to file declarations, register a taxpayer with the authorities, notify the authorities of a change of address, etc. Tax law violations have a three-year statute of limitation.

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:



- alcohols, energy drinks, 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);
- imported platinum, gold, jewelry and other products made from it and fur-leather goods;
- leisure and sports yachts, as well as other boats vehicles, stipulated for the aforementioned purposes.

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.

The main exemptions are as follows:

- legal entities involved in production of agricultural products (including production by industrial method) as well as residents, managerial companies and operators of industrial or technological parks are exempt from property tax.
- micro enterprises are exempt from property tax, excluding those with a total book value of assets exceeding AZN 1,000,000.
- companies in the SME cluster are exempt from property tax on property used for the operation of the SME cluster for seven years from the date of registration in the SME group register.

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

Generally, there are 2 types of road tax:

1. Tax levied on non-resident owners of vehicles entering the territory of Azerbaijan for passenger and cargo transportation. In this case the road tax is collected by the customs authorities and tax rate varies depending on vehicle engine volume, number of axles, weight carried, and how long the vehicle will be in Azerbaijan;

2. Tax levied on the persons engaged in the production or import of vehicle gasoline, diesel fuel and liquefied gas to Azerbaijan. 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 liter of these mentioned items. As for importers of these products, 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

The ordinary progressive rate of Personal Income Tax (PIT) is 14% of monthly taxable income up to AZN 2,500 (approximately US 1,470) and 25% of the amount exceeding AZN 2,500.

As for employees working in private and non-oil and gas sector, reduced PIT rates are applied to their monthly taxable income. As such, their monthly gross income up to AZN 8000 is not taxed and exceeding amount over AZN 8000 is taxed at 14% rate, for 7 years starting from the year 2019.

Social insurance fund

Employers and employees must make contributions into the Social Insurance Fund. The employer and employee pay the equivalent of 22% and 3% of an employee's gross salary respectively (withheld from employee's salary by the employer). Foreign citizens, except from foreign employees working under the PSA/ HGA tax regime, are also subject to social insurance contributions. As for employees working in private and non-oil and gas sector, the employer and employee's portion of social insurance contribution are 15% and 10% respectively for 7 years starting from the year 2019.

Unemployment insurance contributions ("UIC")

Starting from 1 January 2018, the law "On Unemployment" has been enacted as a result of which each of employers and employee will bear 0.5% UIC assessed on the gross monthly salary.

The amount of unemployment insurance payments depends on the length of insurance record and the amount of past average monthly salary.

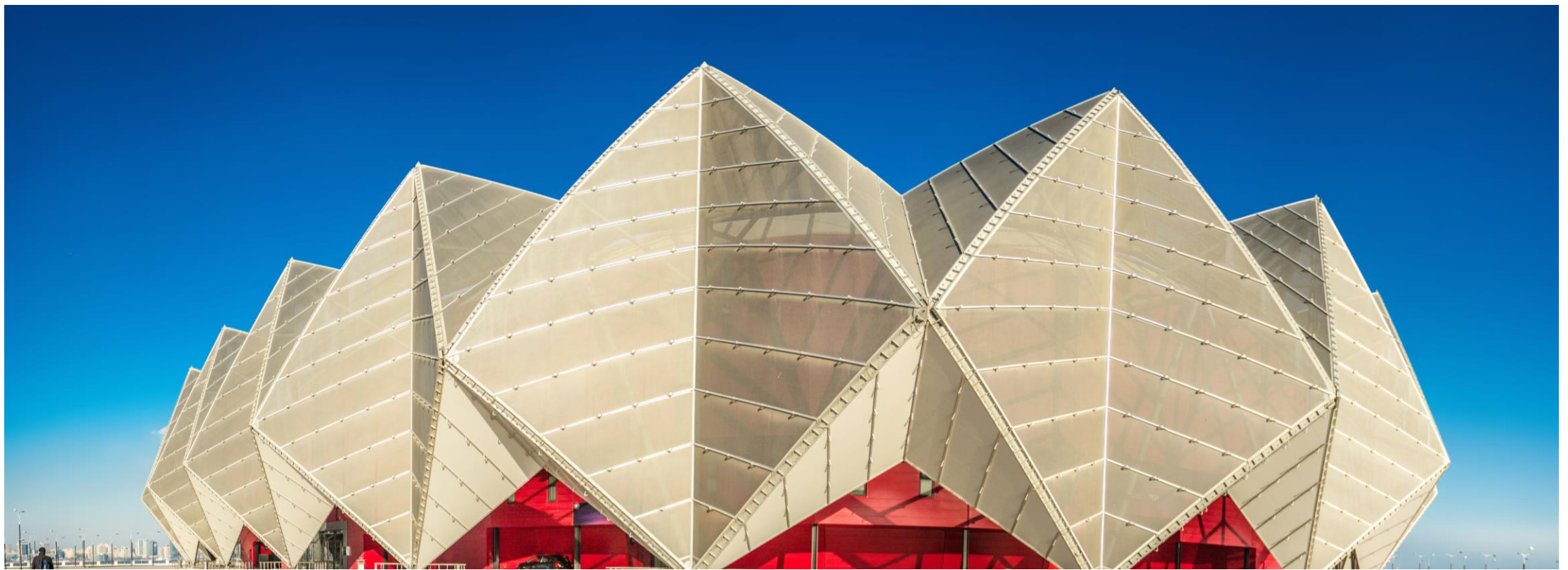
Mandatory health insurance contributions

Effective from 1 January 2022, both the employer and employee pay 2% (for the amount up to AZN 8,000) and 0.5% (for the amount exceeding 8,000 AZN) of the employee's gross salary respectively for employees working under the labor contract.

Double tax treaties

Azerbaijan has ratified treaties to avoid double taxation with 55 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. From 12 June 2017, the non-residents have entitled a right of submission of DTA forms electronically via online tax cabinet for all types of income independently or via tax agent.

Production Sharing Agreement (PSA) tax regime

There are currently 29 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). Nevertheless some recent PSAs envision statutory tax regime for foreign subcontractors instead of PSA regime.

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%), provided that they are not subject to statutory tax regime under recent PSA agreements. 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%. Parties of these agreements including subcontractors have to apply to tax and customs authorities to get special certificates that enable them to benefit from such zero-rated incentives. In practice, indirect subcontractors of these agreements are not provided with such certificates.

Customs regime, clearance duties and taxes

Goods imported into Azerbaijan are subject to import 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\$ 324) 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. As stated above, special certificates should be obtained to benefit from these incentives and in practice, indirect subcontractors are not provided with such certificates.

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.

Business offices are generally open from 9:00 am to 6:00 pm, Monday through Friday. The Azerbaijani Labour Code stipulates an eight-hour working day.

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.

According to the amendments, the main goal of state regulation in the area of accounting in the Republic of Azerbaijan is to ensure the preparation of financial statements on the basis of International Financial Reporting Standards, International Financial Reporting Standards for Small and Medium Enterprises, International Accounting Standards for Public Sector and accounting rules and maintenance of accounting records in the country. At the same time, with these amendments, the National Accounting Standards and the simplified accounting rules for small entrepreneurs were removed from the Law.

In accordance with amendments, chief accountants of the following entities should be professional accountants:

1. Legal entities that which controlling interest (stocks) of shares belong to the state.
2. Other public interest entities, except the legal entities with securities traded at the stock exchange;
3. Medium and Large Enterprises (entrepreneurs with AZN 3.000k and more annual income, or 51 or more employees);
4. Public legal entities publishing their annual or consolidated financial statements and state-funded organizations.

The legal entity rendering accounting services to the above-mentioned persons on contractual basis should have an employment contract with at least two professional accountants and the individual engaged with an entrepreneurial activity without the establishment of a legal entity shall have an employment contract with at least one professional accountant.

The professional accountant is the person who successfully passes an exam organized by the State Examination Center, obtains a professional accountant certificate and is a member of the professional accounting organization. The relevant certificate is provided to persons those who successfully passed professional accounting examination and registered by the Ministry of Finance. Professional accounting organization is a non-commercial organization consisting of professional accountants and accredited by the Ministry of Finance.

**We build trust in society
and solve important problems**

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\$ 45 billion for fiscal year 2021. PwC Global employs 295,371 people in 156 countries.

PwC is dominating Vault Accounting 50 rankings for the fifth year in a row. Online career resource Vault published its sixth annual "Accounting 50" on Tuesday, ranking the 50 best accounting firms to work for in 2022. Utilizing the feedback of more than 8,800 professionals, firms were ranked according to a number of factors, such as firm reputation, culture, and overall job satisfaction.

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 27 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 employs more than 140 people, including a select group of international and local professionals from 6 countries led by three partners.

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 68 strong specialists in Assurance, 5 out of them holding ACCA qualifications and local statutory auditing certification. We also have a local team of 7 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 17 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 36 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 the 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. This year The Legal500 has again confirmed Tier 2 position for PwC Azerbaijan for the year 2021.

The Legal 500 assesses the strengths of law firms in over 100 jurisdictions, the results of which can be viewed free of charge using the "Rankings" tab at the top of the page.

Highlights included advising on the merger of AtaBank and CDB Bank, which involved conducting due diligence on both parties, and handling post-merger matters.

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