

**AGREEMENT ON THE EXPLORATION, DEVELOPMENT  
AND PRODUCTION SHARING FOR THE SHAKH DENIZ PROSPECTIVE  
AREA IN THE AZERBAIJAN SECTOR OF THE CASPIAN SEA**

**BETWEEN**

**THE STATE OIL COMPANY OF THE AZERBAIJAN REPUBLIC**

**AND**

**SOCAR COMMERCIAL AFFILIATE,**

**BP EXPLORATION (AZERBAIJAN) LIMITED,**

**ELF PETROLEUM AZERBAIJAN B.V.**

**LUKOIL INTERNATIONAL LTD,**

**OIL INDUSTRIES ENGINEERING AND CONSTRUCTION,**

**STATOIL AZERBAIJAN A.S,**

**and**

**TURKISH PETROLEUM OVERSEAS COMPANY LIMITED**

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**AGREEMENT ON THE EXPLORATION, DEVELOPMENT AND  
PRODUCTION SHARING FOR THE SHAKH DENIZ PROSPECTIVE AREA  
IN THE AZERBAIJAN SECTOR OF THE CASPIAN SEA**

THIS AGREEMENT, made and entered into in Baku, the Azerbaijan Republic, this  
\_\_4\_\_ day of \_\_June\_\_, 1996 by and between:

**THE STATE OIL COMPANY OF THE AZERBAIJAN REPUBLIC (“SOCAR”)**  
a Government body on the one hand; and

**SOCAR COMMERCIAL AFFILIATE (“SCA”)** a company to be formed by  
SOCAR;

**BP EXPLORATION (AZERBAIJAN) LIMITED (“BP”)** a company incorporated in  
England; and

**ELF PETROLEUM AZERBAIJAN B.V. (“Elf”)** a company incorporated in the  
Netherlands; and

**LUKOIL INTERNATONAL LTD. (“LUKoil”)** a company incorporated in the  
Republic of Ireland; and

**STATOIL AZERBAIJAN A.S (“Statoil”)** a company incorporated in Norway; and

**TURKISH PETROLEUM OVERSEAS COMPANY LIMITED (“TPAO”)** a  
company incorporated on the island of Jersey; and

on the other hand, all the Parties being legal persons in accordance with the legislation  
of the countries of their registration as confirmed by appropriate documentation  
thereof,

## **W I T N E S S E T H**

**WHEREAS**, in accordance with the Constitution of the Azerbaijan Republic, and the Constitutional Act of State Independence of the Azerbaijan Republic, dated 18 October 1991, and the Law on Ownership in the the Azerbaijan Republic, dated 9 November 1991, ownership of all Petroleum existing in its natural state in underground or subsurface strata in the Azerbaijan Republic, including the portion of the Caspian Sea within its jurisdiction, is vested in the Azerbaijan Republic, and based upon the below referenced authorisations the authority to control and manage said Petroleum has been vested in SOCAR; and

**WHEREAS**, pursuant to Presidential Edict No 200 concerning the creation of the State Oil Company of the Azerbaijan Republic dated 13 September 1992 and its Charter, SOCAR is vested with the authority to carry out the exploration and development of all Petroleum in the Azerbaijan Republic, and pursuant to Presidential Decree No 222 "On the Exploration and Development of the Shah Deniz field in the Azerbaijan Sector of the Caspian Sea" dated 4 October 1995, SOCAR is granted the rights to carry out negotiations and conclude this Agreement; and

**WHEREAS**, SOCAR has carried out certain work in the Contract Area and now wishes to promote the exploration for, and subsequent development and production of Petroleum existing in its natural state in, on or under the Contract Area; and

**WHEREAS**, the Parties have executed the Agreement on the Basic Principles and Provisions with respect to the Exploration, Development and Production Sharing Agreement for the Shah Deniz field and such principles and provisions have constituted the framework of this Agreement; and

**WHEREAS**, the relations between the Parties before the signature of the Agreement on the Basic Principles and Provisions with respect to the Exploration, Development and Production Sharing Agreement for the Shah Deniz field have been governed by the agreement between the Government of the Azerbaijan Republic and BP Exploration Operating Company Limited and Den norske stats oljeselskap a.s dated 7th September 1992, and also the Extension Agreement made between SOCAR and BP Exploration Operating Company Limited and Den norske stats oljeselskap a.s dated February 23rd 1994; and

**WHEREAS**, Contractor has the technical knowledge and experience, the administrative and managerial expertise, and financial resources to efficiently develop and produce the Petroleum resources of the Contract Area, and desires to contract with SOCAR for that purpose.

**NOW THEREFORE**, for and in consideration of the premises and mutual covenants hereinafter set forth, the Parties agree as follows:

## ARTICLE 1

### PARTICIPATING INTERESTS

- 1.1 The rights and obligations under this Agreement of each of the Contractor Parties shall be held in the following respective percentage Participating Interests as of the date this Agreement is executed:

<u>CONTRACTOR PARTIES</u>	<u>PERCENTAGE</u>
SCA	10.0%
BP	25.5%
Elf	10.0%
LUKoil	10.0%
OIEC	10.0%
Statoil	25.5%
TPAO	9.0%
TOTAL	<u>100.00%</u>

- 1.2 The Contractor Parties agree that their respective percentage Participating Interest shares under this Agreement, as set forth in Article 1.1 above, replace any rights and obligations which may exist regarding the Contract Area by virtue of any prior agreement or contract between any of the Contractor Parties or their Affiliates on the one hand, and any Governmental Authority or SOCAR on the other hand. The Parties agree that, from the Effective Date, this Agreement constitutes the sole and complete understanding between SOCAR and the Contractor Parties regarding the Contract Area.

- 1.3 Within ninety (90) days of the commencement of the Development and Production Period SCA shall provide the other Contractor Parties with written evidence in the form of a letter of assurance from an acceptable bank to establish SCA's financial ability to pay SCA's Participating Interest share of the costs and expenses as set forth in this Agreement, including all Petroleum Costs incurred by Contractor with SOCAR's consent before the Effective Date. The expression "acceptable bank" shall mean a bank whose senior, unsubordinated and unguaranteed debt obligations with initial maturity of more than one (1) year have been granted a rating of A or better from either Moody's or Standard and Poors Corporation.

In the event SCA fails to provide such letter of assurance as provided above such failure shall constitute a breach of this Agreement giving rise to immediate automatic forfeiture of SCA's Participating Interest and the other Contractor Parties' Participating Interests shall be increased accordingly in proportion to their Participating Interests.

## **ARTICLE 2**

### **GRANT OF RIGHTS AND SCOPE**

#### 2.1 Grant of Exclusive Right

SOCAR hereby grants to Contractor the sole and exclusive right to conduct Petroleum Operations within and with respect to the Contract Area in accordance with the terms of this Agreement and during the term hereof. Except for the rights expressly provided for herein, this Agreement shall not include rights for any activity other than Petroleum Operations with respect to surface areas and seabeds, sub-soil or to any other natural resource or aquatic resources.

2.2 Except as expressly provided elsewhere herein, in the event production resulting from Petroleum Operations, upon completion of commercial production from the Contract Area at the end of the term of this Agreement, inclusive of all extensions provided in Article 4 is insufficient for full recovery of Contractor's Capital Costs and Operating Costs as provided hereunder, then Contractor shall not be entitled to any reimbursement or compensation for any of its costs not recovered.

## **ARTICLE 3**

### **WARRANTIES AND GENERAL RIGHTS AND OBLIGATIONS OF THE PARTIES**

#### **3.1 Warranties of SOCAR**

SOCAR represents and warrants that:

- (a) it is duly organised and validly existing in accordance with the terms of its Charter; and
- (b) it has full authority under the laws of the Azerbaijan Republic to execute and perform this Agreement, to grant the rights and interests to Contractor as provided under this Agreement and to fulfil its obligations under this Agreement.

#### **3.2 General Obligations of SOCAR**

- (a) Upon the request of Contractor for the implementation of Petroleum Operations, SOCAR within the full limits of its authority shall use its best lawful endeavours with respect to Governmental Authorities to assist Contractor to obtain the following:
  - (i) any necessary Governmental Authority approvals, including but not limited to customs clearances, visas, residence permits, access to communication facilities, licenses to enter land or water, import and export licenses, the opening of bank accounts, the acquisition of office space and employee accommodation, as may be necessary for efficient implementation of Petroleum Operations; and
  - (ii) all geological, geophysical, geochemical and technical data (including well data and any other information) of relevance to the Contract Area not in SOCAR's possession or under its control.

- (b) SOCAR within the full limits of its authority shall also use its best lawful endeavours to assist Contractor in all other relevant matters as may be necessary for the efficient implementation of Petroleum Operations.
- (c) Contractor shall reimburse SOCAR for any lawful reasonable actual direct costs incurred with respect to the provision of the foregoing, provided such costs are supported by appropriate documentary evidence.
- (d) Upon request of Contractor, SOCAR shall provide to Contractor all geological, geophysical, geochemical and technical data and information in the possession or control of SOCAR or its Affiliates of relevance to the Contract Area including all kinds of well data. Contractor shall pay the actual direct costs incurred by SOCAR in the implementation of this Agreement in gathering together, handling and delivering any such data or information to Contractor, which costs will be invoiced to Contractor by SOCAR on the basis that SOCAR is to suffer no loss and obtain no gain. If Contractor does not accept that any items as invoiced by SOCAR satisfy this requirement, Contractor shall notify SOCAR of any such objections and SOCAR and Contractor shall take all necessary steps to mutually resolve all objections raised by Contractor. SOCAR makes no warranties as to the accuracy or completeness of any such data or information in connection with the performance of such obligation.

### 3.3 Warranties and Rights of Contractor Parties

- (a) Each Contractor Party represents that it is duly organised and validly existing in accordance with the terms of its foundation documents and is authorised, subject to governmental authorisations, to establish and maintain such branches and offices in the Azerbaijan Republic and elsewhere as may be necessary to conduct Petroleum Operations in accordance with the terms and conditions of this Agreement.

- (b) Each Contractor Party, its Affiliates, and Contractor's Sub-contractors are hereby authorised throughout the term of this Agreement to establish such branches, permanent establishments, permanent representation and other forms of business in the Azerbaijan Republic as may be necessary or appropriate to qualify to do business in the Azerbaijan Republic and to conduct or participate in Petroleum Operations, including the purchase, lease or acquisition of any property required for Petroleum Operations, provided such establishments and other forms of businesses comply with the formalities and procedures of laws of the Azerbaijan Republic in respect thereof.

#### 3.4 General Obligations of Contractor Parties

The Contractor Parties shall provide the necessary funds during the Exploration Period and the Additional Exploration Period and also funds to appraise, evaluate and develop the Petroleum resources within the Contract Area in accordance with the terms and conditions set forth in this Agreement. Contractor shall conduct Petroleum Operations in accordance with the terms of this Agreement in a diligent, safe and efficient manner and in accordance with generally accepted principles of the international Petroleum industry. As regards design standards and specifications for facilities and equipment the Design Standards shall apply. No Contractor Party shall be required to act or refrain from acting if to do so would make such Contractor Party or its Ultimate Parent Company liable to penalization under the laws of any jurisdiction applicable to such Contractor Party or its Ultimate Parent Company notwithstanding anything to the contrary in this Agreement.

## ARTICLE 4

### EXPLORATION PERIOD, ADDITIONAL EXPLORATION PERIOD, AND DEVELOPMENT AND PRODUCTION PERIOD

#### 4.1 Exploration Period

The Exploration Period shall be three (3) years from the Effective Date of this Agreement.

#### 4.2 Work Obligations During the Exploration Period

- (a) During the Exploration Period Contractor shall carry out the following work:
  - (i) Shoot, process and interpret a minimum of eight hundred (800) square kilometres of three dimensional seismic in the Contract Area and carry out an upper section site investigation survey in the Contract Area to ensure a safe and environmentally sound basis for drilling;
  - (ii) Drill in the Contract Area at least two (2) exploration wells.
- (b) Contractor shall provide SOCAR with all information on operations specified in Article 4.2 (a), both routine and final, after completion of seismic, drilling of each well and all other work.
- (c) Types, methods and scope of work as defined in Article 4.2 (a), methods and list of analyses including core samplings in the process of drilling and completion of the exploration wells and also types, volumes and deadlines for provision of information on such work by Contractor to SOCAR are described in Exploration Work Programme.

- (d) Contractor's failure to perform all or a portion of its obligations as set out in Article 4.2 (a) during the Exploration Period other than as a result of Force Majeure shall constitute a Material Breach by Contractor of its obligations under this Agreement. In this case SOCAR shall have the right at its sole discretion to terminate this Agreement and all costs incurred by Contractor from the Effective Date during the Exploration Period, including but not limited to bonus payments (including credit for any earlier bonus payments or other payments of any kind made by Contractor) and acreage fees, shall not be Cost Recoverable. Termination of this Agreement by SOCAR pursuant to this Article 4.2(d) shall be SOCAR's sole remedy against Contractor for Material Breach under this Article 4.2(d). Such termination shall be without prejudice to any claims either SOCAR or Contractor may have which arose prior to such termination.

Lack and/or unavailability of any rigs, facilities, infrastructure and any other circumstances caused by the need to co-ordinate infrastructural requirements with the Azerbaijan International Operating Company's (AIOC) work programme or with other operators in the Azerbaijan Republic shall not constitute a basis for Contractor to modify and change any work during the Exploration Period or the Additional Exploration Period or their extensions.

- (e) The sole excuse for the failure to carry out the obligations set out in Article 4.2 (a) during the Exploration Period or additional work, as set out in Article 4.3 during the Additional Exploration Period shall be the occurrence of Force Majeure circumstances.

#### 4.3 Additional Exploration Period

Subject to complete and timely fulfilment by Contractor of the exploration work as set out in Article 4.2(a) to be performed during the Exploration Period, Contractor may within ninety (90) days before the end of the Exploration Period, notify SOCAR in writing of its desire to carry out additional exploration work and provide a list of types and scope of work and justification of such additional exploration work.

Such notice shall request SOCAR's written approval to the performance by Contractor of additional exploration work during the Additional Exploration Period and SOCAR shall declare in writing its approval or disapproval (such approval not to be unreasonably withheld) within ninety (90) days of receipt of such written request from Contractor and the Exploration Period shall automatically be extended until such approval has been given by SOCAR. Contractor shall have the right to proceed to the Additional Exploration Period which shall be twelve (12) months from the end of the Exploration Period or receipt of SOCAR's approval whichever is later. During the Additional Exploration Period Contractor shall drill at least one (1) exploration well.

Contractor's failure to perform the additional exploration work (or any portion thereof) to be performed during the Additional Exploration Period other than as a result of Force Majeure shall constitute a Material Breach by Contractor of its obligations under this Agreement. In this case SOCAR shall have the right at its sole discretion to terminate this Agreement, and costs incurred by Contractor from the Effective Date during the Exploration Period, and the Additional Exploration Period including but not limited to bonus payments (including credit for any earlier bonus payments or any other payments made by Contractor) and acreage fees, shall not be Cost Recoverable. Termination of the Agreement by SOCAR pursuant to this Article 4.3 shall be SOCAR's sole remedy against Contractor for Material Breach under this Article 4.3. Such termination shall be without prejudice to any claims either SOCAR or Contractor may have which arose prior to such termination.

#### 4.4 Discovery

Before the end of the Exploration Period or if Contractor enters the Additional Exploration Period then before the end of the Additional Exploration Period, Contractor shall notify SOCAR in writing of a Discovery and its commerciality, summarising relevant information relating to said Discovery, including but not limited to the following, to the extent same are available: location plan, geological maps and interpretations, seismic and other geophysical data, drilling reports, well logs, core samplings, lithologic maps and description of formations, drill stem tests, completion reports, production tests including quantities of fluids produced, build-up/draw down tests and

pressure analysis, and analyses of oil, gas and water samples and other information consistent with generally accepted international Petroleum industry practice ("Notice of Discovery and its Commerciality").

In the event Contractor does not submit a Notice of Discovery and its Commerciality during the Exploration Period or if Contractor proceeds to the Additional Exploration Period during the Additional Exploration Period, this Agreement shall terminate and any costs incurred by Contractor, including but not limited to bonus payments (including credit for any previous bonus payments and other payments made by Contractor) and acreage fees, shall not be Cost Recoverable.

In the event the appraisal of existing pool/pools and/or a Discovery indicates that the natural boundary of the existing pool/pools and/or a Discovery extends to areas outside the Contract Area SOCAR shall be entitled (but not obligated) to grant the additional areas to Contractor and if granted such additional areas shall become the subject of this Agreement.

#### 4.5 Development and Production Period

The Development and Production Period shall begin from the date of the Notice of Discovery and its Commerciality submitted by Contractor to SOCAR and shall continue until thirty (30) years after the date of such Notice of Discovery and its Commerciality of such Discovery and subsequent Discoveries. After such period of thirty (30) years the Development and Production Period may be extended by five (5) years subject to SOCAR's approval.

#### 4.6 Development Programme

- (a) In the event Contractor submits to SOCAR a Notice of Discovery and its Commerciality before the end of the Exploration Period or if applicable the Additional Exploration Period, Contractor shall submit the Development Programme to SOCAR for its approval no later than six (6) months after the date of such Notice of Discovery and its Commerciality provided that

the Development Programme shall include commitments and terms to start commercial production of Petroleum. SOCAR shall not unreasonably withhold its approval.

In the event Contractor does not submit the Development Programme within the six (6) months period referred to above, SOCAR shall have the right to terminate this Agreement by giving written notice to Contractor within thirty (30) days following expiry of the said six (6) month period, and any costs incurred by Contractor, including but not limited to bonus payments (including credit for any previous bonus payments or other payments made by Contractor ) and acreage fees, shall not be Cost Recoverable.

- (b) The Development Programme shall be a long range plan for the efficient and prompt development and production of Petroleum from the Contract Area in accordance with generally accepted international Petroleum industry standards and shall include but not be limited to the following:
- (i) proposals relating to the spacing, drilling and completion of all types of wells; and
  - (ii) proposals relating to the production and storage installations, and transportation and delivery facilities required for the production, storage and transportation of Petroleum; and
  - (iii) proposals relating to necessary infrastructure investments and use of Azerbaijan materials, products and services in accordance with Article 18.1(a); and
  - (iv) production forecasts for formation fluids for the entire Contract Area by reservoir derived from individual well forecasts and estimates of the investments and expenses involved; and
  - (v) an environmental impact and health and safety assessment and a plan for preventing environmental pollution and any environmental accident, and for steps to clean-up any pollution; and
  - (vi) estimates of the time required to complete phases of the Development Programme.

- (c) Within thirty (30) days of receipt of the Development Programme SOCAR may request Contractor to provide such further information as is readily available to Contractor and as SOCAR may reasonably need to evaluate the Development Programme.
- (d) Unless SOCAR requests in writing to Contractor any changes to the Development Programme within ninety (90) days of receipt thereof, the Development Programme shall be deemed approved by SOCAR. In the event that SOCAR requests any changes to the Development Programme then the Parties shall meet within fifteen (15) days of receipt by Contractor of SOCAR's written notification of requested changes and shall discuss such request. Any agreed revision to the Development Programme shall be incorporated into the Development Programme. In the event that the Development Programme has not been approved by SOCAR within sixty (60) days of the commencement of such discussion, Contractor may within a further forty (40) days commence arbitration under the Arbitration Procedure on the question as to whether or not SOCAR's approval of the Development Programme has been unreasonably withheld. If the decision of the arbitrators is that approval was withheld by SOCAR unreasonably Contractor shall be entitled to commence operations in accordance with the Development Programme in all respects as if the Development Programme had been approved by SOCAR. If Contractor shall fail to commence operations within one (1) year of the date of the arbitrators' decision SOCAR shall have the right to terminate this Agreement by giving Contractor notice in writing within sixty (60) days after expiry of the said period of one (1) year. If the arbitrators' decision is that SOCAR reasonably withheld approval of the Development Programme submitted by Contractor SOCAR shall have the right in writing to terminate this Agreement within sixty (60) days after the date of the notification of the decision of the arbitrators.
- (e) Upon approval of the Development Programme by SOCAR the Parties shall use all reasonable lawful endeavours to obtain any requisite approvals thereof from the relevant Governmental Authorities.
- (f) Implementation of Petroleum Operations by Contractor shall be through Annual Work Programmes and Budgets, the approval of which shall be deemed to amend the Development Programme to the extent necessary.

(g) Contractor may at any time submit to the Steering Committee proposals to revise the Development Programme. These proposals shall be consistent with the principles of efficient and optimum development and production of Petroleum from the Contract Area in accordance with international Petroleum industry standards and shall be subject to the approval of the Steering Committee, such approval not to be unreasonably withheld.

4.7 If within three (3) years of the date of approval by SOCAR of the Development Programme the Crude Oil Discovery development pursuant to the Development Programme has not been commenced by Contractor, then unless otherwise agreed, SOCAR shall be entitled by giving written notice to withdraw from the scope of this Agreement Crude Oil resources as defined in the Development Programme for such a Discovery and any unrecovered costs incurred by Contractor to the date of such notice with respect to the Discovery of such Crude Oil shall not be Cost Recoverable.

## **ARTICLE 5**

### **STEERING COMMITTEE FOR PROJECT MANAGEMENT AND ANNUAL WORK PROGRAMMES**

#### **5.1 Steering Committee for Project Management**

SOCAR and Contractor shall, not later than thirty (30) days from the commencement of the Development and Production Period establish the Steering Committee.

The functions of Steering Committee shall include but not be limited to:

- (a) overseeing Petroleum Operations;
- (b) examination, revision and approval of Contractor's Annual Work Programmes and Budgets;
- (c) supervising the accounting of costs and expenses in accordance with the Accounting Procedure;
- (d) establishing sub-committees of the Steering Committee and reviewing the work of such sub-committees;
- (e) reviewing, revising and approving training programmes;
- (f) review and approval of the abandonment plan and cost of abandonment operations pursuant to Article 14.2(g).

#### **5.2 The following rules shall apply with respect to the Steering Committee and meetings thereof:**

- (a) The Steering Committee shall be comprised of an equal number of members from SOCAR and Contractor. Initially the Steering Committee shall consist of seven (7) representatives appointed by SOCAR and seven (7) representatives appointed by Contractor (one (1) representative from each Contractor Party). A person cannot represent both SOCAR and SCA. If at

any time the number of Contractor Parties increases or decreases the number of representatives to be appointed by each of SOCAR and Contractor shall be increased or reduced, as the case may be, to equal the number of Contractor Parties, provided, however, that the number of representatives to be appointed by each of SOCAR and Contractor shall never be less than four (4). SOCAR and Contractor shall each be entitled to appoint an alternate for each of their representatives, who shall be entitled to attend in place of the designated representatives, such alternate to be considered a representative for all purposes at such Steering Committee meetings. SOCAR and Contractor shall each advise the other of the names of its representatives and their alternates within twenty (20) days following commencement of the Development and Production Period. Such representatives and their alternates may be replaced by SOCAR and Contractor, respectively, upon written notice to the other.

- (b) SOCAR and Contractor shall each have one (1) vote to cast on any matter submitted for approval by the Steering Committee. For this purpose, each of SOCAR and Contractor shall give written notice to the other specifying the identity of the individual representative (and, if desired, his alternate), who shall be authorised to cast such vote on its behalf. Such designated individuals may be changed from time to time upon written notice by SOCAR or Contractor, as the case may be. No vote cast or purported to be cast by any representative other than said designated individuals (or, in the absence of either, his designated alternate) shall be considered as the official vote of either SOCAR or Contractor, as the case may be.
- (c) The chairman of the Steering Committee shall be appointed by SOCAR from one of its appointed representatives to the Steering Committee and shall preside over meetings of the Steering Committee.
- (d) The secretary to the Steering Committee shall be appointed by Contractor from one of its appointed representatives to the Steering Committee and shall be responsible for:
  - (i) the production of an agenda before each meeting, such agenda to be agreed between SOCAR and Contractor; and

- (ii) the production and circulation of minutes following each meeting, which minutes shall be agreed between the representatives of SOCAR and Contractor who are the representatives authorised to cast the votes in the Steering Committee.
- (e) Decisions of the Steering Committee shall require the affirmative vote of both SOCAR and Contractor.
- (f) SOCAR and Contractor shall each be entitled to send advisers and experts to meetings of the Steering Committee. Unless the Steering Committee agrees, the cost of such advisors and experts in attending the meetings shall not be Cost Recoverable.
- (g) A quorum of the Steering Committee shall consist of at least three quarters ( $\frac{3}{4}$ ) of the representatives from each of SOCAR and Contractor, including the two (2) individuals who have been designated by SOCAR and Contractor, respectively, as authorised to cast votes (or their alternates).
- (h) The Steering Committee will meet at least two (2) times in a Calendar Year. Meetings shall be held in Baku, unless otherwise agreed. In the event that SOCAR and Contractor agree, the Steering Committee can take decisions without holding an actual meeting; provided that in the event of a teleconference or video conference the quorum requirements set forth in Article 5.2(g) have been complied with and in the event of a meeting via exchange of letters, faxes, or telexes, such letters, faxes and telexes are copied to all Parties. Such decisions shall be recorded in writing promptly thereafter and signed by the representatives of SOCAR and Contractor who are authorised to cast the respective votes of SOCAR and Contractor.???

### 5.3 Annual Work Programmes and Budgets

- (a) Not more than thirty (30) days following the formation of the Steering Committee and thereafter at least three (3) months before the beginning of

each Calendar Year during the Development and Production Period, Contractor shall prepare and submit, or cause to be prepared and submitted, to the Steering Committee for approval an Annual Work Programme together with the related Budget in respect of the Petroleum Operations Contractor proposes to be carried out in such Calendar Year. The Steering Committee shall meet within thirty (30) days of receipt of the Annual Work Programme and Budget to consider same and any revisions thereto and to approve the Annual Work Programme and the Budget in its final form. It is agreed by SOCAR and Contractor that knowledge acquired as the work proceeds or from certain events may justify changes to the details of the Annual Work Programme; thus Contractor may at any time propose to the Steering Committee an amendment to the Annual Work Programme and Budget. Except as provided in this Article 5.3 and in Article 5.4, Contractor shall not conduct any operations which deviate materially from the applicable Annual Work Programme and Budget without the prior consent of the Steering Committee. If necessary to carry out an Annual Work Programme, Contractor is authorised to make expenditures during the relevant Calendar Year that are in excess of the Budget adopted therefor so long as the aggregate of such excess expenditures does not exceed ten (10) percent of the Budget unless such expenditures exceeding ten (10) percent are approved by the Steering Committee, which approval shall not be withheld where the expenditures have been demonstrated to be reasonable and necessary. In accordance with the other provisions of this Agreement, after approval of an Annual Work Programme, Contractor shall conduct the Petroleum Operations in accordance therewith.

- (b) In the event the Annual Work Programme and Budget has not been approved by the Steering Committee in the case of the first Annual Work Programme and Budget within sixty (60) days of the formation of the Steering Committee and in the case of each subsequent Annual Work Programme and Budget by the first day of the Calendar Year to which it relates Contractor shall be entitled (but not obligated) to carry out Petroleum Operations in accordance with some or all of its proposed Annual Work Programme and Budget until such time as the Annual Work Programme and Budget is agreed by the Steering Committee or any dispute relating to the Annual Work Programme and Budget has been resolved by reference to arbitration in accordance with the Arbitration Procedure. As soon as agreement on an Annual Work Programme and Budget is reached

by the Steering Committee or the decision of the arbitrators is rendered, Contractor shall amend the then current and/or next following Annual Work Programme and Budget, as appropriate, to conform with such agreement or decision; provided that Contractor shall not be obligated to undo work already performed, may complete any work in progress to the extent Contractor deems necessary and that all costs incurred by Contractor in performing Petroleum Operations under its proposed Annual Work Programme and Budget shall be deemed to be Petroleum Costs subject to Cost Recovery under this Agreement. The foregoing notwithstanding, Contractor shall not be entitled to Cost Recovery of any costs incurred under any portions of the proposed Annual Work Programme as identified in the written minutes of the Steering Committee meeting at which the proposed Annual Work Programme was considered and which were not approved by the Steering Committee and for which the arbitration award is issued in favour of SOCAR; except that in all cases Contractor shall be entitled to Cost Recovery of the following items:

- (i) ongoing commitments of Contractor, including contracts entered into prior to the initiation of any such arbitration; and
- (ii) work Contractor considers necessary for the protection of the reservoir and equipment and facilities; and
- (iii) work Contractor considers necessary for the protection of the environment, health and safety.

#### 5.4 Emergency Measures

Notwithstanding any provision of this Agreement to the contrary, in the case of an accident or other emergency (or anticipated emergency), Contractor shall take all measures reasonably considered necessary by Contractor for the protection of life, health, the environment and property. The costs of taking such measures shall be included automatically as an approved addition to the then current Budget and shall be deemed to be Petroleum Costs subject to Cost Recovery under this Agreement, unless such accident or other emergency (or anticipated emergency) was the result of Contractor's Wilful Misconduct.

## ARTICLE 6

### OPERATING COMPANY, PERSONNEL AND TRAINING

#### 6.1 Operating Company

An Affiliate of BP shall be Operating Company and shall be ready to commence operations in accordance with the terms of this Agreement after the Effective Date. The Operating Company shall employ personnel seconded from Contractor Parties and such personnel and Azerbaijani staff shall work as an integrated team under the management of the Operating Company.

The Operating Company may be incorporated or created outside of the Azerbaijan Republic but shall be registered to do business in the Azerbaijan Republic in accordance with Azerbaijan law.

Contractor shall have upon the prior agreement of SOCAR the right from time to time to substitute the Operating Company by appointing in writing another Operating Company provided that such substitute Operating Company shall be an Affiliate of one of the Contractor Parties. The costs relating to any such substitution shall not be Cost Recoverable. Contractor Parties shall ensure the proper and orderly handover of responsibilities from an outgoing Operating Company to an incoming Operating Company.

#### 6.2 Responsibilities of Operating Company

The responsibilities of the Operating Company shall be the management, coordination, implementation and conduct on behalf of Contractor of the day to day Petroleum Operations, and such other functions, as may be delegated to it from time to time by Contractor.

The Operating Company shall have, to the extent authorised by Contractor, the ability to subcontract any day to day work required to implement any Annual Work Programme.

### 6.3 Organisation

The Operating Company personnel shall be kept to the minimum practicable size, and shall include management personnel, technical professionals, operating and maintenance personnel and administrative personnel required to carry out the day to day Petroleum Operations on behalf of Contractor.

### 6.4 Decisions

Decisions regarding the conduct of Petroleum Operations shall be made by the Contractor Parties in accordance with the voting mechanism agreed among them. SCA as a Contractor Party shall participate at all decision levels in the same way as the other Contractor Parties, including but not limited to joint operating agreements, committees and management committee.

### 6.5 Procedures

The Operating Company shall be free to adopt such policies, practices and procedures as it deems necessary for the conduct of Petroleum Operations in accordance with this Agreement.

### 6.6 Status of Operating Company

The Operating Company shall be entitled to all of the benefits, waivers, indemnities and exemptions accorded to the Contractor Parties under this Agreement. The Operating Company shall own no assets or equipment (though it shall have the right to freely use assets or equipment owned or used by the Contractor Parties in conducting Petroleum Operations on behalf of the Contractor Parties); shall act only as operator hereunder upon Contractor Parties' instructions and directions;; shall not be entitled to any share of Petroleum produced and shall neither make a profit nor incur a loss. The Operating Company shall record all financial flows or other transactions of the Contractor Parties as passing through to the Contractor Parties in accordance with this Agreement as though the Operating Company did not exist as a commercial entity, and for all purposes the amount of it's Taxable Profit shall

be zero (0). During the Development and Production Period Contractor shall bear all costs of the Operating Company related to the conduct of internal inspections, inventories, audits, reorganisations, structural changes and the like and such costs shall not be Cost Recoverable unless the conduct of such internal inspections, inventories, audits, reorganisations, structural changes and the like is approved by the Steering Committee.

#### 6.7 Personnel

- (a) Contractor and its Sub-contractors and Operating Company and its Sub-contractors, shall be free to employ such personnel as in Contractor's and its Sub-contractors' and Operating Company's and its Sub-contractors' respective opinions are required for the purpose of carrying out Petroleum Operations.
- (b) Contractor shall require Operating Company to give preference, as far as is consistent with efficient operations, to employing citizens of the Azerbaijan Republic in the performance of Petroleum Operations to the extent reasonably practicable, provided that such citizens have the required knowledge, qualifications and experience. Such citizens shall be eligible for training in accordance with Article 6.8. With respect to the employment of citizens of the Azerbaijan Republic, Contractor agrees as follows:
  - (i) the Operating Company shall provide SOCAR from time to time with a list showing the numbers and job specifications for citizens of the Azerbaijan Republic which it estimates that it may require. In addition, the Operating Company shall require its Sub-contractors to provide SOCAR from time to time with a list showing the numbers and job specifications for employees that they estimate they may require;
  - (ii) SOCAR shall, within two (2) weeks of receipt of such list, provide the Operating Company and such Sub-contractors with a list of candidates recommended by SOCAR;

- (iii) persons from the list provided by SOCAR shall enjoy a priority right to employment by the Operating Company and the Sub-contractors if they meet the requirements of the Operating Company or such Sub-contractors;
- (iv) in the event that vacant positions remain in the Operating Company or Sub-contractors' organisations, SOCAR shall within two (2) weeks of receipt of vacant positions provide Operating Company or such Sub-contractors an additional list of candidates recommended by SOCAR and if vacant positions still remain the Operating Company or such Sub-contractors shall be entitled to fill these vacant positions with such citizens of the Azerbaijan Republic as the Operating Company or such Sub-contractors choose;
- (v) in the event that the candidates selected independently by the Operating Company and such Sub-contractors include SOCAR employees, then such persons shall be hired by the Operating Company or such Sub-contractors after consultation with SOCAR;
- (vi) overall target manning levels of citizen employees of the Azerbaijan Republic pertaining to Petroleum Operations shall be as follows:

Citizens of the  
Azerbaijan Republic

Prior to commencement of development

Professionals	30% - 50%
Non-professionals	70%

Upon commencement of  
Petroleum production

Professionals	70%
Non-professionals	85%

Five (5) years after commencement  
of Petroleum production

Professionals	90%
Non-professionals	95%

- (c) Subject to Article 6.7(b), Contractor, Operating Company and any Sub-contractors are hereby authorised and shall be free, throughout the term of this Agreement, to determine the number and selection of all employees to be hired by them in connection with the conduct of Petroleum Operations.

All citizens of the Azerbaijan Republic hired by Contractor, Operating Company and any Sub-contractors shall be hired pursuant to written employment contracts, which shall specify the hours of work required of the employee, the compensation and benefits to be paid or furnished by the employer and all other terms of employment. Such employees may be located wherever Contractor, Operating Company or Sub-contractors deem appropriate in connection with the Petroleum Operations in accordance with such written employment contracts entered into with them. Contractor, Operating Company and Sub-contractors shall be free to implement recruitment, dismissal, performance review and incentive compensation programmes and practices (both with respect to foreign expatriate employees and citizens of the Azerbaijan Republic) that are customary in international Petroleum operations and in Contractor's, Operating Company's and Sub-contractor's experience and judgement are best able to promote an efficient and motivated workforce.

#### 6.8 Training

Contractor shall provide training (including retraining) for citizens of the Azerbaijan Republic with respect to the Petroleum Operations. Expenditures by Contractor pursuant to this Article 6.8 during the Development and Production Period shall be approved by the Steering Committee as part of the relevant Annual Work Programme and Budget and shall be included as Petroleum Costs; however the aforesaid expenditures less than two hundred thousand (200,000) Dollars in any year shall not be Cost Recoverable. Expenditures in excess of two hundred thousand (200,000) Dollars in any year shall be included as Petroleum Costs and shall be Cost Recoverable.

## **ARTICLE 7**

### **REPORTS AND ACCESS TO PETROLEUM OPERATIONS**

#### **7.1 Reports and Records**

Contractor shall keep and submit reports and records of Petroleum Operations as follows:

- (a) Contractor shall record, in an original or reproducible form of good quality and on tape or other media where relevant, all geological and geophysical information and data relating to the Contract Area obtained by Contractor in the course of conducting Petroleum Operations thereon and shall deliver a copy of all such information and data, including the interpretation thereof and logs and records of wells, and any other information obtained by Contractor consistent with generally accepted international Petroleum industry standards, to SOCAR as soon as practicable after the same has come into the possession of Contractor.
  
- (b) Contractor shall keep logs and records of the drilling, deepening, plugging or abandonment of wells consistent with generally accepted international Petroleum industry practice and containing particulars of:
  - (i) the strata through which the well was drilled;
  - (ii) the casing, drill pipe, tubing and down-hole equipment run in the well and modifications and alterations thereof;
  - (iii) Petroleum, water and valuable mineral resources encountered;and any other information consistent with generally accepted international Petroleum industry standards.
  
- (c) The information required by Article 7.1(b) above shall be submitted to SOCAR in the form of well completion reports within ninety (90) days from completion of the well in question.

- (d) Contractor may if necessary remove from the Azerbaijan Republic, for the purpose of laboratory examination or analysis, petrological specimens (including cores and cuttings) or samples of Petroleum found in the Contract Area and characteristic samples of the strata or water encountered in a well and seismic data on tape or other media. Upon request, Contractor will provide such specimens and samples to SOCAR.
- (e) Contractor shall supply to SOCAR:
  - (i) daily reports on drilling operations and weekly reports on field geophysical surveys as soon as they are available;
  - (ii) within fifteen (15) days after the end of each Calendar Quarter, a report on the progress of Petroleum Operations during the preceding Calendar Quarter covering:
    - (1) description of the Petroleum Operations carried out and the factual information obtained including Petroleum production data from the Contract Area overall and on a well by well basis; and
    - (2) a description of the area in which Contractor has operated; and
    - (3) a map indicating the location of all wells and other Petroleum Operations;
  - (iii) within three (3) months of the end of each Calendar Year, an annual report summarising the matters specified in paragraph (ii) above for the preceding Calendar Year;
  - (iv) reports on completion of major elements of Petroleum Operations or unforeseen events and other reports requested by the Steering Committee. Additionally Contractor will inform SOCAR of all discoveries other than of Petroleum, such as discoveries of non-Petroleum natural resources.

The daily and weekly reports required to be submitted to SOCAR pursuant to Article 7.1 (e)(i) shall be submitted in the original language of the reports and all other reports and records required to be submitted to SOCAR pursuant to this Article 7.1 shall be submitted to SOCAR in the English and Azeri languages.

## 7.2 Access to Petroleum Operations

Duly authorised representatives of SOCAR may on not less than three (3) days notice in writing inspect at justified intervals, and at reasonable times work, facilities, equipment and materials relating to the Petroleum Operations, provided that such inspection shall not unreasonably interfere with or delay the conduct of Petroleum Operations.

## **ARTICLE 8**

### **USE OF LAND AND SEA BEDS**

Subject to Article 28.2 of this Agreement, SOCAR shall make available to Contractor, at no cost to Contractor, the use of any land and sea beds under its control as necessary to carry out Petroleum Operations, (provided such use by Contractor does not interfere unreasonably with SOCAR's use thereof and further provided that if such use by Contractor results in expense for SOCAR, Contractor shall reimburse SOCAR for such expense, without creating any profit directly or indirectly for SOCAR), and within the full limits of its authority shall use its best lawful endeavours to make available, at no cost to Contractor, all other land and sea beds necessary to carry out Petroleum Operations including, but not limited to, the construction, laying, operating and maintaining, both onshore and offshore, of pipelines, cables and equipment. Contractor shall have the right to construct and maintain, above and below any such lands and sea beds, the facilities necessary to carry out Petroleum Operations. Land allocation and location of facilities constructed by Contractor on such land shall be in accordance with Azerbaijan legislation regarding land use restrictions, except as may be modified by this Agreement.

## ARTICLE 9

### USE OF FACILITIES

#### 9.1 SOCAR Facilities

Contractor shall have the right to use, at no cost to Contractor, pre-drilled wells in the Contract Area at the Effective Date if deemed by Contractor to be necessary for the conduct of Petroleum Operations. In the event that Contractor materially refurbishes, upgrades or improves any facilities, including but not limited to infrastructure, vessels, rigs, means of transportation, supply bases, warehouses, port facilities, under SOCAR's direct or indirect ownership or control, then SOCAR shall ensure that Contractor has prior right to use such facilities as may be necessary for the purpose of carrying out Petroleum Operations.

#### 9.2 SOCAR Assistance

- (a) SOCAR shall within the full limits of its authority use its best lawful endeavours with respect to Governmental Authorities and Third Parties to provide Contractor access for its share of Petroleum to all necessary transportation, treatment and export facilities and infrastructure in the Azerbaijan Republic on terms no less favourable to Contractor than those granted to, or agreed with, any other bona fide arm's length user of such facilities and infrastructure.
- (b) SOCAR shall within the full limits of its authority use all lawful reasonable endeavours, with respect to Governmental Authorities and Third Parties, to assist Contractor in obtaining such rights, privileges, authorisations, approvals and other agreements from authorities and jurisdictions, outside the territory of the Azerbaijan Republic as Contractor shall reasonably deem necessary for Petroleum Operations and/or as may be required by such authorities and jurisdictions, but shall not be responsible if such rights, privileges, authorisations and approvals are not obtained. Such agreements may include, but need not be limited to, such matters as export pipeline rights of way and operation rights, permits

and undertakings with respect to the transshipment, storage or staging of Petroleum produced and saved from the Contract Area, materials, equipment and other supplies destined to or from the territory of the Azerbaijan Republic, and exemptions from national, local and other taxes, transit fees, and other fees and charges on Petroleum Operations being conducted in such other jurisdictions.

- (c) SOCAR shall within the full limits of its authority use all reasonable lawful endeavours with respect to Governmental Authorities and Third Parties, and shall be obligated with respect to its Affiliates, joint ventures or enterprises in which it has an interest and the right to control, manage or direct the action of such companies, ventures or enterprises, to ensure that Contractor has access to inter alia onshore construction and fabrication facilities, offshore infrastructures, supply bases and vessels, warehousing, goods, services and means of transportation in the Azerbaijan Republic provided that those items are not subject to obligations to Third Parties and that Contractor's use thereof does not interfere with the operations of SOCAR and/or any Third Party. As used herein, "control" shall mean the ownership of more than fifty (50) percent of the shares authorised to vote at a general meeting of shareholders, or the ability to pass or procure the passing of a decision (whether by casting of votes or otherwise) at a general meeting of shareholders, or at any meeting of the executive or management body, of the company, venture or enterprise. Such access shall be:
- (i) with respect to facilities and services of Third Parties, on terms which are no less favourable to Contractor than those granted or agreed with any other bona fide arm's length user of such facilities and services; and
  - (ii) with respect to facilities and services of SOCAR and such Affiliates, joint ventures or enterprises in which SOCAR has an interest and the right to control, manage or direct the action thereof, at rates commensurate with the quality and efficiency of such facilities and services, which rates shall be the same as are available to SOCAR and/or such Affiliates, joint ventures or enterprises and as regard other terms no less favourable to Contractor than those granted to or agreed with SOCAR and/or such Affiliates, joint ventures or enterprises.

### 9.3 Contractor Facilities

Contractor shall be responsible for the maintenance and repair of all facilities controlled and operated by Contractor in connection with the Petroleum Operations ("Contractor Facilities"). Fees from Third Parties' access to Contractor Facilities shall be credited to the Petroleum Operations Account. SOCAR shall have the right to use excess capacity in Contractor Facilities provided such use does not interfere with or adversely affect Petroleum Operations. Third Parties may use such excess capacity on terms agreed with Contractor. Prior to Zero Balance the priority of such use of Contractor Facilities shall be first Contractor, second Third Parties, and finally SOCAR. SOCAR shall pay a mutually agreed fee for such use to be credited to the Petroleum Operations Account. After Zero Balance the priority shall be first Contractor, second SOCAR and finally Third Parties. SOCAR's use after Zero Balance shall be free of charge, except that maintenance of Contractor Facilities, for the time being not used by Contractor and being utilised exclusively by SOCAR, shall be on terms to be mutually agreed. Notwithstanding anything to the contrary in this Agreement, Contractor shall have the right to dispose of equipment and facilities, which are, either obsolete or are nearing the end of their useful economic life. Contractor shall notify SOCAR of its intention to dispose of any such equipment and facilities (except in the case of fixed assets to which the provisions of Article 14.2(d) shall apply). Unless SOCAR elects, within thirty (30) days to assume responsibility for and take delivery thereof, Contractor shall be free to dispose of any such equipment and facilities at the best price obtainable. Funds from such sales will be credited to the Petroleum Operations Account. Notwithstanding any provision herein to the contrary, SOCAR and Contractor shall have equal priority to capacity in Contractor Facilities to transport Petroleum produced from the Contract Area in proportion to their rights to take Petroleum under this Agreement.

## **ARTICLE 10**

### **EARLY PETROLEUM PRODUCTION**

If before the end of the Exploration Period or the Additional Exploration Period (which period Contractor shall have the right to proceed to in accordance with Article 4.3) Contractor submits a written Notice of Discovery and its Commerciality and Contractor's wish to proceed to early Petroleum production, Contractor shall submit a development proposal for early Petroleum production for SOCAR's approval and perform all other procedures, provided for in Articles 4.6. Approval of the development proposal for early Petroleum production and its commencement shall not free Contractor from its obligations during the Exploration Period and Additional Exploration Period and corresponding consequences of a partial or full failure to fulfil them.

## ARTICLE 11

### CONTRACTOR'S RECOVERY OF PETROLEUM COSTS AND PRODUCTION SHARING

#### 11.1 Use of Petroleum for Petroleum Operations

Contractor shall have the right to use free of charge Petroleum produced from the Contract Area for Petroleum Operations in accordance with generally accepted international Petroleum industry practice, including but not limited to reinjection to preserve the pressure of Petroleum reservoirs in the Contract Area. Contractor shall endeavour to minimise use of Petroleum for Petroleum Operations. For planning purposes Contractor shall provide in the Annual Work Programme an estimate of the amount of Petroleum it anticipates will be used for the optimum implementation of Petroleum Operations. If during the implementation of the Annual Work Programme Contractor estimates that it will use more than ten (10) percent over and above the amount estimated, the revised estimate shall be notified by Contractor to the Steering Committee.

#### 11.2 Cost Recovery

- (a) Contractor shall be entitled to the recovery of Petroleum Costs as follows:
  - (i) All Operating Costs shall first be recovered from Total Production;
  - (ii) All Capital Costs shall then be recovered from a maximum of fifty (50) percent of Crude Oil and fifty (50) percent of Non-associated Natural Gas remaining out of Total Production after deduction of Crude Oil and Non-associated Natural Gas required to recover Contractor's Operating Costs ("Capital Cost Recovery Petroleum").
- (b) Cost Recovery in accordance with Article 11.2(a) shall be in a manner consistent with international accounting principles (including the right of audit) as set out in the Accounting Procedure.

### 11.3 Transfer of Title to Cost Recovery Petroleum

Cost Recovery by Contractor shall be achieved by transferring to Contractor title at the Delivery Point to quantities of Crude Oil and Non-associated Natural Gas from the Contract Area of equivalent value (as determined pursuant to Articles 13.1) to the Petroleum Costs to be recovered by Contractor in accordance with Article 11.2 ("Cost Recovery Petroleum").

### 11.4 Quarterly Accounting

- (a) Cost Recovery shall be calculated on a Calendar Quarter basis.
- (b)
  - (i) At the end of each Calendar Quarter, Finance Costs shall be applied to any unrecovered Capital Costs and/or Operating Costs, including any unrecovered Capital Costs and Operating Costs carried forward from any previous Calendar Quarter, which have not been recovered in such current Calendar Quarter;
  - (ii) Finance Costs in respect of unrecovered Operating Costs for each Calendar Quarter shall, at the end of each Calendar Quarter, be aggregated with the unrecovered balance of Operating Costs at that date and thereafter be recovered as Operating Costs;
  - (iii) Finance Costs in respect of unrecovered Capital Costs for each Calendar Quarter shall, at the end of each Calendar Quarter, be aggregated with the unrecovered balance of Capital Costs at that date and thereafter be recovered as Capital Costs.
- (c) Contractor shall have the continuing right to carry over to subsequent Calendar Quarters accumulated Petroleum Costs which are recoverable but which have not been recovered in previous Calendar Quarters.
- (d) To the extent that the unrecovered accumulated Capital Costs and Operating Costs incurred or carried forward in any Calendar Quarter are less than the value of the Capital Cost Recovery Petroleum available for Cost Recovery purposes during such Calendar Quarter, then the unused Capital Cost Recovery Petroleum shall be treated as additional Profit Petroleum.

## 11.5 Profit Petroleum

The balance of Total Production remaining after deducting the quantities of Crude Oil and Non-associated Natural Gas necessary to enable recovery of Operating Costs and Capital Costs (as provided in Articles 11.2 and 11.4 above) ("Profit Petroleum") shall be calculated on a Calendar Quarter basis and, subject to the provisions of Article 19.5, shall be shared between SOCAR and Contractor according to the R Factor Model as follows.

Beginning at the Effective Date the value of the R Factor in respect of Calendar Quarter (n+1) shall be determined at the end of Calendar Quarter (n) compounded, and accumulated in accordance with the procedure below:

$$R \text{ Factor } (n + 1) = \frac{\sum (CCR_n + PPL_n)}{\sum CCS_n}$$

where:

CCR<sub>n</sub> means Contractor's Capital Costs (including Finance Costs) recovered in the *n*th Calendar Quarter;

CCS<sub>n</sub> means Contractor's Capital Costs (excluding any Finance Costs) incurred in the *n*th Calendar Quarter;

PPL<sub>n</sub> means the value of Contractor's share of Profit Petroleum lifted in the *n*th Calendar Quarter;

*n* means the index number of the relevant Calendar Quarter;

$\sum$  means the cumulative arithmetic sum of the items to the right of the  $\sum$

### Profit Petroleum Sharing Table

R Factor Band	SOCAR Share (%)	Contractor Share (%)
R < 1	45	55
1 = R < 2	55	45
2 = R < 3	70	30
3 = R < 4	80	20
R = 4	90	10

#### 11.6 Transfer of Title to Profit Petroleum

Title to Contractor's share of Profit Petroleum shall be out of Crude Oil and Non-associated Natural Gas and shall be transferred to Contractor at the Delivery Point.

## ARTICLE 12

### TAXATION

#### 12.1 General

- (a) It is a condition to the Contractor Parties' obligations under this Agreement that, except for the Profit Tax obligation described in this Article 12, the Contractor Parties shall not be subject to any Taxes of any nature whatsoever arising from or related, directly or indirectly, to Hydrocarbon Activities.
- (b) It is acknowledged that Double Tax Treaties shall have effect to give relief from Taxes.
- (c) For the purposes of this Article 12 the following expressions shall have the meanings ascribed to them below:
  - (i) "State Budget" means consolidated Republican and local budgets.
  - (ii) "Fixed Assets" shall include all assets which it is usual to include in the Contractor Party's tax balance sheet under the heading of fixed or intangible asset, the total value of each of which exceeds a limit and has an anticipated useful life of more than one (1) year. This limit for the Calendar Year in which this Agreement is executed shall be Dollars five thousand (5,000). For each subsequent Calendar Year, this limit shall be increased by four (4) percent over the limit which applied in the previous Calendar Year.
  - (iii) "Hydrocarbon Activities" means activities relating to the exploitation of the Contract Area, whether such activities are performed in the Azerbaijan Republic or elsewhere.
  - (iv) "Tax Inspectorate" means the Tax Inspectorate of the city of Baku or its successors or assignees.

## 12.2 Profit Tax.

- (a) Each Contractor Party shall be severally liable for Profit Tax in respect of its Hydrocarbon Activities in accordance with the Law of the Azerbaijan Republic on Taxation of Profit and Certain Types of Income of Legal Entities, dated 9 November 1991, as enacted, and as generally applicable and in force in the Azerbaijan Republic on 1 January 1993, and as amended by the provisions of this Agreement ("Profit Tax"). In the event of any conflict between the provisions of such Law and those of this Agreement, the provisions of this Agreement shall govern. Each Contractor Party shall be liable for payment of Profit Tax in connection with its business activities in the Azerbaijan Republic that are not related to Hydrocarbon Activities, under the applicable laws and regulations of the Azerbaijan Republic.
  
- (b) It is specifically acknowledged that the provisions of this Article 12 shall apply individually to each Contractor Party. The individual liability of a Contractor Party for the Profit Tax shall be based on such Contractor Party's separate share of the items of Sales Income and Other Income and Deductions consolidated with the profits or losses of its other permanent establishments in the Azerbaijan Republic.
  
- (c) SOCAR shall in respect of each Calendar Year pay on behalf and in the name of each of the Contractor Parties Profit Tax to the State Budget in Dollars including estimated Profit Tax, and any interest, fines or penalties with respect thereto which is attributable to the failure to pay any such Profit Tax or estimated Profit Tax when it is due (except interest resulting from a Contractor Party's failure to prepare a required return by the due date therefor). SOCAR hereby guarantees to Contractor Parties that payment of each of Contractor Parties Profit Tax to the State Budget including any interest, fines or penalties as aforesaid, shall have first priority upon the proceeds of sale of Petroleum to which SOCAR is entitled under this Agreement. SOCAR shall cause the Tax Inspectorate to issue to the appropriate Contractor Party official receipts for such payments as provided for in Article 12.3(f). Upon request of any Contractor Party, SOCAR shall provide to such Contractor Party within ten (10) days of such request a document (in a form acceptable to all Contractor Parties) confirming

direct evidence of the actual transfer of funds to the State Budget in satisfaction of SOCAR's obligation as described in the preceding sentence. For purposes of computing the liability, if any, of SOCAR for Taxes assessed on SOCAR's income or profits, SOCAR shall not be entitled to credit against its tax liability the Profit Tax paid by SOCAR on behalf and in the name of each of the Contractor Parties pursuant to this Article 12.2(c). SOCAR shall be entitled to receive and retain any Profit Tax refunds (other than refunds of interest and penalty sanctions paid by a Contractor Party) on behalf and in the name of each of the Contractor Parties and shall provide to the appropriate Contractor Parties a statement showing that any such refund has been received.

- (d) On not less than thirty (30) days written notice each Contractor Party shall have the right at any time to have the payment by SOCAR of that Contractor Party's Profit Tax liability from funds generated by SOCAR's commercial activities for any Calendar Year audited by a firm of internationally recognised independent accountants selected by the Contractor Party. Contractor Party shall bear the costs of such audit and such cost shall not be Cost Recoverable. Such audit may not relate to a Calendar Year which has expired three (3) years prior to the date on which notice of the intended audit is given by the Contractor Party. Such audit shall be conducted in such a fashion that it does not cause unreasonable inconvenience to SOCAR. SOCAR shall accord to the auditor reasonable access to such evidence as the auditor may require to satisfy the auditor as to full payment of Contractor Party's Profit Tax for any Calendar Year from funds generated by SOCAR's commercial activities. If SOCAR shall not so pay a Contractor Party's Profit Tax Contractor Party shall make payment of it's Profit Tax directly to the State Budget and thereupon the Parties shall adjust the terms of the Agreement to re-establish the economic equilibrium of the Parties.

- (e) Taxable Profit, or if such sum is negative Taxable Loss, of a Contractor Party for a Calendar Year shall be equal to the sum of the Sales Income, the Other Income received by the Contractor Party during the Calendar Year and Profit Tax Gross Up less Deductions. The terms Taxable Profit, Taxable Loss, Sales Income, Other Income, Profit Tax Gross Up and Deductions shall have the meaning ascribed to them in this Article 12.2.
  
- (f) Taxable Losses shall be carried forward to the next Calendar Year and set off against any available Taxable Profit in that Calendar Year and Taxable Losses shall be reduced accordingly. Any balance of Taxable Losses not so set off in that Calendar Year shall be carried forward without limitation to future Calendar Years until fully set off against Taxable Profit.
  
- (g) Taxable Profit as reduced by Taxable Losses brought forward, shall be subject to Profit Tax at a fixed rate of twenty-five (25) percent.
  
- (h) Sales Income shall be defined as the amount of income derived during the Calendar Year by the Contractor Party from sales of Petroleum produced in the conduct of Hydrocarbon Activities. In the event such Petroleum is exchanged or swapped, then Sales Income shall be defined as the amount of income derived during the Calendar Year by such Contractor Party from sales of the Petroleum received in the exchange or swap. For purposes of this Article 12.2(h), Sales Income shall be determined by applying, in the case of arm's length sales (as defined in Article 13.1(d)(v)), the actual price realised by such Contractor Party, and, in the case of non arm's length sales, the principles of valuation as set out in Article 13.1 for such non arm's length sales.
  
- (i) Other Income shall be defined as any amounts of cash received by a Contractor Party in the carrying on of Hydrocarbon Activities including but not limited to the following:

- (i) insurance proceeds; and
- (ii) realised exchange gains; and
- (iii) amounts received under Article 14.2(d) and (e) from the Abandonment Fund; and
- (iv) amounts received under Article 14.2(h) for distributions of excess funds in the Abandonment Fund; and
- (v) interest income; and
- (vi) amounts received from suppliers, manufacturers or their agents in connection with defective materials and equipment; and
- (vii) amounts received for the use of facilities or intellectual property, compensation for services, sales of materials or charter hire.

Provided, however, Other Income shall not include the following amounts received by a Contractor Party:

- (1) amounts received from sales of Petroleum; and
- (2) except as otherwise provided in Article 12.2(n) and (o) amounts received from sales of Fixed Assets; and
- (3) amounts received as loans, or funds contributed, to the Contractor Party; and
- (4) amounts received from sales of any of the Contractor Party's rights and obligations arising under this Agreement; and
- (5) amounts received as refunds of Taxes (other than Profit Tax) or as dividends received by a Contractor Party from an Affiliate of such Contractor Party; and

- (6) amounts received in reimbursement of or otherwise in connection with expenditures incurred by a Contractor Party (or an Affiliate thereof) in excess of the amounts of such expenditures that have been treated as Deductions by the Contractor Party for purposes of computing Taxable Profit or Taxable Loss (in which case the amounts of any such excess shall not thereafter be treated as Deductions by the Contractor Party for such purposes and corresponding adjustments shall be made to the balance in Article 12.2(m); and
- (7) amounts received which are not freely at the disposal of and do not increase the wealth of the Contractor Party.
- (8) income otherwise subject to Profit Tax.
- (j) Profit Tax Gross Up shall be defined as an amount equal to the total amount of a Contractor Party's Profit Tax liability for a Calendar Year which is payable on behalf of the Contractor Party by SOCAR pursuant to Article 12.2(c) above; such Profit Tax liability being twenty five (25) percent of Contractor Party's Taxable Profit for such Calendar Year.
- (k) For purposes of determining the amount of the Taxable Profit or Taxable Loss of a Contractor Party for a Calendar Year, Deductions shall include all costs incurred by the Contractor Party in connection with the carrying on of Hydrocarbon Activities whether incurred in the Azerbaijan Republic or elsewhere, including but not limited to the following:
  - (i) the full amount of wages, salaries, and other amounts paid to all employees of the Contractor Party together with all costs incurred in connection with the provision of accommodation, food, public utilities, children's education, and travel to and from home country for employee and family; and
  - (ii) all costs of Azerbaijan State social insurance, including, but not limited to contributions to the pension fund, to the unemployment fund, to the social insurance fund, to the employment fund and to the medical insurance fund and all the other social payments for the employees; and

- (iii) all exploration and appraisal costs; and
- (iv) all costs associated with drilling wells (excluding the costs of any item of equipment or capital asset which is usually salvaged in accordance with practices generally accepted and recognised in the international Petroleum industry); and
- (v) all costs of transportation to the Point of Sale and of marketing, including without limitation pipeline tariffs, commissions and brokerages; and
- (vi) all payments made under a lease agreement for the current year of the lease; and
- (vii) all insurance costs; and
- (viii) all personnel training costs; and
- (ix) all costs connected with the activities of the offices or other places of business of each Contractor Party including management, research and development, and general administration expenses; and
- (x) the cost of any item of equipment or asset which is not a Fixed Asset; and
- (xi) all amounts of interest, fees and charges paid in respect of any debt incurred in carrying out the Hydrocarbon Activities and any refinancing of such debts, excluding (1) in the case of Affiliate debt, interest in excess of a rate which would have been agreed upon between independent parties in similar circumstances, and (2) interest which becomes payable because the debt is repaid after its due date for repayment; and
- (xii) an allocable portion covering general administrative support provided by the Contractor's Affiliates outside of the Azerbaijan Republic which results in an indirect benefit to Hydrocarbon Activities. Such support will include the services and related office costs of personnel performing administrative, legal, treasury, tax and employee relations, provision of expertise and other

non-technical functions which cannot be specifically identified or attributed to particular projects. The allocable portion of such costs with respect to this Agreement for each Contractor Party for the Calendar Year shall be equal to the amount determined using the following formula:

$$a = (b/c) d$$

where

a = the allocable portion for a Contractor Party for the Calendar Year;

b = the percentage Participating Interest of that Contractor Party at the end of the Calendar Year;

c = the sum of the percentage Participating Interests of the Contractor Parties at the end of the Calendar Year; and

d = the sum of the general and administrative overhead of the Contractor Parties for the Calendar Year.

The sum of the general and administrative overhead of the Contractor Parties for the Calendar Year shall be the amount determined using the following formula:

$$d = w + x + y + z$$

where

d = the sum of the general and administrative overhead of the Contractor Parties for the Calendar Year;

w = five (5) percent of the sum of the Contractor Parties' Capital Costs for the Calendar Year, if any, up to fifteen million (15,000,000) Dollars;

x = two (2) percent of the sum of the Contractor Parties' Capital Costs for the Calendar Year from fifteen million (15,000,000) Dollars to thirty (30,000,000) million Dollars, if any;

y = one (1) percent of the sum of the Contractor Parties' Capital Costs for the Calendar Year in excess of thirty million (30,000,000) Dollars, if any; and

z = one point five (1.5) percent of the sum of the Contractor Parties' Operating Costs for the Calendar Year; and

(xiii) all payments into the Abandonment Fund; and

(xiv) losses of materials or assets resulting from destruction or damage, assets which are renounced or abandoned during the Calendar Year, bad debts and payments made to Third Parties as compensation for damage; and

(xv) any other losses, including realised exchange losses, or charges directly related to Hydrocarbon Activities; and

(xvi) all other expenditures which the Contractor Party incurs in carrying out Hydrocarbon Activities; and

(xvii) all annual acreage fees payable; and

(xviii) all incidental costs incurred for the acquisition or occupation of land in connection with Hydrocarbon Activities; and

(xix) amortization calculated as hereinafter provided in this Article 12.2(l).

(l) (i) In the case of any Fixed Assets, amortisation Deductions shall be calculated as follows:

(aa) Fixed Assets which are not described in (bb) or (cc) below	twenty five (25) percent per Calendar Year declining balance basis
(bb) Bonus Payments	ten (10) percent per Calendar Year straight line basis
(cc) Office buildings, warehouses and similar constructions ("Buildings")	two point five (2.5) percent per Calendar Year straight line basis

The amount of amortisation for expenditure on a Fixed Asset shall be computed on the cost of the Fixed Asset exclusive of VAT on goods purchased in Azerbaijan. Any item which is treated as Deduction under Article 12.2 (k) shall not be amortised under Article 12.2(l).

- (ii) All expenditures on Fixed Assets described in Article 12.2 (l)(i) incurred during the Calendar Year shall be deemed to have been incurred on first (1st) July with the result that fifty (50) percent of the expenditure shall be added to the balance of the unamortised amounts brought forward from the preceding Calendar Year. The balance shall then be reduced by any amounts received from the disposal of Fixed Assets to give an adjusted balance ("Adjusted Balance") which will then be amortised as follows:

Balance brought forward from preceding Calendar Year	X
Add fifty (50) percent of the expenditure incurred on Fixed Assets during Calendar Year	X
Less the full amount of the actual proceeds from sales of Fixed Assets during Calendar Year	(X)
Adjusted Balance	X

Less amortisation: twenty five (25) percent  
of the Adjusted Balance (X)

Add excluded fifty (50) percent balance of  
expenditure incurred on Fixed Assets during the  
Calendar Year X

Balance to carry forward to following Calendar Year X

(iii) If in any Calendar Year, all Fixed Assets in the Azerbaijan Republic used in Hydrocarbon Activities for the purposes of this Agreement are disposed of (including but not limited to a transfer pursuant to Article 14) then:

(aa) if the Adjusted Balance plus the "excluded fifty (50) percent balance of expenditure incurred on Fixed Assets during the Calendar Year" is positive, the full amount shall be treated as a Deduction in that Calendar Year, or

(bb) if the Adjusted Balance plus the "excluded fifty (50) percent balance of the expenditure incurred on Fixed Assets during the Calendar Year" is negative, the full amount shall be treated as Other Income in that Calendar Year.

(iv) There shall be treated as Other Income or Deductions the amount of gains or losses recognised by a Contractor Party during the Calendar Year from the sale, disposition or abandonment ("Disposition") of a Building computed as follows:

Proceeds (if any) from Building Disposition X  
Less: Adjusted Basis of Building (X)  
Gain/(Loss) on Building Disposition X

The Adjusted Basis of such Building shall be calculated as follows:

Original Cost of the Building X

Add cost of capitalised improvements	X
Less accumulated amortisation Deductions	(X)
Adjusted Basis of Building	X

- (m) For purposes of computing a Contractor Party's Taxable Profit or Taxable Loss, all costs incurred by the Contractor Party in connection with Hydrocarbon Activities (including but not limited to costs incurred directly or indirectly in connection with technical work in the Azerbaijan Republic or elsewhere and costs incurred by representative offices in the Azerbaijan Republic of the Contractor Party) which were incurred prior to the Effective Date shall be deemed to have been incurred on such date. Notwithstanding the foregoing, direct or indirect costs of conducting the negotiation of this Agreement and in supporting medical, cultural or charitable activities prior to the execution of this Agreement shall not be included in computing the Contractor Party's Taxable Profit or Taxable Loss.
- (n) A Contractor Party has the right to sell or transfer any Fixed Assets which it owns without regard to book value of the Fixed Assets.
- (o) Should any Contractor Party assign all or any part of its interest in the Agreement, the assigning Contractor Party shall have the option to elect to have the assignee treat as Deductions for the Calendar Year in which the assignment occurs all, or a proportional part if only part is assigned, of the Taxable Loss, if any, of the assignor Contractor Party for such Calendar Year.

### 12.3 Profit Tax Accounting and Returns

- (a) Each Contractor Party shall:
- (i) maintain its tax books and records , and compute its Taxable Profit and Taxable Loss, exclusively in Dollars.

- (ii) recognise items of Sales Income, Other Income and Deductions in accordance with the cash receipts and disbursements basis applicable in the Azerbaijan Republic as of the Effective Date.
  - (iii) draw up its financial statements and Profit Tax returns in Dollars and submit one set of accounts for the Calendar Year consisting of a tax balance sheet and profit and loss account, together with one Profit Tax computation for the Calendar Year reflecting its Hydrocarbon Activities.
  - (iv) have its financial statements and Profit Tax return for each Calendar Year audited by an auditor appointed by the Contractor Party and who has relevant permits (licenses) to carry out such audits in the Azerbaijan Republic.
  - (v) submit such tax financial statements and Profit Tax returns for each Calendar Year together with an appropriate comment from the auditor to the Tax Inspectorate no later than the fifteenth (15th) April of the following Calendar Year.
  - (vi) beginning in the first Calendar Year in which it estimates it will earn a Taxable Profit, be liable for estimated Profit Tax for each Calendar Quarter based upon its estimate of its Taxable Profit for such Calendar Quarter and for the preceding Calendar Quarters in such Calendar Year. Estimated Profit Tax shall be paid in accordance with Article 12.2(c) to the State Budget on or before twenty-five (25) days following the end of the relevant Calendar Quarter. In calculating the estimated Profit Tax for a Calendar Quarter, each Contractor Party may utilise the Annual Work Programme along with any other information which it deems appropriate.
- (b) Upon filing the final Profit Tax return for a Calendar Year, estimated Profit Tax paid with respect to the Calendar Quarters during such Calendar Year shall be credited against the final Profit Tax as calculated on the final Profit Tax return. Any overpayment shall be refunded by the State Budget

within ten (10) days following the date the Contractor Party's final Profit Tax return (for such Calendar Quarter's or Quarters' estimated Profit Tax payment(s)) is submitted. Any underpayment shall be paid by SOCAR to the State Budget in accordance with Article 12.2(c) within ten (10) days following the date such final Profit Tax return is submitted. In any event, the final Profit Tax for a Calendar Year as calculated in the Profit Tax return shall be payable no later than twenty-fifth (25th) April of the following Calendar Year.

- (c) All estimated and final payments (and refunds of overpayments) of Profit Tax and any interest and penalty sanctions thereon as described in Article 12.3(d) below shall be made in Dollars.
- (d) (i) The filing of the Profit Tax returns and payment of Profit Tax thereunder for a Calendar Year shall be deemed to be a final and conclusive settlement of all Profit Tax liabilities for that Calendar Year upon the date thirty-six (36) months from the date the Profit Tax return for such Calendar Year was filed.
- (ii) The Tax Inspectorate shall have the authority to conduct an audit of each Contractor Party's Profit Tax return for each Calendar Year. Upon completing such audit, the Tax Inspectorate shall discuss any proposed adjustments with the Contractor Party and, where appropriate, issue a notice of additional Profit Tax due or a notice of refund. Any agreed underpayments or overpayments of Profit Tax shall be paid in accordance with Article 12.2(c) within ten (10) days following receipt by the Contractor Party of the appropriate notice. If the Contractor Party and the Tax Inspectorate are unable to agree upon the amount of Profit Tax underpaid or overpaid, the issue shall be submitted to arbitration applying the principles contained in Article 23.3.
- (iii) Upon a final determination that there has been either an underpayment or overpayment of Profit Tax on the Contractor Party's final Profit Tax return for a Calendar Year, SOCAR shall as

provided in Article 12.2(c), pay to the State Budget (or, in the case of a refund of an overpayment, receive from the State Budget) interest on the amount of the underpayment or overpayment at the rate of LIBOR prevailing on the day before payment plus four (4) percent. Such interest shall be computed from twenty-fifth (25th) April in the Calendar Year the final Profit Tax return was filed until the date the Profit Tax is paid or refunded.

- (iv) In addition to interest payable as computed under (iii) above, a Contractor Party shall be subject to only the following penalty sanctions with respect of Taxes:
  - (aa) if a Contractor Party fails to file a final Profit Tax return, it shall be liable for a penalty of one hundred (110) and ten percent of the Profit Tax required to be paid with such Profit Tax return.
  - (bb) if the amount of Profit Tax due as shown on the final Profit Tax return for a Calendar Year was understated due to fraud by the Contractor Party, it shall be liable for a penalty of two hundred (200) percent of the amount of the understatement.
- (e) Each Contractor Party shall submit its financial statements and Profit Tax returns to the Tax Inspectorate of the city of Baku (or any successor thereto appointed by the Main State Tax Inspectorate of the Azerbaijan Republic). Estimated and final Profit Tax payments shall be made to the State Budget.
- (f) The Tax Inspectorate will issue to the Contractor Party official tax receipts evidencing the payment of estimated or final Profit Tax within ten (10) days of any such payment. Such tax receipts shall state the date and amount of such payment, the currency in which such payment was made and any other particulars customary in the Azerbaijan Republic for such receipts.

## 12.4 Taxation of Sub-contractors

- (a) Foreign Sub-contractors shall be taxed as follows:
- (i) Subject to Article 12.4(b) below, Foreign Sub-contractors shall be deemed to earn a taxable profit of twenty five (25) percent of the payments received in connection with Hydrocarbon Activities and they shall be further deemed to be subject to tax on this deemed profit at the rate of twenty-five (25) percent, resulting in a total tax obligation of six point twenty five (6.25) percent of such payments. Any person making such payments shall therefore withhold tax from such payments at a rate of six point twenty five (6.25) percent and shall pay such withheld taxes to the State Budget within thirty (30) days from the date of payment. Such taxes withheld shall fully satisfy such Foreign Sub-contractor's tax compliance, filing obligations and liability for all Taxes.
  - (ii) a Contractor Party shall have no liability or responsibility for any Taxes which its Sub-contractors do not withhold or pay or for any other failure of such Sub-contractors to comply with the laws of the Azerbaijan Republic.
  - (iii) no Taxes shall be imposed or withheld with respect to payments to any Foreign Sub-contractor other than as provided in this Article 12.4(a).
- (b) In accordance with the principles of the OECD Model Tax Convention on Income and Capital, updated as of 1 March 1994 ("the Convention"):
- (i) The business profits of an enterprise, that is not a resident of the Azerbaijan Republic for the purposes of the Convention, shall only be taxable to the extent that an enterprise carries on a business in the Azerbaijan Republic. Payments at source which are provided for in the applicable Double Tax Treaties are subject to withholding under 12.4(a) above.

- (ii) The permanent establishment in the Azerbaijan Republic of such an enterprise shall not be subjected to taxation in the Azerbaijan Republic that is more onerous than that applied to a resident of the Azerbaijan Republic.

The tax treatment of Foreign Sub-Contractors shall be confirmed by way of the Tax Inspectorate issuing a written notice of such treatment within thirty (30) days of a request by a Foreign Sub-contractor for clearance being submitted in accordance with administrative procedures to be agreed between the Tax Inspectorate and Contractor Parties.

In the event that, in accordance with the established practice of the international Petroleum industry, an Affiliate of any Contractor Party provides in accordance with their ordinary business activities (and such activities shall not include activities directed towards avoidance of Taxes), any goods, works or services on a no gain/no loss basis no profit shall be deemed to arise in the Azerbaijan Republic.

## 12.5 Employee Taxes

- (a) Only employees of each Contractor Party, its Affiliates and the Operating Company shall be liable to pay the Azerbaijan Republic personal income Tax. Such liability shall arise regardless of the length of stay and it shall be based only on their income earned as a direct result of their employment in the Azerbaijan Republic subject to any applicable Double Tax Treaty. For the avoidance of doubt, in the cases of employees engaged in Hydrocarbon Activities whose presence in the Azerbaijan Republic is only Incidental (“Incidental” means in this Article 12.5 that no single visit of an employee shall exceed thirty one (31) days of continual presence in the Azerbaijan Republic) to the exercise of their employment outside of the Azerbaijan Republic no liability to any Tax in the Azerbaijan Republic shall arise.
- (b) Each Contractor Party shall only make contributions of Azerbaijan State social insurance and similar payments (including but not limited to contributions to the pension funds, the unemployment fund, the social insurance fund, the employment fund and the medical fund) with respect to permanent employees who are citizens of the Azerbaijan Republic.

## 12.6 Tax Exemptions and Other Matters

- (a) Each Contractor Party shall be entitled to full and complete exemption from all Taxes in respect of its Hydrocarbon Activities (except as otherwise provided for in this Agreement).
- (b) Except as provided by Article 12.4(a) no Taxes shall be withheld or imposed on payments made by each Contractor Party or its permanent establishments to any entity incorporated, legally created or organised outside the Azerbaijan Republic.
- (c) Each Contractor Party shall be exempt with credit (zero (0) percent rate) from VAT in connection with Hydrocarbon Activities on all (i) goods works and services supplied to or by it, (ii) its exports of Petroleum and all products processed or refined from such Petroleum, and (iii) imports of goods, works and services acquired by it. In addition, every supplier of goods, works and services to each Contractor Party in connection with Hydrocarbon Activities shall treat those suppliers for VAT purposes as being exempt with credit (zero (0) percent rate).
- (d) The Tax Inspectorate or other appropriate tax or customs authority shall provide each Contractor Party and its Foreign Sub-contractors with certificates confirming the exemptions and/or VAT zero (0) percent rate as provided in this Agreement within thirty (30) days of the Contractor Party requesting such certificate.

## 12.7 Other

The Contractor Parties shall pay registration or similar fees imposed by a Governmental Authority to the extent they are nominal and of a non-discriminatory nature.

12.8 The provisions of this Article 12 shall survive the termination of this Agreement until such time as all matters pertaining to Contractor Parties' liabilities for Taxes are finally and conclusively determined.

## ARTICLE 13

### VALUATION OF PETROLEUM

#### 13.1 Valuation of Crude Oil and Non-associated Natural Gas

- (a) The valuation of Crude Oil for purposes of Cost Recovery, sharing of Profit Petroleum and as otherwise specifically provided in this Agreement in any Calendar Quarter shall be the net back value calculated as follows :
- (i) where there have been export sales of Crude Oil from the Contract Area (or such other Crude Oil obtained through exchanges or swap agreements which is exchanged or swapped for Crude Oil from the Contract Area) by any Party in arm's length transactions during the Calendar Quarter, the weighted average per unit price realised in all such sales (after deducting commissions and brokerages), at the Point of Sale, adjusted for costs incurred by the Parties of transporting the Crude Oil to the Point of Sale, including but not limited to pipeline tariffs, transit fees, Transit Losses, terminal fees, tanker costs and pipeline taxes to arrive at a value of the Crude Oil at the Delivery Point ("Net Back Value"); provided that the total volume of such arm's length sales made by all Parties exceeds thirty-three and one-third ( $33 \frac{1}{3}$ ) percent of the total volume of all sales made by all Parties during the Calendar Quarter; or
- (ii) where the total volume of arm's length export sales does not exceed the percentage of sales referred to in Article 13.1(a)(i) above, the weighted average per unit price of: (A) Crude Oil sold in arm's length sales (determined as provided in Article 13.1(a)(i) above) and (B) Crude Oil sold in non-arm's length sales at the average price quoted for such Crude Oil in Platt's Oilgram during the Calendar Quarter, but if no such price is quoted then the average of per unit F.O.B. price quotations for three (3) representative crude oils to be agreed by the Parties, as published in Platt's Oilgram in the Calendar Quarter, adjusted for quality, grade, quantity, costs of transporting the Crude

Oil to the Point of Sale as provided in (i) above, to arrive at a Net Back Value of the Crude Oil. In the event that Platt's Oilgram ceases to be published or is not published for fifteen (15) days in the period required for its use in this Article 13.1(a)(ii) then the required data shall be taken from an available alternative publication internationally recognised by the Petroleum industry. If the Parties cannot agree the three (3) representative crude oils by the date of commencement of commercial production or fail to agree on any alternative publication the matter shall be referred for final decision to an internationally recognised expert in accordance with the provisions of Article 13.1(c) below.

- (b) The value of Non-associated Natural Gas in any Calendar Quarter for the purposes of Cost Recovery, sharing of Profit Petroleum, and as otherwise specifically provided in this Agreement shall be the actual arm's length sale price realised under a gas sales agreement less costs incurred by the Contractor Parties of transporting such Non-associated Natural Gas to the Point of Sale including but not limited to pipeline tariffs, Transit Losses and pipeline taxes ("Net Back Value").

Where Non-associated Natural Gas is sold by Contractor in non-arm's length sales, Non-associated Natural Gas shall be valued at a price to be determined by agreement between SOCAR and Contractor based on pricing principles prevailing internationally, taking into account market, grade, quality and quantity, transportation and other relevant considerations ("Net Back Value").

- (c) Within thirty (30) days after the end of the relevant Calendar Quarter, all Parties shall notify Contractor of the volumes, dates, prices and Point of Sale for all arm's length sales of Crude Oil and Non-associated Natural Gas during such Calendar Quarter, and Contractor shall notify SOCAR of valuations of Crude Oil and Non-associated Natural Gas for the purposes of Article 13.1(a) and Article 13.1(b) above, which notice shall specify volumes, dates, prices, and Points of Sale for all arm's length sales. If any Party does not accept any valuation notified by Contractor pursuant to

Article 13.1(a) or Article 13.1(b) and SOCAR and Contractor cannot reach agreement on the value of Crude Oil or Non-associated Natural Gas within thirty (30) days of receipt of notice by SOCAR of Contractor's valuation of Crude Oil or Non-associated Natural Gas, such determination shall be made by an internationally recognised expert appointed by Contractor and SOCAR, but if they fail to agree within thirty (30) days from the end of the thirty (30) days referred to above on the appointment of such expert, then such appointment shall be made by the President of the Stockholm Chamber of Commerce, Sweden on the application of SOCAR or Contractor. Such expert shall be a person internationally recognised as having expertise in the marketing of Petroleum. The English language text of this Agreement will be utilised by the expert. The expert shall in writing, report his determination within thirty (30) days of his appointment and his determination shall be final and binding upon SOCAR and Contractor.

Pending the determination of the Net Back Value of Crude Oil or as the case may be Non-associated Natural Gas for a given Calendar Quarter, the Net Back Value of Crude Oil or Non-associated Natural Gas determined for the preceding Calendar Quarter shall be provisionally applied to make calculation and payment until the applicable Net Back Value for that period is finally determined. Any adjustment to such provisional calculation and payment, if necessary, will be made within thirty (30) days after such applicable Net Back Value is finally determined.

- (d) In determining the applicable Net Back Value of Crude Oil or Non-associated Natural Gas pursuant to Articles 13.1(a) and (b) the following shall apply:
- (i) provisions in this Article 13.1 dealing with "sales" shall equally apply to a single sale and shall be interpreted accordingly; and
  - (ii) the point in time at which title in Crude Oil or Non-associated Natural Gas transfers at the Point of Sale from a Party to the buyer shall be deemed to be the time of sale; and

- (iii) "Point of Sale" shall mean the geographical location or locations where title to Crude Oil or as the case may be Non-associated Natural Gas passes from a seller to a buyer, whether such sale is F.O.B., C.I.F., C. and F. or any other manner generally recognised by the international Petroleum industry. Examples of possible Points of Sale include the sales meter at the outlet of the terminal at the terminus of the export pipeline, the inlet meter at a refinery, or the inlet flange to a tanker; and
  
- (iv) "Transit Losses" - shall mean losses (other than losses for which Contractor has been reimbursed from any insurances taken out by Contractor and losses for which Contractor has been reimbursed from pipeline owners or operators) incurred during the pipeline transport of Crude Oil and Non-associated Natural Gas from the Delivery Point to the terminus of the export pipeline, (including, if applicable, any pipeline utilised for transshipment of the Crude Oil to exit the Black Sea area or in the case of Non-associated Natural Gas to the Point of Sale) in excess of the normal international pipeline loss allowance of one-tenth of one (0.1) percent. Transit Losses shall be deducted from Total Production. Insurance premiums paid by Contractor for insurance taken out by Contractor covering Transit Losses shall not be Cost Recoverable. Any insurance reimbursements for such losses shall not be credited to Cost Recovery. Contractor shall be responsible for the insurance of Transit Losses pursuant to Article 20.1; and
  
- (v) an "arm's length sale" is a sale or exchange of Petroleum between a willing and non-affiliated buyer and seller on the international market in exchange for payment in Foreign Exchange, excluding a sale involving barter, sales from government to government and other transactions motivated in whole or in part by considerations other than the usual economic incentives involved in Petroleum sales on the international market.

### 13.2 Measurement

- (a) The volume and quality of Petroleum produced by Contractor shall be measured by methods and appliances in accordance with generally accepted international Petroleum industry practice, and shall be monitored by the Parties in accordance with the Measurement Procedure.
- (b) Contractor shall give prior written notice to SOCAR of any testing and calibration by Contractor of the appliances used in the measurement and determination of quality of Petroleum pursuant to the Measurement Procedure. SOCAR, at its cost and risk, shall be entitled to have witnesses participate at such testing and calibration.
- (c) Where the method of measurement, or the appliances used therefore, have caused an overstatement or understatement of production, the error shall be presumed to have existed since the date of the last calibration of the measurement devices, unless otherwise proved, and an appropriate adjustment shall be made to the average value for the period of the error, or by an adjustment in deliveries in kind over an equivalent period.
- (d) Petroleum produced from the Contract Area and not used by Contractor pursuant to Article 11.1 shall be measured at the Delivery Point.

## ARTICLE 14

### OWNERSHIP, USE AND ABANDONMENT OF ASSETS

#### 14.1 Ownership and Use

Title to the following categories of fixed and moveable assets for use in Petroleum Operations shall pass to SOCAR in accordance with the following:

- (a) When legally permissible to purchase land, any land purchased by Contractor in the Azerbaijan Republic for Petroleum Operations shall become the property of SOCAR, as soon as it is purchased.
  
- (b) Title to fixed and moveable assets employed by Contractor in the performance of Petroleum Operations and the cost of which is claimed as Petroleum Costs shall be transferred to SOCAR upon the earlier to occur of (i) the end of the Calendar Quarter following the achievement of Zero Balance or (ii) the termination of this Agreement. In this latter case, without prejudice to Contractor's rights under Articles 23.3(b) and 29, title to fixed assets will pass to SOCAR irrespective of whether the costs thereof have been Cost Recovered under this Agreement. Except in respect of items which have limited residual economic life, fixed and moveable assets the title to which is transferred to SOCAR following the achievement of Zero Balance shall be in reasonable working order and shall comply with generally accepted international technical standards, subject to wear and tear.
  
- (c) Contractor is entitled, at no additional cost, to the full and exclusive use and enjoyment of all land and fixed and moveable assets acquired for the purpose of Petroleum Operations throughout the term of this Agreement irrespective of whether title to such asset has passed to SOCAR in accordance with this Article 14.1.

- (d) With respect to any fixed asset Contractor shall, upon agreement of partial relinquishment pursuant to Article 29.5, give notice of abandonment of such assets in the area to be relinquished which Contractor does not intend to use or relocate elsewhere in connection with Petroleum Operations. Subject to Article 14.1(f), SOCAR may, within sixty (60) days of receipt of such notice, elect to assume ownership, possession and custody of such fixed assets.
- (e) Data and other information collected and generated by Contractor in the course of Petroleum Operations shall, during the term of this Agreement, be jointly owned by SOCAR and Contractor. Following the termination of this Agreement ownership of all such data and information shall revert to SOCAR. Thereafter, each Contractor Party shall be entitled to continue to use such data and information in relation to its other Petroleum related activities in the Azerbaijan Republic. Contractor shall be entitled to trade such data and information in accordance with the principles set out in Article 27.2 of this Agreement during the term of this Agreement.
- (f) Except as otherwise provided in Article 14.3 of this Agreement, ownership of leased equipment shall not transfer to SOCAR at the end of this Agreement, and Contractor shall at such time be free to export such equipment.

#### 14.2 Abandonment

- (a) In order to finance abandonment of all fixed assets (for purposes of this Article 14.2, "fixed assets" refer to large structures and facilities essential to the conduct of Petroleum Operations that are located within the Contract Area, such as platforms, gathering facilities, wells, pipelines, jackets and the like) employed in Petroleum Operations within the Contract Area by Contractor, the Parties shall open a joint escrow account at a bank of good international repute to be agreed between SOCAR and Contractor. This account shall be known as the "Abandonment Fund" and shall be administered for value. The structure of the escrow account and the terms for the administration of the Abandonment Fund monies shall be mutually agreed between SOCAR and Contractor. All monies allocated to the

Abandonment Fund shall be recoverable as Operating Costs. In no event shall the Abandonment Fund exceed ten (10) percent of all Capital Costs.

- (b) Contractor shall commence making contributions to the Abandonment Fund in the first Calendar Quarter following the Calendar Quarter when seventy (70) percent of Petroleum reserves identified in the Development Programme have been recovered. Should the point be reached at which payments into the Abandonment Fund have commenced and a Discovery is made subsequent thereto which increased the total remaining Petroleum reserves in the Contract Area to a level where less than seventy (70) percent of overall combined reserves have been recovered, then payments into the Abandonment Fund shall be suspended. Contractor shall resume payments into the Abandonment Fund when the point is reached where seventy (70) percent of Petroleum reserves (as increased by such Discovery) have been recovered. The formula for determining the amount of such payments as set forth in Article 14.2(c) shall be revised to take into account the revised Petroleum reserves. Contractor shall receive, however, full credit for all payments previously paid into the Abandonment Fund, plus accrued interest thereon.

- (c) Contractor shall transfer funds on a Calendar Quarter basis to the Abandonment Fund according to the following formula:

$$QAT = ((COA/ARES) \times PARES) - CAF$$

where:

QAT is the amount of funds to be transferred to the Abandonment Fund in respect of the relevant Calendar Quarter;

COA is the estimated cost of abandonment operations established pursuant to Article 14.2(g), up to the limit established in Article 14.2(a);

ARES is the estimated Petroleum reserves remaining to be recovered from the end of the Calendar Quarter in which the Abandonment Fund was opened;

PARES is the cumulative production of Petroleum from the end of the Calendar Quarter in which the Abandonment Fund was opened;

CAF is the Abandonment Fund balance at the end of the previous Calendar Quarter.

- (d) If, at any time, Contractor recommends abandonment of a fixed asset within the Contract Area prior to the termination of this Agreement, SOCAR may elect, within thirty (30) days of receipt of Contractor's recommendation, to continue using such fixed asset, in which event SOCAR shall be responsible for abandoning such fixed asset as and when it decides, and the appropriate portion of the Abandonment Fund shall be transferred to SOCAR at the time it commences abandonment of such fixed asset or termination of this Agreement, whichever is earlier. If SOCAR fails to elect to continue using such fixed asset the Steering Committee shall determine whether to abandon such asset provided that if the Steering Committee fails to reach agreement on the abandonment of such fixed asset at the meeting at which Contractor's recommendation first appears on the agenda then SOCAR shall be deemed to have elected to continue using such fixed asset and Contractor shall have no further liability of any kind with respect to such asset. If the Steering Committee decides to abandon such fixed asset, within thirty (30) days of such decision SOCAR shall notify Contractor whether Contractor or SOCAR shall be responsible for abandoning such fixed asset. If SOCAR fails to notify Contractor within such thirty (30) day time period, SOCAR shall be deemed to have decided that Contractor is to abandon such fixed asset. The appropriate portion of the Abandonment Fund shall be transferred to the Party responsible for abandoning such fixed asset. Any abandonment operations, or continued use by SOCAR, shall be conducted in accordance with international Petroleum industry practice and in such a manner that does not interfere with Petroleum Operations.

- (e) Upon termination of this Agreement, Contractor shall notify SOCAR of all fixed assets employed in Petroleum Operations within the Contract Area which Contractor intends to abandon. SOCAR shall, within thirty (30) days of receipt of Contractor's notice, notify Contractor of such fixed assets which SOCAR elects to continue to use, as well as whether SOCAR elects to abandon all other fixed assets or have Contractor abandon such other fixed assets. A portion of the Abandonment Fund commensurate with and attributable to any fixed assets shall be transferred to Contractor or SOCAR, as the case may be, who is responsible for abandoning such fixed assets. If SOCAR elects to continue to use or to abandon any fixed assets, SOCAR may abandon such fixed assets as and when it decides. Abandonment of any fixed assets shall be in accordance with generally accepted international Petroleum industry practice; provided, however, in the event there are insufficient funds in the Abandonment Fund to enable Contractor to complete abandonment operations for which Contractor is responsible, Contractor shall expend all amounts available in the Abandonment Fund in the performance of its abandonment operations and shall thereupon cease any further abandonment operations and have no further liability or obligation to abandon such remaining fixed assets. Any unabandoned fixed assets shall as part of the abandonment operations be left in a safe condition.
- (f) Upon SOCAR electing to abandon any fixed assets in the Contract Area or electing pursuant to (d) above, to continue using any such fixed assets, Contractor shall be released from all responsibility and liability of every kind pertaining to such fixed assets and abandonment thereof as well as payment of any further funds should there be insufficient funds in the Abandonment Fund. SOCAR shall indemnify Contractor from and against any loss, damage and liability of any nature whatsoever, as well as any claim, action or proceeding instituted against Contractor, or any Contractor Parties, by any person or entity, including, but not limited to any Governmental Authority, arising from, or in any way connected with, the continued use of such fixed assets and their ultimate abandonment, as well as any failure by SOCAR to properly abandon any such fixed assets.

- (g) Not later than one (1) year prior to the Calendar Year in which seventy (70) percent of the Petroleum reserves identified in the Development Programme are expected to be recovered, Contractor shall prepare an abandonment plan and an estimate of the cost of abandonment operations for approval by the Steering Committee. Annually thereafter Contractor shall examine the estimated costs of abandonment operations and, if appropriate, revise the estimate including such revision as may be necessary to take into account subsequent Discoveries.
- (h) In the event that there are excess funds in the Abandonment Fund following completion of all abandonment operations, then such excess shall be distributed between SOCAR and Contractor in proportion to the cost of abandonment operations undertaken by Contractor and SOCAR, but in no event shall Contractor's share exceed an amount it would have received had the excess funds been distributed in the ratio of the weighted average of the last ten (10) years Profit Petroleum distribution between SOCAR and Contractor under the provisions of Article 11.5 prior to termination of this Agreement.
- (i) No Taxes shall be imposed on any amounts paid into, received or earned by or held in the Abandonment Fund.

### 14.3 Leases of Equipment

Each Contractor Party shall have the right to use equipment leased from its Affiliates or Third Parties in the course of Petroleum Operations. In the case of any equipment, which is on long-term lease (which for the purposes of this Article 14 shall mean a lease in excess of ten (10) years) to Contractor, Contractor shall, with respect to such leases from such Affiliates of equipment owned by such Affiliates, ensure, and with respect to such leases from Third Parties, use reasonable lawful efforts to procure, that any such lease is transferable to SOCAR when Contractor no longer wishes to use such equipment for Petroleum Operations and that such lease includes an option to purchase exercisable by SOCAR.

## ARTICLE 15

### NATURAL GAS

#### 15.1 Associated Natural Gas

Contractor shall have the right to produce hydrocarbon liquids found within the Contract Area and to process Associated Natural Gas produced with any such liquids in order to extract such liquids for sale, provided that such processing can be conducted in a manner that is economically justified for Contractor. Liquids saved shall be treated as Crude Oil. Subject to Contractor's rights pursuant to Article 11.1 and Article 15.3, residue Associated Natural Gas from such processing shall be delivered free of charge to SOCAR at the Delivery Point.

#### 15.2 Non-associated Natural Gas

In the event of a Non-associated Natural Gas Discovery additional terms for commercial development of such Non-associated Natural Gas shall be agreed between SOCAR and Contractor. Return on Contractor's investment in the Non-associated Natural Gas Discovery and development shall be through marketing of Non-associated Natural Gas in accordance with the mechanism described in Articles 11.2 and 11.5. In the case of a Non-associated Natural Gas Discovery Profit Petroleum shall be shared through marketing of Non-associated Natural Gas in accordance with the mechanism described in Article 11.5. Contractor together with SOCAR shall use full and reasonable endeavours to rapidly conclude terms acceptable to the Parties to develop the Discovery, and with Third Parties to enter into the necessary long term Non-associated Natural Gas export sales and pipeline contracts. Contractor shall pursue markets for Non-associated Natural Gas both within and outside the Azerbaijan Republic.

Failing agreement on additional terms before the end of the Exploration Period or the Additional Exploration Period then within four (4) years of the date of approval by SOCAR of the Development Programme SOCAR and/or its Affiliates shall have the right exercisable at any time before Contractor has commenced development of the Non-associated Natural Gas Discovery pursuant

to the Development Programme by giving written notice to Contractor to develop at SOCAR's and/or its Affiliates sole risk and cost and subject to this Article 15.2 such Non-associated Natural Gas Discovery in accordance with the provisions of the Development Programme related to such Non-associated Natural Gas Discovery subject to reimbursement in full by SOCAR to Contractor of costs incurred by Contractor in accordance with the mechanism described in Articles 11.2 and 11.5.

SOCAR and/or its Affiliates shall conduct Petroleum Operations in a diligent safe and efficient manner and in accordance with generally accepted principles of the international Petroleum industry and otherwise in accordance with the terms of this Agreement. SOCAR and/or its Affiliates shall conduct Petroleum Operations in the Contract Area in a manner that does not interfere or hinder the conduct of Petroleum Operations of each other and also in a manner which shall not directly or indirectly damage the overall reservoir performance.

Articles 4.6(f) and 4.6(g) and Articles 5.3 and 5.4 shall apply to SOCAR's conduct of Petroleum Operations in all respects as if each reference therein to Contractor were a reference to SOCAR.

At any time prior to the expiry of four (4) years from the date of approval by SOCAR of the Development Programme Contractor shall be entitled to assume responsibility for and take over operation of SOCAR and/or its Affiliates to develop Non-associated Natural Gas and SOCAR shall thereafter be reimbursed for its costs incurred in connection with such development in accordance with the mechanism described in Article 11.2.

If within four (4) years of the date of approval by SOCAR of the Development Programme work on the Non-associated Natural Gas development pursuant to the Development Programme has not been commenced by Contractor, then unless otherwise agreed, SOCAR shall be entitled by giving written notice to withdraw from the scope of this Agreement Non-associated Natural Gas resources as defined in the Development Programme for such a Discovery and any unrecovered costs incurred by Contractor to the date of such notice with respect to the discovery of such Non-associated Natural Gas shall not be Cost Recoverable.

Following the withdrawal of such Non-associated Natural Gas from the scope of this Agreement each Party shall ensure that its conduct of exploration, development and production activities in the Contract Area shall be performed in a manner that does not interfere with or hinder Petroleum Operations conducted or planned to be conducted by the other Party and also in a manner which shall not directly or indirectly damage the overall reservoir performance in the Contract Area.

### 15.3 Flaring or Venting of Natural Gas

- (a) Contractor shall have the right to flare or vent the applicable amount of Associated Natural Gas in the event of emergencies, equipment malfunctions, repairs or maintenance of any facilities, including delivery systems, or SOCAR's failure to take delivery of Associated Natural Gas to be delivered to it by Contractor as provided in Article 15.1.
  
- (b) In the case of Non-associated Natural Gas, failure by any buyer thereof to take delivery, provided however, that in such event Contractor has first offered such Non-associated Natural Gas to SOCAR on the same terms agreed with such buyer and if SOCAR has refused or has failed to take delivery thereof, then Contractor shall reduce the production of Non-associated Natural Gas by the volumes not taken by any buyer or SOCAR. In the event of Contractor's failure to market its entitlement of Non-associated Natural Gas for any reason Contractor shall reduce the production of Non-associated Natural Gas by the applicable volumes and shut in Non-associated Natural Gas wells or restrict its production rate.

## ARTICLE 16

### FOREIGN EXCHANGE

Contractor and each Contractor Party, and their Affiliates and Sub-contractors, are authorised throughout the duration of this Agreement and in connection with this Agreement to:

- (a) Open, maintain and operate Foreign Exchange bank accounts both inside and outside the Azerbaijan Republic and local currency bank accounts inside the Azerbaijan Republic;
- (b) Import into the Azerbaijan Republic funds required for Petroleum Operations in Foreign Exchange;
- (c) Purchase local currency with Foreign Exchange at the most favourable exchange rate legally available to it (and in any event at a rate of exchange no less favourable than that granted by the National Bank of the Azerbaijan Republic to other foreign investors), without deductions or fees other than usual and customary banking charges, as may be necessary for conduct of the Petroleum Operations and performance of other obligations of Contractor hereunder;
- (d) Convert local currency available for use in, or earned in connection with, Petroleum Operations exceeding their immediate local requirements into Foreign Exchange at the most favourable exchange rate legally available to it (and in any event at a rate of exchange no less favourable than that granted by the National Bank of the Azerbaijan Republic to other foreign investors), without deductions or fees other than usual and customary banking charges;
- (e) Export, hold and retain outside the Azerbaijan Republic, or dispose of, all proceeds obtained under this Agreement, including without limitation all payments received from export sales of Contractor Parties' share of Petroleum;

- (f) Transfer abroad any Foreign Exchange in excess of their local requirements;
- (g) Be exempt from all legally required or mandatory conversions of Foreign Exchange into local or other currency;
- (h) Pay in Foreign Exchange partly or wholly abroad the salaries, allowances and other benefits received by their expatriate employees working in the Azerbaijan Republic on Petroleum Operations; and
- (i) Pay directly abroad in Foreign Exchange their Foreign Sub-contractors working on Petroleum Operations.

SOCAR shall within the full limits of authority use all reasonable lawful endeavours with any Governmental Authorities, in order for Contractor to obtain any of the above authorisations in the event that Contractor requests it to do so.

## **ARTICLE 17**

### **ACCOUNTING METHOD**

Contractor shall maintain books and accounts of Petroleum Operations in accordance with the Accounting Procedure.

## ARTICLE 18

### IMPORT AND EXPORT

#### 18.1 Import and Export Rights

- (a) Contractor, its agents and Sub-contractors, shall have the right to import into, and re-export from the Azerbaijan Republic free of any Taxes and restrictions in their own name the following: all equipment, materials, machinery and tools, vehicles, spare parts, foodstuff (subject to compliance with applicable regulations pertaining to the import of foodstuff), goods and supplies necessary in Contractor's reasonable opinion for the proper conduct and achievement of Petroleum Operations, provided, however, that with respect to the purchase thereof Contractor shall give preference to Azerbaijani suppliers in those cases in which such Azerbaijani suppliers are in all material respects competitive in price, quality and availability with those available from other sources. For purposes of this Article 18.1 Azerbaijani suppliers shall mean production, economic and other entities registered and incorporated in the Azerbaijan Republic, regardless of ownership, legally operating in the Azerbaijan Republic.

Notwithstanding the foregoing, (except when necessary for repair or maintenance provided that, within a reasonable time after completion of the repair or maintenance, such items shall be re-imported into the Azerbaijan Republic), Contractor shall not have the right to export from the Azerbaijan Republic any items purchased for Petroleum Operations, the costs of which have been included in the Petroleum Operations Account.

- (b) Contractor, its agents and Sub-contractors, and all of their employees and family members, shall have the right to import into and re-export from the Azerbaijan Republic, free of Taxes and restrictions and at any time, all foodstuff (subject to compliance with applicable regulations pertaining to the import of foodstuff), furniture, clothing, household appliances, vehicles, spare parts and all personal effects for personal use by the foreign employees and their families assigned to work in, or travel to, the

Azerbaijan Republic. Private sales of imported goods by Contractor and/or its Sub-contractors and their employees in the Azerbaijan Republic to any Third Party will be taxable in accordance with Azerbaijan legislation (subject to Article 12).

- (c) Any purchase of goods, works and services where the value exceeds one hundred thousand (100,000) Dollars shall be made on a competitive tender basis (except when only one supplier is available). SOCAR shall be advised of the results of each tender at every bid stage. The threshold value of one hundred thousand (100,000) Dollars shall be escalated annually in line with increases in the GDP Deflator Index. SOCAR's representative with no right to vote shall participate at every bid stage.

## 18.2 Petroleum Export

Each Contractor Party, its customers and its and their carriers shall have the right to freely export, free of all Taxes (except for Profit Tax) and at any time, Petroleum to which Contractor is entitled in accordance with the provisions of this Agreement.

## 18.3 Customs Laws

Subject to Articles 12, 18.1 and 18.2, all imports and exports carried out in connection with this Agreement shall be subject to the procedures and documentation required by applicable customs laws and regulations, and Contractor shall pay any customs service/documentation fees to the extent they are nominal and consistent with the actual costs of providing such customs service/documentation and are of a non-discriminatory nature, but in no event shall the service/documentation fees exceed the following:

Declared Value of Shipment in Dollars	Duty
0 - 100,000	0.15% of value
100,001 - 1,000,000	\$ 150 plus 0.10% of value over \$ 100,001
1,000,001 - 5,000,000	\$1,050 plus 0.07% of value over \$ 1,000,001
5,000,001 - 10,000,000	\$3,850 plus 0.05% of value over \$ 5,000,001
more than 10,000,000	\$6,350 plus 0.01% of value over \$10,000,000

#### 18.4 Foreign Trade Regulations

Contractor and its Sub-contractors shall also be exempt from the provisions of Azerbaijan foreign trade regulations concerning the prohibition, limitation and restriction of import and export and country of origin of those items indicated in Article 18.1 and with respect to the Petroleum allocated to Contractor pursuant to this Agreement.

#### 18.5 SOCAR Assistance

SOCAR shall, within the full limits of its authority, use all reasonable lawful endeavours, when requested to do so by Contractor, to ensure that the above mentioned exemptions are applied and expedite the movement through customs of any equipment or supplies of Contractor, its agents and Sub-contractors and all of their employees and family members.

## ARTICLE 19

### DISPOSAL OF PRODUCTION

#### 19.1 Title to Petroleum

Except as expressly provided in Article 13.1(d)(iv) concerning the risk of loss of Petroleum production, the transfer of title and possession to each Contractor Party and SOCAR of the share of the Petroleum production to which such Contractor Party and SOCAR is entitled shall be made at the Delivery Point.

#### 19.2 Overlift and Underlift

Each of SOCAR and Contractor Parties shall have the right and obligation to lift and dispose of the share of Petroleum to which it is entitled under this Agreement. Such share shall be lifted on as regular a basis as possible, it being understood that each of SOCAR and Contractor Parties, within reasonable limits, shall be authorised to lift more (overlift) or less (underlift) than its share of Petroleum produced and unlifted by the lifting day, to the extent that such overlift or underlift does not infringe on the rights of the other and is compatible with the production rate and the storage capacity. SOCAR and Contractor shall establish the rules and procedures to govern the lifting programme on the basis of the principles described above.

#### 19.3 SOCAR Option to Purchase Crude Oil

- (a) During each Calendar Quarter SOCAR shall be entitled to purchase from Contractor a portion of the Crude Oil allocated to Contractor under the provisions hereof, at the Delivery Point, by giving ninety (90) days written notice to Contractor of such purchase preceding the Calendar Quarter in which SOCAR elects to purchase the Crude Oil. Contractor shall initially invoice SOCAR for such Crude Oil purchased hereunder at the per Tonne price determined in accordance with Article 13.1 for the last Calendar Quarter preceding the date of lifting in which the price has been established. At such time that the per Tonne price for the Calendar Quarter in which such Crude Oil is lifted as determined in accordance with

Article 13.1 is known, Contractor shall issue an amended invoice indicating any monies owed to Contractor or SOCAR, as the case may be. In no event shall the proportion of Crude Oil so purchased from Contractor exceed the proportion purchased from Third Parties under similar circumstances and in no event shall such quantities exceed more than ten (10) percent of Contractor's entitlement at the Delivery Point during that Calendar Quarter. In the event any Taxes are levied on such Crude Oil, SOCAR shall be solely responsible for the payment thereof to the relevant Governmental Authorities and shall indemnify and hold harmless Contractor from any liability with respect thereto.

- (b) SOCAR shall have the additional right to purchase up to an additional ten (10) percent of Contractor's share of Crude Oil available in any Calendar Quarter at the Point of Sale or at any other export point located at the terminus when marketing Crude Oil through any other export alternative. The price for such Crude Oil shall be mutually agreed (using those factors normally utilised by the international Petroleum industry in determining a fair market price) prior to the relevant Calendar Quarter, and in the event any Taxes are levied on such Crude Oil, SOCAR shall be solely responsible for the payment thereof to the relevant Governmental Authorities and shall indemnify and hold harmless Contractor from any liability with respect thereto. In the event of any failure to agree on the sales price as provided above, SOCAR's right to purchase such additional Crude Oil from Contractor shall lapse with respect to the relevant Calendar Quarter.
  
- (c) The quantity of Crude Oil for which SOCAR may exercise its option to purchase pursuant to Article 19.3(a) and (b) shall be specified in a written notice to Contractor at least ninety (90) days preceding each Calendar Quarter. SOCAR shall pay for any Crude Oil purchased under this Article 19.3 in Dollars within thirty (30) days of Contractor's invoice to be issued no earlier than the date of lifting such Crude Oil. In the event that SOCAR fails to make timely payment of sums due to Contractor then its right to purchase Crude Oil under this Article 19.3 shall be suspended until all outstanding sums have been paid. If payment so due is not paid within said thirty (30) day period, Contractor shall be entitled to lift and export from

Crude Oil to which SOCAR is entitled a quantity of Crude Oil, as is necessary to satisfy sums due to Contractor. The volume of Crude Oil to which Contractor shall be entitled shall be determined in accordance with the valuation procedure set forth in Article 13.1 applicable on the date Contractor lifts such Crude Oil from SOCAR's entitlement.

- (d) To the extent that Contractor Parties (or their Affiliates) incur any fees, charges or penalties under contracts with Third Parties (including but not limited to pipeline and terminaling agreements) as a result of SOCAR's exercise of its rights pursuant to Article 19.3(a), SOCAR shall be liable for and shall reimburse Contractor Parties in Foreign Exchange for such fees, charges and penalties. SOCAR shall have no liability to Contractor Parties for penalties Contractor Parties (or their Affiliates) may incur under contracts with Third Parties as a result of SOCAR's exercise of its rights under Article 19.3(b). Contractor to the extent practicable will from time-to-time notify SOCAR of any anticipated fees, charges and penalties.

#### 19.4 Marketing of Crude Oil for SOCAR

The provisions of this Article 19.4 shall only apply if there is an export pipeline. Only to the extent that Contractor is not fully utilising its entitlement to throughput capacity in the export pipeline and if a marketing agreement has been mutually agreed between SOCAR and Contractor, Contractor shall market for SOCAR, if SOCAR so requests pursuant to the terms of such separate marketing agreement, all or a portion of SOCAR's share of Crude Oil. The amount of Crude Oil which will be subject to the foregoing obligation to market shall be stated in a written notice from SOCAR to Contractor no later than ninety (90) days prior to the beginning of the applicable Calendar Quarter. Any marketing undertaken by Contractor pursuant to this Article 19.4 shall not affect title to and risk of loss of SOCAR's share of Total Production which shall remain with SOCAR.

## 19.5 Maximum Efficient Rate

It is the intention of the Parties that the Petroleum resources of the Contract Area should be produced at the optimum rate which is to be fully consistent with the then current economic conditions, and the principles of sound reservoir management according to international Petroleum industry practice, in order to provide for the most economically efficient recovery of Petroleum ("Maximum Efficient Rate"). Consistent with the foregoing, and taking into account local experience in managing similar reservoirs, Contractor shall submit for agreement of the Steering Committee, at the same time as it submits the Annual Work Programme and Budget to the Steering Committee, Contractor's estimate of the relevant Calendar Year's production volume, but such agreed estimate shall be used for planning purposes only. However, in the event any Governmental Authority requires Contractor to produce Petroleum from the Contract Area at less than the Maximum Efficient Rate Contractor will reduce production, subject to the express condition that such reduction in Petroleum production shall in no event be greater than can be borne entirely from SOCAR's share of Petroleum remaining after satisfying all other SOCAR obligations hereunder. Contractor's total entitlement to Petroleum under this Agreement shall, at no time throughout the term of this Agreement, be less than it would have been had such reduction not been made. If due to a declared national emergency Governmental Authority requires an increase in the production rate above the Maximum Efficient Rate, Contractor shall so increase the production rate for a period of time not to exceed forty-five (45) days in any Calendar Year; provided, however, that in no event shall Contractor ever be required to increase the production rate to a level which in Contractor's opinion could possibly cause damage to the reservoir(s).

## ARTICLE 20

### INSURANCE, LIABILITIES AND INDEMNITIES

#### 20.1 Insurance

Contractor (which for purposes of clarification with respect to this Article 20 shall include the Operating Company) shall have the freedom to self insure and/or take out and cause to be taken out by its Sub-contractors, in respect of the Petroleum Operations, insurance of the types and for such amounts customarily used in the international Petroleum industry to the extent such insurance coverage is available on reasonable commercial terms. Said insurance may be obtained from such companies, including Azerbaijani companies, as selected by Contractor. Contractor shall inform and provide to SOCAR copies of certificates of insurance or other statements from brokers or underwriters confirming any insurance providing coverage with respect to Petroleum Operations or procured pursuant to this Article 20.1, including but not limited to the identity of the insurers, types and amounts of coverage, applicable deductibles, premiums paid and changes thereto. With respect to any self insurance, Contractor shall notify the Steering Committee of the extent and coverage applicable to such self insurance, as well as the premium to be associated therewith as provided under the Accounting Procedure. Such insurance procured pursuant to this Article 20.1 shall extend to Affiliates of Contractor Parties involved in the Petroleum Operations. If the Steering Committee approves the procurement of any insurance in addition to the coverage procured by Contractor, Contractor shall procure such additional coverage, if available at reasonable rates, on such terms as the Steering Committee may determine. Except as provided in Article 13.1(d)(iv), the premiums for all insurance (excluding premiums for insurance covering the marketing of Petroleum) obtained by Contractor for Petroleum Operations pursuant to this Article 20.1 shall be Cost Recoverable. Insurance cover may be denominated in Foreign Exchange.

## 20.2 Liability for Damages

Contractor shall be liable to SOCAR and/or any Governmental Authority only for any loss or damage arising from Contractor's Wilful Misconduct or the Wilful Misconduct of Contractor's Sub-contractors, their employees, and Contractor's employees acting in the scope of their employment in the performance of Petroleum Operations. SOCAR shall release Contractor and its Affiliates and Sub-contractors from all other losses and damages suffered by SOCAR and any of its Affiliates and shall indemnify and hold harmless Contractor and its Affiliates and Sub-contractors against all claims, demands, actions and proceedings brought against Contractor and/or any of its Affiliates and Sub-contractors pertaining to all other losses and damages suffered by SOCAR and/or any Governmental Authority. Contractor's liabilities to Third Parties (other than Governmental Authorities) shall be governed by applicable laws of the Azerbaijan Republic, provided that structures and facilities of SOCAR located in the Caspian Sea outside of the Contract Area shall be treated as if such structures and facilities were owned by a Third Party.

## 20.3 Indemnity for Personnel

Notwithstanding the other provisions of this Agreement:

- (a) Contractor shall indemnify and hold harmless SOCAR against all losses, damages and liability arising under any claim, demand, action or proceeding brought or instituted against SOCAR by any employee of Contractor (or any Affiliate thereof, provided that such Affiliate, at the time of the injury or damage, is not acting in the capacity of a Sub-contractor) or dependent thereof, for personal injuries, industrial illness, death or damage to personal property sustained in connection with, related to or arising out of the performance or non performance of this Agreement regardless of the fault or negligence in whole or in part of any entity or individual.

- (b) SOCAR shall indemnify and hold harmless Contractor against all losses, damages, and liability arising under any claim, demand, action or proceeding brought or instituted against Contractor by any employee of SOCAR (or any Affiliate thereof, which shall include any Governmental Authority, provided that such Affiliate, at the time of the injury or damage, is not acting in the capacity of a Sub-contractor) or dependent thereof, for personal injuries, industrial illness, death or damage to personal property sustained in connection with, related to or arising out of the performance or non-performance of this Agreement regardless of the fault or negligence in whole or in part of any entity or individual. Contractor shall, if requested by SOCAR, use its reasonable lawful endeavours to assist SOCAR in its obtaining insurance with respect to its liability under this Article 20.

#### 20.4 Indemnity Prior to Effective Date

SOCAR shall indemnify Contractor and its Affiliates from and against all losses, damages and liabilities, arising under any claim, demand, action or proceeding instituted against Contractor and/or any of its Affiliates by any person or entity, including but not limited to Governmental Authorities, arising out of or in any way connected with any injury, death or damage of any kind sustained in connection with or arising from the Contract Area any operations of SOCAR or any of its predecessors, prior to the Effective Date, including but not limited to damage to the environment.

#### 20.5 Indemnity for Surrendered Areas and SOCAR Operations

SOCAR shall indemnify Contractor and its Affiliates from and against all losses, damages and liabilities arising under any claim, demand, action or proceeding instituted against Contractor and/or any of its Affiliates by any person or entity, including but not limited to Governmental Authorities,



## 20.7 Consequential Losses

With respect to indirect or consequential loss arising out of or in connection with this Agreement or any activities thereunder, notwithstanding anything to the contrary elsewhere in the Agreement the Parties shall not be liable whether in contract, tort or otherwise and regardless of any negligence under any circumstances whatsoever for any indirect or consequential loss save that a Party shall be liable for indirect or consequential loss to the extent that the same arise from any derogation from the rights and benefits granted by that Party under this Agreement. For the purposes of this Article 20.7 the expression "indirect or consequential loss" shall mean any indirect or consequential loss or damage including but not limited to inability to produce Petroleum, loss of or delay in production of Petroleum or loss of profits.

## ARTICLE 21

### FORCE MAJEURE

#### 21.1 Force Majeure

Non-performance or delays in performance on the part of any Party of its obligations (or any part thereof) under this Agreement, other than the obligation to pay money, shall be excused if occasioned or caused by Force Majeure. "Force Majeure" means any event which prevents, hinders or impedes Petroleum Operations and is beyond the ability of the affected Party to control such event or its consequences using reasonable efforts, including without limitation, extraordinary events, natural disasters (for example lightning and earthquake), wars (declared or undeclared) or other military activity, jurisdictional change with respect to the Contract Area, fire, labour disputes, insurrections, rebellions, acts of terrorism, riot, civil commotion, sole supplier or limited supply circumstances (such as non-availability or shortage of equipment, materials, power, fuel or other supplies or other services, including lack of reasonable access to any canal and waterway system servicing the Caspian Sea unless there is available to Contractor other means of transportation to and from the Contract Area which costs no more than such canal and waterway system), and laws, treaties, rules, regulations, decrees, orders, actions or inactions of any governmental authority (inside or outside of the Azerbaijan Republic) which prevent hinder or impede Contractor's conduct of operations or which substantially impairs or threatens Contractor's rights under this Agreement; provided, however, that laws, treaties, rules, regulations, decrees, orders or other acts of any entity or agency acting on behalf of, under the auspices of, or at the direction of any Governmental Authority within the territory of the Azerbaijan Republic shall not constitute Force Majeure with respect to delay or non-performance on the part of SOCAR. Each Party shall use its reasonable lawful efforts to prevent the occurrence of Force Majeure events. Upon the occurrence of any Force Majeure event, the Party affected shall give prompt notice to the other Parties specifying the event of Force Majeure (and providing evidence thereof) and shall do all things possible using reasonable lawful efforts to remove or mitigate the effect of the Force Majeure event. If the government within whose jurisdiction a Contractor Party or its Ultimate Parent Company is incorporated or is subject takes actions which preclude such Contractor Party from fulfilling its obligations under this

Agreement, the remaining Contractor Parties may not claim such an event as Force Majeure and shall, consistent with the principles set forth in Article 20.6, continue to fulfil their obligations under this Agreement.

## 21.2 Extension of Time

If Petroleum Operations are delayed, curtailed or prevented by Force Majeure, then the time for carrying out the obligations affected thereby, the duration of the relevant phase of Petroleum Operations, the term of this Agreement (including any extension period hereof) and all rights and obligations hereunder shall be extended for a period equal to the delay caused by the Force Majeure occurrence plus such period of time as is necessary to re-establish operations upon removal or termination of Force Majeure.

## 21.3 Post-Production Force Majeure

If at any time after commencement of production from the Contract Area Contractor declares Force Majeure and such Force Majeure situation has continued for a period of not less than ninety (90) consecutive days and such Force Majeure did not arise as a result of events within the Azerbaijan Republic or as a result of any action on the part of Governmental Authority and as a result of such Force Majeure Contractor has been unable to produce Petroleum under this Agreement then SOCAR and Contractor shall meet within fifteen (15) days following the expiry of the said period of ninety (90) days to discuss how best to continue production. Failing agreement on satisfactory arrangements within ninety (90) days thereafter SOCAR shall have the option of itself or its Affiliate assuming operations hereunder and continuing production of Petroleum during the period of Force Majeure at its risk and cost with the possible participation of sub-contractors until Contractor declares the cessation of the Force Majeure circumstance when Contractor shall resume its full responsibilities for production of Petroleum under this Agreement.

When Contractor declares that the Force Majeure circumstance has ceased SOCAR or its Affiliate shall be entitled to recover SOCAR's or its Affiliate's direct costs in accordance with the Cost Recovery mechanism and shall credit the Petroleum Operations Account for the volumes of Petroleum delivered whilst the Force Majeure circumstance continued at international prices at the Points of Sale used prior to commencement of the Force Majeure.

## ARTICLE 22

### VALIDITY, ASSIGNMENT AND GUARANTEES

#### 22.1 Validity

- (a) Except as otherwise provided under Article 22.1(b), this Agreement shall constitute a valid and binding legal obligation enforceable in accordance with its terms among the Parties and their respective successors and assigns as of the Effective Date. SOCAR guarantees that as of the date of execution no other agreement exists with respect to the Petroleum rights within the Contract Area. SOCAR further guarantees that between the date of execution and the Effective Date it shall not enter into any negotiations or arrangements with any Third Party for the granting of rights to explore for, appraise or develop, Petroleum from within the Contract Area (or any part thereof). From and after the Effective Date this Agreement shall not be cancelled, amended or modified except in accordance with its terms or by written agreement between the Parties. The Parties acknowledge the necessity of continuing to work in good faith to resolve any matters not presently covered by this Agreement.
  
- (b) In recognition by the Parties that certain obligations have to be performed on or before the Effective Date, it is agreed that the provisions of Articles 25.1(b), and SOCAR's guarantees under Article 22.1(a) shall come into force on the date of execution of this Agreement.
  
- (c) In the event this Agreement is finally rejected by the Azerbaijan Parliament and Contractor has notified SOCAR that any further revisions to this Agreement, if any, necessary for ratification are unacceptable to Contractor, this Agreement shall not become effective, the rights and obligations of the Parties under this Agreement and any previous agreements pertaining to the Contract Area shall be extinguished save only for the obligation of SOCAR to make certain repayments under Article 25.3.

## 22.2 Assignment

(a) Restriction. No assignment, mortgage, pledge or other encumbrance shall be made by a Contractor Party of its rights and obligations arising under this Agreement other than in accordance with the provisions of this Article 22.2. Any purported assignment made in breach of the provisions of this Article 22.2 shall be null and void. For purposes of this Article 22 transfer of control (as defined in Article 9.2(c)) of a Contractor Party (other than for the purposes of internal reconstruction or amalgamation) shall be deemed an assignment under this Agreement. Except in the case of a Contractor Party assigning all of its percentage Participating Interest, no Contractor Party shall assign less than a five (5) percent percentage Participating Interest. Within a period of twelve (12) months following the Effective Date no Contractor Party shall assign a Participating Interest greater than twenty five (25) percent of total Participating Interests to any one assignee.

### (b) By a Contractor Party

(i) Assignments to Third Parties. Subject to the provisions of this Article 22.2(b) a Contractor Party shall be entitled to assign all or part of its rights and obligations arising under this Agreement to any Third Party which:

(aa) has the technical and financial ability commensurate with the responsibilities and obligations which would be imposed on it hereunder;

(bb) as to the interest assigned, accepts and assumes all of the terms and conditions of this Agreement; and

(cc) is an entity with which SOCAR can legally do business.

(ii) Encumbrance by Contractor Party. Without prejudice to its obligations hereunder, each Contractor Party shall have the right to freely mortgage, pledge or otherwise encumber its interests in the Agreement or any property in or outside the Azerbaijan Republic which is used for Petroleum Operations, provided that any such

mortgage, pledge or other encumbrance shall be made expressly subject to the terms of this Agreement.

- (iii) Approval of SOCAR. Any proposed assignment, mortgage, pledge or other encumbrance by a Contractor Party to a Third Party shall require the prior approval of SOCAR which approval shall not be unreasonably withheld. If within ninety (90) days following notification to SOCAR of a proposed assignment accompanied by the relevant information and the draft deed of assignment, mortgage, pledge or other encumbrance, SOCAR has not given its decision, such assignment, mortgage, pledge or other encumbrance shall be deemed to be approved by SOCAR.
- (iv) Obligations of Assignee. In the event a Contractor Party assigns all or a portion of its rights and obligations arising under this Agreement, and the assignment has been approved or deemed approved by SOCAR, the assignor shall, to the extent of the interest assigned, be released from all further obligations and liabilities arising under this Agreement after the effective date of such assignment. The assignee with the remaining Contractor Parties shall thereafter be jointly and severally liable for the obligations arising from this Agreement, except to the extent otherwise provided under this Agreement.
- (v) Assignments to Affiliates and Contractor Parties. A Contractor Party shall be entitled at any time to assign all or part of its rights and obligations arising from this Agreement to one or more of its Affiliates or to any of the Contractor Parties without the prior consent of SOCAR; provided, however, that any such Affiliate satisfies the requirements of Article 22.2(b)(i) above, and further provided that the assigning party shall remain liable for obligations under this Agreement in the same manner as though no assignment had been made unless and until said assignment is approved or deemed approved by SOCAR, in the manner provided under Article 22.2(b)(iii).

### 22.3 No Tax on Assignments

Any assignment or transfer pursuant to Article 22.2 shall be free of Taxes and shall be free of any cost or charge to Contractor Parties.

### 22.4 Conditions on Assignment

Any assignment by a Contractor Party shall be expressly conditioned upon the assignee providing to SOCAR an Ultimate Parent Company Guarantee similar to that referred to in Article 22.5. At the same time as SOCAR gives approval to a proposed assignment of a Participating Interest or part thereof or within ten (10) days following a deemed approval of a proposed assignment SOCAR shall deliver to the assignee an SCA Ultimate Parent Company Guarantee.

### 22.5 Ultimate Parent Company Guarantees

Each Contractor Party other than SCA shall as soon as practicable after execution of this Agreement by all Parties, provide to SOCAR an Ultimate Parent Company Guarantee. SOCAR hereby agrees to guarantee to each Contractor Party other than SCA all funds necessary for SCA to fulfil all of its obligations, financial or otherwise, under the Agreement as set out in Appendix 4 and such guarantee shall be provided by SOCAR as soon as practicable after execution of this Agreement by all Parties.

### 22.6 Government Guarantee

Upon the execution of this Agreement by all Parties SOCAR shall procure the execution of the Government Guarantee. An executed original of the Government Guarantee shall be provided to each Contractor Party and shall be included in the executed copy of this Agreement to be submitted to the Parliament of the Azerbaijan Republic. Upon ratification and approval of this Agreement by the Parliament of the Azerbaijan Republic and publication in the customary manner the Government Guarantee shall have the force of law.

## ARTICLE 23

### APPLICABLE LAW, ECONOMIC STABILISATION AND ARBITRATION

#### 23.1 Applicable Law

This Agreement shall be governed and interpreted in accordance with principles of law common to the law of the Azerbaijan Republic and English law, and to the extent that no common principles exist in relation to any matter then in accordance with the principles of the common law of Alberta, Canada (except for laws regarding conflicts of laws). This Agreement shall also be subject to the international legal principle of pacta sunt servanda (agreements must be observed). Upon approval by the Parliament of the Azerbaijan Republic of this Agreement, this Agreement shall constitute a law of the Azerbaijan Republic and shall take precedence over any other current or future law, decree or administrative order (or part thereof) of the Azerbaijan Republic which is inconsistent with or conflicts with this Agreement except as specifically otherwise provided in this Agreement.

#### 23.2 Economic Stabilisation

The rights and interests accruing to Contractor (or its assignees) under this Agreement and its Sub-contractors under this Agreement shall not be amended, modified or reduced without the prior consent of Contractor. In the event that any Governmental Authority invokes any present or future law, treaty, intergovernmental agreement, decree or administrative order which contravenes the provisions of this Agreement or adversely or positively affects the rights or interests of Contractor hereunder, including, but not limited to, any changes in tax legislation, regulations, or administrative practice, or jurisdictional changes pertaining to the Contract Area, the terms of this Agreement shall be adjusted to re-establish the economic equilibrium of the Parties, and if the rights or interests of Contractor have been adversely affected, then SOCAR shall indemnify Contractor (and its assignees) for any disbenefit, deterioration in economic circumstances, loss or damages that ensue therefrom. SOCAR shall within the full limits of its authority use its reasonable lawful endeavours to ensure that the appropriate Governmental Authorities will take appropriate

measures to resolve promptly in accordance with the foregoing principles any conflict or anomaly between any such treaty, intergovernmental agreement, law, decree or administrative order and this Agreement.

### 23.3 Arbitration

- (a) Except for any matter to be referred to an expert pursuant to Article 13.1(c) in the event of a dispute arising between SOCAR and any or all of the Contractor Parties (including matters which are not resolved at the Steering Committee), the disputing Parties shall meet in an attempt to resolve the dispute to their mutual satisfaction by reference to the terms of this Agreement. If satisfactory mutual agreement is not achieved within thirty (30) days after receipt by a Party of notice of such dispute, such dispute shall be settled in accordance with the Arbitration Procedure and the applicable law provisions of Article 23.1.
  
- (b) Nothing in this Agreement shall limit the rights of the Contractor Parties pursuant to Articles 11 through 15 of the Law on Protection of Foreign Investment dated 15 January 1992, which rights shall apply in addition to any other rights Contractor may have under this Agreement notwithstanding any other law, both current and future, in the Azerbaijan Republic. If any of Contractor's rights, interests or property are expropriated, nationalised or otherwise taken by reason of any act or failure to act of any Governmental Authority, then the arbitrators shall apply the principle of indemnification (including prompt, full and effective compensation in Dollars) at the full market value, on the basis of an on-going concern utilising the discounted cash flow method, assuming a willing buyer and seller in a non-hostile environment, and disregarding the unfavourable circumstances under which or following which Contractor shall be deprived of its rights, interest (including its interest in undeveloped reserves) or property. The arbitrators shall select an investment bank of good international reputation for purpose of appraising the full market value of said rights, interest (including its interest in undeveloped reserves) or property of Contractor.

(c) The rights and obligations under this Article 23.3 shall survive the termination of this Agreement.

## ARTICLE 24

### NOTICES

24.1 All notices required to be given pursuant to this Agreement shall be in writing in English and either Azeri or Russian and may be given by telex or letter to the address set out below for each Party (or such other address as a Party may notify to the other Parties from time to time) provided, however, that following the Effective Date any notices required to be given to Contractor Parties hereunder by SOCAR (except any notice of breach pursuant to Article 29, any notice pursuant to Article 22.2 (b)(iii) and any notice of termination of this Agreement and any notice of arbitration pursuant to Article 23.3) shall be considered effective as to all Contractor Parties if given to the Operating Company in accordance with this Article 24.1. Contractor shall advise SOCAR of details of the name and address of the Operating Company (and of any changes thereto) as soon as practicable. A notice given by telex shall be deemed to be served on the first working day following the date of dispatch. A notice sent by letter shall not be deemed to be delivered until received.

SOCAR: State Oil Company of the Azerbaijan Republic  
Baku 370601  
Prospect Neftchilyar 73  
SOCAR  
Telex: Baku 142187 (CWET SU)

Attention: The President

BP: BP Exploration (Azerbaijan) Limited  
370004 Azerbaijan Republic  
Baku  
Bejuk Gala Kuchasi 41

Attention: BP Chief Representative

*and copied for information to:*

BP Exploration Operating Company Limited  
Uxbridge One  
1 Harefield Road  
Uxbridge  
Middlesex UB8 1PD  
Telex: London 888811 (BEE PEE)

Attention: Asset Manager, Azerbaijan

Elf: Elf Petroleum Azerbaijan B.V.  
370004 Azerbaijan Republic  
Baku  
Bejuk Gala kuchasi 42

Attention: Local Representative

*and copied for information to:*

Elf Aquitaine – Tour Elf  
2.place de la Coupole  
92078 – PARIS LA DEFENSE. CEDEX  
615 400 ELFA

Attention: Senior Vice-President E.P. - OCAL

LUKoil: LUKoil International Ltd  
370004 Azerbaijan Republic  
Baku  
Sabir Kuchasi 3

Attention: General Manager  
*Amd copied for information to:*

Lukoil Joint Stock Company  
2 bld. 44 Lusinovskaya  
113093 Moscow  
Russian Federation

Telex: 612553 Luk SU

Attention: The President

OIEC: Oil Industries Engineering and Construction  
Address and Telex to notified

SCA: Care of: State Oil Company of the  
Azerbaijan Republic  
Baku 370601  
Neftchiler Prospekti 73  
SOCAR

Telex: Baku 142187 (CWET SU)  
Attention: The President

Statoil: Statoil Azerbaijan A.S  
370004 Azerbaijan Republic  
Baku  
Bejuk Gala Kuchasi 41

Attention: Vice President, Statoil Azerbaijan

*and copied for information to:*

Den norske stats oljeselskap a.s  
4035 Stavanger  
Norway  
Telex: 73600 STAST N

Attention: Vice President E&P International

TPAO: Turkish Petroleum Overseas Company Limited  
370004 Azerbaijan Republic  
Baku  
Shovket Alekperova Kuchasi 7/10

Attention: TPAO Representative

*and copied for information to:*

Turkiye Petrolleri A.O.  
Mustafa Kemal Mahallesi  
2 Cadde, No. 86, Esentepe  
06520, Ankara Turkey  
Telex: 42626 TPGM.TR

Attention: The President

## ARTICLE 25

### EFFECTIVE DATE

#### 25.1 Effective Date

- (a) The Effective Date shall be the date upon which SOCAR delivers to Contractor written evidence of the enactment by the legislature of the Azerbaijan Republic in full compliance with the Constitution and all requisite legal formalities and procedures and publication in the customary manner of legislation giving this Agreement (including the Government Guarantee), the full force of law in the Azerbaijan Republic, provided, however, that the enactment as aforesaid shall not be sought by the Parties (and the Effective Date shall not occur) until the following conditions precedent have been satisfied:
- (i) authorisation to enter into this Agreement by the Boards of Directors of each of the Parties;
  - (ii) delivery to SOCAR of each of the Ultimate Parent Company Guarantees;
  - (iii) delivery to each of the Contractor Parties (except SCA) of the SCA Ultimate Parent Company Guarantee;
  - (iv) delivery to each of the Contractor Parties of the Government Guarantee;
- (b) The Parties shall use their best endeavours to obtain as soon as possible (1) satisfaction of the conditions referred to in Article 25.1(a)(i) to (iv) and upon satisfaction thereof (2) the enactment as aforesaid by the legislature of the Azerbaijan Republic giving this Agreement and the said Government Guarantee the full force of law in the Azerbaijan Republic.

## 25.2 Pre-Effective Date Petroleum Operations

Notwithstanding the provisions of Article 25.1, in the event that, prior to the Effective Date, Contractor, with the consent of SOCAR, does conduct Petroleum Operations, the costs incurred by Contractor in relation to such Petroleum Operations shall be Cost Recoverable.

In the event that, prior to the Effective Date, Contractor, without the consent of SOCAR, does conduct Petroleum Operations, then the costs incurred by Contractor in relation to such non-consented Petroleum Operations shall not be Cost Recoverable.

## 25.3 Reimbursement of Pre-Effective Date Expenses

In the event that this Agreement does not become effective according to this Article 25 the bonus payment amounting to the sum of ten million (10,000,000) Dollars paid by BP and Statoil or their Affiliates to the Azerbaijan Republic pursuant to the agreement between the Government of the Azerbaijan Republic and BP Exploration Operating Company Limited and Den norske stats oljeselskap a.s dated 7 September 1992 shall be reimbursed in Foreign Exchange by SOCAR to BP, Statoil and TPAO.

## ARTICLE 26

### ENVIRONMENTAL PROTECTION AND SAFETY

#### 26.1 Environmental Standards

Contractor shall develop jointly with SOCAR and the State Committee of the Azerbaijan Republic on Ecology and Control over the Use of Natural Resources ("SCE") safety and environmental protection standards and practices appropriate for the regulation of Petroleum Operations. The safety and environmental protection standards shall take account of the specific environmental characteristics of the Caspian Sea and draw, as appropriate, on (i) international Petroleum industry standards and experience with their implementation in exploration and production operations in other parts of the world and (ii) existing Azerbaijan safety and environmental legislation. In compilation of such standards and practices account shall be taken of such matters as environmental quality objectives, technical feasibility and economic and commercial viability. Subject to the first sentence of Article 26.4 the standards, which shall apply to Petroleum Operations from Effective Date shall be the standards and practices set out in part II of Appendix 9 until substituted by new safety and environmental protection standards devised and agreed between Contractor, SOCAR and SCE. Such substitution shall take effect following the written agreement between Contractor, SOCAR and SCE on a date agreed between the Parties and SCE and from such date such agreed standards and practices shall have the force of law as if set out in full in the Agreement. In the event that safety and environmental protection standards and practices are imposed otherwise than with the agreement of Contractor it is agreed that the provisions of Article 23.2 shall apply. The Parties and SCE shall agree a separate protocol for the detailed implementation of the joint development and definition of the new standards and practices for safety and environmental protection. The cost to Contractor of such development and definition shall be Cost Recoverable.

## 26.2 Conduct of Operations

Contractor shall conduct the Petroleum Operations in a diligent, safe and efficient manner in accordance with the Environmental Standards and shall take all reasonable actions in accordance with the Environmental Standards to minimise any potential disturbance to the general environment, including without limitation the surface, subsurface, sea, air, lakes, rivers, animal life, plant life, crops and other natural resources and property. The order of priority for actions shall be the protection of life, environment and property. Contractor shall implement an integrated management system covering all health, safety and environmental aspects of the activities carried out in relation to the Petroleum Operations as outlined in part I of Appendix 9.

## 26.3 Emergencies

In the event of emergency and accidents, including but not limited to explosions, blow-outs, leaks and other incidents which damage or might damage the environment, Contractor shall promptly notify SCE (Goskomokhrana) and SOCAR of such circumstances and of its first steps to remedy this situation and the results of said efforts. Contractor shall use all reasonable endeavours to take immediate steps to bring the emergency situation under control and protect against loss of life and loss of or damage to property and prevent harm to natural resources and to the general environment. Contractor shall also report to SOCAR and appropriate Governmental Authorities on the measures taken.

## 26.4 Compliance

Contractor shall comply with present and future Azerbaijani laws or regulations of general applicability with respect to public health, safety and protection and restoration of the environment, to the extent that such laws and regulations are no more stringent than the Environmental Standards. In the event any regional or multi-governmental authority having jurisdiction enacts or promulgates environmental standards relating to the Contract Area, the Parties will discuss the possible impact thereof on the project. The provisions of Article 23.2 shall apply to any compliance or attempted compliance by Contractor with any such standards which adversely affect the rights or interests of Contractor hereunder.

## 26.5 Environmental Protection Strategy

An environmental protection strategy shall be developed which shall include:

- (a) the establishment of an environmental management system as an integral part of Petroleum Operations and the formation of an environmental sub-committee as described in the Environmental Standards;
- (b) an environmental work programme carried out in sequences appropriate to the normal phases of Petroleum Operations as described in the Environmental Standards (seismic survey, exploration drilling, field development and production).

## 26.6 Environmental Damage

- (a) Contractor shall be liable for those direct losses or damages incurred by a Third Party (other than Governmental Authority) arising out of any environmental pollution determined by the appropriate court of the Azerbaijan Republic to have been caused by the fault of Contractor. In the event of any environmental pollution or environmental damage caused by the fault of Contractor, Contractor shall reasonably endeavour, in accordance with generally acceptable international Petroleum industry practices, to mitigate the effect of any such pollution or damage on the environment.

- (b) Contractor shall not be responsible and shall bear no cost, expense or liability for claims, damages or losses arising out of or related to any environmental pollution or other environmental damage, condition or problems which it did not cause, including but not limited to those in existence prior to the Effective Date of this Agreement and SOCAR shall indemnify and hold harmless Contractor, its Sub-contractor and its and their consultants, agents, employees, officers and directors from any and all costs, expenses and liabilities relating thereto.
  
- (c) Any damages, liability, losses, costs and expenses incurred by Contractor arising out of or related to any claim, demand, action or proceeding brought against Contractor, as well as the costs of any remediation and clean-up work undertaken by Contractor, on account of any environmental pollution or environmental damage (except for such pollution or damage resulting from Contractor's Wilful Misconduct) caused by Contractor shall be included in Petroleum Costs.

## ARTICLE 27

### CONFIDENTIALITY

- 27.1 (a) Each Party agrees that all information and data of a technically, geologically or commercially sensitive nature acquired or obtained relating to Petroleum Operations and which on the Effective Date is not in the public domain or otherwise legally in the possession of such Party without restriction on disclosure shall be considered confidential and shall be kept confidential (subject to Contractor's right to use such data and information in accordance with Article 14.1(e) and to trade in such data and information in accordance with Article 27.2) and not be disclosed to any person or entity not a Party to this Agreement, except:
- (i) To an Affiliate, provided such Affiliate maintains confidentiality as provided in this Agreement;
  - (ii) To a Governmental Authority when required by this Agreement;
  - (iii) To the extent such data and information is required to be furnished in compliance with any applicable laws or regulations, or pursuant to any legal proceedings or because of any order of any court binding upon a Party;
  - (iv) Subject to (c) below, to potential Sub-contractors, consultants and attorneys employed by any Contractor Party where disclosure of such data or information is essential to such Sub-contractor's, consultant's or attorney's work;
  - (v) Subject to (c) below, to a bona fide prospective transferee of a Party's Participating Interest (including an entity with whom a Party is conducting bona fide negotiations directed toward a merger, consolidation or the sale of a majority of its or an Affiliate's shares);

- (vi) Subject to (c) below, to a bank or other financial institution to the extent appropriate to a Party arranging for funding for its obligations under this Agreement;
  - (vii) To the extent such data and information must be disclosed pursuant to any rules or requirements of any government or stock exchange having jurisdiction over such Contractor Party, or its Affiliates;
  - (viii) Where any data or information which, through no fault of a Contractor Party, becomes a part of the public domain; and
  - (ix) To the arbitrators in accordance with Article 23 or to any expert in connection with Article 13.1(c) of this Agreement.
- (b) Each Party shall take customary precautions to ensure such data and information on Petroleum Operations is kept confidential by its respective employees.
- (c) Disclosure pursuant to Article 27.1(a)(iv), (v), and (vi) shall not be made unless prior to each such disclosure the disclosing Party has obtained a written undertaking from the recipient Party to keep the data and information strictly confidential from Third Parties (except for data which is or becomes in the public domain) and not to use or disclose the data and information except for the express purpose for which disclosure is to be made without the prior written permission of the other Parties.
- (d) Any Contractor Party ceasing to own a Participating Interest in this Agreement during the term of this Agreement shall nonetheless remain bound by the obligations of confidentiality set forth above and any disputes shall be resolved in accordance with the Arbitration Procedure, and the confidentiality obligations of the Contractor Parties as set forth herein shall survive a period of five (5) years from the termination of this Agreement.

## 27.2 Trading of Data

Notwithstanding the foregoing, in accordance with Article 14.1(e), Contractor shall have the free right to trade with Third Parties all data relating to the Contract Area for other data relating to the Azerbaijan Republic with the approval of SOCAR, such approval not to be unreasonably withheld.

## 27.3 Corporate Disclosure

Each Contractor Party, notwithstanding any other provisions in this Article 27 may make disclosures in annual reports, employee and stockholder newsletters, magazines and the like of summarisation of a general nature relating to Petroleum Operations, which are customarily or routinely described or reported in such publications.

## ARTICLE 28

### BONUS PAYMENTS AND ACREAGE FEES

#### 28.1 Contractor Bonus Payments

The Bonus shall be payable as follows:

- (a) Thirty seven million (37,000,000) Dollars shall be paid within thirty (30) days following Effective Date. BP, Statoil and TPAO shall in total be entitled to credit against this bonus payment the sum of ten million (10,000,000) Dollars paid prior to the execution of this Agreement under the agreement made between the Government of the Azerbaijan Republic and BP Exploration Operating Company Limited and Den norske stats oljeselskap a.s dated 7 September 1992 and referred to in the Recitals to this Agreement.
- (b) One million (1,000,000) Dollars per each one hundred million (100,000,000) Barrels of Crude Oil or oil equivalent specified to be commercially recoverable in the Development Programme shall be paid within thirty (30) days following SOCAR's approval or deemed approval of the Development Programme.
- (c) Fifty million (50,000,000) Dollars shall be paid within thirty (30) days of the later of the following:
  - (i) the date upon which commercial production conducted by Contractor at a stable average daily rate of twelve thousand (12,000) Barrels of Crude Oil or oil equivalent has been sustained for a period of sixty (60) consecutive days or,
  - (ii) the date upon which commercial production conducted by Contractor from two (2) production wells has been sustained at a stable production rate for a period of sixty (60) consecutive days.

For bonus calculation purposes as referred to in (b) and (c) above, the determination of the volume of Natural Gas equivalent to one (1) Barrel of Crude Oil included in the Development Programme shall be based on the equivalent energy content of a representative sample of Petroleum from the Discovery using internationally accepted methods for such conversion calculation.

Subject to Articles 20.6 and 29.2(a) each Contractor Party shall be liable only for its percentage Participating Interest share of the Bonus.

Bonus payments by Contractor Parties shall be made into SOCAR's nominated account in a bank of good international repute.

The payments made by the Contractor Parties pursuant to this Article 28 shall not be Cost Recoverable.

## 28.2 Acreage Fees

Contractor shall pay annual acreage fees of one thousand two hundred (1,200) Dollars per square kilometre of the Contract Area during the Exploration Period and the Additional Exploration Period (if Contractor proceeds to the Additional Exploration Period pursuant to Article 4.3 of this Agreement). Acreage fees shall be paid annually in arrears on each anniversary of the Effective Date.

**ARTICLE 29**  
**TERMINATION**

29.1 Material Breach

(a) This Agreement may be terminated at any time:

(i) by SOCAR if Contractor commits, or

(ii) by Contractor if SOCAR or any Governmental Authority commits,

a Material Breach of its obligations under this Agreement or the Government Guarantee, as the case may be, and fails to cure or remedy such Material Breach within ninety (90) days following written notice to it from the other describing the particulars of such Material Breach as well as its intention to terminate this Agreement on account of such Material Breach; provided however, that

(aa) if such Material Breach can be cured or remedied but not within ninety (90) days despite the exercise of reasonable diligence, then there shall be no right to terminate so long as the Party alleged to be in Material Breach commences within said ninety (90) days actions reasonably necessary to cure or remedy such Material Breach and diligently pursues such actions until the Material Breach is cured or remedied, it being understood that in such instance the Parties shall endeavour to reach mutual agreement on the actions necessary to cure or remedy the Material Breach; and

(bb) if either Contractor or SOCAR as the case may be within said ninety (90) day period refers the question of Material Breach to arbitration in accordance with the Arbitration Procedure, then termination of this Agreement will not occur unless and until (1) the arbitration proceeding results in a finding that such Material Breach does in fact exist, and (2) the Party found to have been in breach has had a reasonable opportunity thereafter (but in no

event less than ninety (90) days), but failed, to cure or remedy the Material Breach identified by the arbitration panel, unless such Party has been diligently pursuing such actions and continues to do so until such Material Breach is cured or remedied. The arbitration tribunal's award shall be final and binding on the Parties and shall be immediately enforceable; and

(cc) as used in this Agreement the term "Material Breach" means a fundamental breach, which, if not cured, is tantamount to the frustration of the entire Agreement either as a result of the unequivocal refusal of either Contractor, SOCAR or a Governmental Authority, as the case may be, to perform its contractual obligations or as a result of conduct which has destroyed the commercial purpose of this Agreement.

(b) A failure to complete any of the activities listed in Articles 4.2(a) and 4.3, shall be deemed to constitute a Material Breach of the Agreement by Contractor whereupon SOCAR shall have the right to unilaterally terminate this Agreement upon giving written notice to Contractor without Contractor being entitled to any period within which to cure or remedy such Material Breach as provided in Article 29.1. Termination of the Agreement by SOCAR pursuant to Articles 4.2(d) and 4.3 and this Article 29.1. shall be SOCAR's sole remedy against Contractor for such Material Breach and Contractor shall have no claim for reimbursement of any costs incurred by Contractor with respect to the execution of the said activities.

## 29.2 Termination By SOCAR

(a) SOCAR may terminate this Agreement by giving Contractor ninety (90) days prior written notice:

- (i) If any company issuing an Ultimate Parent Company Guarantee on behalf of any Contractor Party becomes insolvent or goes into liquidation (other than for the purpose of amalgamation or reorganisation), provided that such notice of termination shall take effect as soon as the other Contractor Parties because of their insolvency or liquidation, and subject to the provisions of joint liability are not able to assume such Contractor Party's rights and obligations under this Agreement and so notify SOCAR within such ninety (90) day period.
  - (ii) If all Contractor Parties collectively become insolvent or go into liquidation (other than for the purposes of amalgamation or reconstruction).
  - (iii) If, for reasons other than Force Majeure production of Petroleum in commercial quantities shall have permanently ceased.
- (b) SOCAR may terminate this Agreement by giving Contractor notice in writing as provided in Articles 4.6(a) and 4.6(d).

### 29.3 Termination/Relinquishment by Contractor

- (a) Contractor may terminate this Agreement with effect on or at any time after the expiry of the Exploration Period, or if Contractor enters the Additional Exploration Period then with effect on or at any time after the expiry of the Additional Exploration Period, by giving SOCAR ninety (90) days prior written notice. Upon such termination, Contractor shall have no further obligations of any kind whatsoever to SOCAR except for the performance of its obligations under the then current Annual Work Programme.

- (b) Subject to the remaining provisions of this Article 29.3, Contractor may at any time voluntarily relinquish all of the Contract Area by giving SOCAR not less than ninety (90) days prior written notice. Such notice shall specify the date upon which the relinquishment is to take effect and the manner in which Contractor will perform any remaining obligations pursuant to Article 29.3(c). Upon such relinquishment, this Agreement shall terminate. If SOCAR or Contractor requests, a meeting of the Steering Committee shall be convened to address any questions which may arise in connection with the relinquishment.
- (c) Termination of this Agreement or relinquishment of the entire Contract Area by Contractor pursuant to Article 29.3(a) or (b) shall not relieve Contractor of any remaining obligations under the then current Annual Work Programme which Contractor upon the prior agreement with SOCAR may fulfil at its option:
  - (i) by performing in full in accordance with their terms or
  - (ii) by payment in Dollars to SOCAR of the outstanding balance of money stipulated in the respective Budgets.
- (d) In the event of termination of this Agreement or relinquishment of the entire Contract Area pursuant to Article 29.3(a) or (b), without prejudice to any rights which may have accrued, or claims which have been made, prior to such termination, Contractor shall have no further rights to conduct Petroleum Operations or to recover any Petroleum Costs not Cost Recovered by the date of termination.

#### 29.4 Other Remedies

Subject to Articles 20.7, 29.1(b) and 29.3(b), in the event that Contractor or SOCAR terminates this Agreement pursuant to the above provisions, such termination shall be without prejudice to Contractor's or SOCAR's entitlement to sue the other for damages, or to any other remedy Contractor or SOCAR (as the case may be) may have in law.

## 29.5 Partial Relinquishment

Contractor shall have no unilateral right to relinquish a part of the Contract Area. In the event Contractor decides not to develop any portions of the Contract Area, the Parties will discuss the possibility of partial relinquishment on mutually agreed terms. In the event of partial relinquishment pursuant to this Article 29.5, Contractor shall have no right to recover out of the production from the remainder of the Contract Area not relinquished, any amount of Petroleum Costs incurred during the Development and Production Period in connection with the portion of the Contract Area relinquished which has not been recovered at the date of such relinquishment. All costs incurred by Contractor during the Exploration Period and the Additional Exploration Period shall be Cost Recoverable from production from the remainder of the Contract Area which is not relinquished.

## ARTICLE 30

### MISCELLANEOUS

- 30.1 This Agreement is executed in the English, Azeri and Russia languages and, subject to the Arbitration Procedure and Article 13.1(c) all three languages shall have equal force.
- 30.2 The headings in this Agreement are inserted for convenience only and shall be ignored in construing this Agreement.
- 30.3 Unless the context otherwise requires, references to the singular shall include a reference to the plural and vice-versa; and reference to any gender shall include a reference to all other genders.
- 30.4 The Appendices to this Agreement form part of this Agreement. In the event of any conflict between the provisions of the main body of this Agreement and the Appendices (other than Appendix 1 which shall be considered part of the main body of the Agreement), then the provisions of the main body shall prevail.

IN WITNESS WHEREOF the Parties have executed this Agreement as of the date first above written by their duly authorised representatives.

For and on behalf of  
State Oil Company of the Azerbaijan Republic

By: \_\_\_\_\_

Title: \_\_\_\_\_

For and on behalf of  
BP Exploration (Azerbaijan) Limited

By: \_\_\_\_\_

Title: \_\_\_\_\_

For and on behalf of  
Elf Petroleum Azerbaija B.V.

By: \_\_\_\_\_

Title: \_\_\_\_\_

For and on behalf of  
LUKoil International Ltd.

By: \_\_\_\_\_

Title: \_\_\_\_\_

For and on behalf of  
Oil Industries Engineering and Construction

By: \_\_\_\_\_

Title: \_\_\_\_\_

For and on behalf of  
SOCAR Commercial Affiliate

By: \_\_\_\_\_

Title: \_\_\_\_\_

For and on behalf of  
STATOIL Azerbaijan A.S.

By: \_\_\_\_\_

Title: \_\_\_\_\_

For and on behalf of  
Turkish Petroleum Overseas company Limited

By: \_\_\_\_\_

Title: \_\_\_\_\_

## **APPENDIX 1**

### **DEFINITIONS**

In this Agreement the following words and expressions shall have the following meanings unless the context otherwise requires:

"Abandonment Fund" shall have the meaning given to it in Article 14.2(a).

"Accounting Procedure" means the procedures and reporting requirements set forth in Appendix 3.

"Additional Exploration Period" shall have the meaning given to it in Article 4.3.

"Affiliate" means,

- (a) in relation to any Party, either
  - (i) a company, corporation or other legal entity in which such Party holds directly or indirectly shares carrying more than fifty (50) percent of the votes at a general meeting of such company, corporation or other legal entity; or
  - (ii) a company, corporation or other legal entity holding directly or indirectly shares carrying more than fifty (50) percent of the votes at a general meeting of such Party; or
  - (iii) a company, corporation or other legal entity of which shares carrying more than fifty (50) percent of the votes at a general meeting of such company, corporation or other legal entity are held directly or indirectly by a company, corporation or other legal entity which also holds directly or indirectly shares carrying more than fifty (50) percent of the votes at a general meeting of such Party;
- (b) and, furthermore, in relation to SOCAR, any venture or enterprise in which it has an interest and the right to control (as defined in Article 9.2(c)) manage or direct the action thereof.

"Agreement " means this instrument and its Appendices 1 to 10 attached, together with any written extension, renewals, replacement or modification hereto which may be mutually agreed and signed by the Parties.

"Annual Work Programme" means the document describing, item by item, the Petroleum Operations to be carried out during a Calendar Year which has been approved by the Steering Committee.

"Arbitration Procedure" means the arbitration procedure set forth in Appendix 6.

"Associated Natural Gas " means Natural Gas which exists in a reservoir in solution with Crude Oil, such Crude Oil being producible, as initially discovered, at a gas oil ratio of not greater than 10,000 standard cubic feet per Barrel of Crude Oil as measured at the point of separation of gas from oil.

"Barrel" means U.S. barrel, i.e. 42 U.S. gallons (158.987 litres) measured at STP.

"Bonus " means a payment for the right to access Contract Area.

"Budget " means estimates of itemised expenditures of all Petroleum Operations included in an Annual Work Programme.

"Calendar Quarter" means a period of three (3) consecutive months commencing on the 1st of January, the 1st of April, the 1st of July, or the 1st of October in any Calendar Year.

"Calendar Year " means a period of twelve (12) consecutive months beginning on the 1st of January and ending on the following 31st of December according to the Gregorian Calendar.

"Capital Costs" means those costs incurred in or in relation to the Contract Area other than Operating Costs, together with Finance Costs which have been aggregated with such costs in accordance with Article 11.4(b).

"Capital Cost Recovery Petroleum" shall have the meaning given to it in Article 11.2(a)(ii).

"Contract Area" means the area (from the surface to any and all depths accessible to drilling technology as may be developed at any time during the term of this Agreement and as may be extended) as described and delineated in Appendix 2.

"Contractor" means all of the Contractor Parties collectively.

"Contractor Facilities" shall have the meaning given to it in Article 9.3.

"Contractor Party" means any one of BP, Elf, LUKoil, SCA, Statoil and TPAO or any of their successors or permitted assignees.

"Cost Recovery" means the process by which Contractor is allocated Petroleum production from the Contract Area for the recovery of its Petroleum Costs. "Cost Recoverable" means such costs to be recovered in the future and "Cost Recovered" means such costs recovered in the past.

"Cost Recovery Petroleum" shall have the meaning given to it in Article 11.3.

"Crude Oil" means crude mineral oil, condensate, asphalt, ozocerite, and all kinds of hydrocarbons and bitumen regardless of gravity, either solid or liquid, in their natural condition or obtained from Natural Gas by condensation or extraction, including Natural Gas liquids at STP and including products refined or processed from any of the forgoing.

"Delivery Point" means the custody transfer meter at the outlet flange of the onshore Petroleum processing and storage terminal and any other place or places between well head and the said outlet flange as may be decided upon by the Steering Committee from time to time based on recommendations made by Contractor.

"Design Standards" means the design standards and specifications set forth in Appendix 8.

"Development and Production Period" shall have the meaning given to it in Article 4.5.

"Development Programme" shall have the meaning given to it in Article 4.6.

"Discovery" means a discovery within the Contract Area of an accumulation of Petroleum.

"Dollars" or "\$" means the currency of the United States of America.

"Double Tax Treaty" means any treaty or convention with respect to Taxes which is applicable to the Azerbaijan Republic for the avoidance of double taxation of income.

"Effective Date" shall have the meaning given to it in Article 25.1.

"Environmental Standards" means the environmental standards and practises set forth in Appendix 9 until substituted by other standards and practices agreed between Contractor, SOCAR and the State Committee of the Azerbaijan Republic on Ecology and Control over the Use of Natural Resources or it's successor, as provided in Article 26.1.

"Exploration Period" shall have the meaning given to it in Article 4.1.

"Exploration Work Programme" shall mean the exploration work set out in Appendix 10.

"Finance Costs" means a charge of one-quarter of the sum of LIBOR plus four (4) percent multiplied by the unrecovered balances of Capital Costs and Operating Costs at the end of each Calendar Quarter.

"Force Majeure" shall have the meaning given to it in Article 21.1.

"Foreign Exchange" means Dollars and/or other freely convertible foreign currency generally accepted in the international banking community.

"Foreign Sub-contractor" means a Sub-contractor which is (i) an entity or organisation which is incorporated, legally created or organised outside the Azerbaijan Republic or (ii) an individual who is a citizen of a country other than the Azerbaijan Republic.

"GDP Deflator Index" means the Implicit Price Deflator Index for United States Gross Domestic Product issued by the Bureau of Economic Analysis (BEA) of the United States Department of Commerce, as reported in the quarterly publication "Survey of Current Business". If this publication ceases to exist the Parties shall use "International Financial Statistics" of the International Monetary Fund, or other suitable publication as mutually agreed by the Parties.

"Governmental Authority" or "Governmental Authorities" means the government of the Azerbaijan Republic and any political or other subdivision thereof, including any local government, or other representative, agency or authority, which has the authority to govern, legislate, regulate, levy or collect taxes or duties, grant licenses and permits, approve or otherwise impact (whether financially or otherwise), directly or indirectly, any of SOCAR's and/or Contractor's rights, obligations or activities under the Agreement. For the purpose of Articles 20.2 and 26.6(a) only, it is agreed that any state enterprise, as well as any municipal body, which is engaged solely in the conduct of commercial or other business activities, (and is not engaged in any act of governing and does not possess any legislative, regulatory or taxing functions), shall be excluded from the definition of "Governmental Authority".

"Government Guarantee" means the Guarantee and Undertaking of the Government of the Azerbaijan Republic in the form set forth in Appendix 5.

"LIBOR" means a rate of interest calculated from the arithmetic average over a Calendar Quarter period of the three (3) month Dollar London Interbank offer rate quoted daily in the London Financial Times (or in the event that the London Financial Times ceases to be published then such other publication as the Parties shall agree).

"Material Breach" shall have the meaning given to it in Article 29.1(a).

"Measurement Procedure" means the Crude Oil and Natural Gas Measurement and Evaluation Procedure set forth in Appendix 7.

"Natural Gas" means all hydrocarbons that are in a gaseous phase at STP including but not limited to casing head gas and residue gas remaining after the extraction or separation of liquid hydrocarbons from wet gas, and all non-hydrocarbon gas or other substances (including but not limited to carbon dioxide, sulphur and helium) which are produced in association with gaseous hydrocarbons; provided that this definition shall exclude condensed or extracted liquid hydrocarbons.

"Non-associated Natural Gas" means Natural Gas other than Associated Natural Gas.

"Notice of Discovery and its Commerciality" shall have the meaning given to it in Article 4.4.

"Operating Company" means a company appointed for the time being to conduct Petroleum Operations on behalf of Contractor in accordance with Article 6.

"Operating Costs" means those costs incurred in day to day Petroleum Operations in or in relation to the Contract Area whether directly or indirectly incurred, including but not limited to extraction, treatment, stimulation, injection, gathering, processing, storage, handling, lifting and transportation of Petroleum to the Delivery Point, maintenance, service, administration, and payments incurred in respect of abandonment including payments to the Abandonment Fund, together with Finance Costs which have been aggregated with such costs in accordance with Article 11.4(b).

"Participating Interest" shall have the meaning given to it in Article 1.1.

"Parties" means SOCAR, BP, Elf, LUKoil, OIEC, SCA, Statoil and TPAO and any of their respective successors and assigns. The term Party means any of the Parties.

"Petroleum" means Crude Oil and Natural Gas.

"Petroleum Costs" means Operating Costs and Capital Costs and shall include all expenditures actually incurred by Contractor for the purposes of the Petroleum Operations. Petroleum Costs shall include, without limitation, (i) the amounts expressly identified in the Agreement as Petroleum Costs (including but not limited to the amounts identified in Article 18.3) and (ii) the amounts properly debited to the Petroleum Operations Account in accordance with the Accounting Procedure.

"Petroleum Operations" means all operations relating to the exploration, appraisal, development, extraction, production, stabilisation, treatment (including processing of Natural Gas), stimulation, injection, gathering, storage, handling, lifting, transporting Petroleum to the Delivery Point and marketing of Petroleum from, and abandonment operations with respect to the Contract Area.

"Petroleum Operations Account" shall have the meaning given to it in paragraph 1.2 of the Accounting Procedure.

"Point of Sale" shall have the meaning given to it in Article 13.1(d)(iii).

"Profit Petroleum" shall have the meaning given to it in Article 11.5.

"Profit Tax" shall have the meaning given to it in Article 12.2(a).

"STP" means the standard temperature and atmospheric pressure of sixty degrees Fahrenheit/fifteen point five six degrees Centigrade (60°F/15.56°C) and 1.01325 bars.

"Steering Committee" means the committee established pursuant to Article 5.1.

"Sub-contractor" means any natural person or juridical entity contracted directly or indirectly by or on behalf of Contractor or by or on behalf of the Operating Company, to supply goods, work or services related to this Agreement.

"Taxable Profit" shall have the meaning given to it in Article 12.2(e).

"Taxes" means all existing or future levies, duties, payments, fees, taxes or contributions payable to or imposed by any Governmental Authority.

"Tax Inspectorate" shall have the meaning given to it in Article 12.1(c)(iv)

"Third Party" means a natural person or juridical entity, other than a Party hereto or an Affiliate of a Party.

"Tonne" means metric ton, i.e. one thousand (1000) kilograms as defined by the International Bureau of Weights and Measures, Sevres, France.

"Total Production" means, for any Calendar Quarter, the total production of Crude Oil and Non-associated Natural Gas obtained from the Contract Area, less the quantities used pursuant to Article 11.1 for Petroleum Operations.

"Transit Losses" shall have the meaning given to it in Article 13.1(d)(iv).

"Ultimate Parent Company" means in relation to BP, BP Exploration Operating Company Limited, a company incorporated in the United Kingdom of Great Britain and Northern Ireland; in the case of Elf, Elf Aquitaine, a societe anonyme, registered in France, in the case of LUKoil, LUKoil Joint Stock Company, a company incorporated in the Russian Federation, in the case of OIEC, National Iranian Oil Company, a company incorporated in the Islamic Republic of Iran., in the case of Statoil, Den norske stats oljeselskap a.s, a company incorporated in Norway; in the case of SCA, SOCAR, a company incorporated in the Azerbaijan Republic; and in the case of TPAO, Turkiye Petrolleri A.O., a company incorporated in Turkey; and in the case of any other Contractor Party, such Contractor Party's ultimate parent company and the successor of any such Ultimate Parent Company.

"Ultimate Parent Company Guarantee" means the guarantee given by an Ultimate Parent Company in the form set forth in Appendix 4.

"VAT" means the Azerbaijan Republic value added tax.

"Wilful Misconduct" means any unjustifiable act or omission which constitutes an intentional, deliberate and conscious disregard of good and prudent international oil field practices or the terms of this Agreement.

"Zero Balance" means the achievement after the commencement of the Development and Production Period of zero balance in the accounts maintained by Contractor with respect to Capital Costs in accordance with the Accounting Procedure. After the occurrence of the first Zero Balance for the purposes of Article 14.1, Capital Costs thereafter will be classified by main budget category.

## APPENDIX 2

### CONTRACT AREA AND MAP

As of the date of execution of the Agreement, the Contract Area is the area inside the perimeter constituted by the geographical co-ordinates set forth below and as separately identified on the map attached hereto.

The Contract Area is bounded by straight lines on a Gauss-Kruger projection which is referenced to Pulkovo 1942 geodetic datum, Krassovski 1940 ellipsoid, and with defining parameters of:

Latitude of Origin: 0 degrees North (the equator)

Longitude of Origin: 51 degrees East (of Greenwich)

Scale Factor at Origin: 1.0

Grid co-ordinates at Origin: 500,000 metres East, 0 metres North

Grid units are meters.

Geographic co-ordinates for the four corners of the Contract Area are:

<u>Point</u>	<u>Pulkova 1942 Datum</u>		<u>Gauss-Kruger grid, Zone 9</u>	
	<u>Latitude (North)</u>	<u>Longitude (East)</u>	<u>Easting (X)</u>	<u>Northing (Y)</u>
1	40° 04' 42"	50° 24' 27"	449461 E	4438474 N
2	39° 44' 20"	50° 40' 31"	472165 E	4400666 N
3	39° 38' 55"	50° 28' 55"	455534 E	4390720 N
4	39° 59' 08"	50° 12' 41"	432642 E	4428301 N

The surface of the Contract Area above defined is approximately eight hundred fifty nine and eight tenths (859.8) square kilometres.

PICTURE ENCLOSED

## APPENDIX 3

### ACCOUNTING PROCEDURE

#### 1. General Provisions

This Appendix 3 establishes a framework of accounting principles as generally accepted within the international Petroleum industry.

The purpose of this Accounting Procedure is to establish a fair and equitable method for determining charges and credits applicable to Petroleum Operations under the Agreement and to provide a method for controlling expenditure against approved budgets. For purposes of this Accounting Procedure any reference to Contractor shall be deemed to include the Operating Company, Contractor Parties and their respective Affiliates, as the context may imply. The Parties agree that if any of such methods prove to be unfair or inequitable to any of the Parties then the Parties will meet and in good faith endeavour to agree on such changes as are necessary to correct any unfairness or inequity.

#### 1.1 Definitions

For the purposes of this Accounting Procedure the following terms shall have the following meanings:

- (i) **Accounting Procedure** shall mean the accounting principles, practices and procedures set forth in this Appendix.
- (ii) **Accepted Accounting Practices** shall mean accounting principles, practices and procedures that are generally accepted and recognised in the international Petroleum industry.
- (iii) **Accruals** means amounts which are expected to be paid or received after the end of an accounting period as a result of events and transactions prior to the end of the said accounting period.

- (iv) **Accruals Basis** means the basis of accounting which records the effect of transactions on financial conditions and income when the transactions take place, not merely when they are settled in cash.
- (v) **Cash Basis** means the basis of accounting which records the cash flows as they are effected by the issue of instructions for payment to a bank or payments in cash and recorded in the cash books of the Operating Company.
- (vi) **Material and Equipment** means property (with the exception of land), including without limitation all exploration, appraisal and development facilities together with supplies and equipment, acquired and held for use in Petroleum Operations.
- (vii) **Controllable Material** means Material and Equipment which Contractor subjects to record control and inventory. A list of types of such Material and Equipment shall be furnished to SOCAR upon request.

Words and phrases defined in the Agreement but not defined above shall have the same meaning in this Accounting Procedure as is given to them in the Agreement.

## 1.2 Accounts

Contractor shall maintain separate books and accounts for Petroleum Operations in accordance with this Accounting Procedure ("Petroleum Operations Account").

Contractor shall charge to the Petroleum Operations Account only those expenditures incurred for Petroleum Operations.

The Petroleum Operations Account shall be maintained by Contractor in Dollars. Costs incurred in currencies other than Dollars shall be converted into Dollars using translation rates in accordance with Accepted Accounting Practices. Any gain or loss resulting from the exchange of currencies required for Petroleum Operations or from translation shall be charged or credited to the Petroleum Operations Account.

The Petroleum Operations Account shall be kept in accordance with the standards of international Petroleum industry practice.

Accounting shall be carried out on an Accruals Basis, provided however that the Cash Basis principle shall be used to record recovery of the Petroleum Costs.

### 1.3 Audits

The accounts of the Petroleum Operations, together with the auditors' report thereon, shall be submitted to SOCAR by Contractor no later than seven (7) months following the end of each Calendar Year. SOCAR may, by giving notice to that effect to Contractor not later than twelve (12) months following the end of the subject Calendar Year, request an audit of the accounts for such Calendar Year. Such audits shall be carried out by a firm of internationally recognised independent accountants selected by SOCAR. The cost of such audit shall be borne by SOCAR and shall be conducted in such a manner as not to interfere unduly with ongoing operations. Unless SOCAR notifies Contractor in writing before twenty-four (24) months following the subject Calendar Year either that it has an objection to the said accounts or that there is evidence of Contractor's Wilful Misconduct (details of which shall be included in said notice), the accounts for such Calendar Year shall be deemed to have been approved as on that date. Any objection to the accounts raised by SOCAR shall, unless settled by agreement among the Parties, be submitted to arbitration in accordance with the Arbitration Procedure. In the event the arbitration award sustains any of SOCAR's objections to the account, the Petroleum Operating Account shall be adjusted accordingly.

All accounting records, returns, books and accounts relating to Petroleum Operations shall be maintained by Contractor for a minimum of seven (7) years following the end of the Calendar Year to which they relate or, in the case where SOCAR alleges Wilful Misconduct the later of (i) a minimum of seven (7) years following the end of the Calendar Year to which they relate and (ii) a minimum of one (1) year after resolution of the objections to the accounts made in respect of such Wilful Misconduct.

## 2. Charges And Expenditures

Contractor shall charge the Petroleum Operations Account for all costs incurred after the date of execution of this Agreement in compliance with the terms of this Agreement or those necessary to conduct the Petroleum Operations; no cost shall be charged more than once. Chargeable costs shall include, but not be limited to:

### 2.1 Labour and Related Costs

- (a) Gross salaries, wages, (including amounts imposed by Governmental Authorities) in respect of employees of Contractor and its Affiliates (except when acting as Sub-contractor) who are engaged in the conduct of Petroleum Operations whether temporarily or permanently assigned within the Azerbaijan Republic or located in Contractor's offices elsewhere, as well as personal expenses incurred in connection therewith.
- (b) Costs of all holiday, vacation, sickness, disability and other like benefits applicable to the salaries chargeable under paragraph 2.1(a) above.
- (c) Expenses or contributions imposed under the laws of the Azerbaijan Republic which are applicable to Contractor's cost of salaries and wages chargeable under paragraph 2.1(a) above or other costs chargeable under this paragraph 2.1.
- (d) Cost of established plans for life insurance, hospitalisation, pensions, and other benefits of a like nature.
- (e) Housing and living allowances and related expenses of the employees of Contractor assigned to Petroleum Operations.
- (f) In the event that Contractor is unable to provide continued employment for staff at the end of their assignment to Petroleum Operations, the proportionate share of termination payments relating to the employees' period of assignment to Petroleum Operations shall be chargeable.

## 2.2 Material and Equipment.

Material and Equipment purchased or furnished by Contractor for use in Petroleum Operations as provided under Section 4 of this Accounting Procedure. So far as it is reasonably practical and consistent with efficient and economical operation, only such Material and Equipment shall be purchased or transferred for use in Petroleum Operations as may be required for immediate use or prudent contingent stock. The accumulation of surplus stocks shall be avoided.

## 2.3 Transportation and Employee Relocation Costs.

- (a) Transportation of Material and Equipment and other related costs such as expediting, crating, dock charges, inland, air and ocean freight, demurrage, transit fees and unloading at destination and any duties, licence fees, taxes and any other charges with respect thereto.
- (b) Costs incurred for transportation of personnel as required in the conduct of Petroleum Operations.
- (c) Relocation costs of employees permanently or temporarily assigned to Petroleum Operations to and from their point of origin. Such costs shall include transportation of employees' families and their personal and household effects.

## 2.4 Services.

- (a) Contract services, professional consultants, and other services procured from outside sources other than services covered by paragraph 2.14.
- (b) Technical services, such as, but not limited to, laboratory analysis, drafting, geophysical and geological interpretation, reservoir studies, purchasing, drilling supervision, petroleum engineering, commercial analysis and related computer services and data processing, performed by Contractor and its Affiliates (except when acting as Sub-contractor) for the direct benefit of Petroleum Operations. Such charges shall be computed in

line with Contractor's usual accounting policy such that no gain or loss accrues to Contractor.

- (c) Business support where the services provided are specifically attributable to Petroleum Operations, including, but not restricted to legal, purchasing, contracting, treasury, accounting and administrative services.
- (d) Services performed by Contractor and its Affiliates (except when acting as Sub-contractor) engineering division personnel, as computed and charged by such engineering division.
- (e) Marketing services - all fees, commissions and other charges related to the marketing of Non-associated Natural Gas produced from the Contract Area.
- (f) Use of equipment and facilities furnished by Contractor at rates commensurate with the cost of ownership and operation if such use is economically viable. Rates shall include but not be limited to costs of maintenance, repairs, other operating expenses, insurance, taxes and interest.

Services performed by Contractor or its Affiliates (except when acting as Sub-contractor) shall be performed under a work order or service agreement issued by the Operating Company.

## 2.5 Damages and Losses to Property.

All costs or expenses necessary for the repair or replacement of property resulting from damages or losses incurred by fire, flood, storm, theft, accident, or any other cause, not recovered from insurance except where caused by the Wilful Misconduct of Contractor.

Contractor shall furnish SOCAR with written notice of such damages or losses in excess of Dollars two hundred and fifty thousand (250,000) as soon as reasonably practicable.

2.6 Insurance.

- (a) All premiums for insurance carried for the benefit of Petroleum Operations, as well as the equivalent amount of premiums quoted by an independent underwriter for the risks that are self-insured by Contractor.
- (b) All expenditures incurred and paid in the settlement of any and all losses, claims, damages, judgements and any other expenses, not recovered from insurance except where caused by the Wilful Misconduct of Contractor.

2.7 Legal Expenses.

All costs or expenses of handling, investigating and settling litigation or claims arising from Petroleum Operations or necessary to protect or recover property, including, but not limited to, lawyers' fees, court costs, cost of investigation of procuring evidence and amounts paid in settlement or satisfaction of any such litigation or claims except where caused by the Wilful Misconduct of Contractor.

2.8 Duties and Taxes

All Taxes imposed by Governmental Authorities (except for Profit Tax)(a) with respect to the employees of Contractor working on Petroleum Operations in the Azerbaijan Republic (or their families), or (b) paid in excess of those which are reclaimable by Contractor.

2.9 Offices, Camps and Miscellaneous Facilities

The cost of maintaining and operating any offices, sub-offices, camps, warehouses, housing and other facilities directly serving Petroleum Operations either within the Azerbaijan Republic or elsewhere with respect to dedicated project groups which are not physically located within the Azerbaijan Republic.

## 2.10 Training and Technology Transfer

The costs of the provision of training in accordance with Article 6.8, and the costs of agreed technology transfer from Contractor to SOCAR.

## 2.11 Energy Expenses

All costs of fuel, electricity, heat, water or other energy used for Petroleum Operations.

## 2.12 Communication Charges

The costs of acquiring, leasing, installing, operating, repairing and maintaining communication systems and computer systems.

## 2.13 Environmental Charges

The costs of environmental programmes, including, but not limited to environmental baseline studies, ongoing monitoring programmes and remedial work undertaken with respect to Petroleum Operations (including but not limited to costs incurred to sustain flora and fauna).

## 2.14 Other Services.

- (a) Contractor shall charge an administrative overhead to the Petroleum Operations Account, covering general administrative support provided by Contractor's Affiliates outside of the Azerbaijan Republic for the indirect benefit of Petroleum Operations. Such support will include the services and related office costs of personnel performing administrative, legal, treasury, tax and employee relations, provision of expertise and other non-technical functions which cannot be specifically identified or attributed to particular projects.
  
- (b) The charge under (a) above shall be charged at rates on total annual expenditures attributable to Petroleum Operations as follows:

(i) With respect to Contractor's Capital Costs:

For the first Dollars fifteen million (15,000,000) per Calendar Year - five (5) percent

For the amount between Dollars fifteen million (15,000,000) and Dollars thirty million (30,000,000) per Calendar Year - two (2) percent

For the amount in excess of Dollars thirty million (30,000,000) per Calendar Year - one (1) percent

(ii) With respect of Contractor's Operating Costs:

A flat rate of one and a half (1.5) percent per Calendar Year.

2.15 Finance Costs.

All Finance Costs.

2.16 Other Expenditures.

Any other expenditures not covered or dealt with in the foregoing provisions which are incurred by Contractor and its Affiliates (except when acting as Sub-contractor) for the necessary and proper conduct of Petroleum Operations (including other activities prior to the Effective Date). These shall include but not be limited to any expenditures necessary to acquire and maintain rights to the Contract Area or to implement Petroleum Operations.

3. Credits

Contractor will credit to the Petroleum Operations Account the net proceeds of the following transactions:

- (a) The net proceeds of any successful insurance claim in connection with Petroleum Operations where the claim is with respect to operations or assets which were insured and where the insurance premium with respect thereto has been charged to the Petroleum Operations Account.

- (b) Any adjustments received by Contractor from the suppliers/ manufacturers (or their agents) in connection with defective Material and Equipment, the cost of which was previously charged by Contractor to the Petroleum Operations Account.
- (c) The net proceeds of sale on disposal of assets used in Petroleum Operations.
- (d) The net proceeds received from Third Parties and/or SOCAR in respect of the use of facilities pursuant to Article 9.

#### 4. Material And Equipment.

##### 4.1 Acquisitions

- (a) Material and Equipment purchased shall be charged at net cost ("Net Cost") incurred by Contractor. Net Cost shall include, but shall not be limited to, such items as procurement cost, transportation, duties, licence fees and applicable taxes.
- (b) New Material and Equipment owned by any of the Contractor Parties and transferred to Contractor for use in connection with Petroleum Operations shall be priced at new purchase Net Cost determined in accordance with (a) above. Used Material and Equipment shall be priced at a value commensurate with its use, provided however that this price shall not exceed seventy five (75) percent of the new purchase Net Cost of such equipment.
- (c) Material and Equipment not classified as Controllable Material under Accepted Accounting Practices shall be charged one hundred (100) percent to Operating Costs.

##### 4.2 Disposal.

Contractor shall have the right to dispose of Material and Equipment it deems to be surplus and shall advise the Steering Committee of proposed disposals having a value in the Petroleum Operations Account of Dollars two hundred and fifty thousand (250,000) or more.

#### 4.3 Inventories

- (a) Periodic inventories shall be taken by Contractor of all Controllable Material. Contractor shall give sixty (60) days written notice of intention to take such inventories to allow SOCAR to be represented. Failure of SOCAR to be represented shall bind SOCAR to accept the inventory taken by Contractor.
- (b) Reconciliation of inventory with the Petroleum Operations Account shall be made. Inventory adjustments shall be made by Contractor to the Petroleum Operations Account, based on the inventory report as required by the Parties.

#### 5. Accounting Reports

##### 5.1 Quarterly Reports

Not later than forty five (45) days after the end of each Calendar Quarter, Contractor shall supply to SOCAR a Calendar Quarter report reviewing Petroleum Costs, incurred during the preceding Calendar Quarter, in a form which permits their comparison with the corresponding budgets. Costs which are common to two or more activities shall be allocated in an equitable manner.

##### 5.2 Annual Reports

During the first Calendar Quarter of each Calendar Year Contractor shall supply to SOCAR an annual report reviewing Petroleum Costs incurred during the preceding Calendar Year.

6. Cost Recovery And Profit Petroleum Reports.

Not later than forty five (45) days after the end of the Calendar Quarter in which the date of commencement of commercial production first occurs, and not later than forty five (45) days after the end of each succeeding Calendar Quarter, Contractor shall supply to SOCAR a Calendar Quarter Cost Recovery report and Calendar Quarter Profit Petroleum division report showing:

- (a) Unrecovered Operating Costs and Capital Costs as at the beginning of the preceding Calendar Quarter;
- (b) Operating Costs and Capital Costs incurred during such preceding Calendar Quarter based on the Cash Basis principle in accordance with paragraph 1.2 above ;
- (c) The value and volume of Cost Recovery Petroleum lifted by Contractor during the preceding Calendar Quarter;
- (d) Unrecovered Operating Costs and Capital Costs carried forward for recovery in succeeding Calendar Quarters;
- (e) The value and volume of Petroleum produced, used in Petroleum Operations, available for lifting and actually lifted by the Parties, as at the end of the preceding Calendar Quarter;
- (f) Profit Petroleum allocated to each of the Contractor Parties constituting Contractor, and SOCAR, during the preceding Calendar Quarter.

## APPENDIX 4

### FORM OF CONTRACTOR PARTY'S ULTIMATE PARENT COMPANY GUARANTEE

#### ULTIMATE PARENT COMPANY GUARANTEE

To: SOCAR or each Contractor Party, whichever is applicable

[Date]

#### AZERBAIJAN - SHAKH DENIZ PROSPECTIVE AREA

Gentlemen

We refer to the Agreement on the Exploration, Development and Production Sharing for the Shah Deniz Prospective Area in the Azerbaijan Sector of the Caspian Sea (the "Agreement") signed on \_\_\_\_\_ between the State Oil Company of the Azerbaijan Republic, SOCAR Commercial Affiliate, BP Exploration (Azerbaijan) Limited, Elf Petroleum Azerbaijan B.V., LUKoil International Ltd., Statoil Azerbaijan A.S and Turkish Petroleum Overseas Company Limited .

[ ] being the beneficial owner of [ ] hereby guarantees that [ ] will provide [ ] with all funds necessary for [ ] to fulfil all of its obligations, financial or otherwise, under the Agreement. This guarantee shall enter into force as from the Effective Date of the Agreement.

Payment under this Guarantee shall be made by [ ] only after a default by [ ] under the Agreement has been established pursuant to an arbitration award against [ ] and a copy of the award to support the claim has been submitted to [ ].

This Guarantee shall be governed by the same law as provided under the applicable law provision in the Article 23.1 of the Agreement. Any dispute under this Guarantee shall be resolved by arbitration in the same place and manner as provided in the Agreement.

Yours faithfully

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for and on behalf of

[ ]

## APPENDIX 5

### GUARANTEE AND UNDERTAKING OF THE GOVERNMENT OF THE AZERBAIJAN REPUBLIC

TO:

BP Exploration (Azerbaijan) Limited  
Elf Petroleum Azerbaijan B.V.  
LUKoil International Ltd  
Oil Industries Engineering and Construction  
Statoil Azerbaijan A.S  
Turkish Petroleum Overseas Company Limited

Gentlemen,

#### **AZERBAIJAN - SHAKH DENIZ PROSPECTIVE AREA**

We the Government of the Azerbaijan Republic (the "Government") have full knowledge of the Agreement on the Exploration, Development and Production Sharing for the Shah Deniz Prospective Area in the Azerbaijan Sector of the Caspian Sea ("Agreement") signed on \_\_day of \_\_\_\_\_ 1996 between the State Oil Company of the Azerbaijan Republic ("SOCAR"), being a company under the jurisdiction of and owned by the Government, of the First Part, and SOCAR Commercial Affiliate ("SCA"), BP Exploration (Azerbaijan) Limited ("BP"), Elf Petroleum Azerbaijan B.V. ("Elf"), LUKoil International Ltd ("LUKoil"), Oil Industries Engineering and Construction ("OIEC), Statoil Azerbaijan A.S ("Statoil") and Turkish Petroleum Overseas Company Limited ("TPAO") (SCA, BP, Elf, LUKoil, OIEC, Statoil and TPAO together constituting "Contractor") of the Second Part.

The Government hereby guarantees, undertakes and agrees as to each Contractor Party severally as follows:

1. The Government hereby guarantees:
  - (a) those rights granted or to be granted by SOCAR to the Contractor under the Agreement; and
  - (b) those obligations undertaken or to be undertaken by SOCAR under the Agreement; and

- (c) that the Government has and shall maintain throughout the entire duration of the Agreement sole and exclusive jurisdiction over the Contract Area and that SOCAR has full authority to grant the rights and interests to the Contractor as provided in the Agreement; and
- (d) that the Government shall at no time during the entire duration of the Agreement enter into any treaties, intergovernmental agreements or any other arrangements which would, in any manner, diminish, infringe upon, nullify or derogate from the rights and interests of the Contractor under the Agreement; and that any treaties, intergovernmental agreements and any other arrangements which the Government might enter into which would in any way concern the Contract Area and/or the Contractor's rights and interests under the Agreement will include an express recognition and preservation of the rights and interests of the Contractor under the Agreement; and
- (e) that none of the Contractor Party's rights, interests or property shall be expropriated, nationalised or otherwise taken by reason of any act of any authority of the Azerbaijan Republic. In the event, however, that, notwithstanding the provisions of this Guarantee and Undertaking ("Guarantee"), any such expropriation, nationalisation or other taking of any of the Contractor Party's rights, interests or property (including undeveloped reserves) occurs, the Government shall provide full and prompt compensation in Dollars at the full market value determined on the basis of a going concern utilising the discounted cash flow method, assuming a willing buyer and a willing seller in a non-hostile environment and disregarding the unfavourable circumstances under which or following which such Contractor Party has been deprived of its rights, interests or property. The Government shall submit itself to the jurisdiction of the arbitration panel as provided in Paragraph 4 below and the arbitration panel shall select an investment bank of good international reputation for the purpose of appraising the full market value of said rights, interests and property of each such Contractor Party on the principles stated hereinand

- (f) that no grant of rights to explore for and develop Petroleum reserves in the Contract Area shall be given or permitted to be given to any parties other than the Contractor during the term of the Agreement and any extensions thereof, except as otherwise expressly provided in the Agreement; and
  - (g) that, to the extent legislation does not already exist in the Azerbaijan Republic, the Government shall take all measures to enact such legislation as is necessary to enable foreign flag vessels to be registered under the Azerbaijan flag, without requiring a change in the ownership of such vessels, so that such vessels qualify to operate in the Caspian Sea without violation of any treaties; and
  - (h) that all of the provisions in the Azeri and Russian language versions of the Agreement accurately convey the same meaning as all of the provisions set forth in the English language version of the Agreement.
2. In addition the Government agrees and undertakes that within the framework of its authority all measures will be taken forthwith to enact the Agreement and this Guarantee into law so as to ensure that all rights, privileges and exemptions granted under the Agreement and this Guarantee to the Contractor, Contractor's Affiliates and their Sub-contractors, as well as the Operating Company and any other entity established by Contractor pursuant to the Agreement, have full legal force and effect, and in particular:
- (a) to provide the Contractor with the necessary licenses, permits and approvals, permissions and authorisations whether from the Government, its ministries or other official bodies in the Azerbaijan Republic, required by the Contractor to enable it to carry out Petroleum Operations, exercise its rights and fulfil its obligations in accordance with the provisions of the Agreement; and
  - (b) to provide the Contractor with the necessary licenses, permits and approvals, customs clearances, visas, residence permits, licenses to enter land or water and import and export licenses, as well as the right to open bank accounts, lease or acquire office space and employee accommodation, operate communication facilities and to do all other such matters as may be necessary for efficient implementation of the Petroleum Operations; and

- (c) to ensure that the Contractor has, in accordance with the Agreement, access for its share of Petroleum to all necessary transportation, treatment and export facilities and infrastructure in the Azerbaijan Republic, as well as access to land required by the Contractor for Petroleum Operations, and that such access to any such facilities, infrastructure or land owned or controlled by the Government (other than through SOCAR) is on terms no less favourable to the Contractor than the best terms granted or agreed with any other bona fide arm's length user of such facilities and infrastructure; and
  
- (d) to use its best endeavours, whether itself, or with other Azerbaijan authorities or Third Parties, to ensure that the Contractor has access to, inter alia, onshore construction and fabrication facilities, supply bases and vessels, warehousing, means of transportation, goods and services in the Azerbaijan Republic, and that such access is on terms no less favourable to the Contractor than the best terms granted to or agreed with any other bona fide arm's length user of such facilities and services, and at rates commensurate with the quality and efficiency of such facilities and services, which shall in no circumstances exceed prevailing international market rates for such facilities and services outside the Azerbaijan Republic; and
  
- (e) to use its best endeavours, whether itself, with other Azerbaijan authorities or Third Parties, to assist the Contractor in obtaining such rights, privileges, authorisations, approvals and other agreements from authorities and jurisdictions outside the territory of the Azerbaijan Republic as the Contractor shall reasonably deem necessary for the Petroleum Operations. Such agreements may include, but need not be limited to, such matters as export pipeline rights, rights of way and operation rights, permits and undertakings with respect to the transshipment, storage or staging of Petroleum produced and saved from the Contract Area, material equipment and other supplies destined to or from the territory of the Azerbaijan Republic, and exemptions from national, local and other taxes, duties, levies, imposts, transit fees, and other fees and charges on Petroleum Operations being conducted in such other jurisdictions; and

- (f) that the only abandonment obligations of the Contractor shall be as set forth in the Agreement and in particular Contractor shall have no liability for abandonment of any fixed assets which have been taken over by SOCAR upon Contractor's notice of its intention to abandon them; and
  
- (g) that liabilities and exemptions of each Contractor Party (and, where relevant, Affiliates, Third Parties and Operating Company, including employees and Sub-contractors of any of them) with respect to Taxes shall be as set out in the Agreement, and SOCAR shall not receive from the Government any funds or other benefit (including without limitation any rebate, refund, tax credit or deduction, payment or discharge of any obligation) which is determined, directly or indirectly, by reference either to the amount of Taxes for which any of the Contractor Parties is liable or by the Taxable Profit(s) of any of the Contractor Parties; and
  
- (h) to ensure the banking and currency exchange rights provided for in the Agreement, including the granting to the Contractor of the right to freely retain, whether in the Azerbaijan Republic or elsewhere, and dispose of all of the Contractor's proceeds from the export and/or sale of Petroleum, and the free and unfettered right of repatriation of all proceeds from the Contractor's activities in relation to Petroleum Operations; and
  
- (i) that the rights and interest accruing to the Contractor (or its assignees) under the Agreement and the Guarantee shall not be amended, modified or reduced without the prior consent of the Contractor. In the event any Azerbaijan treaty, intergovernmental agreement, law, decree or administrative order which contravenes or conflicts with the provisions of the Agreement and/or this Guarantee or adversely affects the rights or interests of the Contractor thereunder, including any changes in jurisdiction over the Contract Area, tax legislation, regulations or administrative practice, then the Government shall indemnify the Contractor (and its assignees) for any disbenefit, deterioration in economic circumstances, loss or damages that ensue therefrom. The Government will take appropriate

measures to resolve promptly in accordance with the foregoing principles any conflict or anomaly between the Agreement and/or the Guarantee and such treaty, intergovernmental agreement, law, decree or administrative order; and

(j) in recognition that continued access to any canal and river system servicing the Caspian Sea by Contractor is vital to maintain the economic parameters under the Agreement, to use its best endeavours, whether by itself or with other Azerbaijan authorities, to ensure that the Contractor and its Sub-contractors have uninterrupted access to transit for its equipment, goods, materials and supplies through the said canal and river system on terms no less favourable to the Contractor and its Sub-contractors than the best terms granted to or agreed with any other bona fide arm's length user of the said canal and river system; and

(k) to ensure observance of confidentiality with regard to any confidential information or data disclosed to the Government and Governmental Authorities; and

(l) to ensure that, upon approval by the Parliament of the Azerbaijan Republic of the Agreement, the Agreement shall constitute a law of the Azerbaijan Republic and in the event of any conflict or inconsistency with any other law of the Azerbaijan Republic the provisions of the Agreement shall prevail.

3. The privatisation, insolvency, liquidation, reorganisation or any other change in the structure or legal existence of SOCAR shall not affect the obligations of the Government hereunder. The Government shall, throughout the entire duration of the Agreement, ensure that the rights and obligations of SOCAR under the Agreement are always vested in and undertaken by an entity authorised to and capable of performing such obligations, failing which the Government itself shall perform directly all such obligations of SOCAR under the Agreement. >???????

4. Any dispute between the Government and the Contractor concerning this Guarantee shall be resolved by arbitration in the same place and manner and in accordance with the same principles as provided in the Agreement. For the purposes of allowing such arbitration and enforcement and execution of any arbitration decision, award, issuance of any attachment, provisional remedy or other pre-award remedy, the Government hereby waives all rights to claim sovereign immunity.
5. The rights and interests accorded to a Contractor Party under this Guarantee shall enure for the benefit of any successor or assignee of such Contractor Party.
6. This Guarantee shall enter into force upon its execution and shall, unless the Government and the Contractor agree otherwise, remain in force and apply to the Agreement (as amended from time to time) for its entire duration and for such longer time as may be necessary for enforcement of any rights accruing to any of the Contractor Parties hereunder or under the Agreement.
7. Words and phrases used in this Guarantee and which are defined in the Agreement shall have the same meaning as in the Agreement.
8. This Guarantee shall be governed by and interpreted in accordance with the principles of the applicable law provisions set out in the Agreement.

IN WITNESS WHEREOF the authorised representative of the Government has executed this Guarantee and Undertaking in Baku on \_\_\_\_\_, 1996

For and on behalf of  
THE GOVERNMENT OF THE AZERBAIJAN REPUBLIC

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## APPENDIX 6

### ARBITRATION PROCEDURE

- 1.1 Except as otherwise provided in this Agreement, all disputes arising between SOCAR and any or all of the Contractor Parties, including without limitation, any dispute as to the validity, construction, enforceability or breach of this Agreement, which are not amicably resolved by the Parties in accordance with the provisions of Article 23.3 (a) shall be finally settled before a panel of three (3) arbitrators under the Arbitration Rules of The United Nations Commission on International Trade Law known as UNCITRAL (the "Rules"). In the event the Rules fail to make provision for any matter or situation the arbitration tribunal shall establish its own rules to govern such matter and procedure and any such rules so adopted shall be considered as a part of the Rules. For purposes of allowing such arbitration, and enforcement and execution of any arbitration decision, award, issuance of any attachment, provisional remedy or other pre-award remedy, each Party waives any and all claims to immunity, including, but not limited to, any claims to sovereign immunity.
  
- 1.2 The arbitration shall be held in Stockholm, Sweden. The language used during the procedure shall be the English language and the English language text of this Agreement will be utilised by the arbitrators.
  
- 1.3 After providing thirty (30) days prior written notice to the other Party of intent to arbitrate, either SOCAR or Contractor may initiate arbitration (the Party initiating the arbitration shall hereinafter be called the "First Party") submitting a request for arbitration to the Secretary General of the Permanent Court of Arbitration in the Hague, as provided in the Rules, and appointing an arbitrator who shall be identified in said request. Within thirty (30) days of receipt of a copy of the request the other Party to the dispute ("Second Party") shall respond, identifying the arbitrator that it has selected. If the Second Party does not so appoint its arbitrator, the Secretary General of the Permanent Court of Arbitration in the Hague shall appoint a second arbitrator in accordance with the Rules. The two arbitrators shall, within thirty (30) days, select a third arbitrator failing which the third arbitrator shall be appointed by the Secretary

General of the Permanent Court of Arbitration in the Hague, in accordance with the Rules. Unless otherwise agreed in writing by the Parties, the third arbitrator to be appointed shall not be a citizen of a country in which any Party (including the Ultimate Parent Company of such Party) is incorporated.

- 1.4 The Parties shall extend to the arbitration tribunal all facilities (including access to the Petroleum Operations and facilities) for obtaining any information required for the proper determination of the dispute. Any Party shall be allowed only one absence or default beyond its reasonable control which prevents or hinders the arbitration proceeding in any or all of its stages. Additional absences, or absences which are within a Party's reasonable control, shall not be allowed to prevent or hinder the arbitration proceeding.
- 1.5 Without limiting the generality of their powers, the arbitrators shall have the power to award costs and damages as necessary with respect to the Government Guarantee with respect to Article 23.2.
- 1.6 The arbitration tribunal's award shall be final and binding on the Parties and shall be immediately enforceable. Judgement on the award rendered may be entered and execution had in any court having jurisdiction or application may be made to such court for a judicial acceptance of the award and an order of enforcement and execution, as applicable.
- 1.7 Each Party shall pay the costs of its own arbitrator and the costs of the third arbitrator in equal shares, and any costs imposed by the Rules shall be shared equally by the Parties. Notwithstanding the above, the arbitrators may, however, award costs (including reasonable legal fees) to the prevailing Party from the losing Party. In the event that monetary damages are awarded, the award shall include interest from the date of the breach or other violation to the date when the award is paid in full. The rate of interest shall be LIBOR plus four (4) percent over the period from the date of the breach or other violation to the date the award is paid in full. Each Party waives any and all requirements of any national law relating to notice of a demand for interest or damage for the loss of the use of funds.

## APPENDIX 7

### CRUDE OIL AND NATURAL GAS MEASUREMENT AND EVALUATION PROCEDURE

#### 1.1 General

This Appendix 7 describes the method of measuring and evaluating the Petroleum produced from the Contract Area.

#### 1.2 Crude Oil Measurement.

- (a) Custody Transfer Meters. Contractor will have custody transfer meters permanently installed at the Delivery Point. The custody transfer meters will be capable of accurately measuring and evaluating the specific type and quantity of Crude Oil produced in the Contract Area and will be comprised of all necessary meters, meter testing devices, instruments, and other associated equipment necessary to measure, evaluate and record the quantity, quality and physical characteristics of the Crude Oil from the Contract Area. Contractor will use the custody transfer meters for measurement and evaluation of the Crude Oil from the Contract Area.
- (b) Contractor will also provide necessary tools and instruments to measure BS&W and American Petroleum Institute ('API') gravity and shall store such tools and instruments in an appropriate laboratory. Contractor shall test and calibrate the accuracy of the meters being used in accordance with generally accepted international Petroleum industry practice whenever necessary and in any event at least once per month. All testing and calibration will be witnessed both by SOCAR and by Contractor with detailed reports and results signed by two (2) representatives from each of SOCAR and Contractor.

#### 1.3 Timing of Crude Oil Measurement.

Official meter readings for accounting purposes will be monitored not less than weekly for purposes of providing production and Crude Oil shipment data. Information obtained from these readings will be reported to SOCAR and Contractor. The actual times of meter readings will be determined by

Contractor with timely notification to SOCAR. SOCAR and Contractor will each have the right to have two (2) representatives present to witness meter readings and sign meter tickets.

#### 1.4 Natural Gas Measurement.

The quantity of Natural Gas delivered under this Agreement will be determined from data obtained from orifice meter runs using API standards and procedures. The type of Natural Gas meters to be installed will be determined by Contractor. The measurement and evaluation system installed will be comprised of all the necessary meters, instruments and other associated equipment necessary to record the quantity, quality and physical characteristics of the Natural Gas. The entire Natural Gas metering system will have a backup and be capable of continuously recording throughput data at all times. The Natural Gas meters will be calibrated at least once per month with calibration records witnessed and signed by representatives of both SOCAR and Contractor.

#### 1.5 Petroleum Measurement Procedures

- (a) Unless Contractor and SOCAR agree otherwise, API standards and procedures will be used to measure and evaluate Petroleum flowing through the equipment. The API standards and procedures will be taken from or provided by the API's Standard Method of Sampling and Manual of Petroleum Measurement Standards. A copy of the standards and procedures (and updates and reviews thereof) will be provided by Contractor and will be available both to SOCAR and to Contractor at all times.
  
- (b) Specialists from Contractor and SOCAR shall meet to agree appropriate detailed Petroleum measurement and evaluation procedures to be implemented as soon as practicable after approval of the Development Programme.

## APPENDIX 8

### DESIGN STANDARDS AND SPECIFICATIONS

All new production facilities and all new equipment added as part of a modification programme to existing facilities, will be designed in accordance with current international standards, modified where appropriate for the specific requirements of the Caspian Sea conditions.

Existing facilities were designed to the standards appropriate at the time of their construction. They will not be modified to comply with international standards except where determined necessary by Contractor for the safe operation of new equipment.

The design specifications used will be based on current standards and recommended practice as published by recognised international engineering organisations and associations, some of which are listed below. The design specifications may also include additional requirements developed from these international standards by Contractor.

API	-	American Petroleum Institute
ANSI	-	American National Standards Institute
ASME	-	American Society of Mechanical Engineers
ASTM	-	American Society for Testing and Materials
BSI	-	British Standards Institution
CEN	-	European Committee for Normalisation
CENELEC	-	European Committee for Electrotechnical Standards
DIN	-	The German Institute for Standards
IEC	-	International Electrotechnical Commission
IEEE	-	Institute of Electrical and Electronics Engineers (USA)
IP	-	Institute of Petroleum (UK)
ISA	-	Instrument Society of America
ISO	-	International Organisation for Standardisation
NACE	-	National Association of Corrosion Engineers (USA)
NEMA	-	National Electrical Manufacturers Association (USA)
NFPA	-	National Fire Prevention Association (USA)

## APPENDIX 9

### ENVIRONMENTAL STANDARDS AND PRACTICES

#### I. Integrated Management System

##### A. Environmental Sub-Committee

1. The formation and organisation of an environmental sub-committee of the Steering Committee shall be set forth in a proposal of Contractor which will be submitted to SOCAR for approval. Once approved by SOCAR, the Environmental Sub-Committee shall be formed in accordance with the approved recommendation and shall be composed of environmental representatives of Contractor Parties and SOCAR, the State Committee of the Azerbaijan Republic on Ecology and Control over the Use of Natural Resources, Azerbaijan Academy of Sciences and other relevant research institutes.
2. Responsibilities of the environmental sub-committee shall be to:
  - design monitoring program for monitoring of selected environmental parameters
  - co-ordinate monitoring program
  - review results and propose recommendations
  - publish annual report

##### B. Environmental Work Programme

The environmental work programme to be pursued during Petroleum Operations pursuant to Article 26.2 shall be phased as follows:

1. For seismic surveys
  - Environmental impact assessment
  - Health, safety and environmental management plan for seismic operations, including emergency procedures, oil spill contingency plan, waste management plan and an audit programme

2. For exploration drilling

- Drilling environment impact assessment
- Baseline environmental study
- Environmental monitoring programme
- Health, safety and environment management plan for exploration drilling, including emergency procedures, oil spill contingency plan, waste management plan (including drill cuttings disposal) and an audit programme.

3. For development and production

The environmental work programme for the Development and Production Period shall be submitted together with the Development Programme to SOCAR for approval.

II. Environmental Standards

The following are general and specific guidelines relating to discharges associated with oil and natural gas exploration and production activities.

A. General Guidelines

1. There shall be no discharge of waste oil, produced water and sand, drilling fluids, drill cuttings or other wastes from exploration and production sites except in accordance with the following guidelines.
2. There shall be no unauthorised discharges directly to the surface of the sea. All discharges authorised by these guidelines shall be controlled by discharging into a caisson whose open end is submerged, at all times, a minimum of two (2) feet below the surface of the sea.

B Discharge Guidelines and Monitoring

1. Produced Water

Contractor will endeavour to utilise produced water for reservoir pressure maintenance if, through standard compatibility testing with

Caspian Sea water, no damage to the reservoir resulting in a reduction in overall hydrocarbon recovery would occur by mixing the two water streams. In the event that the two water streams are compatible, Contractor may only discharge a volume of produced water after treatment to the Caspian Sea that exceeds the total volume required for reservoir pressure maintenance or in the event of an emergency, accident or mechanical failure. In the event that the two water streams are not compatible, Contractor may discharge produced water to the Caspian Sea after treatment in accordance with generally accepted international Petroleum industry standards and practices.

2. Drill Cuttings and Drilling Fluids

- (a) There shall be no discharge of oil based drilling fluids, other than low toxicity and biodegradable drilling fluids.
- (b) There shall be no discharge of drill cuttings generated in association with the use of oil based drilling fluids, invert emulsion drilling fluids, or drilling fluids that contain radiation, if any, waste engine oil, cooling oil, gear oil, or other oil based lubricants, other than cuttings generated in association with the use of low toxicity and biodegradable drilling fluids.
- (c) There shall be no discharge of drill cuttings or drilling fluids if the maximum chloride concentration of the drilling fluid system is greater than four (4) times the ambient concentration of the receiving water.
- (d) Prior to the start of the drilling programme, a drilling mud system will be designed and laboratory tested under the U.S. EPA, 96-hour acute toxicity test using mycid shrimp or other indicator organisms of the Caspian Sea agreed between Contractor and SOCAR. Those muds biodegradable and of low toxicity will be authorised for discharge during the drilling programme.

- (e) During drilling operations, mud samples will be collected periodically to determine toxicity using procedures established for the Caspian Sea.
- (f) The composition of the mud system may be altered as necessary to meet changes in the drilling operations. The modified mud system may be discharged if it has been shown to meet the above limits for discharge on oil, salinity and toxicity.

### 3. Other Wastes

- (a) Sanitary waste may be discharged from a U.S. Coast Guard certified or equivalent Marine Sanitation Device (MSD) with total residual chlorine content greater than 0.5 mg/l but less than 2.0 mg/l as long as no floating solids are observable. The Hach method CN-66-DPD test shall be used to measure the residual chlorine.
- (b) Domestic wastes and gray water may be discharged as long as no floating solids are observable.
- (c) Desalination unit wastes shall be discharged.
- (d) Deck drainage and wash water may be discharged as long as no visible sheen is observable. Oily and clean drainage or wash water shall be segregated; clean water shall be discharged to the sea and oily water shall be treated as provided in B.1 above.
- (e) Trash shall not be discharged offshore. Trash shall be transported to an appropriate land-based disposal facility.

#### 4. Monitoring

##### (a) Produced water

- (1) The volume of produced water discharged and concentration of oil and grease contained in the discharge will be monitored daily.
- (2) The daily and monthly average oil and grease concentration will be reported to the appropriate environmental authority monthly.

##### (b) Drill Cuttings and Drilling Fluids

- (1) An inventory of drilling fluids additives and their volumes or mass added to the drilling fluid system will be maintained for each well.
- (2) Drilling fluid properties, including volume percent oil and concentration of chlorides, will be monitored daily for each well.
- (3) The estimated volume of drill cuttings and drilling fluids discharged shall be recorded daily and reported monthly to the appropriate environmental authority.

##### (c) Other Wastes

The estimated volume of other wastes discharged shall be recorded daily and reported monthly to include:

- (i) Sanitary waste
- (ii) Domestic waste
- (iii) Deck drainage and wash water

#### C. Air Emission Guidelines and Monitoring

Contractor is authorised to discharge air emissions. Such discharges will be limited and monitored in accordance with generally accepted international Petroleum industry standards and practices.

D. Safety Guidelines

Contractor shall take into account subject to the provisions of Article 26.1 relevant Azerbaijani regulations and the following international safety and industrial hygiene standards in conducting its Petroleum Operations under the Agreement:

1. Oil Industry International Exploration and Production Forum (E&P Forum) Reports - HSE Management
2. International Association of Drilling Contractors (IADC) - Drilling Safety Manual
3. International Association of Geophysical Contractors (IAGC) - Operations Safety Manual
4. Threshold Limited Values for Chemical Substances in the Work Environment - American Conference of Governmental Industrial Hygienists

## APPENDIX 10

### EXPLORATION WORK PROGRAMME

For the purposes of exploring the oil and gas potential within the Contract Area Contractor shall carry out a programme of work as described in Article 4 in accordance with the following guidelines:

- (i) Shoot, process and interpret three dimensional seismic which may for operational reasons upon SOCAR's approval be shot partially outside the Contract Area; and
- (ii) Carry out an upper section site investigation survey to ensure a safe and environmentally sound base for drilling; and
- (iii) Drill in the Contract Area two (2) exploration wells to ascertain the presence of oil and gas in the prospective horizons. During the Exploration Period one (1) well shall be drilled to a depth of fifty (50) metres below the base of the Kalinskaya Suite or to a depth of six thousand five hundred (6500) metres subsea, whichever occurs first. If in Contractor's opinion the target depth can not be met due to operational and safety concerns Contractor shall only be obliged to drill to a maximum depth of six hundred (6000) metres subsea subject to SOCAR's approval which shall not be unreasonably withheld. The other well shall be drilled to a depth of fifty (50) metres below the base of the Pereryv Suite or to a depth of five thousand eight hundred (5800) metres subsea, whichever occurs first.
- (iv) During the Additional Exploration Period, Contractor shall drill one (1) well to a depth of fifty (50) metres below the base of the Pereryv Suite or to a depth of six thousand (6000) metres subsea, whichever occurs first.
- (v) Exploratory wells drilled as set out in (iii) and (iv) shall have the objective of further defining the areal extent, down dip limits and reservoir properties of any Petroleum found within the Contract Area. Drilling of such wells shall be accomplished with conventional core acquisition techniques according to international Petroleum industry standards.

- (vi) To evaluate the wells an appropriate logging and testing programme may include but not be limited to the following :
- (a) at the conductor casing point, gamma ray and neutron log (from approximately conductor setting point to seafloor);
  - (b) at the surface casing point, gamma ray log, induction logs, sonic log, density and neutron logs, sidewall cores as appropriate (from approximately surface casing point to conductor casing shoe through the Surakhanskaya, Akchagyl and Apsheron Suites);
  - (c) at the intermediate casing point, gamma ray log, induction logs, sonic log, density and neutron logs, microlaterolog, dipmeter, caliper (profiler), sidewall cores and formation tests as appropriate (from approximately intermediate casing setting point to surface casing shoe through the upper Balakhanskaya and Sabunchinskaya Suites);
  - (d) at the final casing point, gamma ray log, induction logs, sonic log, density and neutron logs, microlaterolog, dipmeter, caliper (profiler), sidewall cores and formation tests as appropriate (from approximately liner casing point to the intermediate casing shoe through the Balakhanskaya Suite);
  - (e) at total drilled depth, gamma ray log, induction logs, sonic log, density and neutron logs, microlaterolog, dipmeter, caliper (profiler), sidewall cores and formation tests as appropriate (from approximately production casing point to the linear casing shoe through the Pereryv and lower Balakhanskaya Suites) as well as a vertical seismic profile log (VSP) taken at intervals between total depth to seafloor;
  - (f) drill stem tests (DST's) of major productive horizons as appropriate.

- (vii) Contractor shall have the right, but not the obligation, to sidetrack any exploration wells, drill to greater depths or drill additional exploration wells within the Contract Area for the purposes of obtaining additional geological information.
- (viii) All reporting and records pertaining to exploration drilling and evaluation shall be submitted according to Article 7 of this Agreement.

**ADDENDUM**  
**RELATING TO THE FORMATION OF SOCAR COMMERCIAL AFFILIATE**

**ADDENDUM**

to

Agreement on the Exploration, Development and Production Sharing for the Shakh Deniz Prospective Area in the Azerbaijan Sector of the Caspian Sea relating to the formation of SOCAR Commercial Affiliate between

The State Oil Company of the Azerbaijan Republic

and

BP Exploration (Azerbaijan) Limited,  
Elf Petroleum Azerbaijan B.V.,  
LUKoil International Ltd,  
Oil Industries Engineering and Construction,  
Statoil Azerbaijan A.S.,  
Turkish Petroleum Overseas Company Limited

This Addendum is made and entered even date with the Agreement on the Exploration, Development and Production Sharing for the Shakh Deniz Prospective Area in the Azerbaijan Sector of the Caspian Sea (hereinafter called "EDPSA") between:

THE STATE OIL COMPANY OF THE AZERBAIJAN REPUBLIC (hereinafter called SOCAR) a Government body on the one hand and

BP EXPLORATION (AZERBAIJAN) LIMITED, a company incorporated in England, ELF PETROLEUM AZERBAIJAN B.V., a company incorporated in the Netherlands, LUCOIL INTERNATIONAL LIMITED, a company registered in the Republic of Ireland, OIL INDUSTRIES ENGINEERING and CONSTRUCTION, a company incorporated in the Islamic Republic of Iran, STATOIL AZERBAIJAN A.S., a company incorporated in Norway and TURKISH PETROLEUM OVERSEAS COMPANY LIMITED, a company incorporated on the Island of Jersey (hereinafter called "the Contractor Parties") on the other hand.

The entities named above may sometime be referred to individually as "Party" and collectively as "Parties".

**WHEREAS**

1. SOCAR has informed Contractor Parties that SOCAR Commercial Affiliate (hereinafter called "SCA") has not yet been formed; and
2. SOCAR is willing and fully empowered to assume and be bound by all obligations and liabilities of SCA under the EDPSA pursuant to the resolutions of the Board of SOCAR dated  
A certified extract of which is attached hereto as Exhibit 1; and
3. SOCAR and Contractor Parties have agreed that Contractor Parties shall rely upon SOCAR to act on behalf of SCA pending the formation of the SCA and SCA's written ratification of the EDPSA as hereinafter appears.



6. The Addendum modifies and/or amends the relevant terms and conditions of the EDSA as set forth herein and shall be considered for all purposes a part of the EDPSA and shall accordingly be given the full force of law in the Azerbaijan Republic as provided in Article 25.1 of the EDPSA.
  
7. Any disputes arising out of or in connection with this Addendum shall be resolved as set forth in Article 23.3 of the EDPSA and the law governing this Addendum shall be as set forth in Article 23.1 of the EDPSA.

IN WITNESS WHEREOF the Parties have executed this Addendum as of the 4 day of June 1996 by their duly authorised representatives.

For and on behalf of the  
State Oil Company of the Azerbaijan Republic

By \_\_\_\_\_

Title \_\_\_\_\_

By \_\_\_\_\_

Title \_\_\_\_\_

For and on behalf of  
BP Exploration (Azerbaijan) Limited

By \_\_\_\_\_

Title \_\_\_\_\_

By \_\_\_\_\_

Title \_\_\_\_\_

For and on behalf of  
Elf Petroleum Azerbaijan B.V.

By \_\_\_\_\_

Title \_\_\_\_\_

By \_\_\_\_\_

Title \_\_\_\_\_

For and on behalf of  
LUKoil International Ltd.

By \_\_\_\_\_

Title \_\_\_\_\_

By \_\_\_\_\_

Title \_\_\_\_\_

For and on behalf of  
Oil Industries Engineering and Construction

By \_\_\_\_\_

Title \_\_\_\_\_

By \_\_\_\_\_

Title \_\_\_\_\_

For and on behalf of  
STATOIL Azerbaijan A.S.

By \_\_\_\_\_

Title \_\_\_\_\_

By \_\_\_\_\_

Title \_\_\_\_\_

For and on behalf of  
Turkish Petroleum Overseas Company Limited

By \_\_\_\_\_

Title \_\_\_\_\_

By \_\_\_\_\_

Title \_\_\_\_\_