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Version in MS Word:

1. Russian Text;

2. Map form, Appendix II.

**AGREEMENT ON THE JOINT
DEVELOPMENT AND PRODUCTION SHARING
FOR THE AZERI AND CHIRAG FIELDS AND
THE DEEP WATER PORTION OF THE GUNASHLI FIELD
IN THE AZERBAIJAN SECTOR OF THE CASPIAN SEA**

AMONG

THE STATE OIL COMPANY OF THE AZERBAIJAN REPUBLIC

AND

AMOCO CASPIAN SEA PETROLEUM LIMITED

BP EXPLORATION (CASPIAN SEA) LIMITED

DELTA NIMIR KHAZAR LIMITED

DEN NORSKE STATS OLJESELSKAP a.s

LUKOIL JOINT STOCK COMPANY

MCDERMOTT AZERBAIJAN, Inc.

PENNZOIL CASPIAN CORPORATION

RAMCO HAZAR ENERGY LIMITED

TURKIYE PETROLLERI A.O.

UNOCAL KHAZAR, LTD.

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**AGREEMENT ON THE JOINT DEVELOPMENT AND PRODUCTION
SHARING FOR THE AZERI AND CHIRAG FIELDS AND THE DEEP WATER
PORTION OF THE GUNASHLI FIELD IN THE AZERBAIJAN SECTOR
OF THE CASPIAN SEA**

THIS CONTRACT, made and entered into in Baku, Azerbaijan Republic, this 20th day of September 1994 by and among:

THE STATE OIL COMPANY OF THE AZERBAIJAN REPUBLIC ("SOCAR") of the First Part; and

AMOCO CASPIAN SEA PETROLEUM LIMITED ("Amoco") a company incorporated in the British Virgin Islands; and

BP EXPLORATION (CASPIAN SEA) LIMITED ("BP") a company incorporated in England; and

DELTA NIMIR KHAZAR LIMITED ("Delta") a company incorporated in Bermuda; and

DEN NORSKE STATS OLJESELSKAP a.s ("Statoil") a company incorporated in Norway; and

LUKOIL JOINT STOCK COMPANY ("Lukoil") a company incorporated in the Russian Federation; and

MCDERMOTT AZERBAIJAN, INC. ("McDermott") a company incorporated in the Republic of Panama; and

PENNZOIL CASPIAN CORPORATION ("Pennzoil") a company incorporated in the British Virgin Islands; and

RAMCO HAZAR ENERGY LIMITED ("Ramco") a company incorporated in Scotland; and

TURKIYE PETROLLERI A.O. ("TPAO") a company incorporated in Turkey; and

UNOCAL KHAZAR, LTD. ("UNOCAL") a company incorporated in Bermuda;

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

WITNESSETH

WHEREAS, in accordance with the Law on the Bases for the Economic Independence of the Azerbaijan Republic of 25 May 1991, and the Declaration of Restoring State Independence of the Azerbaijan Republic of 30 August 1991, and the Constitutional Act of State Independence of the Azerbaijan Republic, dated 18 October 1991, and the Law on Ownership, 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 authorizations the authority to control and manage said Petroleum has been vested in SOCAR; and

WHEREAS, pursuant to Presidential Decree No. 200 concerning the creation of the State Oil Company of the Azerbaijan Republic dated 13 September 1992 and its Charter, and Presidential Decree No. 56 "On Speeding Up The Development Of Azerbaijan Republic Offshore Oil and Gas Fields" dated 4 February 1994 concerning SOCAR's responsibility to carryout negotiations of this Contract, SOCAR is vested with the authority to carry out the exploration and development of all Petroleum in the Azerbaijan Republic; and

WHEREAS, SOCAR and its predecessors have carried out certain works in the Contract Area prior to the Effective Date, and such works have revealed the presence of Petroleum resources within the Contract Area, and the Petroleum potential has been tested by SOCAR; and

WHEREAS, SOCAR has held discussions with a group comprised of Amoco, Unocal, BP, McDermott, Ramco and Statoil (such group being known hereinafter as the "Azeri Field Group") with a view to the possible development of the Azeri Field; and

WHEREAS, SOCAR has held discussions with a group comprised of BP and Statoil (such group being known hereinafter as the "Chirag Field Group") with a view to the possible development of the Chirag Field; and

WHEREAS, SOCAR and a group comprised of Pennzoil and Ramco (such group being known hereinafter as the "Pennzoil Group") entered into the Gas Utilisation Agreement pertaining to the Gunashli Field; and

WHEREAS, the Parties have agreed that, as the accumulation or accumulations of Petroleum known to exist or to be found and developed within the Contract Area may be interconnected or common to some or to a substantial extent, it is preferable according to the general principles of rational Petroleum resource management to develop and manage the Petroleum found or to be found within the entire Contract Area on a consolidated basis rather than independently; and

WHEREAS, pursuant to an Agreement on Cooperation in the area of Oil and Gas Exploration and Production within the Territory of the Azerbaijan Republic between the Cabinet of Ministers of the Azerbaijan Republic and the Government- Council of Ministers of the Russian Federation dated 20 November 1993, Lukoil has been included as a Contractor Party; and

WHEREAS pursuant to an Agreement between Unocal and Delta, Unocal agreed to assign to Delta fifteen (15) percent of the percentage participating interest Unocal was to acquire under this Contract to which assignment the other Parties have given their consent; and

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

WHEREAS, by a Declaration dated 4 June 1993, ("the Declaration") SOCAR announced that the Azeri, Chirag and Gunashli Fields were to form a single contract area and be developed in a unitised manner, such Declaration was accepted by all of the Contractor Parties (except Lukoil, TPAO and Delta which was not a party to the Declaration), and pursuant thereto a preliminary bonus was paid by all of the Contractor Parties (other than Lukoil, TPAO and Delta) which was accepted by SOCAR. The Declaration replaced all previous rights and obligations pertaining to any part of the Contract Area which may have existed by virtue of any prior agreement between any of the Contractor Parties (other than Lukoil, TPAO and Delta) and SOCAR or any other Government entity; and

WHEREAS, SOCAR desired to exclude the Gunashli Field from the aforementioned single contract area, and the Parties have now agreed to include the deep water portion of the Gunashli Field in the single Contract Area as defined in Appendix II; and

WHEREAS Contractor wishes to carry out Petroleum Operations, with the participation of SOCAR, as hereinafter set out; and

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

ARTICLE I

PARTICIPATING INTERESTS AND SOLE UNDERSTANDING

- 1.1 The rights and obligations under this Contract of each of the Contractor Parties (and SOCAR as provided under Article XXVIII with respect to its percentage participating interest) shall be held in the following respective percentage participating interests as of the date this Contract is executed:

<u>SOCAR and CONTRACTOR PARTIES</u>	<u>PERCENTAGE</u>
SOCAR	20.000%
Amoco	17.010%
BP	17.1267%
Delta	1.680%
Lukoil	10.000%
McDermott	2.450%
Pennzoil	9.8175%
Ramco	2.0825%
Statoil	8.5633%
TPAO	1.750%
Unocal	9.520%
<u>TOTAL</u>	<u>100.00%</u>

- 1.2 The Contractor Parties agree that their respective percentage participating interest shares under this Contract, as set forth in Article 1.1 above, replace any rights and obligations which may exist by virtue of any prior agreement or contract (other than the Gas Utilisation Agreement) regarding any part of the Contract Area between any of the Contractor Parties or their Affiliates on the one hand, and the Government, any Government entity or SOCAR on the other hand. All the Parties agree therefore that any and all such prior agreements or contracts and any and all other memoranda, letters, documents, undertakings or understandings, written or otherwise, regarding any part of the Contract Area entered into between the Contractor Parties (or any of them), on the one hand, and the Government, any Governmental entity or SOCAR, on the other hand, (other than the Gas Utilisation Agreement, provided, however, that any right to any portion of the Gunashli Field included within the Contract Area claimed by the Pennzoil Group pursuant to the Gas Utilisation Agreement shall be superceded by this Contract), are superceded by this Contract and are therefore null and void as of the Effective Date hereof. The Parties agree that, from the Effective Date, this Contract constitutes the sole and complete understanding between SOCAR and the Contractor Parties regarding the Contract Area.

ARTICLE II

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 Contract (including those terms set forth in Article XV) and during the term hereof. Except for the rights expressly provided for herein, this Contract shall not include rights for any activity other than Petroleum Operations with respect to surface areas, sea beds, 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 Contract, inclusive of all extensions provided in Article IV, is insufficient to provide full Cost Recovery for Contractor's Capital Costs and Operating Costs as hereinafter provided for, then Contractor shall not be entitled to any reimbursement or compensation for any of its costs not recovered.

ARTICLE III

WARRANTIES AND GENERAL RIGHTS AND OBLIGATIONS OF THE PARTIES

3.1 Warranties of SOCAR. SOCAR represents and warrants that:

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

3.2 General Obligations of SOCAR.

- (a) SOCAR within the full limits of its authority shall use its best lawful endeavours with respect to the Government and other relevant Azerbaijan authorities to assist Contractor in order to ensure that Contractor shall obtain the following:
 - (i) any necessary Government approvals and any other approvals from relevant Azerbaijan authorities, agencies and/or organisations; and
 - (ii) customs clearances, visas, residence permits, communication facilities, licences to enter land or water, import and export licences, the opening of bank accounts, the acquisition of office space and employee accommodation, as may be necessary for efficient implementation of Petroleum Operations; and
 - (iii) all geological, geophysical and geochemical data of relevance to the Contract Area (including well data) 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 the Contractor in all other relevant matters as may be necessary for the efficient implementation of Petroleum Operations.
- (c) The 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 SOCAR's possession or control of relevance to the Contract Area (including well data). Contractor shall pay the actual direct costs incurred by SOCAR 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 organized and validly existing in accordance with the terms of its foundation documents and is authorized, subject to governmental authorizations, 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 Contract.
- (b) Each Contractor Party, its Affiliates, and the Contractor's Sub-contractors are hereby authorised throughout the term of this Contract to establish such branches, Permanent Establishments, permanent representation offices 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, purchase, lease or acquisition complies with the formalities and procedures of laws of the Azerbaijan Republic in respect thereof.

3.4 General Obligations of Contractor Parties. Contractor (and SOCAR to the extent provided in Article 28.2) shall provide the necessary funds to explore, appraise, evaluate and develop the Petroleum resources within the Contract Area in accordance with the terms and conditions set forth in this Contract. Contractor shall have the right and the obligation to conduct Petroleum Operations in accordance with the terms of this Contract 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 provisions of Appendix XI 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 penalisation under the laws of any jurisdiction applicable to such Contractor Party or its ultimate parent company notwithstanding anything to the contrary in this Contract.

ARTICLE IV

DURATION, WORK OBLIGATIONS, SINGLE DEVELOPMENT PROGRAMME AND EXPLORATION DEVELOPMENT PLAN

4.1 Basic Term and Extensions

- (a) The Contract term shall commence on the Effective Date and shall continue for a period of thirty (30) years after the Effective Date (the "Basic Term"). Except as provided in Article 4.1(b) any extension of the Basic Term shall require the mutual agreement of SOCAR and Contractor.
- (b) In the event of a Discovery the Steering Committee shall determine the period required to fully develop the Discovery. The Basic Term shall be extended with respect only to such Discovery and the Contract shall continue in full force and effect with respect to such Discovery. The Basic Term with respect to the remainder of the Contract Area cannot be extended in the event of a Discovery unless SOCAR and Contractor mutually agree.

4.2 Relinquishment. The relinquishment by Contractor of all or a portion of the Contract Area is governed by Articles 30.3 and 30.5.

4.3 Minimum Obligatory Work Programme. During the Appraisal Period the Contractor shall be required to carry out the Minimum Obligatory Work Programme as set out in Part 1 of Appendix X.

With respect to the Minimum Obligatory Work Programme the Parties acknowledge and agree the following:-

- (a) To the extent technically required, the three-dimensional seismic to be shot pursuant to Appendix X may at least partially be shot outside the Contract Area.
- (b) All costs incurred in carrying out the Minimum Obligatory Work Programme prior to the Effective Date with the consent of SOCAR shall be recoverable as Petroleum Costs.

The content of the Minimum Obligatory Work Programme can be changed only with the written approval of SOCAR and Contractor.

4.4 Single Development Programme.

- (a) Not later than thirty (30) days following completion of the Minimum Obligatory Work Programme Contractor will prepare and submit to the Steering Committee for approval its plan for the development and production of Petroleum from the Contract Area ("Single Development Programme")
- (b) The Single Development Programme is a non-binding long range plan for the efficient and prompt development and production of Petroleum from the Contract Area in accordance with international Petroleum industry standards and will include but not be limited to the following:
 - (i) proposals relating to the spacing, drilling and completion of all wells, the production and storage installations, and transportation and delivery facilities required for the production, storage and transportation of Petroleum; and
 - (ii) proposals relating to necessary infrastructure investments and use of Azerbaijan materials, products and services in accordance with Article 18.1(a); and
 - (iii) a production forecast for formation fluids for the entire Contract Area by reservoir derived from individual well forecasts and an estimate of the investment and expenses involved; and
 - (iv) an environmental impact and health and safety assessment; and
 - (v) an estimate of the time required to complete each phase of the Single Development Programme.

- (c) Within thirty (30) days of receipt of the Single Development Programme the Steering Committee may request Contractor to provide such further information as is readily available to Contractor and as the Steering Committee may reasonably need to evaluate the Single Development Programme.
- (d) Unless the Steering Committee requests in writing to Contractor any changes to the Single Development Programme within ninety (90) days of receipt thereof, the Single Development Programme shall be deemed approved and adopted by the Steering Committee. Should the Steering Committee meet to approve the Single Development Programme, the voting procedure pertaining to such approval shall follow the procedure set forth in Article 5.2 of this Contract. In the event that the Steering Committee requests any changes to the Single Development Programme then the Parties shall meet within fifteen (15) days of receipt by Contractor of the Steering Committee's written notification of requested changes and shall discuss the Steering Committee's request. Any revisions to the Single Development Programme agreed within a further period of ninety (90) days following Contractor's receipt of the above mentioned written notification from the Steering Committee shall be incorporated in a revised Single Development Programme which shall then be deemed approved and adopted.
- (e) Upon approval of the Single Development Programme by the Steering Committee, SOCAR and Contractor shall use all reasonable lawful endeavors to obtain any requisite approvals thereof from the responsible Government and other state bodies of Azerbaijan and the Contractor shall have no obligation to commence Petroleum Operations relating to the Single Development Programme until such approvals of the Single Development Programme have been obtained.
- (f) Implementation of development operations by Contractor shall be through Annual Work Programmes and Budgets the approval of which shall be deemed to amend the Single Development Programme to the extent necessary.
- (g) Contractor may at any time submit to the Steering Committee proposals to revise the Single 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 procedure set out in Articles 4.4(d) and (e).

4.5 Discoveries

- (a) Contractor may propose as part of an Annual Work Programme an exploration well programme for the Contract Area for the relevant Calendar Year ("Exploration Well Programme"). In the event the Steering Committee approves the Exploration Well Programme all costs incurred in carrying out such Exploration Well Programme shall be Petroleum Costs subject to Cost Recovery from the entire Contract Area. In the event the Steering Committee does not approve the Exploration Well Programme then Contractor shall either:
 - (i) withdraw its proposed Exploration Well Programme; or
 - (ii) carry out the Exploration Well Programme in which event the costs thereof shall not be subject to Cost Recovery, unless and until an Exploration Development Plan is submitted by Contractor to the Steering Committee pursuant to (c) below in respect of any Discovery resulting therefrom.
- (b) Contractor shall notify the Steering Committee not later than ninety (90) days after a Discovery within the Contract Area, summarizing all relevant details relating to said Discovery, including but not limited to the following, to the extent same are available: location plat, 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 (the "Notice of Discovery"). In the event that Contractor has determined that development of a Discovery is not economically viable at the time the Discovery is made, Contractor shall retain all rights with respect to such Discovery and shall be entitled to develop such Discovery at such time as Contractor has determined that it is economically viable to do so. In the event of a Non-Associated Natural Gas Discovery, Contractor shall retain all rights with respect to such Discovery and shall be entitled to develop such Discovery at such time as SOCAR decides to develop Natural Gas reserves as provided in Article 15.2 of this Contract.

- (c) As soon as practicable after Contractor's determination that development of a Discovery is technically and economically viable, Contractor shall submit to the Steering Committee for approval a plan to develop the Petroleum accumulation described in the Notice of Discovery (the "Exploration Development Plan") and in the event that development of a Discovery requires an extension of the term of the Contract, the term of the Contract shall be extended as provided in Article 4.1(b). Contractor shall continue throughout any such extension to enjoy all of the rights granted to Contractor under this Contract as determined to be necessary by Contractor in connection with the development and production of such Discovery. The provisions of Articles 4.4(c) to (g) shall apply to such Exploration Development Plan in the same manner as they apply to the Single Development Programme. All costs incurred by Contractor in Petroleum Operations pertaining to such Discovery shall be Petroleum Costs subject to Cost Recovery from the entire Contract Area, provided such costs are approved by the Steering Committee in Annual Work Programmes and Budgets in the manner provided under Article 5.3 of this Contract.
- 4.6 Notwithstanding anything to the contrary in this Contract, Contractor's obligations in respect of the Single Development Programme and any Exploration Development Plan shall be limited only to those activities authorised under the current Annual Work Programme as may be amended from time-to-time.

ARTICLE V

STEERING COMMITTEE FOR PROJECT MANAGEMENT AND ANNUAL WORK PROGRAMMES

5.1 Steering Committee for Project Management. SOCAR and Contractor shall, not later than one month after the Effective Date of this Contract, 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 the Contractor's Annual Work Programmes and Budgets;
- (c) supervising the accounting of costs and expenses in accordance with the Accounting Procedure;
- (d) establishing such sub-committees as the Steering Committee deems appropriate and reviewing the work of such sub-committees;
- (e) reviewing, revising and approving training programmes;
- (f) review and approval of the Single Development Programme and any Exploration Development Plan and any revisions thereto;
- (g) 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 ten (10) representatives appointed by SOCAR and ten (10) representatives appointed by Contractor. 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 of 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 the Contractor shall each advise the other of the names of its representatives and their alternates within twenty (20) days following the Effective Date of this Contract. Such representatives and their alternates may be replaced by SOCAR and the Contractor, respectively, upon written notice to the other in accordance with Article XXIV.
- (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 in accordance with Article XXIV specifying the identity of the individual representative (and, if desired, his alternate), who shall be authorized 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, in accordance with Article XXIV. 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) Except with respect to implementation of the Minimum Obligatory Work Programme which shall be determined by Contractor, 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 four (4) representatives from each of SOCAR and Contractor, including the two 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. Unless SOCAR and Contractor agree otherwise, the Steering Committee shall meet in April and October in each Calendar Year. Meetings will be held in Baku, unless otherwise agreed. In the event that SOCAR and Contractor agree, the Steering Committee may take decisions without holding a physical 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 authorized to cast the respective votes of SOCAR and Contractor.
- (i) SOCAR and Contractor shall each have the right to call additional meetings of the Steering Committee upon fifteen (15) days prior written notice to each other.

5.3 Annual Work Programmes and Budgets

- (a) At least three (3) months before the beginning of each Calendar Year, or for the first year, within one (1) month from the Effective Date, the 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 the 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 authorized 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 percent (10%) of the Budget unless such expenditures exceeding ten percent (10%) are approved by the Steering Committee, which approval will not be withheld where the expenditures have been demonstrated to be reasonable and necessary. In accordance with the other provisions of this Contract, 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 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 provisions in Appendix VI. 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 Contract. The foregoing notwithstanding, Contractor shall not be entitled to Cost Recover 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 favor of SOCAR; except that in all cases Contractor shall be entitled to Cost Recover the following items:

- (i) ongoing commitments of Contractor, including contracts entered into prior to the initiation of any such arbitration;
- (ii) work the 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 Contract 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 Contract, unless such accident or other emergency (or anticipated emergency) was the result of Contractor's Wilful Misconduct.

ARTICLE VI

JOINT OPERATING COMPANY, PERSONNEL AND TRAINING

6.1 Joint Operating Company. Contractor shall as soon as practicable after the Effective Date form a Joint Operating Company, which may be incorporated or created outside of Azerbaijan but shall be registered in Azerbaijan in accordance with Azerbaijan law. Contractor shall have the right to substitute or to establish additional entities to undertake some or all of the responsibilities of the Joint Operating Company with respect to Petroleum Operations.

6.2 Responsibilities of the Joint Operating Company. The responsibilities of the Joint Operating Company shall be the management, co-ordination, 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 Joint Operating Company shall have, to the extent authorized by Contractor, the ability to subcontract any day to day work required to implement any Annual Work Programme.

6.3 Organisation. The post of Advisor to the President shall be established in the Joint Operating Company. SOCAR shall be entitled to appoint the Advisor to the President who shall act in an advisory capacity only and shall be paid for by SOCAR. The candidate for Advisor to the President will be mutually agreed between SOCAR and the Contractor.

The Joint Operating Company organization will be kept to the minimum practicable, but will include management personnel, technical professionals, operating and maintenance personnel and administrative personnel as determined by Contractor to be required to carry out the day-to-day Petroleum Operations on behalf of the Contractor.

6.4 Decisions. Decisions of the Joint Operating Company shall be made by the Contractor Parties in accordance with any voting mechanism as agreed among the Contractor Parties.

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

6.6 Status of Joint Operating Company. The Joint Operating Company and any other entity Contractor agrees to form for the purposes of carrying out work to be undertaken by Contractor pursuant to this Contract shall be entitled to all of the benefits, waivers, indemnities and exemptions accorded to the Contractor Parties under this Contract. The Joint Operating Company (and any other entity as referred to above) shall own no assets or equipment (though it may 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 on behalf of the Contractor Parties upon receipt of their instructions and directions; shall not be entitled to any share of Petroleum produced; and shall operate exclusively as a non-profit cost company which can neither make a profit nor incur a loss. The books and accounts of the Joint Operating Company (and any other entity as referred to above) will record all financial flows or other transactions as passing through to and being incurred by the Contractor Parties and SOCAR to the extent of its percentage participating interest under Article XXVIII in accordance with this Contract as though the Joint Operating Company (and any other such entity as referred to above) did not exist and for all purposes the amount of its Taxable Profit shall be zero (0).

6.7 Personnel

(a) Contractor and its Sub- contractors, and the Joint Operating Company and its Sub- contractors, shall be free to employ such personnel as, in the opinion of Contractor, are required for the purpose of carrying out Petroleum Operations.

(b) Contractor shall require the Joint 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 Azerbaijani citizens, Contractor agrees as follows:

- (i) The Joint Operating Company shall provide SOCAR from time to time with a list showing the numbers and job specifications for Azerbaijani citizens which it estimates that it may require. In addition, the Joint 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 Joint 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 Joint Operating Company and the Sub-contractors if they meet the requirements of the Joint Operating Company or such Sub-contractors.
- (iv) In the event that vacant positions remain in the Joint Operating Company and such Sub-contractors after their respective selection of persons from SOCAR's recommended list, the Joint Operating Company and/or such Sub-contractors shall be entitled to fill these vacant positions with such Azerbaijani citizens as it chooses.
- (v) In the event that the candidates selected independently by the Joint Operating Company and such Sub-contractors include SOCAR employees, then such persons shall be hired by the Joint Operating Company or such Sub-contractors after consultation with SOCAR.
- (vi) Overall target manning levels of Azerbaijani citizen employees pertaining to Petroleum Operations shall be as follows:

Azerbaijani
Citizens

**Prior to commencement of
Full Field Development**

Professionals	30%-50%
Non-professionals	70%

**Upon commencement of
first oil from Full
Field Development**

Professionals	70%
Non-professionals	85%

**Five years from
commencement of first
oil from Full Field
Development**

Professionals	90%
Non-professionals	95%

- (c) Subject to Article 6.7 (b), Contractor, the Joint Operating Company and any Sub-contractors are hereby authorized and shall be free, throughout the term of this Contract, to determine the number and selection of all employees to be hired by them in connection with the conduct of Petroleum Operations. All Azerbaijani citizens hired by Contractor, the Joint Operating Company and any Sub-contractors shall be hired pursuant to a written employment contract 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, the Joint Operating Company or the Sub-contractors deem appropriate in connection with the Petroleum Operations in accordance with such written employment contracts entered into with them. Contractor, the Joint Operating Company and the 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 Azerbaijani citizens) that are customary in international Petroleum operations and in Contractor's and Sub-contractor's experience and judgment are best able to promote an efficient and motivated workforce.

6.8 Training. Contractor shall provide training (including retraining) for Azerbaijani citizens employed with respect to the Petroleum Operations. Expenditures by Contractor pursuant to this Article 6.8 shall be approved by the Steering Committee as part of the relevant Annual Work Programmes and Budgets and shall be included as Petroleum Costs.

ARTICLE VII

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 tapes 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, to SOCAR as soon as practicable after the same has come into the possession of the 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; and
 - (iii) Petroleum, water and valuable mineral resources encountered;
- (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 Azerbaijan, 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;
- (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) a description of the Petroleum Operations carried out and the factual information obtained;
 - (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 covering the matters specified in paragraph (ii) 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 authorized representatives of SOCAR shall upon reasonable notice, at justified intervals, and at reasonable times, have the right to inspect work, facilities, equipment and materials relating to the Petroleum Operations, provided that such inspection shall not unreasonably interfere or delay with the conduct of said Petroleum Operations.

ARTICLE VIII

USE OF LAND

8.1 Use of Land. 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 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, 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 Contract.

ARTICLE IX

USE OF FACILITIES

9.1 SOCAR Facilities

- (a) Except for the Chirag-1 platform, Contractor shall have the right to use, at no cost to the Contractor, any existing fixed facilities, including transportation and communications facilities, in the Contract Area that are (i) necessary to conduct the Petroleum Operations and (ii) have historically been used in connection with the production of Petroleum from the Contract Area.
- (b) In the event that Contractor materially refurbishes, upgrades or improves any facilities, including but not limited to infra-structure, 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 under the Contract.
- (c) A fair market value of the Chirag-1 platform shall be determined jointly by Contractor and SOCAR following inspections by experts of SOCAR and Contractor.

9.2 SOCAR Assistance

- (a) SOCAR shall within the full limits of its authority use its best lawful endeavours with respect to the Government, other relevant Azerbaijan authorities and Third Parties to provide Contractor priority 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 the 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 the Government, other relevant Azerbaijan authorities and Third Parties, to assist Contractor in obtaining such rights, privileges, authorizations, approvals and other agreements from authorities and jurisdictions, outside the territory of Azerbaijan as Contractor shall reasonably deem necessary for the Petroleum Operations and/or as may be required by such authorities and jurisdictions. 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 Azerbaijan, 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 the Government, other relevant Azerbaijan authorities and Third Parties, and shall be obligated with respect to its Affiliates or companies, 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, supply bases and vessels, warehousing, goods, services and means of transportation in the Azerbaijan Republic. (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 the 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, companies, 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, companies, ventures or

enterprise and as regard other terms no less favourable to the Contractor than those granted to or agreed with SOCAR and/or such Affiliates, companies, ventures or enterprises.

9.3 Contractor Facilities. Contractor shall be responsible for the maintenance and repair of all facilities controlled and operated by Contractor within the Contract Area 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 use for 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 the Contractor and being utilized exclusively by SOCAR, shall be on terms to be mutually agreed. Notwithstanding anything to the contrary in this Contract, 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.

ARTICLE X

EARLY OIL PRODUCTION, FULL FIELD DEVELOPMENT AND MAIN EXPORT PIPELINE TARGET SCHEDULE AND CONDITIONS

10.1 Target Dates. In the performance of Petroleum Operations under this Contract, on the condition that there are no unexpected hindrances or other problems, as well as assuming the successful conclusion of various agreements, most of which require the cooperation of Third Parties, and that the other items listed in this Article X below are accomplished in a timely manner, the Parties, acting in a spirit of good faith, mutual cooperation and reason and in accordance with good international Petroleum industry practice in conducting Petroleum Operations, anticipate that the following target dates may be achievable to implement the below-mentioned main stages of the project for the development of the Contract Area:

- (a) Early Oil Production to commence within eighteen (18) months after the Effective Date;
- (b) First production from the Full Field Development to commence within forty-eight (48) months after the Effective Date; and
- (c) First delivery of Crude Oil into the Main Export Pipeline within fifty-four (54) months after the Effective Date.

The Parties agree that based on current knowledge the achievement of the above target dates would result in the optimum economic result for the Parties. It is recognized by the Parties that such target dates (or such other target dates as the Parties may agree as hereinafter provided) are best estimates and do not constitute obligations of the Contractor. The implementation of the work shall be reviewed periodically by the Parties and if appropriate reasons exist such target dates shall be modified, if required, by mutual agreement of the Parties. However, SOCAR retains the right to arbitration in the event Contractor should fail to conduct Petroleum Operations in accordance with the terms of this Contract (including Articles 10.1(a), (b) and (c)) in a diligent, safe and efficient manner and in accordance with generally accepted principles of the international petroleum industry.

10.2 Early Oil Production.

- (a) As part of the Minimum Obligatory Work Programme, Contractor, with the participation of SOCAR, within six months of the Effective Date, shall conduct a study of alternative options for the export of Early Oil Production from the Contract Area prior to construction and commissioning of the Main Export Pipeline.
- (b) In the event that, based on the technical and economic merits thereof, Contractor makes a positive recommendation to the Steering Committee for the implementation of an Early Oil Production project and the export to world markets of Crude Oil produced from the Contract Area and the Steering Committee approves Contractor's recommendation, Contractor shall propose Annual Work Programmes and Budgets necessary to implement such Early Oil Production project and Contractor's only obligations with respect to any such project will be as set forth in such Annual Work Programmes and Budgets. All costs incurred by Contractor in connection with any such Early Oil Production project, including but not limited to, expenditures incurred in connection with the reversal, repair or modification of any existing pipelines and the construction of any new pipelines (other than the Main Export Pipeline) to transport the Early Oil Production, shall be deemed to be Petroleum Costs. Contractor may request in its sole discretion to use SOCAR as a sub-contractor for some of the work contemplated in connection with the Early Oil Production project. Further, the Parties acknowledge that in order for any Early Oil Production project to proceed and for production therefrom to commence within eighteen (18) months after the Effective Date some or all of the following which will involve the participation of Third Parties will need to be resolved in a timely manner to the satisfaction of the Parties:
 - (i) any Crude Oil exchange agreements envisioned in Contractor's recommendations with the appropriate persons, entities and/or government agencies in the relevant state(s) will need to be negotiated;

- (ii) throughput and tariff agreements with the owners of pipelines in the relevant state(s) through which the Early Oil Production is to be transported to an export location will need to be negotiated;
 - (iii) terminaling and storage agreements with the owners of terminals and Crude Oil storage tanks at the export point where the Early Oil Production is to be transhipped pursuant to sales agreements will need to be negotiated;
 - (iv) any refining agreements, if the Early Oil Production project recommendation involves the refining of Crude Oil produced from the Contract Area and the export of refined petroleum products, will need to be negotiated;
 - (v) agreements with appropriate government agencies of other states that are necessary for the conduct of the Early Oil Production project will need to be negotiated.
 - (vi) the study of the Chirag-1 platform and facilities concludes that the platform and facilities meet international safety and operational standards or can be modified readily and economically to meet such standards; and
 - (vii) the reversal of the Baku-Tikhoretsk pipeline, if required, must be agreed with the owners thereof and responsibilities with respect thereto are resolved.
- (c) The Contractor and SOCAR agree that, unless and until the foregoing agreements have been negotiated and executed, and any other conditions identified in the Contractor's recommendation to the Steering Committee pertaining to the Early Oil Production project have been satisfactorily resolved, the Early Oil Production project cannot occur and Contractor shall have no obligation with respect thereto.

10.3 SOCAR Use of Chirag-1 Platform

- (a) In the event the study conducted with respect to alternative options for the export of Early Oil Production results in a decision by Contractor to recommend to the Steering Committee that no Early Oil Production project be undertaken, Contractor shall have no obligation of any kind with respect thereto. However, in such event, SOCAR may elect, by giving notice to Contractor at any time within thirty (30) days of the date Contractor notifies the Steering Committee of such recommendation, to proceed, at its sole cost and risk, with the use of the Chirag-1 platform to drill wells and commence production from the Chirag-1 platform. Any such costs incurred by SOCAR shall not be included as Petroleum Costs.
- (b) Ownership, possession and use of the Chirag-1 platform shall remain under SOCAR control in the event Contractor elects not to proceed with an Early Oil Production project. No contributions shall be made to the Abandonment Fund by Contractor with respect to the Chirag-1 platform, related facilities, equipment and wells, and Contractor shall have no obligation to abandon the Chirag-1 platform, related facilities, equipment and wells. The provisions of Article 20.5 shall apply to SOCAR's use and subsequent abandonment of the Chirag-1 platform, related facilities, equipment and wells. SOCAR shall conduct its operations with respect to the Chirag-1 platform in a safe, diligent and efficient manner in accordance with good international Petroleum industry practice and in such a manner that does not interfere with or hinder Petroleum Operations conducted or proposed to be conducted by Contractor pursuant to this Contract. In addition, SOCAR shall coordinate its activities with Contractor with respect to the use of the Chirag-1 platform and production of Petroleum therefrom to ensure proper reservoir management is being maintained, to ensure that Contractor's economic integrity under this Contract is preserved and to ensure that SOCAR's activities do not interfere with or hinder Petroleum Operations of Contractor. For this purpose, SOCAR and Contractor shall establish a coordinating committee prior to SOCAR's commencement of any activities with respect to the Chirag-1 platform. All decisions of the coordinating committee shall require the agreement of both SOCAR and Contractor. Any disputes arising between SOCAR and Contractor which cannot be resolved amicably shall be resolved in accordance with the procedures in Article 23.3 and Appendix VI.
- (c) In the event SOCAR maintains ownership, possession and use of the Chirag-1 platform pursuant to (b) above, SOCAR shall have the right to retain title to all Crude Oil produced and saved from wells drilled from the Chirag-1 platform, subject to SOCAR's obligation to maintain the economic integrity that Contractor otherwise would have had under the Contract. The economic integrity of Contractor shall be maintained by SOCAR providing full and prompt compensation for the net economic value of the Crude

Oil reserves lost by Contractor using the discounted cash flow method preserving the total net present value to Contractor and taking into account any direct or indirect reduction of reserves in the Contract Area and any damage to the overall reservoir performance in the Contract Area (see Appendix XII for the methodology to be used in determination of the net economic value of Crude Oil reserves lost by Contractor). The method of compensation to Contractor may include payment in Foreign Exchange, the grant by SOCAR to Contractor of an additional mutually agreed volume of Crude Oil reserves from an area located nearby that would be added to the Contract Area, or some other method as may be agreed by the Parties. The method of compensation to be paid to Contractor by SOCAR shall be agreed prior to any commencement of drilling operations from the Chirag-1 platform.

- (d) Notwithstanding the foregoing provisions of this Article 10.3, in the event that SOCAR proceeds with the use of Chirag-1 platform pursuant to Article 10.3(a), SOCAR may, at any time thereafter, propose to the Steering Committee terms and conditions upon which future responsibility and control of Chirag-1 platform and its related facilities, equipment and wells, be taken over by Contractor as part of Petroleum Operations (including the basis upon which SOCAR may be compensated for the expenditures reasonably and necessarily incurred by SOCAR in the construction thereof). If the Steering Committee does not reach agreement on terms and conditions, for any such takeover the provisions of Articles 10.3(a), (b) and (c) shall continue to apply. In the event that the Steering Committee reaches agreement on terms and conditions responsibility and control shall transfer to Contractor in accordance with said terms and conditions.

10.4 Full Field Development. SOCAR and Contractor anticipate that all of the following conditions necessary for commencement of Petroleum Operations toward achieving Full Field Development will be satisfied in a timely manner. The Parties agree that for Petroleum Operations to commence with respect to achieving Full Field Development the following conditions will have to be resolved after the Effective Date to the mutual satisfaction of the Parties;

- (a) insurance by appropriate authorities of all authorizations, permissions, licences and approvals necessary for the performance of Contractor's work in connection with this Contract, including but not limited to arranging for the construction and operation of an offshore gathering system, onshore processing and related facilities and onshore supply base and construction facilities, securing contractual arrangements with the appropriate authorities and entities having jurisdiction thereof that will provide open access on an acceptable basis to Contractor for use of a waterway and canal system servicing the Caspian Sea for transit of such equipment, supplies, products and other cargoes necessary for the performance of Petroleum Operations under this Contract which cannot be economically transported by alternative methods of transport;
- (b) arrangements for the financing, construction and operation of the Main Export Pipeline system. The term "arrangements" with respect to the Main Export Pipeline system shall mean the following:
 - (i) agreement among the Parties on the choice of route for the Main Export Pipeline and the conclusion and entry into force of multilateral government treaties between the Government and the government of each country through which the Main Export Pipeline must pass, providing, inter alia, for the construction and operation thereof and the unimpeded flow of Petroleum through the Main Export Pipeline;
 - (ii) the conclusion, enactment into law and entry into force of agreements between the Main Export Pipeline entity and/or the owners of the Main Export Pipeline and each government of a country through which the Main Export Pipeline passes providing, inter alia, for the uninterrupted flow of Petroleum through the Main Export Pipeline, the fixing of stabilized taxes, levies, duties, payments, fees or contributions (and transit fees, if any), or exemptions therefrom, to which the Main Export Pipeline entity and shippers/owners of the Petroleum will be subject, assurances from each such government that it will provide necessary security of the Main Export Pipeline, associated facilities and pipeline personnel; provided that SOCAR and the Contractor Parties (or their Affiliates), as equity participants in the Main Export Pipeline shall have acted reasonably and in good faith in an effort to diligently reach the conclusion of such agreements which contain terms generally accepted by good international Petroleum industry practice;

- (iii) the grant or issuance by the government of each country through which the Main Export Pipeline passes of the necessary rights, approvals, licenses and permits, including necessary land use rights, required for the Main Export Pipeline entity to construct, own, operate and have access to the Main Export Pipeline and associated facilities and installations;
- (iv) conclusion and entry into force of an agreement among the Main Export Pipeline owners governing ownership structure and interests of each of the owners, operatorship, voting procedures, operational issues, and tariffs; provided that SOCAR and the Contractor Parties (or their Affiliates), as equity participants in the Main Export Pipeline, shall have acted reasonably and in good faith in an effort to diligently reach the conclusion of such agreement which contains terms generally accepted by good international Petroleum industry practice;
- (v) execution of financial agreements or financing commitments with financial institutions covering the provision of all necessary funds for the design, construction, completion and operation of the Main Export Pipeline, throughput agreements as necessary and satisfaction of all conditions precedent contained therein to enable release of funds; provided that SOCAR and the Contractor Parties (or their Affiliates), as equity participants in the Main Export Pipeline, shall have acted reasonably and in good faith in an effort to diligently reach the conclusion of such agreement which contains terms generally accepted by good international Petroleum industry practice;
- (c) The Parties expressly agree that, notwithstanding anything elsewhere in this Contract to the contrary, Contractor shall have no obligation to conduct Petroleum Operations under this Contract, other than those under the Minimum Obligatory Work Programme, and any current Annual Work Programme and Budget pertaining to the Early Oil Production project undertaken by Contractor pursuant to Article 10.2, unless and until the conditions listed under (a) and (b) above have been completed to the reasonable satisfaction of both SOCAR and Contractor.

ARTICLE XI

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 minimize 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 10% 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 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 per cent (50%) of Crude Oil remaining out of Total Production after deduction of Crude Oil 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 attached as Appendix III hereto.

11.3 Transfer of Title to Cost Recovery Petroleum. Cost Recovery by Contractor shall be achieved by transferring to the Contractor title at the Delivery Point to quantities of Crude Oil from the Contract Area of equivalent value (as determined pursuant to Article 13.1) to the Petroleum Costs to be recovered by the 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 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.
 - (iii) 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.
- (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 Treatment of Bonuses. Bonuses paid by Contractor pursuant to Article XXIX hereof as well as bonuses previously paid to SOCAR and other consideration furnished hereunder shall be deemed for the purpose of this Contract as an amount of compensation in recognition of the rights acquired by the Contractor Parties under this Contract and as fully compensating SOCAR, the Government and its and their predecessors for all prior costs incurred by any of them in any way related to the Contract Area.

11.6 Profit Petroleum.

(a) The balance of Total Production comprised by Crude Oil remaining after deducting the quantities of Crude Oil necessary to enable recovery of Operating Costs and the portion of the Capital Cost Recovery Petroleum used to recover accumulated Capital Costs (as provided in Articles 11.2(a) and (b) and 11.4(d) 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 cumulative after-tax, real rate of return (RROR) (calculated pursuant to Article 11.6(b) and (c)), achieved as of the end of the preceding Calendar Quarter by Contractor as follows:

(i) If Total Transport Costs are less than or equal to \$3 per Barrel and Contractor achieves Early-Oil Production.

CONTRACTOR'S RROR	SOCAR Share-%	CONTRACTOR Share-%
Less than 16.75%	30	70
16.75% or more, but less than 22.75%	55	45
22.75% or more	80	20

In the event the Total Transport Costs of Contractor are more than \$3 per barrel and/or Contractor does not achieve Early Oil Production, the 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 appropriate tables set forth in Appendix VIII.

(b) Beginning at the Effective Date of the Contract, Contractor's RROR shall be determined at the end of each Calendar Quarter on the basis of the Net Cash Flow using the procedure contained in (i) below, compounded and accumulated in accordance with (ii) and (iii) below:

(i) The Contractor's Net Cash Flow computed in Dollars attributable to the Contract Area for each Calendar Quarter (the "Net Cash Flow") is the remainder of:

(aa) Contractor's aggregate income derived during the Calendar Quarter from sales of Crude Oil produced from the Contract Area determined in the case of arm's length sales, based upon the actual cash received from such sales by Contractor (adjusted for costs as set forth in Article 13.1(a)(i)) and, in the case of non-arm's length sales, based upon the principles of valuation as set forth in Article 13.1(a)(ii).

(bb) Minus Contractor's share of all amounts referred to in Article XXIX, including amounts paid prior to the execution of this Contract.

(cc) Minus Contractor's share of Petroleum Costs as spent.

(dd) Minus the sum of the Profit Taxes paid by the Contractor Parties during the Calendar Quarter.

(ii) The Contractor's Net Cash Flow for each Calendar Quarter is compounded at 3.948% (equivalent to an annualized rate of 16.75%) multiplied by the Inflation Adjustment and accumulated from the Effective Date according to the following formula:

$$CCNCF_1 \text{ (current Calendar Quarter) =}$$

$[1.03948 * I * CCNCF_1 \text{ (previous Calendar Quarter)}] + NCF \text{ (current Calendar Quarter)}$

where

CCNCF₁ = Cumulative Compounded Net Cash Flow at 16.75% annual RROR

NCF = Net Cash Flow

I = Inflation Adjustment for the Current Calendar Quarter

1.03948 = Quarterly RROR at an annual value of 16.75%

- (iii) The Contractor's Net Cash Flow for each Calendar Quarter is also compounded at 5.258% (equivalent to an annualized rate of 22.75%) multiplied by the Inflation Adjustment and accumulated from the Effective Date according to the following formula:

CCNCF₂ (current Calendar Quarter) =

$[1.05258 * I * CCNCF_2 \text{ (previous Calendar Quarter)}] + NCF \text{ (current Calendar Quarter)}$

where

CCNCF₂ = Cumulative Compounded Net Cash Flow at 22.75% annual RROR

NCF = Net Cash Flow

I = Inflation Adjustment for the current Calendar Quarter

1.05258 = Quarterly RROR at an annual value of 22.75%

- (c) In any Calendar Quarter at the end of which CCNCF₁ is less than zero the Contractor shall be deemed to have achieved RROR less than 16.75%. In any Calendar Quarter in which CCNCF₂ is less than zero but CCNCF₁ is greater than or equal to zero the Contractor shall be deemed to have achieved RROR equal to or greater than 16.75% but less than 22.75%. In any Calendar Quarter in which CCNCF₂ is greater than or equal to zero the Contractor shall be deemed to have achieved RROR of 22.75% or more.
- (d) The sharing of Profit Petroleum between SOCAR and Contractor in the current Calendar Quarter shall be in accordance with the applicable scale in Article 11.6(a) above or Appendix VIII using the Contractor's RROR as per Article 11.6(c) in the immediately preceding Calendar Quarter.
- (e) It is possible for the Contractor's RROR to decline as a result of negative Net Cash Flow in a Calendar Quarter with the consequence that Contractor's share of Profit Petroleum might increase in the subsequent Calendar Quarter.
- (f) Pending finalization of accounts, Profit Petroleum shall be shared on the basis of provisional estimates of possible achievement of Early Oil Production, Total Transport Costs, RROR, including the constituent components used in calculating RROR, as determined by Contractor. Appropriate adjustments shall be subsequently effected in accordance with procedures proposed by Contractor and approved by the Steering Committee.

11.7 Title to Profit Petroleum. Title in Contractor's share of Profit Petroleum shall be transferred to Contractor at the Delivery Point.

11.8 Treatment of SOCAR's Percentage Participating Interest. For purposes of this Article XI, in the event SOCAR retains a percentage participating interest in accordance with Article XXVIII, even though SOCAR is not a Contractor Party, subject to the provisions of Article 19.5, SOCAR shall receive its pro rata percentage participating interest share of the Petroleum allocated to Contractor.

ARTICLE XII

TAXATION

12.1 Contractor Parties' Profit Tax Obligations.

- (a) Each Contractor Party shall pay profit tax in respect of its Hydrocarbon Activities in accordance with the Law of the Azerbaijan Republic on Taxation on 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 Contract (the "Profit Tax").
- (b) It is acknowledged that Double Tax Treaties shall have effect to give relief from Taxes.
- (c) It is a condition to Contractor Parties' obligations under this Contract that except for the Profit Tax obligation described in this Article, Contractor Parties shall not be subject to any existing or future Taxes of any nature whatsoever in respect of their Hydrocarbon Activities.
- (d) For purposes of this Article XII, "Hydrocarbon Activities" shall be defined as all activities relating to Petroleum in the Azerbaijan Republic, whether such activities are performed in the Azerbaijan Republic or elsewhere.

12.2 Profit Tax

- (a) It is specifically acknowledged that the provisions of this Article XII 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 income and deductions described below in Article 12.3, consolidated with the profits or losses of its other Permanent Establishments in the Azerbaijan Republic.
- (b) The Profit Tax shall be imposed on the Taxable Profit of each Contractor Party for a Calendar Year at a fixed rate of twenty five percent (25%).

12.3 Calculation of Taxable Profit/(Loss)

- (a) Taxable Profit/(Loss) for a Calendar Year shall be computed with respect to each Contractor Party as follows:

Sales Income	X
Other Income	X
Expenses	(X)
Amortisation	(X)
Interest Costs	(X)
Balance Profit/(Loss)	X
Brought Forward Losses	(X)
Taxable Profit/(Loss)	X

In computing Balance Profit/(Loss), each item of income or expenditure of a Contractor Party shall not be included more than once.

- (b) In computing Balance Profit/(Loss), Sales Income shall be defined as the amount of income derived during the Calendar Year by such Contractor Party from sales of Petroleum produced in the conduct of Hydrocarbon Activities. In the event 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 the purpose of computing Balance Profit/(Loss), Sales Income shall be determined by applying, in the case of arm's length sales, the actual price realised by such Contractor Party, and, in the case of non arms' length sales, the principles of valuation as set out in Article 13.1(a) of this Contract.

- (c) Other Income shall be defined as any amounts of cash received by the Contractor Party in the carrying on of its Hydrocarbon Activities including but not limited to the following:
- (i) insurance proceeds; and
 - (ii) realised exchange gains; and
 - (iii) amounts received under Article 28.1(c) for the participation of SOCAR envisaged under that Article; and
 - (iv) amounts received under Article 14.2(d) and (e) from the Abandonment Fund; and
 - (v) amounts received under Article 14.2(h) for distributions of excess funds in the Abandonment Fund; and
 - (vi) interest income; and
 - (vii) amounts received from suppliers, manufacturers or their agents in connection with defective materials and equipment; and
 - (viii) amounts received for the use of facilities or intellectual property, compensation for services, sales of materials or charter hire.

Notwithstanding the foregoing, Other Income shall not include the following amounts received by the Contractor Party:

- (i) amounts received from sales of Petroleum; and
 - (ii) amounts received from sales of equipment, capital assets, permanent office buildings or temporary office buildings; and
 - (iii) amounts received as loans, or funds contributed, to the Contractor Party; and
 - (iv) amounts received from sales of any of the Contractor Party's rights and obligations arising under this Contract; and
 - (v) amounts received as refunds of Taxes; and
 - (vi) amounts received from SOCAR pursuant to Articles 10.3(c) and 28.2; and
 - (vii) amounts received in reimbursement of or otherwise in connection with expenditures incurred by the Contractor Party in excess of the amounts of such expenditures that have been expensed or amortised by the Contractor Party for purposes of computing Balance Profit/(Loss) (in which case the amount of any such excess shall not thereafter be expensed or amortised by the Contractor Party for such purposes and corresponding adjustments shall be made to the balance in Article 12.3(f)); and
 - (viii) amounts received which are not freely at the disposal of and do not increase the wealth of the Contractor Party.
- (d) Expenses shall be deducted in full in the Calendar Year in which they are incurred and shall be defined as all costs incurred by each Contractor Party in the carrying on of its 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 each 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 employment fund, to the social insurance fund and to the medical insurance fund and all 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 under good, standard international Petroleum industry practices); and
- (v) all pipeline tariffs incurred in transportation to the point of sale, commissions, brokerages, and other marketing and transportation costs; and
- (vi) all payments made under a lease agreement; and
- (vii) all insurance costs; and
- (viii) all personnel training costs; and
- (ix) all costs connected with the activities of the Permanent Establishments of each Contractor Party including management, research and development, and general administrative expenses; and
- (x) the cost of any item of equipment or capital asset which is less than the limit imposed under Article 12.3(k); and
- (xi) an allocable portion, in light of the services rendered in respect of Hydrocarbon Activities, of wages and salaries paid to managers and employees abroad, and the general and administrative overhead costs of the central services of each Contractor Party and its Affiliates working for its account, located abroad, and indirect costs incurred by said central services abroad for its account. The allocable portion of such costs with respect to this Contract for each Contractor Party for the Calendar Year shall be equal to the amount determined using the following formula:

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

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

b = the percentage participating interest of the 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 = 5% of the sum of the Contractor Parties' Capital Costs for the Calendar Year, if any, up to fifteen million Dollars (\$15,000,000);

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

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

z = 1.5% of the sum of the Contractor Parties' Operating Costs for the Calendar Year; and

- (xii) all payments into the Abandonment Fund; and
- (xiii) 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
- (xiv) any other losses, including realised exchange losses, or charges directly related to Hydrocarbon Activities; and
- (xv) all other expenditures which each Contractor Party incurs in carrying out Hydrocarbon Activities; and
- (xvi) all costs incurred as a result of good, standard international Petroleum industry practices.

(e) Amortisation deductions shall be calculated as follows:

- | | |
|--|---|
| (i) Equipment and all capital assets other than those assets described in (ii), (iii), and (iv) below ("Fixed Assets") | twenty five per cent (25%) per Calendar Year declining balance basis. |
| (ii) Amounts referred to in Article 29.1 | ten per cent (10%) per Calendar Year straight line basis. |
| (iii) Permanent Office Buildings | two point five per cent (2.5%) per Calendar Year straight line basis |
| (iv) Temporary Office | five per cent (5%) per Buildings Calendar Year straight line basis |

Any item which is deducted as an Expense under Article 12.3(d) shall not be amortised under Article 12.3(e) or (f).

(f) All expenditures on Fixed Assets incurred during the Calendar Year shall be deemed to have been incurred on 1st July with the result that fifty per cent (50%) of the expenditure shall be added to the balance of the unamortised amounts brought forward from the preceding Calendar Year. The balance will 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 per cent (50%) of the expenditures 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 per cent (25%) of the Adjusted Balance	(X)

Add: Excluded fifty per cent (50%) balance
of expenditures incurred on Fixed Assets
during the Calendar Year X

Balance to carry forward to following Calendar Year X

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

(i) If the Adjusted Balance plus the "excluded fifty per cent (50%) balance of expenditures incurred on Fixed Assets during the Calendar Year" is positive, the full amount shall be taken as a deduction in arriving at the Balance Profit/(Loss) in that Calendar Year, or

(ii) If the Adjusted Balance plus the "excluded fifty per cent (50%) balance of the expenditures incurred on Fixed Assets during the Calendar Year" is negative, the full amount shall be added to the Balance Profit/(Loss) of the Calendar Year.

(h) The amount of amortisation for expenditure on Fixed Assets shall be computed on the cost of the Fixed Asset exclusive of VAT.

(i) Balance Profit/(Loss) shall be adjusted to recognise a Contractor Party's gain or loss arising from the sale, disposition or abandonment ("Disposition") of Permanent Office Buildings and Temporary Office Buildings ("Buildings") computed as follows:

Proceeds (if any) from Building Disposition X

Less: Adjusted Basis of Building (X)

Gain/(Loss) on Building Disposition X

In determining gain or loss on Disposition of a Building,
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 (X)

Adjusted Basis of Building X

(j) Each Contractor Party shall have the right to sell or transfer any Fixed Assets which it owns at such price as it considers acceptable without regard to the market valuation of the Fixed Asset.

(k) Fixed Assets shall include any assets which it is usual to include in the Contractor Party's tax balance sheet under the heading of a fixed or intangible asset, the total value of each of which exceeds a limit. This limit for the Calendar Year in which this Contract is executed shall be Dollars fifteen thousand (US\$15,000). For each subsequent Calendar Year, this limit shall be increased by four percent (4%) over the limit which applied in the previous Calendar Year.

(l) Interest Costs shall include all amounts of interest, fees and charges paid in respect of any debt incurred in carrying out the Contractor Party's Hydrocarbon Activities and any refinancing of such debts, provided that, in the case of Affiliate debt, it shall include interest only to the extent it does not exceed a rate which would have been agreed upon between independent parties in similar circumstances. No deduction will be available for interest which becomes payable because the debt is repaid after its due date for repayment.

- (m) Each Contractor Party may carry forward without any limitation or restriction all Balance Losses arising in any Calendar Year. Such losses may be carried forward to the following Calendar Year and to subsequent Calendar Years, one at a time in chronological order, and shall offset such Contractor Party's Balance Profit in full without limitation or restriction in such Calendar Year(s) until such time as the loss is wholly offset against such Contractor Party's Balance Profit.
- (n) For the purpose of computing the Contractor Party's Taxable Profit/(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 date this Contract is given the full force and effect of law in Azerbaijan, shall be deemed to have been incurred on such date. Notwithstanding the foregoing, direct or indirect costs of conducting the negotiation of this Contract and in supporting medical and cultural activities prior to the execution of this Contract shall not be included in computing the Contractor Party's Taxable Profit/(Loss).
- (o) Should any Contractor Party assign all or any part of its interest in the Contract the assigning Contractor Party shall have the option to elect to have the assignee deduct against its future Balance Profits all, or a proportional part, if only part is assigned, of the balance of the unrelieved Balance Losses of the assignor Contractor Party arising from the assigned interest in the Contract.

12.4 Accounting and Tax Returns.

- (a) Each Contractor Party shall:
 - (i) Maintain its tax books and records exclusively in Dollars.
 - (ii) Recognise in its tax accounts income and expenditure at the time that such items would be recorded in accordance with the accounting principles adopted in the Azerbaijan Republic; i.e. on a cash receipts and disbursements basis.
 - (iii) Draw up its tax financial statements and Profit Tax returns exclusively 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 the Hydrocarbon Activities of all of its Permanent Establishments in the Azerbaijan Republic.
 - (iv) Have its tax financial statements and Profit Tax return for each Calendar Year audited by an auditor appointed by the Contractor Party and approved to carry out such audits by the appropriate authority of 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, pay 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 on or before twenty-five (25) days following the end of the relevant Calendar Quarter and shall be accompanied by a calculation in the form as set out in Article 12.3(a). In calculating the estimated Profit Tax for a Calendar Quarter, each Contractor Party may utilize 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 Taxes paid with respect to the Calendar Quarters during such Calendar Year will be credited against the final Profit Tax as calculated on the Profit Tax return. Any overpayment will be refunded to the Contractor Party within ten (10) days of submitting its final Profit Tax return for such Calendar Year (or at the election of the Contractor Party, credited against the following Calendar Quarter's or Quarters' estimated Profit Tax payment(s)) and any underpayment will be paid by the Contractor Party within ten (10) days of submitting such final Profit Tax return. 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, penalties and fines thereon as described in Article 12.4(d) below shall be made in Dollars.
- (d)
 - (i) The filing of the Profit Tax returns and payment of Profit Tax thereunder 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. The Contractor Party and the Tax Inspectorate may, by mutual agreement, extend this period.
 - (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 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 XXIII.
 - (iii) Upon a final determination that there has been either an underpayment or overpayment of Profit Tax by the Contractor Party on its final Profit Tax return for a Calendar Year, interest shall be paid by the Contractor Party to the Tax Inspectorate (or, in the case of a refund of an overpayment, paid by the Tax Inspectorate to the Contractor Party) on the amount of the underpayment or overpayment at a rate of LIBOR plus four percent (4%) (such LIBOR rate prevailing on the day before payment). 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 by or refunded to the Contractor Party. The Contractor Party may at its option elect to apply any refund or interest against any future Profit Tax liability.
 - (iv) In addition to interest payable as computed under (iii) above, a Contractor Party shall only be subject to the following penalties and fines with respect to Taxes:
 - (aa) If a Contractor Party fails to file a final Profit Tax Return, it shall be liable for a penalty of one hundred and ten percent (110%) 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 percent (200%) of the amount of the understatement.
- (e) Where the Contractor Party has a number of offices in the Azerbaijan Republic it shall submit its financial statements and Profit Tax returns to the Tax Inspectorate of the district which deals with the Contractor Party's main office in the Azerbaijan Republic. For this purpose the main office shall be deemed to be the one where the Contractor Party's consolidated accounting records are maintained.
- (f) The Tax Inspectorate of the district in which the Contractor Party is registered will issue to the Contractor Party official tax receipts evidencing the payment by the Contractor Party of the Profit Tax within ten (10) days of payment. Such tax receipts shall state the date and amount and other particulars customary in the Azerbaijan Republic for such receipts and currency in which the Profit Tax was paid.

12.5 Employee Taxes

- (a) All employees of each Contractor Party and its Affiliates shall be liable to pay Azerbaijan personal income tax only on their income earned as a direct result of their employment in the Azerbaijan Republic, subject to any applicable Double Tax Treaty.
- (b) Each Contractor Party and its Affiliates shall make contributions of Azerbaijan State social insurance and similar payments (including but not limited to contributions to the pension fund, the employment fund, the social insurance fund and the medical insurance fund) only with respect to employees who are citizens of the Azerbaijani Republic.

12.6 Taxation of Sub-contractors

- (a) Sub-contractors which are organized outside the Azerbaijan Republic ("Foreign Sub-contractors") shall be taxed as follows:
 - (i) Foreign Sub-contractors carrying on business in the Azerbaijan Republic in connection with Hydrocarbon Activities shall be deemed to earn a taxable profit of twenty percent (20%) of the payments received in respect of work or services performed in the Azerbaijan Republic in connection with Hydrocarbon Activities and shall be subject to tax on such profit at the rate of twenty-five percent (25%), resulting in a total tax of five percent (5%) of such payments. Any person making such payments shall withhold such tax from such payments and shall pay such withheld taxes to the appropriate taxing authority within thirty (30) days from the date of payment. Such taxes shall fully satisfy such Foreign Sub-contractor's tax compliance, filing obligations and liability for all Taxes.
 - (ii) Each 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 12.6(a).
- (b) Notwithstanding the foregoing, any Foreign Sub-contractor will be subject to the provisions of any applicable Double Tax Treaty.
- (c) Each Sub-contractor shall be entitled to import and re-export machinery, equipment, fixed assets, goods, works, and services for use in respect of Petroleum Operations free of any Taxes.

12.7 Tax Exemptions and Other Matters

- (a) Each Contractor Party shall be entitled to full and complete exemptions from all Taxes in respect of its Hydrocarbon Activities (except as otherwise provided for in this Contract).
- (b) Except as provided by Article 12.6(a), no Taxes shall be withheld or imposed on payments made by each Contractor Party or its Permanent Establishments to any entity organised outside the Azerbaijan Republic, including but not limited to the following payments:
 - (i) any remittance of profit or deemed or actual distribution; and
 - (ii) any interest, fees and charges in respect of any debt; and
 - (iii) any royalties; and
 - (iv) any lease payments; and
 - (v) any management fees; and
 - (vi) any technical service fees.
- (c) Each Contractor Party shall be exempt with credit (0% rate) from VAT on all (i) goods, works, and services supplied to or by it, (ii) its exports of 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 shall treat those supplies for VAT purposes as being exempt with credit (0% rate).
- (d) The appropriate Tax Inspectorate or other appropriate tax or customs authority shall provide each Contractor Party and its Sub-contractors with certificates confirming the exemptions and/or VAT zero per cent (0%) rate as provided in this Contract within thirty (30) days of the Contractor Party requesting such certificate.

ARTICLE XIII

VALUATION OF PETROLEUM

- 13.1 (a) The valuation of Crude Oil for purposes of Cost Recovery and as otherwise specifically provided in this Contract in any Calendar Quarter shall be:
- (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 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 arms 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 to the expert in accordance with the provisions of (b) below.
- (b) Within thirty (30) days after 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 during such Calendar Quarter, and Contractor shall notify SOCAR of valuations of Crude Oil for the purposes of Article 13.1(a) 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) and SOCAR and Contractor cannot reach agreement on the value of Crude Oil within thirty (30) days of receipt of notice by SOCAR of Contractor's valuation of Crude Oil, 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. The English language text of this Contract will be utilised by the expert. The expert shall report his determination within twenty (20) 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 for a given Calendar Quarter, the Net Back Value of Crude Oil determined for the preceding Calendar Quarter will 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.

- (c) In determining the Net Back Value of Crude Oil pursuant to Article 13.1(a) the following shall apply:
- (i) provisions in this Article 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 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 where title to Crude Oil 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 recognized 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 Main Export Pipeline, the inlet meter at a refinery, or the inlet flange to a Crude Oil hauling vessel; 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 from the Delivery Point to the terminus of the export pipeline, (including, if applicable, any pipeline utilized for transshipment of the Crude Oil to exit the Black Sea area) in excess of the normal international pipeline loss allowance of one-tenth of one percent (0.1%). 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.
 - (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 (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 Appendix VII.
- (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 Appendix VII. 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 therefor, 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 XIV

OWNERSHIP, USE AND ABANDONMENT OF ASSETS

14.1 Ownership and Use. Title to the following categories of fixed and movable 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 within the Contract Area 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 Contract. In this latter case, without prejudice to Contractor's rights under Articles 23.3(b) and XXX, title to fixed assets will pass to SOCAR irrespective of whether the costs thereof have been Cost Recovered under this Contract. 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 to, at no additional cost, the full and exclusive use and enjoyment of all land and fixed and movable assets acquired for the purpose of Petroleum Operations hereunder throughout the term of this Contract irrespective of whether title to such asset has passed to SOCAR in accordance with this Article XIV.
- (d) With respect to any fixed asset Contractor shall, upon agreement of partial relinquishment pursuant to Article 30.5, give notice of abandonment of such assets in the area to be relinquished which Contractor does not intend to use or relocate elsewhere in the Contract Area. 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 Contract, be jointly owned by SOCAR and Contractor. Following the termination of this Contract 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 Contract during the term of this Contract.
- (f) Except as otherwise provided in Article 14.3 of this Contract, ownership of leased equipment shall not transfer to SOCAR at the end of this Contract, 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 XIV, 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 an 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) The Abandonment Fund shall be opened jointly by SOCAR and Contractor and Contractor shall commence making contributions thereto in the first Calendar Quarter following the Calendar Quarter when seventy percent (70%) of Petroleum reserves identified in the Single Development Programme and any Exploration Development Plans for Discoveries 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 percent (70%) 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 percent (70%) 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 Contract, 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 Contract, 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 conducted or proposed to be conducted by Contractor.
- (e) Upon termination of this Contract, Contractor shall notify SOCAR of all fixed assets employed in Petroleum Operations within the Contract Area which the 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 the 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 the Government or any Government entity, 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 percent (70%) of the Petroleum reserves identified in the then current version of the Single Development Programme and any Exploration Development Plans (as the case may be) 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 11.6 prior to termination of the Contract.
 - (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 used within the Contract Area, which is on long-term lease (which for the purposes of this Article XIV 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 who are not Affiliates, 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 an option to purchase exercisable by SOCAR is included.

ARTICLE XV

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 by Contractor. Liquids saved and sold shall be treated as Crude Oil. Subject to Contractor's right pursuant to Article 11.1 and Article 15.4, 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

- (a) Subject to Articles 11.1, 15.3 and 15.4, the exclusive right to develop all Non-Associated Natural Gas in the Contract Area is reserved to SOCAR until such time that SOCAR decides to develop Non-Associated Natural Gas reserves in the Contract Area. At such time as SOCAR decides to develop Non-Associated Natural Gas reserves in the Contract Area, until the expiry of the applicable time period specified in (d) below Contractor shall have the exclusive right to negotiate with SOCAR one or more additional agreements ("Supplemental Agreements") which shall cover commercial terms and marketing of Non-Associated Natural Gas and the exclusive right to negotiate one or more gas sales agreements ("Sales Agreements") to be entered into by Contractor and SOCAR with each other and/or with Third Parties. The Supplemental Agreements shall include grants of the exclusive rights for Contractor to develop the relevant reserves of Non-Associated Natural Gas. With respect to all other issues pertaining to Non-Associated Natural Gas, relations between the Parties shall be governed by the provisions of this Contract. If the Parties reach agreement regarding development of Non-Associated Natural Gas, such development shall be conducted pursuant to this Contract and such Supplemental Agreements. SOCAR and Contractor will cooperate to diligently take all necessary steps promptly upon execution of each Supplemental Agreement to ensure that each such Supplemental Agreement will have the same full force and effect of law as this Contract.
- (b) One Supplemental Agreement shall cover all Non-Associated Natural Gas above the base of the Pliocene, and a separate Supplemental Agreement shall cover each reservoir established by a Discovery of Non-Associated Natural Gas below the base of the Pliocene, unless the Parties mutually agree otherwise. Contractor shall have the right to develop all such Non-Associated Natural Gas in every horizon above the base of the Pliocene in the order and manner Contractor determines in accordance with good international Petroleum industry practice. Contractor shall have no obligation at anytime to develop any Non-Associated Natural Gas deposits it has determined are not commercially, technically and economically viable. Petroleum Operations proposed to be carried out by Contractor with respect to the development of Non-Associated Natural Gas shall be approved in Annual Work Programmes and Budgets.
- (c) Each time SOCAR has informed Contractor as provided above of its decision to develop any such Non-Associated Natural Gas, SOCAR and Contractor shall advise each other of potential markets of which each is aware for sale of the Non-Associated Natural Gas inside the Azerbaijan Republic, as well as in the export market. The Parties agree that any markets available to any Party shall, subject to compliance with applicable competition laws, be made available to all Parties in proportion to their entitlement of Non-Associated Natural Gas pursuant to the relevant Supplemental Agreement. The Sales Agreement(s) must be concluded with the purchaser(s) prior to conclusion of the related Supplemental Agreement and Contractor having any obligation to develop the related Non-Associated Natural Gas deposit. The relevant Supplemental Agreement must also contain provisions to cover Natural Gas balancing that will allow a Party to defer its share of production and make-up rights regarding gas reserves entitlements in the event Contractor is unable to negotiate acceptable Sales Agreement(s) or if circumstances result in gas deliveries other than in accordance with entitlements. The Sales Agreement shall provide for payment in Foreign Exchange at prices to be set forth in the Sales Agreement(s).
- (d) SOCAR and Contractor shall diligently negotiate each such Supplemental Agreement (and the relevant Sales Agreement) in good faith. If the Parties have been unable to negotiate and execute such mutually acceptable Supplemental Agreement within a period of one (1) year after the price and other terms of the relevant Sales Agreement(s) have been determined by SOCAR and Contractor, covering a reservoir(s) of Non-Associated Natural Gas, then, subject to (f) below, SOCAR shall be free to enter into negotiations

with Third Parties with respect to the development of the reservoir(s) of Non-Associated Natural Gas within that part of the Contract Area to which the Supplemental Agreement in question relates. Should SOCAR reach an agreement (which for purposes hereof shall include any other type of arrangement) with any Third Party, SOCAR shall first offer such agreement to Contractor on the same terms and conditions. Contractor shall have sixty (60) days after receipt from SOCAR of all of the details of the agreement reached with such Third Parties within which to accept such agreement. If Contractor does not respond to such offer within such sixty (60) day period, Contractor shall be deemed to have rejected such offer from SOCAR. SOCAR shall thereafter be free to enter into such agreement with such Third Party.

- (e) In the event a Supplemental Agreement is not concluded pursuant to Article 15.2(d) and SOCAR, with or without a Third Party, plans to develop the applicable Non-Associated Natural Gas reservoirs within the Contract Area all activities shall be conducted by SOCAR and/or such Third Party in a diligent, safe and efficient manner in accordance with good international Petroleum industry standards and in a manner which does not cause any adverse impact to Contractor's current or future Petroleum Operations. Prior to the commencement of any operations or activities within the Contract Area to be conducted by SOCAR and/or such Third Party an agreement must be concluded by SOCAR and/or such Third Party with Contractor covering the terms and conditions of such operations and activities, including but not limited to establishment of SOCAR's and/or such Third Party's liability arising from such operations and activities and the terms pursuant to which Contractor is to perform certain services utilizing Contractor Facilities in connection with such development.
- (f) The foregoing provisions of this Article 15.2 to the contrary notwithstanding, in the event any exploration wells were initially drilled by Contractor pursuant to Article 4.5(a)(ii) and resulted in a Discovery, then, notwithstanding that the costs of the exploration well subsequently became Cost Recoverable, the Contractor shall retain all rights with respect to such Non-Associated Natural Gas for the entire duration of the Contract and shall be entitled to develop such Non-Associated Natural Gas Discovery pursuant to a separate agreement which shall cover commercial terms and marketing thereof. With respect to all other matters related to the Non-Associated Natural Gas, the terms and conditions of this Contract shall apply thereto.

15.3 Processing of Non-Associated Natural Gas. In the event Contractor and SOCAR enter into an agreement with respect to the development of Non-Associated Natural Gas as provided in Article 15.2, Contractor shall have the right to produce hydrocarbon liquids found with such Non-Associated Natural Gas and to process Non-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 by Contractor. Liquids saved and sold shall be treated as Crude Oil. The Delivery Point for Non-Associated Natural Gas shall be determined in the separate agreement referred to in Article 15.2

15.4 Flaring or Venting of Natural Gas. Contractor shall have the right to flare or vent 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 Natural Gas delivered to it by Contractor as provided in Articles 15.1 and 15.2 or in the event of Non-Associated Natural Gas, failure by any buyer thereof to take delivery pursuant to any Sales Agreement, 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 SOCAR has refused or failed to take delivery thereof. Notwithstanding the foregoing, Contractor shall endeavor to shut in Non-Associated Natural Gas wells if economically practicable at the time.

ARTICLE XVI

FOREIGN EXCHANGE

16.1 Contractor and each Contractor Party, and their Affiliates and Sub-contractors, are authorised throughout the duration of this Contract and in conjunction with this Contract 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 Azerbaijan 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 Contract, 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) without prejudice to the provisions of Article 12.5, pay in Foreign Exchange partly or wholly abroad the salaries, allowances and other benefits received by their expatriate employees working in Azerbaijan on Petroleum Operations; and
- (i) without prejudice to the provisions of Article 12.6, 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 Government or other Azerbaijan authorities, agencies or organisations in order for Contractor to obtain any of the above authorisations in the event that Contractor requests it to do so.

ARTICLE XVII

ACCOUNTING METHOD

- 17.1 Contractor shall maintain books and accounts of Petroleum Operations in accordance with the Accounting Procedure. These shall be maintained in Dollars in accordance with generally accepted international Petroleum industry accounting principles. All books and accounts which are to be submitted to SOCAR shall be prepared in both the Azeri and English languages.

ARTICLE XVIII

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, foodstuffs (subject to compliance with applicable regulations pertaining to the import of foodstuffs), goods and supplies necessary in Contractor's reasonable opinion for the proper conduct and achievement of the 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, 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 the Petroleum Operations, the costs of which have been included in the Petroleum Costs 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 Azerbaijan to any party will be taxable in accordance with Azerbaijan legislation (subject to Article XII).

18.2 Petroleum Export. Contractor, its customers and their carriers shall have the right to freely export, free of all Taxes and at any time, the portion of Petroleum to which Contractor is entitled in accordance with the provisions of this Contract.

18.3 Customs Laws. Subject to Articles XII, 18.1 and 18.2, all imports and exports carried out under this Contract 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.

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 Contract.

18.5 SOCAR Assistance. SOCAR will, 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 XIX

DISPOSAL OF PRODUCTION

- 19.1 Title to Petroleum. Except as expressly provided in Article 13.1(c)(iv) concerning the risk of loss of Petroleum production, the transfer of title to each Contractor Party of the share of the Petroleum production to which such Contractor Party 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 Contract. 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, will be authorized 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 not later than ninety (90) days prior to the date of commencement of production from which Contractor first receives an entitlement. Lifting schedules shall be agreed between SOCAR and Contractor periodically as provided under the rules and procedures governing the lifting programme.
- 19.3 SOCAR Option to Purchase Crude Oil
- (a) For the purpose of satisfying any domestic shortfall in Crude Oil supply for use within Azerbaijan, during each Calendar Quarter SOCAR shall have the option to purchase from the Contractor a portion of the Crude Oil allocated to the Contractor under the provisions hereof, at the Delivery Point in Azerbaijan. Contractor shall initially invoice SOCAR for such Crude Oil purchased hereunder at the per Tonne price determined in accordance with Article 13.1(a) 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(a) 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 will such quantities exceed more than ten (10) percent of Contractor's entitlement at the Delivery Point. In the event any Taxes are levied on such Crude Oil, SOCAR shall be solely responsible for the payment thereof to the relevant Government 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 percent (10%) of Contractor's share of Crude Oil available at a point located at the terminus of the Main Export Pipeline referred to in Article 10.4(b) to be mutually agreed after the terminal agreements, if any, have been concluded. The price for such Crude Oil shall be mutually agreed (using those factors normally utilized 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 Government 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 Clause 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 XIII 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 a Main Export Pipeline. Only to the extent that Contractor is not fully utilizing its entitlement to throughput capacity in the Main 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 Clause 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 the Government 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 Contract shall, at no time throughout the term of this Contract, be less than it would have been had such reduction not been made. If due to a declared national emergency the Government requires an increase in the production rate above the Maximum Efficient Rate, the 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 XX

INSURANCE, LIABILITIES AND INDEMNITIES

- 20.1 Insurance. Contractor (which for purposes of clarification with respect to this Article XX shall include the Joint Operating Company and any other entity formed by Contractor pursuant to Article VI) 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 in Appendix III. 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 XIII, 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.
- 20.2 Liability for Damages. Contractor shall be liable to SOCAR (or if applicable the appropriate agency of the Government of Azerbaijan) and the Government 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. Without prejudice to each Contractor Party's obligation to pay its Profit Tax as referred to in Article XII, 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 the Government. The Contractor's liabilities to Third Parties (other than the Government) 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 dependant 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 Contract 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 entity, provided that such Affiliate, at the time of the injury or damage, is not acting in the capacity of a Sub-contractor) or dependant 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 Contract 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.
- 20.4 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 the Government or any Governmental entity, 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 or any operations of SOCAR or any of its predecessors, prior to the Effective Date, including but not limited to damages 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 the Government or any Governmental entity, arising out of or in any way connected with any injury, death or damage of any kind sustained in connection with or arising from:

- (a) any operations of SOCAR pursuant to Article 10.3 (whether before or after the Effective Date), as well as any operations of SOCAR and/or any Third Party pursuant to Article 15.2 or as the result of SOCAR access pursuant to Article 7.2, and
- (b) any portion of the Contract Area surrendered by Contractor pursuant to Articles 30.3 and 30.5 and/or any continued use of any assets, and/or the abandonment of any assets, for which SOCAR has assumed control and responsibility from Contractor pursuant to Article XIV and accruing after the date of such surrender and/or SOCAR's assumption of the use of any such assets and abandonment of any assets,

including but not limited to damages to the environment (but excluding any claim, action or proceeding which results from Contractor's Wilful Misconduct whether occurring before or after the date of surrender).

In respect of any loss, damage or liability, as well as any claim, demand, action or proceeding instituted against SOCAR by any person or entity for death or damage of any kind sustained in connection with or arising from any portion of the Contract Area surrendered by Contractor and accruing on or before the date of surrender, including but not limited to damages to the environment, the provisions of this Contract, and Contractor's obligations hereunder, shall continue to apply.

20.6 Joint and Several Liability. Except as provided under Articles XII, 27.1, 28.2 and 29.2 the liability of the Contractor Parties shall be joint and several with respect to all of the obligations of the Contractor under this Contract.

20.7 Consequential Losses. With respect to indirect and consequential losses arising out of or in connection with this Contract or any activities hereunder, notwithstanding anything to the contrary elsewhere in the Contract, Contractor shall not be liable (whether in contract, tort or otherwise) under any circumstances whatsoever for any such 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 XXI

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 Contract, 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, labor 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 Azerbaijan) which hinder or impede Contractor's conduct of operations or which substantially impairs or threatens Contractor's rights under this Contract; 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 Azerbaijan 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 in accordance with the procedure set forth in Article XXIV 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 parent company is incorporated or is subject takes actions which preclude such Contractor Party from fulfilling its obligations under this Contract, 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 fulfill their obligations under this Contract.

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 Contract (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 reestablish operations upon removal or termination of Force Majeure.

21.3 Pre-Production Force Majeure

- (a) If, prior to commencement of production from the Contract Area
 - (i) Contractor has declared Force Majeure;
 - (ii) such Force Majeure situation has continued for a continuous period of not less than six (6) months and no end to the Force Majeure appears likely within the foreseeable future; and,
 - (iii) provided such Force Majeure did not arise as a result of events within Azerbaijan or as a result of any action or inaction on the part of the Government;

then SOCAR shall be entitled to elect, by giving Contractor written notice of such election during the existence of such Force Majeure, to proceed in accordance with the provisions of Article 10.3 as if Contractor had made a negative recommendation regarding the Early Oil Production project and SOCAR had elected to proceed at its sole cost and risk with the use of the Chirag-1 platform. In such event, all provisions of Article 10.3(a)-(d) shall apply to SOCAR's use of the Chirag-1 platform, except that SOCAR shall only be entitled to produce such volumes of Petroleum which the Government has required SOCAR to deliver to meet an emergency domestic Petroleum requirement of the Azerbaijan Republic during the period of Force Majeure.

- (b) If SOCAR exercises its election pursuant to Article 21.3(a), Contractor shall have the right, exercisable at any time but no later than six (6) months after the Force Majeure event has ended, to elect, by giving

SOCAR written notice of such election, to reacquire control and operation of the Chirag-1 platform upon the terms and conditions provided in such notice. It is understood that only those costs incurred by Contractor and SOCAR which were incurred in accordance with good international Petroleum industry practice will be considered for purposes of determining the appropriate amounts to be credited to Contractor and SOCAR for Cost Recovery purposes, and that such costs will bear interest at a rate of LIBOR plus four percent (4%) aggregated on a Calendar Quarter basis in the same manner as provided in Article 11.4. Contractor shall have the right to take over operation and control immediately upon its election under this Article 21.3(b). In the event that Contractor and SOCAR are unable to agree upon the terms and conditions after such takeover by Contractor, including the treatment of costs incurred by Contractor prior to SOCAR's election under Article 21.3(a) above and of costs incurred by SOCAR prior to Contractor's election under this Article 21.3(b) and the proper way to rebalance such costs through disproportionate sharing of future costs or otherwise, the dispute concerning the appropriate terms and conditions shall be subject to arbitration.

- (c) If SOCAR exercises its election pursuant to Article 21.3(a), and if Contractor fails to exercise its election within the time period provided in Article 21.3(b) above or waives its right in writing to make such election, Article 10.3 shall apply in all respects and SOCAR shall, in addition to making the economic integrity compensation provided in Article 10.3(c), make reimbursement to Contractor of all costs incurred by Contractor in connection with the Early Oil Production project up to the date of SOCAR's election, together with interest thereon at the rate of LIBOR plus four percent (4%) aggregated on a Calendar Quarter basis in the same manner as provided in Article 11.4 by:
 - (i) making immediate payment in Foreign Exchange; or, subject to prior agreement with the Contractor,
 - (ii) entering into satisfactory arrangements with Contractor which will permit Contractor to take delivery from SOCAR at a mutually acceptable geographical location at which a Third Party purchaser would be expected to take delivery for Foreign Exchange at internationally recognized price levels of sufficient volumes of Crude Oil valued in accordance with Article 13.1(a) to make such reimbursement together with accrued interest at the rate of LIBOR plus four percent compounded on a Calendar Quarter basis from the date of SOCAR's election until the date of reimbursement.
- (d) Contractor shall be deemed to have achieved Early Oil Production for purposes of Article 11.6 only if Contractor has elected to reacquire control and operation of Chirag-1 platform under Article 21.3(b) above and timing requirements have otherwise been satisfied.

21.4 Post-Production Force Majeure

In the event that at any time after commencement of production from the Contract Area Contractor has declared Force Majeure as a result of the inability to deliver Petroleum produced from the Contract Area to a geographical location at which a Third Party purchaser of Petroleum would be expected to take delivery in exchange for Foreign Exchange at international recognized price levels and such Force Majeure situation has continued for a period of not less than ninety (90) consecutive days and provided:

- (i) such Force Majeure did not arise as a result of events within Azerbaijan or as a result of any action on the part of the Government;
- (ii) Contractor is able to deliver Petroleum from the Contract Area to the Delivery Point; and
- (iii) satisfactory arrangements have been agreed with Contractor for
 - (a) current payment to Contractor in Foreign Exchange of all Petroleum Costs incurred by Contractor in producing such Petroleum for SOCAR, and
 - (b) make up by Contractor, as soon as possible (but, to the extent physically possible, not longer than a period of time equal to the period (the "Crisis Period") that Petroleum was delivered to SOCAR during the existence of the Force Majeure event) after cessation of the Force Majeure event, of volumes of Petroleum equivalent in value ("make-up amount") to the value of the Petroleum delivered to SOCAR during the Crisis Period as calculated on a Calendar Quarter net back value basis in the manner set forth in Article 13.1, which make-up amount shall be

carried forward, as well as adjusted for the time value of money at an interest rate of LIBOR plus four percent (4%), compounded on a Calendar Quarter basis, until Contractor has been fully compensated,

then SOCAR shall be entitled to require Contractor to deliver to SOCAR at the Delivery Point such volumes of Petroleum which the Government has required SOCAR to deliver to meet an emergency domestic Petroleum requirement of the Azerbaijan Republic. In no event, without the consent of Contractor, shall Contractor be required to:

- (i) produce volumes of Petroleum in excess of those volumes to which SOCAR would otherwise have been entitled had there been no Force Majeure;
- (ii) deliver Petroleum to SOCAR under this Article 21.4 for a period longer than one (1) year; and
- (iii) incur any Capital Costs to maintain such production.

ARTICLE XXII

VALIDITY, ASSIGNMENT, AND GUARANTEES

22.1 Validity

- (a) Except as otherwise provided under Article 22.1(b), this Contract 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 Contract 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 Contract.
- (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 22.1(c), SOCAR's guarantees under Article 22.1(a), and Article 28.1 (together with any provisions necessary for the enforcement thereof) shall come into force on the date of execution of this Contract.
- (c) In the event this Contract is finally rejected by the Azerbaijan Parliament and Contractor has notified SOCAR that any further revisions to the Contract, if any, necessary for ratification are unacceptable to Contractor this Contract shall not become effective, the rights and obligations of the Parties under this Contract and any previous agreements pertaining to the Contract Area shall be extinguished, with the exception of the Gas Utilization Agreement which shall remain in full force and effect, and SOCAR shall promptly reimburse the Contractor Parties the amount of eighty-one million Dollars (\$81,000,000) which had been paid by them or credited to them pursuant to the bonus obligation under the Declaration of June 4, 1993, together with interest thereon at the rate of LIBOR plus four (4) percent compounded on a Calendar Quarter basis since the date of payment by the Contractor Parties under the said Declaration until payment has been made by SOCAR to the Contractor Parties.

22.2 Assignment

- (a) Restriction. No assignment, mortgage, pledge or other encumbrance shall be made by a Party of its rights and obligations arising under this Contract 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 XXII 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 Contract. Except in the case of a Party assigning all of its percentage participating interest, no Party shall assign less than a five (5) percent percentage participating interest.
- (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 Contract to any Third Party which:
 - (A) has the technical and financial ability commensurate with the responsibilities and obligations which would be imposed on it hereunder;
 - (B) as to the interest assigned, accepts and assumes all of the terms and conditions of this Contract; and
 - (C) 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

Contract 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 Contract.

- (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 Contract, 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 Contract 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 Contract, except to the extent otherwise provided under this Contract.
 - (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 Contract to one or more of its Affiliates or to any of the Contractor Parties without the approval 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 Contract 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).
- (c) Assignments by SOCAR. In the event SOCAR retains a percentage participating interest under Article 28.1 (for purposes of this Article 22.2(c), "such interest"), SOCAR shall have the right to assign such interest in this Contract pursuant to this Article 22.2.
- (i) Assignments to Third Parties. Subject to the provisions of this Article 22.2(c), SOCAR shall be entitled to assign all or part of its rights and obligations arising under such interest in this Contract to any Third Party which:
 - (A) has the technical and financial ability commensurate with the responsibilities and obligations which would be imposed on it hereunder;
 - (B) as to the interest assigned, accepts and assumes all of the terms and conditions of this Contract; and
 - (C) is an entity with which each of the Contractor Parties can legally do business.
 - (ii) Encumbrance by SOCAR. Without prejudice to its obligations hereunder, SOCAR shall have the right to freely mortgage, pledge or otherwise encumber such interest in the Contract, provided that any such mortgage, pledge or other encumbrance shall be made expressly subject to the terms of this Contract.
 - (iii) Approval of Contractor. Any proposed assignment, mortgage, pledge or other encumbrance by SOCAR to a Third Party shall require the prior approval of Contractor which approval shall not be unreasonably withheld. If within ninety (90) days following notification to Contractor of a proposed assignment accompanied by the relevant information and the draft deed of assignment, mortgage, pledge or other encumbrance, Contractor has not given its decision, such assignment, mortgage, pledge or other encumbrance shall be deemed to be approved by Contractor.
 - (iv) Obligations of Assignee. In the event SOCAR assigns all or part of such interest and the assignment has been approved or deemed approved by Contractor, SOCAR shall, to the extent of such interest assigned, be released from all further obligations and liabilities arising under this Contract after the effective date of such assignment. The assignee shall thereafter be liable for the obligations arising from such interest in this Contract, except to the extent otherwise provided under this Contract.

- (v) Assignments to Affiliates. SOCAR shall be entitled at any time to assign all or part of such interest to one or more of its Affiliates without the approval of Contractor; provided, however, that any such Affiliate satisfies the requirements of Article 22.2(c)(i) above, and further provided that SOCAR shall remain liable for obligations under this Contract in the same manner as though no assignment had been made unless and until said assignment is approved or deemed approved by Contractor, in the manner provided under Article 22.2(c)(iii).

22.3 No Tax on Assignments. Any assignment or transfer pursuant to Articles 22.2, 28.1 or 28.3 shall be at no cost or charge and shall be free of Taxes to any Party.

22.4 Conditions on Assignment. Any assignment by a Contractor Party shall be expressly conditioned upon the assignee providing to SOCAR a parent company guarantee similar to that referred to in Article 22.5.

22.5 Parent Company Guarantees. Each Contractor Party other than Lukoil, Statoil and TPAO shall as soon as practicable after execution of this Contract by all Parties, provide to SOCAR a letter of parent company guarantee in the form attached hereto as Appendix IV.

Each of Lukoil, Statoil and TPAO is not required to give such a parent company guarantee. However in the event that at any time throughout the duration of this Contract, any of Lukoil, Statoil or TPAO assigns its interest in this Contract to an Affiliate, then the parent company of that Affiliate will provide to SOCAR at the time of that assignment a parent company guarantee in the general form of Appendix IV.

22.6 Government Guarantee. Upon the execution of this Contract by all Parties SOCAR shall procure the execution by the Government of the Guarantee and Undertaking attached hereto as Appendix V. An executed original of the said Guarantee and Undertaking shall be provided to each Contractor Party and shall be included in the executed copy of the Contract to be submitted to the Parliament of the Azerbaijan Republic. Upon ratification and approval of this Contract by the Parliament of the Azerbaijan Republic and publication in the customary manner the Guarantee and Undertaking of the Government shall have the force of law.

ARTICLE XXIII

APPLICABLE LAW, ECONOMIC STABILISATION, AND ARBITRATION

- 23.1 Applicable Law. This Contract 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 Contract, this Contract 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 Contract except as specifically otherwise provided in this Contract.
- 23.2 Economic Stabilisation. The rights and interests accruing to Contractor (or its assignees) under this Contract and its Sub-contractors under this Contract shall not be amended, modified or reduced without the prior consent of Contractor. In the event that the Government or other Azerbaijan authority invokes any present or future law, treaty, intergovernmental agreement, decree or administrative order which contravenes the provisions of this Contract or adversely or positively affects the rights or interests of Contractor hereunder, including, but not limited to, any changes in tax legislation, regulations, administrative practice, or jurisdictional changes pertaining to the Contract Area the terms of this Contract 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 the 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 Government will take appropriate measures to resolve promptly in accordance with the foregoing principles any conflict or anomaly between such treaty, intergovernmental agreement, law, decree or administrative order and this Contract.
- 23.3 Arbitration
- (a) Except for any matter to be referred to an expert pursuant to Article 13.1 (b) or except as otherwise expressly set forth herein, in the event a dispute arising between SOCAR and any or all of the Contractor Parties (including matters which have been unresolved 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 Contract applying the principles of contractual interpretation under Azerbaijan law; if mutual satisfaction is not so achieved the disputing Parties will apply the principles of contractual interpretation under English law. 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 provisions of Appendix VI and the applicable law provisions of Article 23.1.
- (b) Nothing in this Contract shall limit the rights of the Contractor Parties pursuant to Articles 11 through 15 of the Law on Protection of Foreign Investment signed on 15 January 1992 as implemented by Decree of the National Council of the Supreme Soviet of the Azerbaijan Republic dated 15 January 1992, which rights shall apply in addition to any other rights Contractor may have under this Contract 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 of act of the Government or any regional, local or inter-Republic or other 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.

ARTICLE XXIV

NOTICES

24.1 All notices required to be given pursuant to this Contract 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 upon the Joint Operating Company referred to in Article VI coming into existence any notices required to be given to Contractor Parties hereunder by SOCAR (except any notice of breach pursuant to Article XXX, any notice pursuant to Article 22.2(b)(iii) and any notice of termination of this Contract and any notice of arbitration pursuant to Article 23.3) shall be considered effective as to all Contractor Parties if given to the Joint Operating Company in accordance with this Article 24.1. The Contractor shall advise SOCAR of details of the name and address of the Joint 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 Neftyanikov 73
SOCAR
Telex: Baku 142187 (CWET SU)

Attention: The President

AMOCO: Amoco Caspian Sea Petroleum Limited
Old Intourist Hotel, Room 458
Baku, Azerbaijan 370004

Attention: Vice President/Resident Manager

and copied for information to :

Amoco Caspian Sea Petroleum Company
c/o Amoco Production Company
501 WestLake Park Boulevard
P. O. Box 3092
Houston, Texas USA 77253
Telex: 203-231 AMOCO UR/6868237 AMOCO HOU

Attention: The President

BP: BP Exploration (Caspian Sea) Limited
370004 Azerbaijan Republic
Baku
Bejuk Gala kuchasi 42

Attention: BP Chief Representative

and copied for information to:

BP Exploration Operating Company Limited
4/5 Long Walk
Stockley Park
Uxbridge
Middlesex UB11 1BP
England
Telex: London 888811 (BEE PEE)

Attention: President, BP Exploration Azerbaijan

DELTA: Delta Nimir Khazar Limited
30 Old Burlington Street London W1X 1LB
England
Tel: 44-71-494-3000
Fax: 44-71-287-2319

Attention: The President

STATOIL: Den norske stats oljeselskap a.s
c/o BP Exploration (Caspian Sea) Limited
370004 Azerbaijan Republic
Baku
Bejuk Gala kuchasi 42

Attention: Statoil Chief Representative

and copied for information to :

Den norske stats oljeselskap a.s
Petroleumsveien 12
4001 Stavanger
Norway
Telex: 73600 STAST N

Attention: Vice President E&P International

LUKOIL: Lukoil Joint Stock Company
2 bldg. 44h., Lusinovskaya
113093 Moscow
Russian Federation
Telex: 612553 LUK SU

Attention:

McDERMOTT: McDermott Azerbaijan, Inc.
P. O. Box N-7796
Norfolk House
Nassau, Bahamas
Telefax: (809) 326-5200
Telex: 29720531

Attention: President

and copied for information to :

McDermott International, Inc.
1450 Poydras
Post Office Box 61961
New Orleans, Louisiana USA 70161
Telefax: (504) 587-6153
Telex: 266079A JRMAC

PENNZOIL: Attention: Senior Vice President
General Counsel and Corporate Secretary
Pennzoil Caspian Corporation
Old Intourist Hotel
Baku, Azerbaijan 370004
Fax: 011-873-156-1647 (Sprint Satellite)

Attention: The President

and copied for information to :

Pennzoil Caspian Corporation
c/o Pennzoil Exploration and Production Company
P. O. Box 2967, 700 Milam
Houston, Texas 77252-2967
Telex: 762334/762170

Attention: Senior Vice President –
International

RAMCO: Ramco Hazar Energy Limited
4 Rubislaw Place
Aberdeen AB1 1XN
Scotland, United Kingdom
Telephone: 44-224-626-224
Tlx: 739842; Answerback: RAMCO G

Attention: Chief Executive

TPAO: Turkiye Petrolleri A.O.
Mustafa Kemal Mahallesi
2 Cadde, No. 86, Esentepe
06520, Ankara Turkey
Tel: 2869440
Fax: 2869070
Telex: 42626 TPGM.TR

Attention: The President

UNOCAL: UNOCAL KHAZAR, LTD.
Azerbaijan Republic
Baku 370148
Hotel Anba (Moskva)
1 "a" Mekhti Hussein St.
Hotel Fax: 989111, 989112, 989113
Satellite Fax: 873-9151-5650#

Attention: Vice President/Resident Manager

and copied for information to :

Unocal Corporation
Unocal Khazar, Ltd.
1201 W. 5th St.
Los Angeles, CA 90017,
Tel (213) 977-6350

Fax (213) 977-5823

Attention: The President

ARTICLE XXV

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 Contract (including the Guarantee and Undertaking referred to in Article 22.5), the full force of law in Azerbaijan, 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) authorization to enter into this Contract by the Boards of each of the Parties (it being recognised that such Boards shall act at their sole discretion);
 - (ii) delivery to SOCAR of each of the parent company guarantees as provided in Article 22.5;
 - (iii) delivery to each of the Contractor Parties of the Government Guarantee as provided in Article 22.6;
 - (iv) Execution by SOCAR and Contractor of the supplementary agreements containing mutually acceptable terms and conditions pertaining to the possible use and refurbishment of the rig "KASPMORNEFT" and supply vessels as referred to in Appendix X.
- (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 Contract and the said Guarantee and Undertaking the full force of law in Azerbaijan.

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

- (a) the costs incurred by Contractor in relation to such Petroleum Operations shall be recoverable in accordance with the provisions of Article XI, and
- (b) such Petroleum Operations shall (if appropriate) be regarded as part of the Minimum Obligatory Work Programme.

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 subject to Cost Recovery under this Contract.

ARTICLE XXVI

ENVIRONMENTAL PROTECTION AND SAFETY

- 26.1 Conduct of Operations. Contractor shall conduct the Petroleum Operations in a diligent, safe and efficient manner in accordance with generally accepted international Petroleum industry standards and shall take all reasonable actions in accordance with said 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, other natural resources and property. The order of priority for actions shall be the protection of life, environment and property.
- 26.2 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 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 Government authorities on the measures taken.
- 26.3 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 then current international Petroleum industry standards and practices being at the date of execution of this Contract those shown in Appendix IX, with which Contractor shall comply. If Appendix IX specifies more than one standard with respect to a matter, Contractor will use the standard most appropriate relative to the ecosystem of the Caspian Sea. 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.
- 26.4 Baseline Study and Ongoing Environmental Monitoring.
- (a) In order to determine the state of the environment in the Contract Area at the Effective Date, Contractor shall cause an environmental base line study (under the Minimum Obligatory Work Programme as referred to in Appendix X) to be carried out by a recognized international environmental consulting firm selected by Contractor, and acceptable to SOCAR. SOCAR shall nominate representatives to participate in preparation of the study in collaboration with such firm and Contractor representatives. The costs of such study shall be borne by Contractor, except that SOCAR shall be liable for all costs associated with the representatives nominated by SOCAR. The costs associated with this study shall be subject to Cost Recovery in accordance with Article XI. Contractor shall conduct ongoing environmental monitoring of its operations. Data collected will be evaluated at least annually to determine if any practices and discharge standards need to be revised. The Environmental Strategy included in Appendix IX outlines the environmental program that Contractor (and SOCAR in the event it carries out operations on the Chirag-1 platform pursuant to Article 10.3 or operations with or without a Third Party pursuant to Article 15.2(e)) will follow during the course of Petroleum Operations within the Contract Area. The evaluation of data collected during the ongoing monitoring program, together with the baseline study, will provide a basis for determining whether any unacceptable environmental impact has been caused by Contractor in the course of conducting Petroleum Operations and for which Contractor may be liable under Article 20.2, or whether the conditions leading to such impact existed prior to the commencement of Petroleum Operations or otherwise from activities conducted by a party other than Contractor. SOCAR and Contractor shall review the environmental base line study and consult to determine whether any remedial action is warranted to mitigate the effects of any impact which occurs or has occurred from such prior conditions, and if so, whether a programme of remediation could be carried out by Contractor, it being agreed among the Parties that Contractor shall not be liable for any of the expense of such a remedial programme. Any such remedial program undertaken will be considered outside the scope of the Environmental Strategy and will be conducted pursuant to the terms of a separate agreement between SOCAR and Contractor.
- (b) In the event SOCAR operates the Chirag-1 platform as provided pursuant to Article 10.3 and/or SOCAR and/or any Third Party operates any other facilities with respect to development of Non-Associated

Natural Gas pursuant to Article 15.2(e), then in connection with performance of the ongoing monitoring program Contractor shall have the right to make periodic inspections of the Chirag-1 platform and such other facilities and SOCAR's and/or any Third Party's operations with respect thereto, including, but not limited to, the placement of monitoring devices and collection of samples relevant to the monitoring program. Contractor's above referenced inspections, sampling and placement of monitoring devices shall be performed by Contractor in a manner which does not unreasonably interfere with SOCAR's and/or any such Third Party's operations on the Chirag-1 platform or such other facilities.

26.5 Environmental Damage

- (a) Contractor shall be liable for those direct losses or damages incurred by a Third Party (other than the Government) 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 Contract, as well as any environmental pollution or other environmental damage, condition or problems arising out of SOCAR's operation of the Chirag-1 platform pursuant to Article 10.3 and SOCAR's and/or any Third Party's development of Non-Associated Natural Gas pursuant to Article 15.2(d); and SOCAR shall indemnify and hold harmless Contractor, its Sub-contractors 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 the 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 the Contractor's Wilful Misconduct) caused by the Contractor shall be included in Petroleum Costs.

ARTICLE XXVII

CONFIDENTIALITY

- 27.1 (a) Subject to the provisions of this Contract, 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 Contract, except:
- (1) To an Affiliate, provided such Affiliate maintains confidentiality as provided in this Contract;
 - (2) To a Governmental agency or other entity when required by this Contract;
 - (3) 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;
 - (4) 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;
 - (5) 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);
 - (6) 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 Contract;
 - (7) 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;
 - (8) Where any data or information which, through no fault of a Contractor Party, becomes a part of the public domain; and
 - (9) To the arbitrators in accordance with Article XXIII or to any expert in accordance with Article XIII.
- (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 as pursuant to Article 27.1(a)(4), (5), and (6) 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 Contract during the term of this Contract shall nonetheless remain bound by the obligations of confidentiality set forth above and any disputes shall be resolved in accordance with the arbitration provisions hereof, 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 Contract.
- 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 Azerbaijan 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 summarizations of a general nature relating to Petroleum Operations, which are customarily or routinely described or reported in such publications.

ARTICLE XXVIII

SOCAR'S PARTICIPATING INTEREST

28.1 SOCAR Participation

- (a) Election to Retain Interest. SOCAR shall have the right to elect to retain a twenty percent (20%) percentage participating interest under this Contract or such lesser percentage participating interest as SOCAR shall decide. Such election must be exercised by SOCAR on or before the Effective Date by giving Contractor (i) written notice of its election to retain its twenty percent (20%) percentage participating interest, or such lesser percentage participating interest (which lesser interest shall be a whole number evenly divisible by five (5)), and (ii) a written evidence in the form of a letter of assurance from an internationally recognized bank which has a Standard & Poors credit rating of A or better to establish SOCAR's financial capability to pay SOCAR's share of the costs and expenses of Contractor's obligations under the Minimum Obligatory Work Programme, including all Petroleum Costs incurred by Contractor with SOCAR's consent between the date of execution and the Effective Date, based on the percentage participating interest retained by SOCAR pursuant to this Article 28.1. In the event SOCAR fails to provide the letter of assurance as provided above, such failure shall constitute an automatic forfeiture of SOCAR's percentage participating interest and the provisions of Article 28.3 shall apply.
- (b) Adjustment of Interest. In such event as referred to in the last sentence of (a) above or in the event SOCAR elects to retain a percentage participating interest pursuant to this Article XXVIII that is less than a twenty percent (20%) percentage participating interest, the percentage participating interests of the Contractor Parties (other than Lukoil) shall be increased by the amount released by SOCAR with each Contractor Party's (other than Lukoil's) percentage participating interest being increased in the proportion in which its percentage participating interests bears to the total of the percentage participating interest of all Contractor Parties (other than Lukoil).
- (c) Reimbursement of Contractor Costs. With respect to the percentage participating interest retained by SOCAR pursuant to this Article XXVIII, SOCAR shall reimburse Contractor the portion of the Petroleum Costs incurred by Contractor between the date of execution and the Effective Date that are attributable to such interest retained by SOCAR together with interest thereon at LIBOR plus four percent (4%) per annum from the date such costs were incurred until payment thereof. Contractor shall furnish to SOCAR an invoice detailing the amount of such unrecovered costs (including interest) and SOCAR shall pay such amount within sixty (60) days of receipt of such invoice.

28.2 SOCAR Participating Interest

SOCAR shall as of the Effective Date bear its pro rata share of all costs incurred by, as well as all other costs and expenses arising out of the obligations (including without limitation those obligations arising under Article XX) of, Contractor in respect of Petroleum Operations. Contractor shall submit invoices to SOCAR from time to time throughout the duration of the Contract, and thereafter, as necessary for SOCAR to pay its pro rata share of all such costs and financial obligations. Contractor's obligations to make any payments to SOCAR or the Government upon termination of the Contract shall be reduced to the extent of SOCAR's percentage participating interest.

28.3 Default

Any failure by SOCAR at any time to pay the amount of reimbursement set forth in Article 28.1 above, or its pro rata share of Petroleum Costs against Contractor's invoices as and when due shall be a default by SOCAR. SOCAR shall have, thereafter, ninety (90) days within which to cure such default by making payment of the amount due, together with interest thereon at LIBOR plus four percent (4%) per annum. In the event SOCAR has entered into any loan agreements containing a pledge of SOCAR's percentage participating interest, which pledge was approved by Contractor pursuant to Article 22.2(c)(iii), such lending party shall have the right to make the payment during such time period, in which event SOCAR's percentage participating interest shall transfer to such lending party. In the event SOCAR or such lending party fails to cure the default within such time period, such failure shall constitute an automatic forfeiture of SOCAR's percentage participating interest. Such forfeiture of the percentage participating interest of SOCAR shall be deemed to have been transferred to the Contractor Parties

(other than Lukoil) in proportion to their participating interests. Such transfer shall be made free of all mortgages, pledges and any other encumbrances.

ARTICLE XXIX

BONUS PAYMENT

29.1 Total Bonus Payments

Subject to the provisions of Article 29.3, the total bonus to be paid to SOCAR is three hundred million (\$300,000,000) Dollars (the "Total Bonus Payment") payable as provided in Article 29.2.

29.2 Dates of Total Bonus Payment

The Total Bonus Payment shall be payable in three installments as follows:

- (i) fifty percent (50%) of the Total Bonus Payment, shall be paid within thirty (30) days after the Effective Date. Each Contractor Party may credit against its bonus obligation under this Article 29.2(i) any sums previously paid by it (or an Affiliate) or credited to it against the bonus obligation as provided in the Declaration. In the event a Contractor Party assigns its percentage participating interest (or any part thereof) such assignee shall be entitled to any credit that otherwise would be available to the assigning Contractor Party against its bonus obligations hereunder.
- (ii) twenty-five percent (25%) of the Total Bonus Payment, shall be paid within thirty (30) days from the date upon which production at an average rate of forty thousand (40,000) Barrels of Crude Oil per day (in respect of which Contractor has an entitlement to share for Cost Recovery and production sharing purposes pursuant to Article XI) has been sustained for a period of sixty (60) days from the Contract Area. If not previously paid, all costs incurred pursuant to the Gas Utilization Agreement shall be credited against the twenty-five percent (25%) of the Total Bonus Payment paid pursuant to this Article 29.2(ii).
- (iii) the remaining twenty-five percent (25%) of the Total Bonus Payment, less any outstanding costs incurred pursuant to the Gas Utilization Agreement not previously credited pursuant to (ii) above, shall be paid within thirty (30) days from the date upon which Crude Oil (in respect of which Contractor has an entitlement to share for Cost Recovery and production sharing purposes pursuant to Article XI) has been exported from the Main Export Pipeline for a sustained period of sixty (60) days.

Notwithstanding the provisions of Article 20.6 each Contractor Party shall be liable only for its percentage participating interest share of the Total Bonus Payment.

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

Nothing in this Article XXIX shall affect the respective rights and obligations of SOCAR and the Pennzoil Group under the Gas Utilisation Agreement, and the Pennzoil Group and SOCAR shall be free to amend or modify the Gas Utilisation Agreement and to negotiate with respect thereto including but not limited to, negotiating one or more other methods for SOCAR to satisfy its obligations to the Pennzoil Group under the Gas Utilisation Agreement.

29.3 Balance of Total Bonus Payment

In the event SOCAR retains a percentage participating interest pursuant to Article XXVIII Contractor shall not pay nor have any obligation to pay that portion of the Total Bonus Payment under Article 29.1 above attributable to the percentage participating interest retained by SOCAR.

29.4 Bonus Payments not Cost Recoverable

The payments made by the Contractor Parties pursuant to this Article XXIX, if any, as well as the previous payments made or credited pursuant to the Declaration and the costs incurred pursuant to the Gas Utilization Agreement which have been credited against the Total Bonus Payment as provided in Article 29.2, shall not be Cost Recoverable.

ARTICLE XXX

TERMINATION

30.1 Material Breach

- (a) This Contract may be terminated at any time:
 - (i) by SOCAR if Contractor commits, or
 - (ii) by Contractor if SOCAR or the Government commits,

a material breach of its obligations under this Contract or the Government Guarantee and Undertaking, as the case may be, and fails to cure or remedy such 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 Contract 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 (90) days actions reasonably necessary to cure or remedy such breach and diligently pursues such actions until the material breach is cured or remedied, it being understood that in such instance the Parties shall endeavor to reach mutual agreement on the actions necessary to cure or remedy the material breach, and
 - (bb) if either Party within said ninety (90) day period refers the question of material breach to arbitration in accordance with the dispute resolution procedures of this Contract, then termination of this Contract 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.
 - (cc) As used in this Contract the term "material breach" means a fundamental breach, which, if not cured, is tantamount to the frustration of the entire Contract either as a result of the unequivocal refusal of either Contractor, SOCAR or the Government, as the case may be, to perform its contractual obligations or as a result of conduct which has destroyed the commercial purpose of the Contract.
- (b) A failure to complete any of the activities listed in Paragraph 1 (a)(i), (ii), (iii) and (iv) of Part 1 of Appendix X and forming part of the Minimum Obligatory Work Programme by the end of Appraisal Period (other than as a result of any of the events listed in Paragraph 1 (b) (i), (ii) and (iii) of Part 1 of Appendix X) shall be deemed to constitute a material breach of the Contract by Contractor whereupon SOCAR shall have the right to unilaterally terminate the Contract upon giving written notice to Contractor without the Contractor being entitled to any period within which to cure or remedy such material breach as provided in Article 30.1. Termination of the Contract by SOCAR pursuant to this Article 30.1 (b) shall be SOCAR's sole remedy against Contractor for such material breach and Contractor shall have no claim for reimbursement of any costs previously incurred by Contractor with respect to the Minimum Obligatory Work Programme.

30.2 Termination By SOCAR. SOCAR may terminate this Contract by giving Contractor ninety (90) days prior written notice:

- (a) if any of Statoil, TPAO, Lukoil or the company issuing the parent company guarantee on behalf of any Contractor Party becomes insolvent or goes into liquidation (other than for the purposes of amalgamation or reconstruction), provided that such notice of termination shall not take effect in the event that any of the other Contractor Parties (not themselves insolvent or in liquidation) agree to assume such Contractor

Party's rights and obligations under this Contract by giving notice thereof to SOCAR within such ninety (90) day period; and

- (b) if Contractor, together with all other entities referred to in (a) above, collectively become insolvent or go into liquidation (other than for the purposes of amalgamation or reconstruction); and
- (c) if, for reasons other than Force Majeure in accordance with Article XXI or under an Annual Work Programme, production of Petroleum in commercial quantities shall have permanently ceased.

30.3 Termination/Relinquishment by Contractor

- (a) Contractor may terminate this Contract at any time 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 Minimum Obligatory Work Programme and the then current Annual Work Programme.
- (b) Subject to the remaining provisions of this Article 30.3, 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 30.3(c). Upon such relinquishment, this Contract shall automatically 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 the Contract or relinquishment of the entire Contract Area by Contractor pursuant to Article 30.3(a) or (b) shall not relieve the Contractor of any remaining obligations under the then current Annual Work Programme and the Minimum Obligatory Work Programme which Contractor may fulfill, at its discretion:
 - (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 the Contract or relinquishment of the entire Contract Area pursuant to Article 30.3(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.

30.4 Other Remedies. Subject to Articles 20.7, 30.1(b) and 30.3, in the event that Contractor or SOCAR terminates this Contract 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.

30.5 Partial Relinquishment.

Contractor shall have no unilateral right to relinquish a part of the Contract Area. In the event the Steering Committee 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 30.5, nothing in this Agreement shall restrict the right of Contractor to recover, out of the production from the remainder of the Contract Area not relinquished, any amount of Petroleum Costs incurred in connection with the portion of the Contract Area relinquished which has not been recovered at the date of such relinquishment.

ARTICLE XXXI

MISCELLANEOUS

31.1 The Contract is executed in the English, Azeri and Russian languages and, subject to Paragraph 1.2 of Appendix VI and Article 13.1(b), all three languages shall have equal force.

31.2 The headings in this Contract are inserted for convenience only and shall be ignored in construing this Contract.

31.3 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.

31.4 The Appendices I through XII inclusive to this Contract form part of this Contract. In the event of any conflict between the provisions of the main body of this Contract and the Appendices (other than Appendix I which shall be considered part of the main body of the Contract), then the provisions of the main body shall prevail.

IN WITNESS WHEREOF the Parties have executed this Contract 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: _____

By: _____

Title: _____

For and on behalf of
AMOCO CASPIAN SEA PETROLEUM
LIMITED

By: _____

Title: _____

By: _____

Title: _____

For and on behalf of
BP EXPLORATION (CASPIAN SEA)
LIMITED

By: _____

Title: _____

By: _____

Title: _____

For and on behalf of
DEN NORSKE STATS OLJESELSKAP a.s

By: _____

Title: _____

By: _____

Title: _____

For and on behalf of
LUKOIL JOINT STOCK COMPANY

By: _____

Title: _____

By: _____

Title: _____

For and on behalf of
MCDERMOTT AZERBAIJAN, INC.

By: _____

Title: _____

By: _____

Title: _____

For and on behalf of
PENNZOIL CASPIAN CORPORATION

By: _____

Title: _____

By: _____

Title: _____

For and on behalf of
RAMCO HAZAR ENERGY LIMITED

By: _____

Title: _____

By: _____

Title: _____

For and on behalf of
TURKIYE PETROLLERI A.O.

By: _____

Title: _____

By: _____

Title: _____

For and on behalf of
UNOCAL KHAZAR, LTD.

By: _____

Title: _____

By: _____

Title: _____

For and on behalf of
DELTA NIMIR KHAZAR LIMITED

By: _____

Title: _____

By: _____

Title: _____

APPENDIX I
DEFINITIONS

In this Contract and the Recitals 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 III hereto.

"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 percent (50%) 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 percent (50%) 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 percent (50%) 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 percent (50%) of the votes at a general meeting of such Party; and
- (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.

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

"Appraisal Period" means the period of thirty (30) consecutive calendar months commencing on the Effective Date during which the Minimum Obligatory Work Programme is to be completed in accordance with Appendix X as may be extended by agreement of the Parties.

"Associated Natural Gas" means Natural Gas which exists in a reservoir in solution with Crude Oil or, as gas cap gas, in contact with Crude Oil in the same reservoir, 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.

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

"Basic Term" shall have the meaning given to it in Article 4.1.

"Budget" means estimates of itemized 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" means this instrument and its Appendices I to XII attached, together with any written extension, renewals, replacement or modification hereto which may be mutually agreed and signed by the Parties.

"Contract Area" means the area (from the surface to any and all depths accessible to drilling technology as may be developed at anytime during the term of this Contract as may be extended) as described and delineated in Appendix II hereto, which includes the Azeri and Chirag Fields and the deep water portion of the Gunashli Field. In the event the appraisal of the existing pools or a Discovery indicates that the natural boundary of any pool within the Contract Area, (such as but not limited to the hydrocarbon/water contact) extends to areas outside the Contract Area, the Contract Area shall be extended to the extent of such natural boundary except in the case where the extension extends beyond the Western boundary of the Contract Area.

"Contractor" means all of the Contractor Parties collectively.

"Contractor Affiliate" means an Affiliate of a Contractor Party.

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

"Contractor Party" means any one of Amoco, BP, Delta, Statoil, Lukoil, McDermott, Pennzoil, Ramco, TPAO and Unocal or any of their successors or permitted assignees excluding (i) any Party that has disposed of all of its interest in this Contract in accordance with the provisions hereof, and (ii) in the event of SOCAR retaining an interest pursuant to Article 28.1, SOCAR, but including any Third Party (other than an Affiliate of SOCAR) to whom SOCAR may assign its percentage participating interest pursuant to Article 22.2(c).

"Cost Recovery" means the process by which Contractor is allocated Petroleum production from the Contract Area for the recovery of its Petroleum Costs and "Cost Recoverable" and "Cost Recovered" shall be construed accordingly.

"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.

"Current Quarter Transport Costs" means the difference between the current Calendar Quarter average of the value of a North Sea Brent Blend Crude Oil Barrel sold at refineries in Rotterdam, The Netherlands on the one hand, (adjusted for quality and grade differential between the North Sea Brent Blend Crude Oil and the Contract Area Crude Oil) and the current Calendar Quarter average of the export sales value of a Contract Area Barrel of Crude Oil as determined under Article 13.1(a) of the Contract at the Delivery Point, on the other hand.

The value of a North Sea Brent Blend Crude Oil Barrel sold at refineries in Rotterdam, The Netherlands shall be calculated by using the arithmetic average of the mean of the high and low published daily prices for Dated Brent F.O.B. Sullom Voe in Platts Crude Oil Marketwire for each Calendar Quarter, adding freight costs and adjusting for ocean loss and insurance.

The freight costs shall be calculated using the current New Worldwide Tanker Nominal Freight Scale ("Worldscale") book, together with the London Tanker Brokers' Panel Limited Average Freight Rate Assessment ("AFRA") which is published monthly and is an assessment of freight rates from the 16th of the previous month to the 15th of the month in question.

The AFRA Worldscale percentage used shall be the Large Range 1 (vessels between 45,000 and 79,999 long tons) rate for the journey from Sullom Voe to Rotterdam.

To convert the resultant freight cost in Dollars per Tonne to Dollars per Barrel a conversion factor of 7.4 Barrels per Tonne shall be used. This freight cost shall be calculated for each of the months in the Calendar Quarter and averaged before being added to the average Platts price for North Sea Brent Blend Crude Oil for that Calendar Quarter. The total shall be multiplied by 1.005 to account for ocean losses and the cost of insurance.

"Declaration" means the Declaration of 4th June 1993 referred to in the Recitals to this Contract.

"Delivery Point" means:

- (i) If the Steering Committee approves a plan for Early Oil Production project before the completion and commissioning of the Main Export Pipeline then, until the completion and commissioning of such Main Export Pipeline, the Delivery Point will be decided by the Steering Committee based on recommendations prepared by the Contractor;
- (ii) at such time as the Main Export Pipeline is completed and commissioned the Delivery Point shall be the custody transfer meter located at the inlet flange into the Main Export Pipeline at the onshore Petroleum processing and storage terminal; and
- (iii) the Delivery Point for Associated Natural Gas shall be the custody transfer meter at the outlet flange of the Contractor's onshore facilities.

"Discovery" means a discovery within the Contract Area of an accumulation of Petroleum lying below the base of the Pliocene which, in Contractor's opinion, contains a sufficient quantity of Petroleum to warrant further appraisal.

"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.

"Early Oil Production" means continuous production for a period of thirty (30) days by Contractor of Crude Oil from the Contract Area using the Chirag-1 platform pursuant to a recommendation of Contractor to proceed with an Early Oil Production project at the conclusion of the study under Paragraph 2 in Part 1 of Appendix X which has been approved by the Steering Committee, provided that such production occurs within five (5) years after the Effective Date.

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

"Exploration Development Plan" shall have the meaning given to it in Article 4.5(c).

"Exploration Well Programme" shall have the meaning given to it in Article 4.5(a).

"Finance Costs" means a charge of one-quarter of the sum of LIBOR plus 4% multiplied by the unrecovered balances of Capital Costs and Operating Costs at the end of each Calendar Quarter which shall be deemed to reimburse Contractor fully for all charges, interest, commissions and other payments and expenses incurred in Contractor's financing of Petroleum Operations.

"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.

"Full Field Development" means the date of first commercial production of Crude Oil from the Contract Area by the Contractor other than production associated with any Early Oil Production project.

"Gas Utilisation Agreement" means the Gas Utilisation Agreement between SOCAR and the Pennzoil Group for Gunashli and Neft Dashlary Fields dated 1st October 1992 as extended and amended by (a) mutual exchange of letters of 14 December 1992 and 23/25 January 1993 and (b) Additional Agreement on the Gas Utilisation Project from Gunashli and Neft Dashlary Fields dated 17th January 1994; and as it may be further amended.

"Government" 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 and 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 Contract; and "Governmental" shall be construed accordingly. For the purpose of Articles 20.2 and 26.5(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 "Government."

"Inflation Adjustment" means the relative change, calculated according to the formula below, in the Implicit Price Deflator Index for U.S. Gross Domestic Product ("GDP Deflator Index") between the two Calendar Quarters immediately preceding the current Calendar Quarter. The GDP Deflator Index that shall be used is the one issued by the Bureau of Economic Analysis (BEA), U.S. Department of Commerce reported in the monthly publication "Survey of Current Business" during the third month immediately following the end of each Calendar Quarter. If this publication ceases to exist the Parties will use "International Financial Statistics" of the International Monetary Fund, or other suitable publications as mutually agreed by the Parties.

$$\text{Inflation Adjustment} = \text{GDP Deflator Index } n-1 / \text{GDP Deflator Index } n-2$$

where

GDP Deflator n-1 = GDP Deflator Index for the Calendar Quarter that immediately precedes the current Calendar Quarter

GDP Deflator n-2 = GDP Deflator Index for the Calendar Quarter that immediately precedes the Calendar Quarter that immediately precedes the current Calendar Quarter.

"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).

"Main Export Pipeline" means the principal pipeline intended for export of Crude Oil produced from the Contract Area capable of transporting in excess of three hundred thousand (300,000) Barrels of Crude Oil per day, the terminus of which is located at an export point outside the Azerbaijan Republic.

"Minimum Obligatory Work Programme" means the programme of minimum work obligations of Contractor set out in Part 1 of Appendix X.

"Natural Gas" means all hydrocarbons that are in 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" shall have the meaning given to it in Article 4.5(b).

"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).

"Parties" means SOCAR, Amoco, BP, Delta, Lukoil, McDermott, Pennzoil, Ramco, Statoil, TPAO, and Unocal and any of their respective successors and assigns. The term "Party" means any of the Parties.

"Permanent Establishment" shall have the meaning as set out in the relevant Double Tax Treaty. If no such Treaty exists, then Permanent Establishment shall have the same meaning as in the 1992 Model Tax Convention on Income and Capital produced by the Organisation for Economic Co-operation and Development.

"Petroleum" means each of 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 in accordance with this Contract. Petroleum Costs shall include, without limitation, (i) the amounts expressly identified in the Contract as Petroleum Costs and (ii) the

amounts properly debited to the Petroleum Operations Account in accordance with the Accounting Procedure attached hereto as Appendix III.

"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, transportation of Petroleum up to the Delivery Point (but including any pipeline reversal and other operations beyond the Delivery Point as provided in Article 10 and Appendix X) 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 Section 1.2 of the Accounting Procedure.

"Profit Petroleum" shall have the meaning given to it in Article 11.6.

"Profit Tax" shall have the meaning given to it in Article 12.1(a).

"Single Development Programme" shall have the meaning given to it in Article 4.4(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 Joint Operating Company or any other entity created by Contractor as provided in Article VI), to supply goods, work or services related to this Contract.

"Taxes" means all levies, duties, payments, fees, taxes or contributions payable to or imposed by the Governmental agencies, Governmental subdivisions or Republican, municipal, local or ecclesiastical authorities within, and the Government of, the Azerbaijan Republic.

"Third Party" means a natural person or juridical entity, other than the Parties hereto and Affiliates of the Parties.

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

"Total Bonus Payment" shall have the meaning given to it in Article 29.1.

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

"Total Transport Costs" are calculated on a per Barrel basis with costs restated in real terms at the Effective Date to remove the effects of inflation according to the following formula:

$$\text{Total Transport Costs} = C / (11 \times 12 \times \dots \times I_n)$$

where

C = Current Quarter Transport Costs per Barrel

n = Number of Calendar Quarters since the Effective Date, where the first Calendar Quarter is the one which includes the Effective Date.

I_n = Inflation Adjustment for the nth Calendar Quarter

"VAT" means Azerbaijan 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 Contract as determined by arbitration pursuant to Article 23.3.

"Zero Balance" means the achievement of zero balance after Full Field Development has been achieved in the account maintained by the 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 II

CONTRACT AREA AND MAP

As of the date of execution of the Contract, 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. Should the location of the geophysical and well data upon which the Contract Area boundary is based be found to be incorrect a new set of co-ordinates and map shall be substituted, these being determined by the Contractor and SOCAR in accordance with the same principles as used to determine the below defined perimeter.

The 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

Longitude of Origin: 51 degrees East.

Scale Factor at Origin: 1.0

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

Grid units are metres

Geographical Co-ordinates for the Contract Area are:

Point	Pulkova 1942 Datum			Gauss-Kruger grid, Zone 9				
	<u>Latitude (North)</u>			<u>Longitude (East)</u>		<u>Easting (X)</u>		<u>Northing (Y)</u>
1	40	9	17.88	51	4	17.36	506091	4446817
2	40	6	0.00	51	9	0.00	512791	4440722
3	40	0	30.00	51	15	0.00	521346	4430563
4	39	59	0.00	51	18	0.00	525625	4427800
5	39	58	0.00	51	24	30.00	534887	4425986
6	39	56	0.00	51	30	0.00	542739	4422325
7	39	56	0.02	51	31	18.96	544614	4422336
8	39	58	37.84	51	33	46.56	548088	4427225
9	40	2	0.00	51	28	0.00	539832	4433413
10	40	3	0.00	51	24	0.00	534133	4435236
11	40	6	30.00	51	18	0.00	525578	4441680
12	40	13	17.25	51	7	51.36	511145	4454206

The surface of the Contract Area above defined is approximately four hundred thirty two and four tenths (432.4) square kilometers.

APPENDIX III

ACCOUNTING PROCEDURE

1. General Provisions.

This Appendix III 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 operations under the Contract 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 Joint Operating Company, (or any other entity established by Contractor pursuant to Article VI), 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 the Contractor 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 Appendix III the following terms shall have the following meanings:

- (i) **Accounting Procedure** shall mean the accounting principles, practices and procedures set forth in this Attachment.
- (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) **Material and Equipment** means personal property, including without limitation all exploration, appraisal and development facilities together with supplies and equipment, acquired and held for use in Petroleum Operations.
- (vi) **Controllable Material** means Material and Equipment which the 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 Contract but not defined above shall have the same meaning in this Accounting Procedure as is given to them in the Contract.

1.2 Accounts

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

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

The Petroleum Operations Account shall be maintained by the Contractor in Dollars. Costs incurred in currencies other than Dollars shall be converted into Dollars using translation rates in accordance with standard accounting practice. 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.

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 the 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-recognized 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 the 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 provisions of Article XXIII. 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 the Contractor for a minimum of five (5) 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 five (5) year 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 Expenditure

The Contractor shall charge the Petroleum Operations Account for all costs incurred after the date of execution of this Contract 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 the Azerbaijan Republic or Governmental authorities) in respect of employees of the Contractor and its Affiliates (except when acting as Sub-contractor) who are directly 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, all in accordance with the Contractor's usual practice.

Gross salaries and wages, pensions, benefits and other related costs (together with attributable office costs) of those employees of the Contractor and its Affiliates not solely engaged in the conduct of the Petroleum Operations shall be apportioned to the Petroleum Operations and the Contractor's other activities in a manner commensurate with their direct involvement.

(b) Costs of all holiday, vacation, sickness, disability and other like benefits applicable to the salaries chargeable under paragraph 2.1(a) above, all of which shall be in accordance with the Contractor's usual practice.

(c) Expenses or contributions imposed under the laws of the Azerbaijan Republic which are applicable to the Contractor's cost of salaries and wages chargeable under 2.1(a) above or other costs chargeable under this paragraph 2.1.

(d) Cost of established plans for life insurance, hospitalization, pensions, and other benefits of a like nature customarily granted by the Contractor to its employees.

(e) Housing and living allowances and related expenses of the employees of the Contractor assigned to Petroleum Operations in the Azerbaijan Republic all of which shall be in accordance with the Contractor's usual practice.

- (f) In the event that the 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 the 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) 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 and all other relocation costs in accordance with the Contractor's usual practice.

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 the 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 and administrative services.
- (d) Services performed by the Contractor and its Affiliate's (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 the Petroleum produced from the Contract Area.
- (f) Use of equipment and facilities furnished by the Contractor at rates commensurate with the cost of ownership and operation. Rates shall include but not be limited to costs of maintenance, repairs, other operating expenses, insurance, taxes and interest.

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.

The 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 Azerbaijan Republic or Governmental duties, Taxes and Governmental assessments of every kind and nature (except for Profit Taxes)(a) with respect to the employees of the Contractor working on Petroleum Operations in the Azerbaijan Republic (or their families), or (b) paid in excess of those which are reclaimable by the 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 the 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.

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 the 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 the Contractor's Capital Costs:-

For the first Dollars fifteen million (\$15,000,000) per Calendar Year;- five percent (5%).

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

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

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

A flat rate of one and a half per cent (1.5%) 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 the 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

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

4. Material And Equipment.

4.1 Acquisitions.

- (a) Material and Equipment purchased shall be charged at net cost ("Net Cost") incurred by the 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 (Condition A) 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. Good used Material and Equipment (Condition B) being used Material in sound and serviceable condition, suitable for reuse without reconditioning, shall be priced at seventy five percent (75%) of such new purchase Net Cost in accordance with international Petroleum industry practice. Used Material and Equipment which cannot be classified as Condition B shall be priced at a value commensurate with its use.

- (c) Material and Equipment not classified as Controllable Material under Accepted Accounting Practices shall be charged one hundred per cent (100%) to Operating Costs.
- (d) The Contractor does not warrant the material and equipment imported beyond or back to the dealer's or manufacturer's guarantee; and in case of defective material and equipment credit shall not be recorded until adjustment has been received by the Contractor or its agents.

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 the Contractor of all Controllable Material. The 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 the Contractor.
- (b) Reconciliation of inventory with the Petroleum Operations Account shall be made. Inventory adjustments shall be made by the 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, the 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 the Contractor shall supply to SOCAR an annual report reviewing Petroleum Operations costs incurred during the preceding Calendar Year.

6. Cost Recovery And Profit Petroleum Reports.

6.1 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, the 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;
- (c) The value and volume of Cost Recovery Petroleum lifted by the 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 the Contractor, and SOCAR, during the preceding Calendar Quarter.

APPENDIX IV

FORM OF CONTRACTOR PARTY'S PARENT COMPANY GUARANTEE

PARENT COMPANY GUARANTEE

The State Oil Company of the Azerbaijan Republic
Azerbaijan
Baku, 370004
73, Neftyanikov pr. [Date]

AZERBAIJAN - AZERI AND CHIRAG FIELDS AND DEEPWATER PORTION OF THE GUNASHLI FIELD

Gentlemen

We refer to the Agreement On the Joint Development and Production Sharing for the Azeri and Chirag Fields and The Deepwater Portion of the Gunashli Field in the Azerbaijan Sector of the Caspian Sea (the "Contract") signed on [] between the State Oil Company of the Azerbaijan Republic, Amoco Caspian Sea Petroleum Limited, BP Exploration (Caspian Sea) Limited, Delta Nimir Khazar Limited, Den norske stats oljeselskap a.s., Lukoil Joint Stock Company, McDermott Azerbaijan, Inc., Pennzoil Caspian Corporation, Ramco Hazar Energy Limited, Turkiye Petrolleri A.O. and Unocal Khazar, Ltd.

[] 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 Contract. This guarantee shall enter into force as from the Effective Date of the Contract.

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

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

Yours faithfully

for and on behalf of
[]

APPENDIX V

GOVERNMENT GUARANTEE AND UNDERTAKING OF THE GOVERNMENT OF THE AZERBAIJAN REPUBLIC

TO:

BP Exploration (Caspian Sea) Limited	Den norske stats oljeselskap a.s
Amoco Caspian Sea Petroleum Limited	McDermott Azerbaijan, Inc
Pennzoil Caspian Corporation	Ramco Hazar Energy Limited
Turkiye Petrolleri A.O.	Unocal Khazar, Ltd.
Lukoil Joint Stock Company	Delta Nimir Khazar Limited

Gentlemen,

AZERBAIJAN - AZERI AND CHIRAG FIELDS AND THE DEEPWATER PORTION OF THE GUNASHLI FIELD

We the Government of the Azerbaijan Republic (the "Government") have full knowledge of the "Agreement on the Joint Development and Production Sharing for the Azeri and Chirag Fields and the Deepwater Portion of the Gunashli Field in the Azerbaijan Sector of the Caspian Sea" (the "Contract") signed on [] 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 Amoco Caspian Sea Petroleum Limited ("Amoco"), BP Exploration (Caspian Sea) Limited ("BP"), Delta Nimir Khazar Limited ("Delta"), Den norske stats oljeselskap a.s ("Statoil"), McDermott Azerbaijan, Inc ("McDermott"), Pennzoil Caspian Corporation ("Pennzoil"), Ramco Hazar Energy Limited ("Ramco"), Turkiye Petrolleri A.S. ("TPAO"), Unocal Khazar, Ltd. ("Unocal") and Lukoil Joint Stock Company ("Lukoil"), (Amoco, BP, Delta, Statoil, McDermott, Pennzoil, Ramco, TPAO, Unocal and Lukoil together constituting the "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 Contract; and
 - (b) those obligations undertaken or to be undertaken by SOCAR under the Contract; and
 - (c) that the Government has and shall maintain throughout the entire duration of the Contract 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 Contract; and
 - (d) that the Government shall at no time during the entire duration of the Contract 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 Contract; 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 Contract will include an express recognition and preservation of the rights and interests of the Contractor under the Contract; and
 - (e) that none of the Contractor Party's rights, interests or property shall be expropriated, nationalized 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, nationalization 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 US Dollars at the full market value determined on the basis of a going concern utilizing 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 herein. Any breach of any of the Government's guarantees hereunder shall be deemed, at Contractor's option, to constitute an expropriation, nationalization or other taking, in whole or in part, for which the Government shall compensate each Contractor Party in accordance with the terms of this provision; and

- (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 Contract and any extensions thereof, except as otherwise expressly provided in the Contract; and
 - (g) that, to the extent legislation does not already exist in the Azerbaijan Republic, enact such legislation as 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 language version of the Contract accurately convey the same meaning as all of the provisions set forth in the English language version of the Contract.
2. In addition the Government agrees and undertakes that such legislative measures will be taken forthwith to enact the Contract and this Guarantee into law so as to ensure that all rights, privileges and exemptions granted under the Contract and this Guarantee to the Contractor, Contractor's Affiliates and their Sub-contractors, as well as the Joint Operating Company and any other entity established by Contractor pursuant to Article VI of the Contract, have full legal force and effect, and in particular:
- (a) to provide the Contractor with the necessary licenses, permits and approvals, permissions and authorizations whether from the Government, its ministries or other official bodies in Azerbaijan, 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 Contract; 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 Contract, 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, 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, authorizations, approvals and other agreements from authorities and jurisdictions outside the territory of Azerbaijan 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 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 Azerbaijan, 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 Contract and in particular the Contractor shall have no liability for abandonment of any fixed assets which have been taken over by SOCAR upon the 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, the Joint Operating Company, as well as any other entity established by Contractor pursuant to Article VI of the Contract, including employees and Sub-contractors of any of them) with respect to Taxes shall be as set out in the Contract, and any funds or other benefit which SOCAR may receive from the Government shall not be determined, directly or indirectly, by reference either to the amount of Taxes paid by the Contractor Parties (or by any of them) or by their Taxable Profit(s);
 - (h) to ensure the banking and currency exchange rights provided for in the Contract, including the granting to the Contractor of the right to freely retain, whether in Azerbaijan 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 Contract 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 Contract 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 Contract 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 Contract, 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, its ministries and departments or other Azerbaijan State bodies; and
 - (l) to ensure that, upon approval by the Parliament of the Azerbaijan Republic of the Contract, the Contract shall constitute a law of the Azerbaijan Republic and shall take precedence over any law (or part thereof) of the Azerbaijan Republic which is inconsistent with or conflicts with any of the provisions of the Contract; and
 - (m) that for the purposes of this Guarantee, SOCAR's obligations shall be deemed to be absolute and not to be limited by qualifications in the Contract such as "within the full limits of its authority," "shall use its best lawful endeavors" or similar qualifications and that the Government shall itself take such actions as are necessary to ensure that such obligations are met or performed in full.
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 Contract, ensure that the rights and obligations of SOCAR under the Contract are always vested in and undertaken by an entity authorized to and capable of performing such obligations, failing which the Government itself shall perform directly all such obligations of SOCAR under the Contract.

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 Contract. 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 to 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 Contract (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 Contract.
7. Words and phrases used in this Guarantee and which are defined in the Contract shall have the same meaning as in the Contract.
8. This Guarantee shall be governed by and interpreted in accordance with the principles of the applicable law provisions set out in the Contract.

IN WITNESS WHEREOF the authorized representative of the Government has executed this Guarantee and Undertaking in Baku on _____, 1994

For and on behalf of
THE GOVERNMENT OF THE AZERBAIJAN REPUBLIC

APPENDIX VI

ARBITRATION

- 1.1 Except as otherwise provided in this Contract, 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 Contract, 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 Contract will be utilized 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 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 Any remedial period provided for under this Contract with respect to any matter referred to arbitration shall be deemed to commence a second time as of the date of the decision or award; if the original remediation period under Article XXX of the Contract has expired before the initiation of the arbitration, then no second remedial period shall be allowed.
- 1.6 Without limiting the generality of their powers, the arbitrator shall have the power to award costs and damages as necessary with respect to the guarantee by the Government with respect to Article 23.2.
- 1.7 The arbitration tribunal's award shall be final and binding on the Parties and shall be immediately enforceable. Judgment 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.
- 1.8 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 4% 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 VII

CRUDE OIL AND NATURAL GAS MEASUREMENT AND EVALUATION PROCEDURE

1.1 General

This Appendix VII 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 will store such tools and instruments in an appropriate laboratory. Contractor will 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 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 representatives present to witness meter readings and sign meter tickets.

1.4 Natural Gas Measurement

In the event the Government decides to develop Non-Associated Natural Gas reserves in the Contract Area as provided in Article 15 of the Contract, the quantity of Natural Gas delivered under this Contract 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 Natural Gas measurement and evaluation system consistent with the quantity, characteristics and conditions of the Natural Gas 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 the 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 the Effective Date.

APPENDIX VIII

ALTERNATIVE PROFIT PETROLEUM SHARING TABLES

A. In the event the Total Transport Costs of Contractor are more than \$3 per Barrel and/or Contractor does not achieve Early Oil Production, the Profit Petroleum shall be calculated on a Calendar Quarter basis and, subject to the provisions of Article 19.5 of the Contract, shall be shared between SOCAR and Contractor according to the cumulative after-tax RROR, (calculated pursuant to Article 11.6(b) and (c) of the Contract), achieved as of the end of the preceding Calendar Quarter by Contractor as follows:

(i) If Total Transport Costs are greater than or equal to \$4 per Barrel and Contractor achieves Early-Oil Production.

CONTRACTOR'S RROR	SOCAR Share-%	CONTRACTOR Share-%
Less than 16.75%	25	75
16.75% or more, but less than 22.75%	50	50
22.75% or more	75	25

(ii) If Total Transport Costs are greater than \$3 per Barrel but less than \$4 per Barrel and the Contractor achieves Early-Oil Production, then profit oil shares should be apportioned according to the following formula:

P = Total Transport Costs per Barrel minus \$3 expressed as a decimal fraction of \$1

CONTRACTOR'S RROR	SOCAR Share-%	CONTRACTOR Share-%
Less than 16.75%	$(1-P)*30\% + P*25\%$	$(1-P)*70\% + P*75\%$
16.75% or more, but less than 22.75%	$(1-P)*55\% + P*50\%$	$(1-P)*45\% + P*50\%$
22.75% or more	$(1-P)*80\% + P*75\%$	$(1-P)*20\% + P*25\%$

(iii) If Total Transport Costs are greater than or equal to \$4 per Barrel and Contractor does not achieve Early-Oil Production.

CONTRACTOR'S RROR	SOCAR Share-%	CONTRACTOR Share-%
Less than 16.75%	20	80
16.75% or more, but less than 22.75%	50	50
22.75% or more	75	25

(iv) If Total Transport Costs are less than or equal to \$3 per Barrel and Contractor does not achieve Early-Oil Production.

CONTRACTOR'S RROR	SOCAR Share-%	CONTRACTOR Share-%
Less than 16.75%	25	75
16.75% or more, but less than 22.75%	55	45
22.75% or more	80	20

- (v) If Total Transport Costs are greater than \$3 per Barrel but less than \$4 per Barrel and the Contractor does not achieve Early-Oil Production, then the profit oil shares shall be apportioned according to the following formula:

P = Total Transport Costs per Barrel minus \$3 expressed as a decimal fraction of \$1

CONTRACTOR'S RROR	SOCAR Share-%	CONTRACTOR Share-%
Less than 16.75%	$(1-P)*25\% + P*20\%$	$(1-P)*75\% + P*80\%$
16.75% or more, but less than 22.75%	$(1-P)*55\% + P*50\%$	$(1-P)*45\% + P*50\%$
22.75% or more	$(1-P)*80\% + P*75\%$	$(1-P)*20\% + P*25\%$

APPENDIX IX

ENVIRONMENTAL STANDARDS AND PRACTICES

I. Environmental Sub-Committee

- A. The formation and organization of an environmental sub-committee shall be set forth in a proposal of Contractor which will be submitted to the Steering Committee for approval. Once approved by the Steering Committee, 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, Gipromorneftegaz and other research institutes, and GosKomEcologia.
- B. Responsibilities of the environmental sub-committee
- (i) - Design Annual Monitoring Program for monitoring of selected environmental parameters
 - Coordinate Annual Monitoring Program
 - Review results and propose recommendations
 - Publish annual report
 - (ii) Select research projects
 - Administer environmental protection research projects
 - Allocate funding as designated for this purpose in any Annual Work Programme and Budget
 - Review progress
 - Publish results

II. Environmental Strategy

The environmental strategy to be pursued pursuant to Article 26.4 shall be as follows:

A. Baseline Data

1. Literature review
2. International standards review
3. Audit of existing operations and practices
4. Environmental data collection
 - Atmospheric
 - Water Quality
 - Benthic
 - Flora and Fauna
 - Meteorological and Oceanographic
 - Sediment Background Radiation

B. Environmental Impact Assessment (existing facilities, exploration and production activities and new facilities)

1. Project description
2. Environment description
3. Technology assessment
4. Air emission inventory
 - Dispersion modelling

- Impact evaluation
- 5. Water discharge inventory
 - Fate and effects modelling
 - Impact evaluation
 - Treat and discharge offshore
 - Treat onshore and discharge
 - Injection onshore or offshore
- 6. Waste Inventory
 - Disposal options
 - Impact evaluation
 - Offshore treatment and disposal
 - Transportation and onshore disposal
- 7. Abandonment studies
 - Disposal options
 - Impact evaluation
- 8. Cost benefit analysis
- 9. Environment statement of preferred options

C. Oil Spill Response Planning

1. Sensitivity mapping
 - Habitats
 - Fisheries
 - Birds
 - Animals
 - Benthic organisms
 - Marine flora
2. Risk Assessment
3. Prediction modelling
4. Equipment and material resourcing
5. Evaluation of chemical treatments
6. Response organizations
7. Treatment and disposal of oil and chemical contaminated material

III. Effluent Guidelines

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 unauthorized discharges directly to the surface of the sea. All discharges authorized 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

- (a) Contractor will endeavor to utilize 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. Treatment of produced water will result in an oil and grease concentration that does not exceed 72 mg/l on a daily basis or 48 mg/l on a monthly average. The gravimetric (extraction) test method EPA 413.1 (79) shall be used to measure the oil and grease concentration.

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 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. Those muds that achieve an LC₅₀ value in concentrations of more than 30,000 ppm 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 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) Monitoring of floating solids shall be accomplished during daylight by visual observation of the surface of the receiving water in the vicinity of the sanitary and domestic waste outfalls. Observations shall be made following either the morning or midday meals and at a time during daylight and maximum estimated discharge.

- (d) Desalinization unit wastes shall be discharged.
 - (e) Deck drainage and wash water may be discharged as long as no visible sheen is observable.
 - (f) 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 maximum and monthly average oil and grease concentration will be reported 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.
 - (c) Other Wastes
 - 1. 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

IV. Air Emission Guidelines and Monitoring

Contractor is authorized to discharge air emissions. Such discharges will be limited and monitored as follows:

- A. Any building, structure, facility, or installation that emits or may emit nitrogen oxides (NO_x), sulphur dioxides (SO_x), carbon monoxide (CO), volatile organic compounds (VOCs), or particulate (PT) in an amount equal to or greater than 227 metric tons per year (MTPY) per individual pollutant (250 short tons per year) shall install the best available control technology on all equipment creating the emissions suitable for the equipment creating the emissions and its location. If the source is above 227 MTPY, screening modelling will be conducted to determine potential impacts on sensitive receptors. This trigger amount may be less in cases where sensitive receptors are in close proximity to the source. (NOTE: Any individual item of equipment emitting less than 23 MTPY (25 short TPY) or IC engines/turbines below 500 break horsepower would be exempt from this requirement.) Emergency flares on facilities will be designed to operate smokeless and with continuous pilots or equivalent ignition systems.
- B. Any storage vessel with a capacity greater than 1,590 cubic meters (10,000 Barrels) used for Petroleum or condensate storage shall install necessary control technology to minimize emissions.
- C. IC engines/turbines larger than 500 HP should be monitored on an annual basis to assure that the NO_x and CO emissions are at the specified levels. Portable analyzers for monitoring the NO_x and CO should be calibrated before each test using a known reference gas sample.

All new facilities will comply with the above standards. Existing facilities within the Contract Area being operated by Contractor will be brought into compliance with these standards according to a schedule to be negotiated, taking into account the condition, function and economic viability of the facilities.

V. Safety Guidelines

Contractor shall take into account the following international safety and industrial hygiene standards in conducting its Petroleum Operations under the Contract:

- A. Oil Industry International Exploration and Production Forum (E&P Forum) Reports - Safety.
- B. International Association of Drilling Contractors (IADC) – Drilling Safety Manual.
- C. International Association of Geophysical Contractors (IAGC) - Operations Safety Manual.
- D. Threshold Limited Values for Chemical Substances in the Work Environment American Conference of Governmental Industrial Hygienists

APPENDIX X

PRIORITY WORK PROGRAMME

PART 1

MINIMUM OBLIGATORY WORK PROGRAMME

1. (a) Subject to and contingent upon SOCAR's fulfilment of its obligations under Paragraph 1(b)(i) and the supplementary agreements referred to in Paragraph 1(c) below, and the obligations of the Government referred to in Paragraph 1(b)(ii) below, the activities set out below in this Paragraph 1 constitute a component part of the Minimum Obligatory Work Program and shall be carried out by Contractor:
- (i) a 3-D seismic survey covering the entire Contract Area in order to make an optimum determination of the number and location of appraisal wells and initial drilling platforms. This work shall result in the acquisition of approximately twenty thousand (20,000) line kilometers of full-fold seismic data;
 - (ii) appraisal drilling site surveys on the Contract Area;
 - (iii) drilling and testing in the Contract Area of three (3) appraisal wells in order to determine more precisely the Petroleum reserves of the Balakhany, Pereriv and NKP suites;
 - (iv) an environmental baseline survey of the Contract Area with the participation of representatives of SOCAR and appropriate authorities of the Azerbaijan Republic, in order to determine the status of the environment within the Contract Area prior to the conclusion of the Minimum Obligatory Work Program.

Unless a delay is caused by an event provided for in Paragraph 1(b) below, a failure by Contractor to complete the activities listed in (i), (ii), (iii) and (iv) above by the end of the Appraisal Period, unless the time period for the completion thereof has been extended by the mutual agreement of SOCAR and Contractor, shall be deemed to constitute a material breach of the Contract by Contractor as provided in Article 30.1(b) of the Contract.

- (b) Delays in performance, or the non-performance, of individual activities set out in paragraph 1 (a)(i) to (iv) above and forming part of the Minimum Obligatory Work Program shall not constitute grounds for extension of the period for completion of the above-stated Minimum Obligatory Work Program activities, unless the delays in the performance or non-performance are caused or contributed to by reason of:
- (i) failure or delay on the part of SOCAR, its Affiliates or other entities under its effective control, to carry out its obligations under this Contract or any supplementary agreements entered into by Contractor and SOCAR pertaining to the use of the "KASPMORNEFT" drilling rig and supply vessels referred to below; but for this purpose such other entities shall not include joint ventures entered into by SOCAR or its subsidiaries;
 - (ii) failure or delay on the part of the Government of Azerbaijan, or any agencies, departments, ministries or state-controlled entities thereof, to issue any necessary permits, licences, approvals or other documents required for Contractor to timely carry out these Minimum Obligatory Work Program activities; or
 - (iii) any other event of Force Majeure.
- (c) Contractor and SOCAR shall, prior to this Contract being submitted to the Parliament for ratification as provided under Article 25.1(a) of this Contract, negotiate and sign:
- (i) a supplementary agreement pertaining to the use of the "KASPMORNEFT" drilling rig which agreement shall provide, among other things, that in the event Contractor informs SOCAR of Contractor's decision to utilize SOCAR's semi-submersible drilling rig, the "KASPMORNEFT," for the purpose of drilling the wells indicated in (a)(iii) above, SOCAR shall make the "Kaspmorneft" available to Contractor on an exclusive and priority basis for the Minimum Obligatory Work Programme. Thereafter, if the Steering Committee approves the drilling of additional wells which are a part of the Additional Priority Work and which are included under an Annual Work Programme and Budget submitted by Contractor, then upon

Contractor's request, SOCAR shall make the "Kaspmorneft" available to Contractor on a priority basis for the drilling of such additional wells. As part of the terms of the supplementary agreement, in the event of Contractor's decision to utilize the rig as provided above, Contractor shall undertake to refurbish and upgrade the rig in accordance with a program of refurbishment and upgrade to be proposed by Contractor and agreed with SOCAR which shall provide for the safe and efficient conduct of drilling operations. The International Maritime Organisation 1983 safety standards shall be used as a guideline. The "Kaspmorneft," its drilling and marine equipment and systems shall be upgraded and refurbished to enable the conduct of drilling operations in water depths up to four hundred and seventy-five (475) metres (1580 feet) with a nominal drilling depth of up to seven thousand six hundred and twenty (7620) metres (25000 feet) and bottom hole pressures of up to six hundred and eighty (680) atmospheres (10000 psi). Under the supplementary agreement the "Kaspmorneft" shall be made available to Contractor, in a floating condition at the city of Baku, on reasonable terms, for implementation of the above operations, involving its refurbishment and upgrade and the drilling of appraisal wells, for the period necessary for Contractor to complete the three appraisal wells referred to in (a)(iii) above, as well as for the drilling of such additional wells approved by the Steering Committee as set forth above.

- (ii) a further supplementary agreement containing reasonable terms with respect to all necessary supply vessels identified by Contractor and agreed with SOCAR to be utilised by Contractor in connection with Petroleum Operations. Such supplementary agreement shall provide that SOCAR will make the supply vessels available at the city of Baku and Contractor will undertake to refurbish and upgrade the supply vessels in accordance with a program of refurbishment and upgrade to be proposed by Contractor and agreed with SOCAR. The supply vessels shall be made available to Contractor by SOCAR on an exclusive and priority basis for the purpose of drilling wells indicated in (a)(iii) above, and thereafter on a priority basis in connection with the drilling of all wells which are a part of the Additional Priority Work approved by the Steering Committee which are included in Annual Work Programmes and Budgets.

SOCAR and Contractor will co-operate together to obtain all necessary licenses, permits or other documents required for normal operation of the "Kaspmorneft" and supply vessels.

2. Contractor shall, with the participation of SOCAR, conduct a study of alternative options for the export of early oil produced from the Contract Area prior to completion of the construction of an export pipeline. The study shall include the prospects for swaps and reversal of the Tikhoretsk - Baku oil pipeline as well as the possibility for the conclusion of appropriate agreements with the authorities of the relevant states. A final option (options), if any, as selected by Contractor shall be submitted by way of a recommendation to the Steering Committee for examination and approval no later than six (6) Calendar Months from the Effective Date of the Contract.
3. Contractor shall carry out, not later than six (6) consecutive Calendar Months from the Effective Date of the Contract, a review and inspection of the existing jacket and deck modules of Chirag-1 for the purpose of determining the suitability of, and any necessary refurbishment required for, utilising said platform for the production of early oil from the Contract Area and will provide an appropriate recommendation to the Steering Committee.
4. The Contractor shall, with the participation of representatives of SOCAR conduct a study of issues relating to construction of an export pipeline, including:
 - route selection;
 - determination of technical parameters;
 - financing arrangements;
 - creation of a petroleum pipeline consortium
 - terms required for transit of the pipeline through neighbouring countries;
 - participation in necessary negotiations;
 - preparation of the list of appropriate agreements (including a throughput agreement) and recommendation as to the content of such agreements.

Contractor's recommendations on the entire set of issues indicated above shall be agreed with SOCAR and then submitted for examination and approval to the Steering Committee.

PART 2

Additional Priority Work

The obligation of the Contractor to perform those other activities set out in (1) through (4) below (Additional Priority Work), which are not part of the Minimum Obligatory Work Program, shall become legally binding upon the Contractor only after all of the following have occurred in the event Contractor has submitted a positive recommendation to implement a project for the production of early oil utilizing the Chirag-1 platform upon the conclusion of the study referred to in Paragraph 2 of Part 1 of this Appendix X:

- (a) negotiation and execution of all of the agreements provided for under Articles 10.2(b)(i) through (v) and (vii), inclusive;
- (b) negotiation and execution of all agreements with the appropriate authorities and entities determined by Contractor to be necessary to ensure open access to any waterway and canal system servicing the Caspian Sea at reasonable tariffs for the transit of equipment, supplies and vessels required by Contractor to carry out Petroleum Operations under the Contract; and
- (c) adoption of specific decisions by the Steering Committee taken in the light of appropriate studies, reviews and negotiations; and then only to the extent and upon their inclusion in Annual Work Programs and Budgets which have been submitted by Contractor and approved by the Steering Committee.

With respect to Contractor's recommendations which have been approved by the Steering Committee pertaining to paragraphs 2 and 3 of the Minimum Obligatory Work Program, the Annual Work Programs and Budgets submitted by Contractor referred to above shall include activities pertaining to the following work:

1. Carry out refurbishment and complete construction of the Chirag-1 platform within the time frames stipulated in the Annual Work Programs approved by the Steering Committee. Without any further obligation, except as expressly set forth herein, a fair market value of the Chirag-1 platform shall be determined jointly by Contractor and SOCAR following inspections by experts of SOCAR and Contractor.
2. Include in Annual Work Programs and Budgets to be submitted by Contractor a program for the drilling of production wells from Chirag-1, which program shall become a legal obligation of the Contractor only upon approval of such Annual Work Programs and Budgets by the Steering Committee; this program shall also include the construction of an oil pipeline, engineering systems and infrastructure providing for the drilling of wells and production and transportation of oil from the Chirag-1 platform.
3. Carry out the refurbishment and upgrade of vessels identified by Contractor and agreed with SOCAR required for the construction of the Chirag-1 platform, the oil pipeline from the Chirag-1 platform and the drilling of the production wells indicated above in accordance with the Annual Work Programs and Budgets approved by the Steering Committee. Contractor's above obligations in this Paragraph 3 shall be contingent upon SOCAR and Contractor entering into a supplementary agreement on reasonable terms with respect to the aforesaid upgrade, refurbishment and use of the agreed supply vessels. These supply vessels shall be delivered at the city of Baku by SOCAR to Contractor at the time agreed in the supplementary agreement and shall be for Contractor's exclusive and priority use during the agreed period determined necessary for Contractor's work.
4. Contractor shall be obligated to carry out only those operations contained in Annual Work Programs and Budgets pertaining to implementation of the option for production and export of early oil from Chirag-1 as selected by Contractor and approved by the Steering Committee.

If, for any reason, no decision is taken with regard to the construction of the Chirag-1 platform and the drilling of appraisal and development wells therefrom, then, provided the economic integrity of the entire agreement is maintained, SOCAR shall have the right to conduct those operations independently as provided in Article 10.3(c). The mechanism by which such economic integrity is to be maintained shall be in the manner as provided in Appendix XII.

APPENDIX XI

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 the 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 XII

VALUATION METHODOLOGY

For determination pursuant to Article 10.3(c) of the net economic value of Crude Oil reserves lost by Contractor due to SOCAR's production thereof using the Chirag-1 platform, the following methodology shall be utilized:

1. A development profile (production & expenditure timing and amount) for development of the Contract Area with Chirag-1 reserves shall be prepared by Contractor which would assume that Chirag-1 reserves were produced from the start of the field development.
 2. A development profile for development of the Contract Area without Chirag-1 reserves shall also be prepared by Contractor.
 3. Both development cases shall assume Contractor decides not to carry out an Early Oil Production project. In addition, both development cases will be prepared in accordance with good international Petroleum industry practice and standards based on the Petroleum Costs (including transport expenses) and production rates that are forecasted by Contractor.
 4. Contractor shall develop common assumptions for both development cases for input variables such as Crude Oil price, Inflation Adjustment for projected costs, Total Transport Costs, export pipeline timing, and discounting date.
 5. The incremental difference in the NPV10 of the Contractor's real (inflation adjusted) cash flows between the two cases above is the value of Chirag-1 reserves.
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