

HOST GOVERNMENT AGREEMENT
BETWEEN AND AMONG
THE GOVERNMENT OF THE AZERBAIJAN REPUBLIC
AND
STATE OIL COMPANY OF THE AZERBAIJAN REPUBLIC
BP EXPLORATION (AZERBAIJAN) LIMITED
TOTALFINAELF E&P CAUCASIAN GAS SA
LUKAgip N.V.
NAFTIRAN INTERTRADE CO. (NICO) LIMITED
STATOIL AZERBAIJAN a.s.
TURKISH PETROLEUM OVERSEAS COMPANY LIMITED

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HOST GOVERNMENT AGREEMENT

THIS AGREEMENT, made and entered into in the city of Baku in the Azerbaijan Republic as of this ____ day of February, 2002, between:

THE GOVERNMENT OF THE AZERBAIJAN REPUBLIC

and

STATE OIL COMPANY OF THE AZERBAIJAN REPUBLIC, a company organised under the laws of the Azerbaijan Republic;

BP EXPLORATION (AZERBAIJAN) LIMITED, a company incorporated under the laws of England;

TOTALFINAELF E&P CAUCASIAN GAS SA, a company incorporated under the laws of France;

LUKAgip N.V., a company incorporated under the laws of The Netherlands ("LUKAgip");

NAFTIRAN INTERTRADE CO. (NICO) LIMITED, a company incorporated under the laws of the Island of Jersey);

STATOIL AZERBAIJAN a.s., a company incorporated under the laws of the Kingdom of Norway; and

TURKISH PETROLEUM OVERSEAS COMPANY LIMITED, a company incorporated under the laws of the Island of Jersey.

all the foregoing named signatories being legal persons in accordance with the legislation of the jurisdictions of their formation and organisation as confirmed by appropriate documentation thereof;

WITNESSETH:

WHEREAS, the SCP Participants are considering the development of a secure and efficient pipeline system (which may consist of one or more main trunkline transmission pipelines), to be known as South Caucasus Pipeline System (or "SCP System"), for the receipt, transportation and/or delivery of Natural Gas at various points within, across and/or beyond the territories of the Azerbaijan Republic, Georgia and/or the Republic of Turkey;

WHEREAS, based on the agreed terms and conditions of the Project Agreements and other commercial arrangements consistent with the Project Agreements, the SCP Participants shall have the right to implement the Project and construct (or cause to be constructed), own and/or operate the SCP System, including the Facilities, and utilise the resulting capacity in the SCP System and Rights to Land;

WHEREAS, the Government acts on behalf of the State and the State Authorities in matters such as those provided in this Agreement;

WHEREAS, the Azerbaijan Republic and Georgia have entered into or will enter into the Intergovernmental Agreement to give the Project's legal and commercial terms and conditions the support and framework of international law;

WHEREAS, this Agreement is entered into based on, and as an integral part and in furtherance of, the Intergovernmental Agreement;

WHEREAS, in connection therewith and as provided therein, the Intergovernmental Agreement and attached form of this Agreement and other Project Agreements shall become effective (with respect to the subject matter thereof) as the prevailing legal regime of the Azerbaijan Republic (other than the Constitution) and the terms of such agreements shall be the binding obligation of the Azerbaijan Republic under international law and shall be made effective under the Constitution as the prevailing legal regime respecting the Project under Azerbaijan's domestic law; and this Agreement and any other Project Agreements, once executed, shall be binding instruments, enforceable in accordance with their respective terms;

WHEREAS, the Government, acting on behalf of the State and the State Authorities, enters into this Host Government Agreement empowered with the authority under Azerbaijan Law to direct and make commitments on behalf of the State and all State Authorities and to manage State assets, including the assets of State Entities;

WHEREAS, the State Authorities wish to facilitate and support the Project and, in furtherance thereof, the State Authorities recognise the need to create the necessary framework of legal and commercial protections and intend to provide to, or for the benefit of, the Project and the relevant Project Participants, among other things, rights in and to certain facilities owned or controlled by the State Authorities, direct government guarantees, indemnities and other representations, authorisations, exemptions and assurances, as well as the required land in the Azerbaijan Republic comprising the pipeline routes as specified herein and in the applicable Project Agreements; and

WHEREAS, the State Authorities affirm that the marketing and sale of Natural Gas in and beyond the Territory of the Azerbaijan Republic will contribute to the improvement and further development of additional exploration, production, transportation, and Natural Gas marketing and sales opportunities, provide opportunities for greater utilisation of existing infrastructure to deliver Natural Gas in the States, and allow the State Authorities and other purchasers within the Territory of the Azerbaijan Republic to have increased access to reliable Natural Gas supplies.

NOW, THEREFORE, for and in consideration of the premises, the Parties hereby agree as follows:

ARTICLE 1

DEFINITIONS

Capitalised terms used in this Agreement (including the recitals), and not otherwise defined herein, have the meanings given to them in Appendix 1.

ARTICLE 2

AUTHORITY

- 2.1 With respect to this Agreement, the Government is empowered with the authority under Azerbaijan Law to direct and to make the commitments provided herein on behalf of the State and all State Authorities. All obligations of the State Authorities under this Agreement shall be, and for all purposes shall hereby be conclusively deemed to be, the obligations of the State. All obligations of the State Authorities under this Agreement shall be obligations to be observed and performed by each relevant constituent element thereof, including the Government, each of the Local Authorities, and each State Entity.
- 2.2 In order to ensure that the obligations of the State Authorities set forth in this Agreement are discharged in a timely manner (subject to any time periods explicitly set forth herein) and otherwise to facilitate and coordinate the conduct of SCP Activities, the Government shall appoint by written notice to the SCP Participants an authorised representative, agency or other body (the “Government SCP Representative”) by or through which the SCP Participants may request and secure (i) issuance (by the relevant State Authority), of any and all rights, licenses, visas, permits, certificates, authorisations, approvals and permissions provided in this Agreement, (ii) information, documentation, data and other materials specified by this or any other Project Agreement or appropriate to evidence any grants of rights hereunder, (iii) the submission and receipt of notifications, certifications and other communications provided herein, and (iv) the taking of such other actions with respect to the State Authorities appropriate or necessary to facilitate the implementation of the Project.
- 2.3 The SCP Participants recognise the fundamental importance of discharging their obligations and of facilitating and coordinating the conduct of SCP Activities under this Agreement in a timely and efficient manner. Accordingly, the SCP Participants shall use Best Endeavours to adopt procedures by not later than one hundred eighty (180) days from the Effective Date (which procedures shall include, inter alia, the appointment of one or more representatives, committees, or other organisational or functional bodies by or through whom the SCP Participants may act) which will facilitate the method and manner of the SCP Participants’ timely and efficient exercise of their rights, benefits, privileges and exemptions and/or performance of their obligations hereunder (the “SCP Representative(s)”), such procedures subject at all times to (i) the terms and conditions of the business structure among, and/or the business activities of, the SCP Participants and (ii) the requirement that all matters in respect of Taxes for an SCP Participant shall be addressed by that SCP Participant (or its designated agent); following the organisation of the business structure of the SCP Participants, the SCP Representative(s) shall provide timely notice to the Government SCP Representative of such business structure . Upon the appointment of the SCP Representative(s), the State Authorities shall be entitled to

conclusively rely upon the communications, actions, information and submissions of an SCP Representative, in respect of that SCP Representative's notified area of authority, as being the communications, actions, information and submissions of the SCP Participants. The Parties further acknowledge that the SCP Participants shall have the right, upon reasonable notice to the State Authorities, to remove, substitute or discontinue the use of one or more specific SCP Representative(s).

- 2.4 The SCP Participants and the State Authorities shall, at the request of either of them, review from time to time the status of SCP Activities and confer respecting any issues arising with respect thereto.

ARTICLE 3 **AGREEMENT, TERM AND DURATION**

- 3.1 This Agreement shall be effective and binding from the date it has been fully executed by all Parties hereto (the "Effective Date") and shall continue for a primary term of sixty (60) years from the date of first shipment of Natural Gas through the custody transfer meter at the Point of Terminus (the "Primary Term"); provided, however, that the SCP Participants shall have the right to terminate this Agreement effective on either (i) the December 31 immediately following the fortieth (40th) anniversary of the date of first shipment of Natural Gas through the custody transfer meter at the Point of Terminus (the "40th Anniversary Date") or (ii) the December 31 immediately following the fiftieth (50th) anniversary of the date of first shipment of Natural Gas through the custody transfer meter at the Point of Terminus (the "50th Anniversary Date"). In order to effect such termination, the SCP Participants shall be obligated to provide written notice to the Government of their election to terminate this Agreement no earlier than three hundred sixty (360) days prior to the 40th Anniversary Date or the 50th Anniversary Date, as applicable, and no later than one hundred eighty (180) days prior to the 40th Anniversary Date or the 50th Anniversary Date, as applicable. Notwithstanding the foregoing, (1) if the date of first shipment of Natural Gas through the custody transfer meter at the Point of Terminus is a date in a calendar year on or before June 30, the Primary Term shall consist of (i) a first year, which shall be deemed to be all days remaining in the calendar year, plus (ii) the fifty-nine (59) calendar years next following such first year; and (2) if the date of first shipment of Natural Gas from the Point of Terminus is a date in a calendar year on or after July 1, the Primary Term shall consist of (i) a first year, which shall be deemed to be all days remaining in such calendar year as well as all days in the next succeeding calendar year, plus (ii) the fifty-nine (59) calendar years next following such first year of the Primary Term.
- 3.2 Notwithstanding the foregoing Section 3.1 and subject to Section 3.7, this Agreement may be terminated at any time by the SCP Participants collectively giving their written notice of termination to the Government and shall be of no further force or effect for any purpose as of the date specified by the SCP Participants in said notice
- 3.3 If the SCP Participants have not taken material steps to commence the construction phase respecting the Facilities by not later than thirty-six (36) months after the Effective Date, then for a period of one hundred twenty (120) days thereafter the Government shall have

the right to give written notice to the SCP Participants of the termination of this Agreement, which termination shall be subject to Section 3.7. For purposes hereof "material steps to commence the construction phase respecting the Facilities" shall be deemed to occur upon submission of the EIA and Baseline Study (as those terms are defined in Appendix 4). Such termination shall become effective thirty (30) days after actual receipt by the SCP Participants of said termination notice unless within said thirty day (30) period the SCP Participants submit the EIA and Baseline Study. If the above-referenced one hundred twenty (120) day period expires without the Government giving any such termination notice, the Government's right to terminate pursuant to this Section 3.3 shall expire and this Agreement shall continue in full force and effect in accordance with its terms. In addition, the above-referenced thirty-six (36) month period shall be extended if and to the extent of any delays caused by the failure or refusal of any State Authorities to perform timely any obligations they may have respecting SCP Activities; the SCP Participants shall provide the Government SCP Representative with timely notice of any such failure or refusal by any State Authorities, provided that the failure of the SCP Participants to provide such notice shall in no way alter the rights and obligations of the Parties pursuant to this Section 3.3

- 3.4 In addition to the termination right of the Government set forth in Section 3.3, the Government shall have the right to terminate this Agreement under the circumstances and in accordance with the procedures set forth in this Section 3.4. If the Government concludes that the SCP Participants have committed a material breach of any of their joint and several obligations (as those obligations are set forth in Section 10.3), then the Government shall have the right to give written notice to the SCP Participants of such material breach in detail sufficient for the SCP Participants to undertake cure. During the pendency of any discussions to attempt resolution and/or any subsequent arbitral proceedings, the SCP Participants may, but shall have no obligation to, undertake to address and/or cure the alleged breach; provided, however, in the event the SCP Participants do not commence efforts to effect cure of a disputed breach, the Government may undertake cure. If and to the extent the SCP Participants do not dispute or, after discussions to attempt resolution, agree with the Government that such a material breach has occurred, or it is determined through arbitration that such a material breach has occurred, the SCP Participants shall promptly undertake efforts to effect cure. If any such breach remains uncured for ninety (90) days after receipt of any undisputed notice, confirmation of resolution or arbitral determination that such a breach has occurred, as the case may be (the "Cure Period"), the Government shall have the right to give the SCP Participants written notice of termination of this Agreement, which termination shall be effective thirty (30) days after the Government's giving of the termination notice to the SCP Participants. If the cure is effected by the SCP Participants within the Cure Period, the Government's right to give a termination notice in respect of the earlier noticed breach shall end and this Agreement shall continue in full force and effect. If the breach is one that cannot be effectively cured with exercise of reasonable efforts within the Cure Period, the SCP Participants shall nevertheless have the right to cure the breach and avoid termination hereunder by commencing efforts to cure the breach within the Cure Period and thereafter diligently pursuing efforts to cure. Any cure so effected beyond the Cure Period shall nonetheless be deemed to have occurred within the Cure Period, any cure so effected shall serve to end the Government's right to give a termination notice in respect

of the earlier noticed breach, and this Agreement shall continue in full force and effect. Any dispute respecting the timeliness or adequacy of any cure effected by the SCP Participants and/or whether termination has properly occurred hereunder may be submitted to arbitration in accordance with Article 17. In the event that, pursuant to the provisions of this Section 3.4, the Government effects cure of a disputed breach, which disputed breach is later determined pursuant to Article 17 to have been a material breach, the SCP Participants shall pay all costs incurred by the Government in effecting such cure.

For purposes of this Section 3.4, “material breach” means a breach which:

- (i) constitutes the knowing and persistent failure to or refusal by the SCP Participants to take appropriate action to assure that:
 - (a) their SCP Activities in the Territory comply with the standards and practices set forth in this Agreement; or
 - (b) their activities in the Territory related to the Project do not pose a threat to the national security of the Azerbaijan Republic; or
- (ii) is tantamount to the frustration of the entire Agreement;

and, in the case of either or both of (i) and (ii) above, the nature and extent of the breach (including repetition) reasonably supports the conclusion that the only appropriate remedy under the circumstances is the full and final termination of this Agreement and permanent cessation of the Project in the Territory. Termination hereunder shall be subject to Section 3.7 and without prejudice to the Government’s right to any other remedies available under this Agreement. Notwithstanding the foregoing, the Government shall have no right of notice and/or termination hereunder to the extent any such material breach is caused by or arises from any breach of any Project Agreement and/or breach of duty by any State Authority.

3.5 If this Agreement has not been earlier terminated pursuant to this Article 3 and subject to Section 3.7, this Agreement shall terminate and be of no further force or effect on the date on which all SCP Activities have permanently ceased, as such date is notified by the SCP Participants in writing to the Government.

3.6 Subject to Section 3.7, it is expressly understood by the Parties that by entering into this Agreement or undertaking SCP Activities, no SCP Participant or other Project Participant is committed, or is in any manner obligated to any of the State Authorities, to undertake any other SCP Activities or otherwise to implement or carry out the Project, or to continue any SCP Activities that it may have begun, in reliance on this or any other Project Agreement, or otherwise, provided that any SCP Activities undertaken shall be undertaken in compliance with the terms of this Agreement.

3.7 Termination of this Agreement shall be without prejudice to (i) the rights of the Parties (including those which are no longer Parties) respecting the full performance of all obligations accruing prior to, or as a result of, termination and (ii) the survival of all

waivers, exemptions and indemnities provided herein in favour of a Party (or former Party) in respect of the period prior to and through the date of such termination.

ARTICLE 4 GRANT OF RIGHTS

- 4.1 For purposes of the Project, the State Authorities hereby grant pursuant to the Project Agreements:
- (i) to the Project Participants, the absolute and unrestricted right and privilege to implement and carry out the Project, conduct all SCP Activities, and enjoy all other rights and privileges provided to any or all of them by the State Authorities as set forth in the Project Agreements;
 - (ii) to the SCP Participants and such other Project Participants as the SCP Participants may designate to implement SCP Activities, the exclusive and unrestricted Rights to Land as set forth in Appendix 2;
 - (iii) to each of the SCP Participants, the exclusive and unrestricted property right to use, possess, control and construct upon and/or under the Permanent Land, and to restrict or allow (at the SCP Participants' sole discretion) the use, occupation, possession and control of, and construction upon and/or under, the Permanent Land by any other Persons;
 - (iv) to each of the SCP Participants, the exclusive and unrestricted right and privilege to construct, own, use, possess and control the Facilities;
 - (v) to the Project Participants, subject to Sections 18.2 and 18.3, the absolute and unrestricted right and privilege to employ or enter into contracts with, for the purpose of conducting SCP Activities, such Persons and their respective personnel (including citizens of the State and, subject to Section 7.2, of countries other than the State) who, in the opinion of such Project Participant, demonstrate the requisite knowledge, qualifications and expertise to conduct such activities;
 - (vi) to the Project Participants, (a) the exclusive and unrestricted right and privilege, subject to compliance by the SCP Participants with the Principles with Respect to Contract Access to SCP System attached hereto as Appendix 3, to conduct Sales Activities using Sales Participants or any legal or business structure or structures, including unincorporated joint ventures of co-owners, agency and other representative relationships, limited partnerships, limited liability companies, corporations, branches or any other structure or arrangement, and organised, formed or constituted in such country or jurisdiction, as the Project Participants may elect from time to time (and the State Authorities shall ensure that licenses and/or authorisations to be issued to purchasers of Natural Gas in connection with the conduct of Sales Activities shall be on a non-discriminatory basis, it being the intention that there shall be no distinction (either in the identity of such purchasers or in the rights and privileges granted to such purchasers) between those purchasers licensed and/or authorised to purchase services and/or Natural Gas

from or in respect of the SCP System and those purchasers licensed and/or authorised to purchase services and/or Natural Gas from or in respect of other providers of such services and/or Natural Gas in the Territory); and (b) the exclusive and unrestricted exemption from the application and enforcement of all Azerbaijan Laws imposing on Shippers and other Project Participants, or their respective assets or property associated therewith, any duties or obligations to secure or maintain in force any licenses, permits, certificates, authorisations or approvals in connection with the conduct of such SCP Activities; and (c) in carrying out the SCP Activities, the absolute and unrestricted exemption from all Azerbaijan Laws in respect of business competition, antitrust, anti-monopoly, natural monopoly, restraint of trade, business combinations and other similar legal restraints or prohibitions in respect of all SCP Activities;

- (vii) to Project Participants, in connection with services (including the marketing, sale and purchase of Natural Gas and Shah Deniz Natural Gas) provided in respect of the SCP System, including the entry into and performance of all commercial agreements by the Project Participants (subject to the restrictions set forth herein in respect of such sales), but subject to compliance by the Project Participants with the Principles with Respect to Contract Access to SCP System attached hereto as Appendix 3, absolute and unrestricted exemption from the application and enforcement of all Azerbaijan Laws imposing on the Project Participants, the SCP System, or with respect to the services provided by the Project Participants in respect of the SCP System or SCP Activities, any duties or obligations of any nature whatsoever associated with being a public utility, Natural Gas utility, utility, concessionaire, licensee or other similar regulatory classification or framework (a) that, *inter alia*, would establish regulatory jurisdiction of any nature whatsoever over the method and manner the Project Participants provide service in respect of the SCP System and/or impose any form of utility regulation, rates and service regulation, tariff and access regulation (including any regulations in respect of supply, distribution and/or transportation of Natural Gas, or any other similar regulations in respect thereof), or impose on the Project Participants or the SCP System any duty or obligation to secure or maintain any licenses (including any licenses in respect of supply, distribution or transportation of Natural Gas or Shah Deniz Natural Gas), permits, certificates, authorisations or approvals of any nature whatsoever, or to provide service, or particular types of service of any nature whatsoever, to all or any portion of the public generally or in respect of the State Authorities (it being agreed that the only obligation imposed on the Project Participants or the SCP System to provide any service or sell Natural Gas or Shah Deniz Natural Gas is pursuant to freely negotiated commercial contracts entered into by the Project Participants (subject to the restrictions set forth herein in respect of such sales)), or (b) that otherwise create limitations, conditions or restrictions under Azerbaijan Law on the conduct of the Project Participants' business in relation to the SCP System or SCP Activities in addition to or in conflict with the provisions of this Agreement or any other Project Agreement;

- (viii) to the SCP Participants and their designated Contractors free of charge, readily available water of sufficient quality and quantity located proximate to the Facilities in order to perform hydrostatic and other testing of the Facilities, together with the right to dispose of same at location(s) proximate to said Facilities upon completion of such testing; and
- (ix) without limiting the rights and privileges granted herein to the Project Participants, to the Project Participants, the uniform, non-discriminatory application of international law standards protecting investments, including non-discriminatory treatment of investors, as set out in bilateral and multilateral agreements to which the State is a party, and to ensure that the Project Participants and Shippers, and their respective investments, in respect of the SCP System and SCP Activities are accorded treatment that is no less favourable than the treatment the State accords to its own investors or to investors of any other state, whichever is the most favourable.

4.2 The rights, exemptions and/or privileges granted or made available under this Agreement are granted by the State Authorities in relation to the carrying out of the Project and SCP Activities by the SCP Participants and other Project Participants engaged to participate in and/or carry out the Project and SCP Activities by the SCP Participants. The State Authorities acknowledge that the SCP Participants intend to do business with and/or engage Project Participants in relation to the carrying out of the Project and SCP Activities, and hereby agree with the SCP Participants that these other Project Participants, by their participation in the Project, shall have the benefit (without the need for any approval or consent, of any nature whatsoever, from any State Authority or the Government SCP Representative) of all grants, rights, exemptions and undertakings as are provided under any Project Agreement. In this regard, to facilitate the administration of any Project Agreement, the SCP Participants will notify the Government SCP Representative and/or the applicable State Authority, from time to time, of those Persons who are Project Participants and/or furnish said Persons with written evidence of such status with respect to the Project, it being further understood that no such failure to notify and/or furnish written evidence of Project Participant status will have the effect of denying such status (either retroactively or prospectively) but may cause a delay under particular circumstances (for example, immediate grant of customs clearances) until such status and rights are confirmed by the SCP Participants. If any such rights, exemptions, grants or privileges associated with being a Project Participant hereunder are not already vested in any such Project Participant by operation of this Agreement and/or Azerbaijan Law (whether by the enactment or ratification of Project Agreements into Azerbaijan Law as provided herein or otherwise), the State Authorities hereby grant to each of the SCP Participants the further right and authority to (i) make such rights available by sub-grant to such Project Participants or (ii) transfer, assign or share such rights to or with such Project Participants pursuant to Article 16. In addition, the State Authorities agree that, if requested by any SCP Participant, the State Authorities shall evidence the grant of rights, exemptions and guarantees pursuant to this Agreement to said Project Participants in a written instrument to such effect in form sufficient and appropriate to facilitate the carrying out of the Project or SCP Activities or any part thereof.

ARTICLE 5
GOVERNMENT AGREEMENT AND GUARANTEES

- 5.1 In addition to affirming that the following obligations are primary obligations of the State Authorities, the Government hereby agrees for itself and guarantees to each of the SCP Participants the validity and effectiveness of the acknowledgments, representations and warranties made by it on behalf of and committing the State Authorities as set forth in this Agreement, the rights and privileges provided (and to be provided) to any and all Project Participants by the State Authorities under all Project Agreements, and the complete and timely satisfaction and performance of all State Authorities' obligations in accordance with the terms of the Project Agreements.
- 5.2 Without limiting the breadth and scope of Section 5.1, the Government hereby commits the State Authorities to perform and, in respect of all State Authorities other than itself, guarantees to each of the SCP Participants the performance of the obligations of the State Authorities set forth in this Agreement, including:
- (i) that the State Authorities shall not interrupt or impede the freedom of transit, receipt or delivery of Natural Gas and Shah Deniz Natural Gas into, within, across and/or from the Territory except in accordance with the provisions of clause (iii) below;
 - (ii) that the State Authorities shall perform and take all actions and make all decisions required of the State Authorities in accordance with the terms of all Project Agreements;
 - (iii) that the State Authorities shall not act or fail to act in any manner that could hinder or delay any SCP Activity or otherwise negatively affect the Project or impair any rights granted under any Project Agreement (including any such action or inaction predicated on security, health, environmental or safety considerations that, directly or indirectly, interrupt, impede or limit the receipt, flow or delivery of Natural Gas in, from or through the Facilities, except under circumstances in which continued operation of the Facilities without prompt corrective action creates an imminent, material threat to public security, cultural heritage, health, safety or the environment that renders it reasonable to take or fail to take, as the case may be, such action and, then, only to the extent and for the period of time necessary to remove that threat) using, for such purposes in respect of the environment, the applicable standards and practices of Appendix 4 of this Agreement;
 - (iv) that the State Authorities shall give their full cooperation in connection with SCP Activities and observe and enforce all grants of rights and all exemptions;
 - (v) that the State Authorities shall not claim or demand title to or possessory rights over the Natural Gas, Shah Deniz Natural Gas or the Facilities;

- (vi) that the State Authorities shall not claim, demand or in any way restrict any rights respecting the Rights to Land granted by the State Authorities to the SCP Participants; and
- (vii) that the State Authorities shall make payment of any and all sums of money which may become due and owing by the State Authorities under or pursuant to (a) any Project Agreement, including compensation payments under Article 9 of this Agreement and pursuant to the indemnification provisions of any Project Agreement, and (b) any sale and purchase agreement for Natural Gas between any one or more of the Project Participants, on the one hand, and any State Authorities, or their designees, on the other hand.

5.3 The guarantees made by the Government in this Article 5:

- (i) are several, independent, absolute, irrevocable and unconditional and each constitutes an independent covenant and principal obligation of the Government, separately enforceable from all other obligations of the State Authorities under the Project Agreements, without regard to the non-performance, invalidity or unenforceability of any of those other obligations;
- (ii) are enforceable, jointly and severally, against the constituent elements of the State Authorities and, regardless of against whom enforcement is sought, any award or claim for payment in respect thereof shall be submitted to the Government and such award or claim for payment (granted, with respect to a claim for payment, such claim is not disputed by the State Authorities) shall be paid to the SCP Participants on or before thirty (30) days after receipt by the Government of the related award or claim for payment; and
- (iii) shall not be modified, impaired or rendered unenforceable by any defense available to the State Authorities under any Project Agreement or otherwise as a result of the occurrence of any event that, but for this Section 5.3(iii), would discharge that guaranty other than by the full performance thereof in accordance with the relevant Project Agreement.

5.4 In furtherance of the commitments and guarantees made by the Government in this Article 5, the Government (i) hereby affirms the obligations set forth herein of the State Authorities and consents to the performance of such obligations by the State Authorities under the Project Agreements and (ii) shall, in a timely fashion, issue, give or cause to be given, in writing, all decrees, enactments, orders, regulations, rules, interpretations, authorisations, approvals and consents necessary or appropriate to evidence further the foregoing affirmation and consent to enable and require the State Authorities to perform in a timely manner all of their obligations as provided by the Project Agreements.

ARTICLE 6
REPRESENTATIONS AND WARRANTIES

6.1 The Government hereby represents and warrants to each of the SCP Participants that as of the Effective Date the Government has:

- (i) accomplished all ratifications and completed all parliamentary, legislative and other actions and enactments of the State Authorities required by Azerbaijan Law to cause the Intergovernmental Agreement to be effective and otherwise endow the Intergovernmental Agreement as binding on the State under international law and Azerbaijan Law; and
- (ii) completed all parliamentary, legislative or other actions and enactments required of the State Authorities by Azerbaijan Law, including signature by the President of the Azerbaijan Republic, to cause the terms of this Agreement and the various grants and obligations of the State Authorities under this Agreement in favour of the SCP Participants and/or other Project Participants to become effective in the Azerbaijan Republic as the prevailing legal regime under Azerbaijan Law with respect to the Project and all SCP Activities, and as the binding obligations of the State Authorities.

For the avoidance of doubt, the Constitution shall prevail over this Agreement and the Intergovernmental Agreement, together with attachments thereto and rights, privileges and obligations in such agreements.

6.2 The Government hereby represents and warrants to each of the SCP Participants that as of the Effective Date and throughout the term of this Agreement:

- (i) the Government is duly authorised under Azerbaijan Law to execute this Agreement and to bind, commit and impose obligations on itself, the State and all State Authorities hereunder, subject only to fulfillment of the obligations of the State Authorities under Section 7.1;
- (ii) the State Authorities have, or have the legal authority to obtain in a timely manner, sole and exclusive jurisdiction respecting Rights to Land (including the Permanent Land) and the full power, authority and right under Azerbaijan Law to grant the rights and privileges provided in Article 4, which rights are transferable by an SCP Participant in accordance with this Agreement;
- (iii) the obligations of the State Authorities under this Agreement (including the Government's guarantees under Article 5) and the other Project Agreements are valid, binding and enforceable against the State and State Authorities in accordance with the terms of this Agreement and the other Project Agreements;
- (iv) the representations, warranties and covenants made in respect of the Government under the Intergovernmental Agreement (including, but not limited to, the representation and warranty set forth in Section (5) of Article II thereof) apply *mutatis mutandis* under this Agreement and are enforceable hereunder by the SCP Participants;
- (v) the State Authorities have not granted and are not obligated to grant to any Person any rights or privileges that are inconsistent or conflict, or that may limit or interfere, with the exercise and enjoyment of the rights and privileges held by any Project Participant under any Project Agreement; and

- (vi) the Rights to Land as set forth in Appendix 2 and, in particular, the rights of exclusive use, construction, possession and control respecting the Permanent Land as granted by the State Authorities to the SCP Participants in this Agreement constitute rights to property other than ownership of land.

6.3 Each of the SCP Participants hereby represents and warrants that as of the Effective Date:

- (i) it is duly organised, validly existing and in good standing in accordance with the legislation of the jurisdiction of its formation or organisation, has the lawful power to engage in the business it presently conducts and contemplates conducting, and is duly licensed or qualified and in good standing as a foreign corporation in each jurisdiction wherein the nature of the business transacted by it makes such licensing or qualification necessary;
- (ii) it has the power to make and carry out this Agreement and to perform its obligations under this Agreement and all such actions have been duly authorised by all necessary procedures on its part;
- (iii) the execution, delivery and performance of this Agreement will not conflict with, result in the breach of, constitute a default under or accelerate performance required by any of the terms of its formation or organisational documents or any agreement, decree or order to which it is a party or by which it or any of its assets is bound or affected;
- (iv) this Agreement has been duly and validly executed and delivered by it and constitutes a legal, valid and binding obligation upon it, enforceable in accordance with its terms, except and to the extent that its enforceability may be limited by bankruptcy, insolvency, reorganisation or other similar legal process affecting the rights of creditors generally or, where applicable, by general principles of equity;
- (v) there are no actions, suits, proceedings or investigations pending or, to its knowledge, threatened against it before any court, arbitral tribunal or any governmental body which individually or in the aggregate may result in any materially adverse effect on its business or assets or its condition, financial or otherwise, or in any impairment of its ability to perform its obligations under this Agreement. Such Party has no knowledge of any violation or default with respect to any order, decree, writ or injunction of any court, arbitral tribunal or any governmental body which may result in any such materially adverse effect or such impairment;
- (vi) it has complied with all laws applicable to it such that it has not been subject to any fines, penalties, injunctive relief or criminal liabilities which in the aggregate have materially affected or may materially affect its business operations or financial condition or its ability to perform its obligations under this Agreement; and
- (vii) no representation or warranty by it contained in this Agreement contains any untrue statement of material fact or omits to state a material fact necessary to

make such representation or warranty not misleading in light of the circumstances under which it was made.

ARTICLE 7
CERTAIN COVENANTS AND CONSENTS
OF THE GOVERNMENT

- 7.1 The Government hereby covenants and agrees that it shall promptly ensure the taking of all actions within its power for the ratification, enactment and promulgation of all laws and decrees that are or may become necessary under Azerbaijan Law to continue in force and fully implement the terms of this Agreement and all other Project Agreements and to authorise, enable and support the activities and transactions contemplated by all Project Agreements. In this regard, and in order to comply with the obligations of the Government in the preceding sentence, the Government will consult with and keep the SCP Participants informed respecting the development of any necessary laws or decrees and the status of all actions which are or may be necessary in order to comply with the foregoing.
- 7.2 The Government hereby covenants and agrees (on its behalf and acting on behalf of and committing the State Authorities) that throughout the term of this Agreement:
- (i) from time to time after the date hereof the State Authorities shall accomplish all notifications and complete all actions within their power to enable the taking of all parliamentary, legislative or other actions, ratifications and enactments required in accordance with Azerbaijan Law to cause any written extension, renewal, replacement, amendment or other modification of the terms of this Agreement or the Intergovernmental Agreement to become effective as, and the terms of all other Project Agreements to be added as an effective part of, the prevailing legal regime of the Azerbaijan Republic with respect to the Project and as the binding obligation of the State Authorities under Azerbaijan Law, and with respect to the Intergovernmental Agreement, under international law. In this regard, and in order to comply with the obligations of the Government and/or State Authorities in the preceding sentence, the Government shall consult with and keep the SCP Participants informed respecting the development of any necessary laws or decrees and the status of all actions which are or may be necessary in order to comply with the foregoing;
 - (ii) subject to the terms hereof and any other Project Agreement, or with the prior written consent of all of the SCP Participants, the State Authorities shall not grant any rights to use the Facilities or respecting the Rights to Land or grant to any Person any other rights that are inconsistent or conflict, or that may interfere, with the full exercise or enjoyment by any of the Project Participants of their rights under any Project Agreement (provided, however, that access by appropriate State Authorities impacting the Facilities or Rights to Land in connection with response to emergency situations (appropriately limited in time and scope) shall not, in and of itself, constitute an impermissible interference with the Facilities or Rights to Land);

- (iii) subject to the terms hereof and any other Project Agreement, the State Authorities shall not withdraw, condition or change (whether by termination or amendment of the respective Project Agreement, or otherwise) any right, interest or benefit accruing under the Project Agreements to any Project Participant without the prior written consent of all of the SCP Participants;
- (iv) the State Authorities shall not cause or permit to exist any restriction on the ingress or egress of any personnel with respect to the Project subject only to the enforcement of immigration (including visa and residence permit regulations), customs, criminal and other relevant laws of the State;
- (v) except in the manner and under the circumstances provided in Section 9.4 (but in all cases, whether or not Section 9.4 is complied with, subject to the payment of compensation for Expropriation as provided in Section 9.2 (iii)), the State Authorities shall not carry out any act of Expropriation in respect of the Project;
- (vi) if any domestic agreement or international agreement between or among states; any law, promulgation, enactment or decree, or any other form of commitment, policy or pronouncement or permission, has the effect of impairing, conflicting or interfering with the implementation of the Project, or limiting, abridging or adversely affecting any of the rights, privileges, exemptions, waivers, indemnifications or protections granted or arising under this Agreement or any other Project Agreement, it shall be deemed a Change in Law under Article 7.2(x).
- (vii) the State Authorities shall:
 - (1) perform all obligations and otherwise assist the SCP Participants and any designated Contractors in respect of the acquisition of, grant to and exercise of the Rights to Land as and when necessary, from time to time, during the life of the Project, all as further provided herein and in Appendix 2 of this Agreement;
 - (2) bear full responsibility and liability for the identification of any and all Persons having or claiming any form of ownership or other property, occupancy, construction or possessory interest which is or may be terminated, conditioned, limited or affected by the State Authorities' grant to each of the SCP Participants of the Rights to Land;
 - (3) bear full responsibility and liability for the prior notification to those Persons described in the foregoing clause (2) of each of the SCP Participant's Rights to Land and the authorisation from the State Authorities for any of the SCP Participants and any designated Contractors to be present thereon to conduct SCP Activities;
 - (4) exercise such powers of taking, compulsory acquisition, eminent domain or other similar sovereign powers to enable each of the SCP Participants and its or their designees to receive and exercise the Rights to Land and, in

particular, to fulfill the grant by the State Authorities to the SCP Participants of the exclusive and unrestricted property right (other than ownership) to the Permanent Land as specified in Section 4.1(iii) of this Agreement and the exclusive and unrestricted right of ownership of the Facilities as specified in Section 4.1(iv) of this Agreement;

- (5) except as specifically set forth in Section 1.3 of Appendix 2, in respect of State Land and Nonstate Land, settle with, or pay such compensation to, those Persons in the Territory as may be required by Azerbaijan Law to authorise the State Authorities to grant to and vest in each of the SCP Participants the rights obtained in accordance with the foregoing clause (4); provided, however, that solely with respect to any Right to Land for Nonstate Land which is acquired hereunder by the State Authorities and granted to the SCP Participants, and subject to the obligations that all such Nonstate Land be acquired at the lowest reasonable cost in accordance with the standards and procedures set forth in the Land Code of Azerbaijan Republic (June 25, 1999), the Law of Azerbaijan Republic on Land Market (May 7, 1999) and any Decrees of the President and/or the Cabinet of Ministers of Azerbaijan Republic implementing the above-stated Land Code and Law, the SCP Participants shall pay the State Authorities (through an appropriate escrow account mechanism) the amount of all actual, verifiable costs to be incurred by the State Authorities in acquiring such Nonstate Land within thirty (30) days before such costs are required to be paid;
- (6) furnish to each of the SCP Participants written evidence of all rights of entry and/or discharges (including, if applicable, the written acknowledgment by those Persons who have been dispossessed of any ownership, occupancy, possessory, construction and/or usage rights);
- (7) ensure that the Rights to Land, including, in particular, the rights obtained in accordance with the foregoing clause (4), and all necessary documents related thereto, are properly and timely registered or recorded in favour of each of and specifically naming the SCP Participants as property rightsholders in respect of the Permanent Land and owners of the Facilities in accordance with Azerbaijan Law in order to satisfy any applicable requirements of Azerbaijan Law and to provide public notice of the rights of each of the SCP Participants to the Rights to Land, including, in particular, the rights obtained in accordance with the foregoing clause (4); and
- (8) protect, defend and indemnify each of the SCP Participants and other affected Project Participants from and against any Loss or Damage in respect of any environmental pollution or contamination, damage, or other conditions of or associated with the Rights to Land if and to the extent the same were in existence on the Effective Date (a “Pre-Existing Environment Condition”); notwithstanding the foregoing, the Government

shall not be liable to the SCP Participants and/or other affected Project Participants (A) for any Loss or Damage incurred in connection with any re-location or re-routing of the Facilities by the SCP Participants because of any Pre-Existing Environmental Condition, and (B) for the cost to repair the pipeline to the extent that such repairs are the result of a Pre-Existing Environmental Condition;

- (viii) the State Authorities expressly authorise and agree that the Project may be implemented by, and the Rights to Land may be held by and registered or recorded in the names of, the SCP Participants using whatever legal or business structure or structures, including an unincorporated joint venture of co-owners, a limited partnership, a limited liability company, corporation, branch(es) or any other structure or arrangement, and organised, formed or constituted in such country or jurisdiction, as the SCP Participants may elect from time to time;
- (ix) except as may be expressly provided therein, the State Authorities shall not amend, rescind, terminate, declare invalid or unenforceable, or otherwise seek to change this Agreement, the Intergovernmental Agreement or any other Project Agreement without the prior written consent of the SCP Participants and/or any other Project Participants which are parties to such agreements; and
- (x) the State Authorities shall take all actions available to them to restore the Economic Equilibrium established under the Project Agreements if and to the extent the Economic Equilibrium is disrupted or negatively affected, directly or indirectly, as a result of any change (whether the change is specific to the Project or of general application) in Azerbaijan Law (including any Azerbaijan Laws regarding Taxes, health, safety but excluding any Azerbaijan Law(s) affecting Pipeline Activities (as defined in Appendix 4) and the Facilities with respect to cultural heritage, health and safety, and the environment which are enacted, promulgated, adopted, decreed, amended, re-enacted or otherwise issued or effected (including the enforcement, exercise of authority, and judicial interpretation of Azerbaijan Law in respect of such matters) if and to the extent such Azerbaijan Laws do not impose on the Project, the Facilities, SCP Activities and/or the Project Participants legal terms or conditions more onerous than those generally observed by the member states of the European Union respecting cultural heritage, health, safety or the environment, as the case may be, and, in any event, specifically excluding any provision for punitive or exemplary damages) occurring after the later of (1) the Effective Date or (2) the date that the Government has fulfilled its obligations under Section 7.1 or 7.2(i), as applicable, including changes resulting from the amendment, repeal, withdrawal, termination or expiration of Azerbaijan Law, the enactment, promulgation or issuance of Azerbaijan Law, the interpretation or application of Azerbaijan Law (whether by the courts, the executive or legislative authorities, or administrative or regulatory bodies), the decisions, policies or other similar actions of judicial bodies, tribunals and courts, the State Authorities, jurisdictional alterations, and the failure or refusal of judicial bodies, tribunals and courts, and/or the State Authorities to take action, exercise authority or enforce Azerbaijan Law (a “Change in Law”). The

foregoing obligation to take all actions available to restore the Economic Equilibrium shall include the obligation to take all appropriate measures to resolve promptly by whatever means may be necessary, including by way of the grant of an exemption, the introduction of legislation, the issuance of a decree and/or the taking of other authoritative acts, any conflict or anomaly between any Project Agreement and such Azerbaijan Law.

- 7.3 Within thirty (30) days after a request by an SCP Participant or such other Project Participants as the SCP Participants may designate, the relevant State Authority shall provide a complete and proper list of all documentation, including in respect of all those matters set forth in this Section 7.3, and requirements necessary to obtain a specific license, visa, permit, certificate, authorisation, approval or permission (the “Application Requirements”) on the part of the SCP Participants and such other Project Participants as the SCP Participants may designate in order to carry out SCP Activities. The SCP Participant or other Project Participants may rely on such listing of the particular Application Requirements as complete and proper, and the same shall be the only Application Requirements required for the relevant request. Subject only to the submission and/or satisfaction of the Application Requirements therefor, the State Authorities shall, on a priority basis within thirty (30) days, but in no event later than sixty (60) days (which sixty-day period shall be appropriate only under extraordinary circumstances) after such submission, provide all licenses, visas, permits, certificates, authorisations, approvals and permissions necessary or appropriate in the opinion of the SCP Participants to enable them and all other designated Project Participants to carry out all SCP Activities in a timely, secure and efficient manner and/or to exercise their rights and fulfill their obligations in accordance with the Project Agreements, including:
- (i) use and enjoyment of the Rights to Land (subject to the provisions of Appendix 2);
 - (ii) customs clearances;
 - (iii) import and export licenses;
 - (iv) visas and residence permits;
 - (v) rights to open and maintain bank accounts;
 - (vi) rights to lease or, where appropriate, acquire office space and employee accommodations;
 - (vii) rights and licenses, in accordance with relevant Azerbaijan Law, to operate communication and telemetry facilities (including the dedication of a sufficient number of exclusive radio and telecommunication frequencies as requested by the SCP Participants to allow the uniform and efficient operation of the SCP System within and without the Territory) for the secure and efficient conduct of SCP Activities;

- (viii) rights to establish such branches, permanent establishments, offices and other forms of business or presence in the Territory as may be reasonably necessary in the opinion of any Project Participant to properly conduct SCP Activities, including the right to lease or, where appropriate, purchase or acquire any real or personal property required for SCP Activities or to administer the businesses or interests in the Project;
- (ix) rights to operate vehicles and other mechanical equipment, and in accordance with relevant Azerbaijan Law, the right to operate aircraft, ships and other water craft in the Territory; and
- (x) environmental, health and safety approvals (subject to the provisions of Appendix 4).

With respect to all such rights, licenses, visas, permits, certificates, authorisations, approvals and permissions, including those customarily issued by the State Authorities, and all renewals and extensions thereof, the Project and all Project Participants shall be exempt, directly and indirectly, from all costs, fees, charges or assessments therefor and from all requirements for any certification, opinion or other evidence of authority or expertise in connection with the examination, evaluation or issuance thereof and from any other conditions or requirements, except as otherwise expressly provided in Section 8.10(i) or 14.4 hereof or in the Project Agreements.

- 7.4 The State Authorities shall provide and/or exert their Best Endeavours to make available to the Project Participants on Best Available Terms all goods, works and services as may be necessary or appropriate for the Project in the opinion of the requesting Project Participant that are owned or controlled by the State Authorities (including raw materials, electricity, water (other than the water referred to in Section 4.1(vi), which is granted to the SCP Participants free of charge), gas, communication facilities, other utilities, onshore construction and fabrication facilities, supply bases, vessels, import facilities for goods and equipment, warehousing and means of transportation).
- 7.5 The State Authorities and the Government SCP Representative shall exert their Best Endeavours to assist the Project Participants in obtaining on Best Available Terms:
- (i) all goods, works, services and technology as may be necessary or appropriate for the Project in the opinion of the requesting Project Participant that are not owned, controlled or customarily provided by the State Authorities (including raw materials, electricity, water (other than the water referred to in Section 4.1(vi), which is granted to the SCP Participants free of charge), gas, communication facilities, other utilities, onshore construction and fabrication facilities, supply bases, vessels, import facilities for goods and equipment, warehousing and means of transportation); and
 - (ii) with respect to jurisdictions and authorities outside the Territory, those rights, licenses, visas, permits, approvals, certificates, authorisations and permissions necessary or appropriate for the Project, including in respect of (1) storage and

staging of Natural Gas, lines of pipe, materials, equipment and other supplies destined for or exiting from the Territory; (2) the import and/or export or re-export of any goods, works, services or technology necessary for the Project; and (3) exemptions from national, local and other taxes, duties, customs, levies, imposts, assessments, contributions, transit fees and other fees and charges in relation to Natural Gas which is transported through the SCP System.

- 7.6 The State Authorities hereby consent to all actions on the part of any of the Project Participants necessary or appropriate in accordance with the terms of this Agreement (i) to implement the Project, including the transportation and shipment of Natural Gas and Shah Deniz Natural Gas for export, (ii) to ensure the full and effective use and enjoyment of the Facilities and the Rights to Land, and (iii) to enable each of the SCP Participants and any other Project Participants to satisfy their respective obligations under all Project Agreements.
- 7.7 The State Authorities hereby agree that any SCP Activities and any and all actions, measures or steps (of whatever nature) taken preparatory to or in connection with the Project or SCP Activities by the SCP Participants and their Contractors, including any components of the Environmental Strategy Product delivered on or prior to the Effective Date, (i) will not be rejected or challenged by the State Authorities for the reason that such SCP Activities, actions, measures or steps were done prior to the Effective Date, and (ii) are deemed to have been done in compliance with the terms of the Code of Practice set forth in Appendix 4 of this Agreement and any of the principles or standards set forth therein.

ARTICLE 8

TAXES

8.1 General.

- (i) Except as otherwise specifically provided in this Agreement, no Project Participant shall be subject to any Taxes or any Tax compliance or filing obligations arising from or related, directly or indirectly, to SCP Activities, the SCP System, the Facilities, the Rights to Land, Natural Gas that is received, transported or delivered through the Facilities or the SCP System or Shah Deniz Natural Gas (including the importation into and exportation from the Territory of, and ownership of, such Natural Gas or Shah Deniz Natural Gas), or any related assets or activities, whether before, on or after the Effective Date. Notwithstanding the foregoing, (1) a Project Participant shall be subject to any Taxes (and related compliance and filing obligations) to the extent such Taxes are specifically provided for under a production sharing agreement entered into by or on behalf of the Azerbaijan Republic, and (2) a Sales Participant shall be subject to profit taxes (and related compliance and filing obligations) to the extent such Taxes are specifically provided for under Azerbaijan Law (including provisions of any production sharing agreement entered into by or on behalf of the Azerbaijan Republic) in the case of Natural Gas that such Sales Participant has produced in the Territory.

- (ii) It is acknowledged that, notwithstanding any other provisions in this Agreement to the contrary, Double Tax Treaties shall have effect to give benefits with respect to Taxes. Moreover, any Person that is not entitled to the benefits of such a treaty shall be entitled to the benefits that would have been available if a treaty equivalent to the Organisation for Economic Co-operation and Development Model Tax Convention on Income and Capital, updated as of 1 November 1997 (the “OECD Treaty”), were applicable. In either event, no further administrative action shall be necessary to enable the Person to take advantage of such benefits.
- (iii) The provisions of this Article 8 shall at all times prevail over all conflicting provisions of the Tax Code of the Azerbaijan Republic including the provisions of Article 2 thereof, or other Azerbaijan Law (including provisions of any production sharing agreement entered into by or on behalf of the Azerbaijan Republic).
- (iv) To the extent any provisions of this Article 8 are or could be construed as being inconsistent with the other provisions of this Agreement, the provisions of this Article 8 shall govern.
- (v) For purposes of Taxes, the SCP System (whether before or after its completion), the Rights to Land, Natural Gas that is received, transported or delivered through the Facilities or the SCP System or assets or activities in connection with any other Natural Gas transportation system in existence on the Effective Date shall not be regarded as a permanent establishment of an SCP Participant, Affiliate of an SCP Participant, Interest Holder or Sales Participant. The provisions of this Section 8.1(v) shall not affect the liability of an SCP Participant for Profit Tax pursuant to Section 8.2 (or the amount of any such liability) or the obligation to satisfy the accounting and filing requirements of Section 8.3.

8.2 Profit Tax.

- (i) Each of the SCP Participants shall be liable for profit tax in respect of its Project Activities in accordance with the Tax Code of the Azerbaijan Republic, as enacted and generally applicable and in force in the Territory on 1 January 2001, and as amended by the provisions of this Article 8 (the “Profit Tax”).
- (ii) The Profit Tax shall apply individually to each SCP Participant. The individual liability of an SCP Participant for Profit Tax for a Year shall be based on such SCP Participant’s separate share of the items of Income and Deductions described below.
- (iii) The Profit Tax shall be imposed on the Taxable Profit of each of the SCP Participants for a Year related to Project Activities at a fixed rate of twenty-seven percent (27%). An SCP Participant’s Taxable Profit for a Year shall be equal to the excess, if any, of its Income over its Deductions for the Year. An SCP Participant’s Taxable Loss for a Year shall be equal to the excess, if any, of its Deductions over its Income for the Year. The amount of any Taxable Loss of an

SCP Participant for a Year shall be carried forward without limitation to the succeeding Year and to subsequent Years, shall be treated as a Deduction for such succeeding Year(s), one at a time in chronological order, and shall offset the SCP Participant's Taxable Profit in full without limitation in such Year(s) until such time as the Taxable Loss is wholly offset against the SCP Participant's Taxable Profit.

- (iv) For purposes of determining the amount of the Taxable Profit or Taxable Loss of an SCP Participant for a Year, Income shall be equal to the sum of the Tariff Income and the Other Income received by the SCP Participant during the Year.
- (v) "Tariff Income" is defined as the amount of cash received during a Year by an SCP Participant from SCP System tariffs attributable to Project Activities. In the event an SCP Participant receives tariffs or other amounts from a Shipper or other customer with respect to the transportation of Natural Gas through the entire SCP System (or through a portion of the SCP System located both inside and outside the Territory), the amount of such tariffs or other amounts attributable to Project Activities shall be based on an allocation determined by the SCP Participant, provided that such allocation must be applied in a reasonable manner in accordance with practices generally accepted in the international Natural Gas transportation industry, on a consistent basis from Year to Year, which takes into account the relative amount of cumulative capital expenditures incurred by the SCP Participants as of the end of the relevant Year with respect to the portion of the SCP System located in the Territory (the "Allocation Method").
- (vi) (1) "Other Income" is defined as any amounts of cash received by an SCP Participant in the carrying on of SCP Activities, including the following:
 - (aa) realised exchange gains;
 - (bb) interest income;
 - (cc) amounts received from suppliers, manufacturers or their agents in connection with defective materials and equipment; and
 - (dd) amounts treated as Other Income pursuant to Section 8.2(xiv).
- (2) Notwithstanding the foregoing, Other Income shall not include the following amounts:
 - (aa) SCP System tariffs;
 - (bb) income from Sales Activities;
 - (cc) except as otherwise provided in Section 8.2(xiv), amounts received from a disposition of all or any of the Facilities, the SCP System or Rights to Land;

- (dd) amounts received as a loan, or funds contributed, to the SCP Participant;
 - (ee) amounts received from a disposition of, or any other adjustment in, all or any of the SCP Participant's rights and obligations arising under any Project Agreement or in connection with the Project or the SCP System;
 - (ff) dividends;
 - (gg) Profit Tax refunds or offsets;
 - (hh) amounts received in connection with any transaction described in Section 8.7 except as otherwise provided therein;
 - (ii) amounts received in reimbursement or otherwise in connection with expenditures incurred by the SCP Participant in excess of the amounts of such expenditures that have been treated as Deductions by the SCP Participant for purposes of computing Taxable Profit or Taxable Loss (in which case the amount of any such excess shall not thereafter be treated as Deductions by the SCP Participant for such purposes and, if appropriate, corresponding adjustments shall be made to the balance in Section 8.2(xi)); and
 - (jj) amounts received which are not freely at the disposal of and do not increase the wealth of the SCP Participant.
- (3) For purposes of this Section 8.2(vi), in the event the SCP Participant receives a payment which is attributable to the activities of the entire SCP System (or of a portion of the SCP System located both inside and outside the Territory) rather than solely to Project Activities, the amount of such payment considered to be received in the carrying on of Project Activities shall be based on the Allocation Method.
- (vii) For purposes of determining the amount of the Taxable Profit or Taxable Loss of an SCP Participant for a Year, Deductions shall include all costs incurred by the SCP Participant during such Year in connection with Project Activities, whether incurred in the Territory or elsewhere and whether paid by the SCP Participant directly or indirectly through an Operating Company, including the following:
- (1) the full amount of wages, salaries and other amounts payable to all employees together with all costs incurred in connection with the provision of accommodation, food, utilities, education and travel to and from the Territory for such employees and their families;
 - (2) all costs of Azerbaijan State social insurance (including payments to the pension fund, employment fund, social insurance fund and any medical fund) and other similar payments for employees;

- (3) all costs incurred for services rendered or technical assistance;
- (4) all amounts payable under a lease agreement;
- (5) all insurance costs (irrespective of the identity of the insurer);
- (6) all representation and personnel training costs;
- (7) all costs connected with the activities of the offices or other places of business of the SCP Participant and its Interest Holders, including management, research and development and general and administrative expenses;
- (8) the costs of any item of equipment or asset which is not a Fixed Asset;
- (9) all amounts of interest, fees and charges paid in respect of any debt incurred and any refinancing of such debt, irrespective of the term to maturity of such debt or the identity of the payee or any of the SCP Participant's Interest Holders;
- (10) the costs of wages and salaries paid to managers and employees abroad, and the general and administrative overhead costs of the central services located abroad, of the SCP Participant and its Interest Holders working for the SCP Participant's account and indirect costs incurred by said central services abroad for the SCP Participant's account;
- (11) losses of materials or assets resulting from destruction or damage, assets which are renounced or abandoned during the Year, bad debts and payments made to third parties as compensation for damage;
- (12) all costs of repairing any item of equipment or asset;
- (13) amounts treated as Deductions pursuant to Section 8.2(ix), Section 8.2(xii) and Section 8.2(xiv);
- (14) Operating Company fees;
- (15) any other losses, including realised exchange losses, or charges; and
- (16) all other expenditures which the SCP Participant incurred in carrying out, directly or indirectly, Project Activities.

For purposes of this Section 8.2(vii), in the event the SCP Participant incurs a cost which is attributable to the activities of the entire SCP System (or of a portion of the SCP System located both inside and outside the Territory) rather than solely to Project Activities, the amount of such cost considered to be incurred in connection with Project Activities shall be based on the Allocation Method.

(viii) For purposes of computing Deductions, any costs incurred by the SCP Participant or its predecessors prior to the Effective Date shall be deemed to have been incurred by the SCP Participant on the Effective Date.

(ix) In the case of any Fixed Asset, amortisation Deductions shall be calculated as follows:

- | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|
| (1) Fixed Assets which are not described in clause (2) or (3) below | twenty-five percent (25%) per Year declining balance basis |
| (2) Pipelines, laterals, interconnections, receipt, delivery, treatment, compression, pressure reduction, measuring, sampling, testing and metering, SCADA, communications, telemetry, fiber optic and other cabling and similar equipment, pig launching and receiving facilities, pipelines, power lines and other related equipment used to deliver fuel and/or power, cathodic protection devices and equipment, monitoring posts, markers and sacrificial anodes, terminaling, storage and related installations and all other associated facilities and related capital assets | ten percent (10%) per Year declining balance basis |
| (3) Office buildings | ten percent (10%) per Year declining balance basis |

Notwithstanding the foregoing, the SCP Participant may elect to calculate its amortisation Deductions at annual rates less than the rates set forth above.

(x) The amount of amortisation for expenditures on a Fixed Asset shall be computed on the cost of the Fixed Asset. Amortisation shall commence in the Year in which the expenditure is incurred, irrespective of whether or not the asset has been placed in service. For purposes of Section 8.2(ix) and Section 8.2(xiv), the cost of a Fixed Asset shall include design, engineering, construction and fabrication fees and expenses with respect to the asset. Any item which is treated

as a Deduction under Section 8.2(vii) shall not be amortised under Section 8.2(ix) or Section 8.2(xi).

- (xi) All expenditures for Fixed Assets described in clause (1) of Section 8.2(ix) incurred during the Year shall be deemed to have been incurred on first (1st) January, with the result that one hundred percent (100%) of the expenditures shall be added to the balance of the unamortised amounts brought forward from the preceding Year. The balance will then be reduced by any amounts received from the disposal of such Fixed Assets (including insurance proceeds related to any such Fixed Assets) to give an adjusted balance (“Adjusted Balance”), which will then be amortised as follows:

Balance brought forward from the preceding Year	X
Add one hundred percent (100%) of the expenditures incurred on such Fixed Assets during the Year	X
Less the full amount of the actual proceeds from sales of (or insurance proceeds for) such Fixed Assets during the Year	<u>(X)</u>
Adjusted Balance	X
Less amortisation: twenty-five percent (25%), or lower applicable rate, of the Adjusted Balance	<u>(X)</u>
Balance to carry forward to the following Year	X

- (xii) If in any Year all Fixed Assets described in clause (1) of Section 8.2(ix) are disposed of (including as a result of a change or adjustment in ownership of any of the rights of an SCP Participant under any Project Agreement or in connection with the Project), then the amount of the Adjusted Balance, if any, of such Fixed Assets shall be treated as a Deduction in that Year.
- (xiii) Fixed Assets described in clause (2) of Section 8.2(ix) shall be subject to rules similar to those described in Section 8.2(xi) and Section 8.2(xii). In the case of any office building, if, after taking into account the amortisation Deduction for a Year, the adjusted basis of such building is not more than a reasonable salvage value as determined in accordance with practices generally accepted in the international Natural Gas transportation industry, the amortisation Deduction for such Year shall be increased to include the amount of such adjusted basis.
- (xiv) There shall be treated as Other Income or Deductions the amount of gains or losses recognised by an SCP Participant during the Year from the sale, disposition or abandonment, including as a result of a change or adjustment in ownership of any of the rights of an SCP Participant under any Project Agreement or in connection with the Project and including the receipt of any insurance proceeds

related to the destruction (“Disposition”), of any office building, computed as follows:

Proceeds (if any) from Disposition of the building	X
Less adjusted basis of the building	<u>(X)</u>
Gain/(loss) on Disposition of the building	X

In determining gain or loss on such a Disposition, the adjusted basis of the office building shall be calculated as follows:

Original cost	X
Add cost of capitalised improvements	X
Less accumulated amortisation Deductions	<u>(X)</u>
Adjusted basis	X

Notwithstanding the foregoing, the amount of gain recognised by the SCP Participant from a Disposition of all office buildings in the Territory shall not be treated as Other Income.

- (xv) Should any SCP Participant assign all or any part of its interest in the Project to an assignee, the assignor SCP Participant shall have the option to elect to have the assignee treat as a Deduction for the Year in which the assignment occurs all, or a proportional part if only part is assigned, of the Taxable Loss, if any, of the assignor SCP Participant as of the date of the assignment.
- (xvi) Notwithstanding the foregoing, in the event of an assignment by more than one of the SCP Participants of all or any of their interests in the Project to an assignee which is an Entity (the “Holding Entity”) in exchange for ownership interests in the Holding Entity, each of the owners of the Holding Entity (the “Owners”) may elect to have the Profit Tax apply individually to such Owner as if such Owner was a separate SCP Participant (an “Individual Election”). An Individual Election by an Owner shall be made not later than first (1st) April of the Year following the Year in which the assignment occurred, and shall be binding on the Owner (and its interest in the Project) for all subsequent Years. The individual liability of an Owner for Profit Tax pursuant to an Individual Election shall be based on the items of Income and Deduction of the Owner and on the Owner’s share of the items of Income and Deduction of the Holding Entity. In the event an Individual Election is made by one or more, but not all, of the Owners, the liability of the Holding Entity for Profit Tax shall be based only on the items of Income and Deduction of the Holding Entity which are not allocable to the Owner(s) that made the Individual Election(s); provided that, in the event the Holding Entity

does not satisfy its Project Tax obligations, such obligations shall be required to be satisfied by the Owner(s) that did not make the Individual Election(s) (on a several basis, in proportion to their shares of the items of Income and Deduction of the Holding Entity). In the event Individual Elections are made by all of the Owners, the Holding Entity shall not be considered a legal person for Azerbaijan profit tax purposes and, notwithstanding any contrary provision in this Article 8, shall not itself be liable for Profit Tax or have any Profit Tax compliance or filing obligations (other than the obligation to register with the State Tax Inspectorate). Principles comparable to those described in this Section 8.2(xvi) shall apply in the event the Project is owned by all of the investors through a single Entity.

8.3 Profit Tax Accounting and Returns.

- (i) Each SCP Participant shall:
 - (1) Register with the State Tax Inspectorate, and file a Profit Tax return for each Year ending on or after the Effective Date in which it is engaged in Project Activities.
 - (2) Maintain its books and records, compute its Taxable Profit and Taxable Loss and prepare its Profit Tax returns exclusively in Dollars. The SCP Participant's books and records with respect to SCP Activities shall be maintained in accordance with accounting standards which are generally accepted in the international Natural Gas transportation industry.
 - (3) Recognise items of Income and Deductions in accordance with the cash receipts and disbursements method of accounting based on practices generally accepted in the international Natural Gas transportation industry (regardless of the accounting method used by the SCP Participant for purposes other than Taxes). The amount of any item of Income or Deduction shall be based only on the actual amount of the item received or paid by the SCP Participant or an Operating Company (irrespective of the identity of the payor or payee or its relationship to the SCP Participant or any Interest Holder).
 - (4) Submit its Profit Tax return for each Year to the State Tax Inspectorate, and pay its Profit Tax for the Year to the State Tax Inspectorate on behalf of the State, not later than first (1st) April of the following Year. Estimated Profit Tax returns shall not be filed, and estimated Profit Tax payments shall not be made, by the SCP Participants.
- (ii) All payments (and refunds) of Profit Tax, and any interest, penalties and fines thereon as described in clause (3) of Section 8.3(iii) and in Section 8.10(ii), shall be made in Dollars.
- (iii) (1) The filing of the Profit Tax return and payment of Profit Tax thereunder by an SCP Participant for a Year shall be deemed to be a final and conclusive settlement of all Profit Tax liabilities of the SCP Participant for

the Year on the date thirty-six (36) months from the date the Profit Tax return for the Year was filed. The SCP Participant and the State Tax Inspectorate may, by mutual written agreement, extend this period.

- (2) The State Tax Inspectorate shall have the authority to conduct one audit of the Profit Tax return of the SCP Participant for each Year. On completing such audit, the State Tax Inspectorate shall discuss any proposed adjustments with the SCP Participant 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 SCP Participant of the appropriate notice. If the SCP Participant and the State Tax Inspectorate are unable to agree on the amount of Profit Tax underpaid or overpaid, the issue shall be submitted to arbitration under Article 17.
- (3) On a final determination that there has been an underpayment (or overpayment) of Profit Tax by the SCP Participant on its Profit Tax return for a Year, interest shall accrue and shall be paid by the SCP Participant (or, in the case of a refund of an overpayment, shall be paid to the SCP Participant) on the unpaid, underpaid or overpaid amount from the date the Profit Tax was due (or, in the case of an overpayment, the date the Profit Tax was paid) at the Agreed Interest Rate.
- (iv) Each SCP Participant shall submit its Profit Tax returns and make its Profit Tax payments to the State Tax Inspectorate for the location of the primary operating office in the Territory of the Operating Company which is responsible for operating the Facilities, or, if there is no such office, to the main office of the State Tax Inspectorate in Baku. Any such Profit Tax payment may be made on behalf of such SCP Participant by an agent thereof (including an Operating Company).
- (v) The State Tax Inspectorate to which an SCP Participant makes any Profit Tax payment will issue to such SCP Participant an official tax receipt evidencing the amount of such payment within ten (10) Business Days after such payment is made. Such tax receipts shall state the date and amount of such payment, the currency (Dollars) in which such payment was made and any other particulars customary in the State for such receipts.

8.4 Contractors.

- (i) No Taxes shall be imposed on, or withheld with respect to payments to, any Contractor in connection with SCP Activities, and Contractors shall have no Tax compliance or filing obligations arising from or related, directly or indirectly, to SCP Activities.
- (ii) The SCP Participants, Sales Participants and their Affiliates and Interest Holders, and their respective employees, shall have no liability or responsibility to the

State Authorities for any failure of Contractors to comply with Azerbaijan Law regarding Taxes.

- (iii) No Taxes (other than profit tax, if applicable) shall be imposed on, or withheld with respect to payments to or by, a Joint Operating Company (within the meaning of the ACG PSA) or an Operating Company (within the meaning of the SD PSA) in respect of any supply of goods (including Natural Gas), works, services or technology, together with all related or reimbursable expenses, to or by the SCP Participants, Sales Participants or an Operating Company. No Taxes shall be imposed or withheld with respect to such payments if the goods (including Natural Gas), works, services or technology, together with all related or reimbursable expenses, are charged at cost.
- (iv) No Taxes (including Taxes on income, revenue or profit) shall be imposed on, or withheld with respect to payments to or by, (a) an SCP Participant, an Operating Company or a Contractor in respect of any supply of, or any supply of rights with respect to, goods (including Natural Gas and Rights to Land), works, services, office space, contractual rights, information or technology, together with all related or reimbursable expenses, to or by an MEP Participant, an Operating Company or a Contractor (in each case, within the meaning of the BTC HGA) or (b) an MEP Participant, an Operating Company or a Contractor (in each case, within the meaning of the BTC HGA) in respect of any supply of, or any supply of rights with respect to, goods (including Natural Gas and Rights to Land), works, services, office space, contractual rights, information or technology, together with all related or reimbursable expenses, to or by an SCP Participant, an Operating Company or a Contractor.
- (v) Except as otherwise specifically provided in the SD PSA or any other production sharing agreement entered into by or on behalf of the Azerbaijan Republic, no Taxes (including Taxes on income, revenue or profit) shall be imposed on any of the SCP Participants, their Affiliates or Sales Participants with respect to any Natural Gas, hydrocarbons, electricity or other form of energy to be used as fuel in connection with the BTC System or SCP System (including the ownership, importation, transportation, transfer of ownership, or use thereof). The supply of any such Natural Gas, hydrocarbons, electricity or other form of energy shall be exempt with credit (zero percent (0%) rate) from VAT.
- (vi) Except as otherwise specifically provided in the SD PSA or any other production sharing agreement entered into by or on behalf of the Azerbaijan Republic, no Taxes (including Taxes on income, revenue or profit) shall be imposed on any Person with respect to any Natural Gas to be used as line pack for the Project (including the ownership, importation, transportation, transfer of ownership, or use thereof). The supply of any such Natural Gas shall be exempt with credit (zero percent (0%) rate) from VAT.

8.5 Payments to Certain Persons.

No Taxes shall be imposed with respect to payments or deemed payments made in connection with SCP Activities by all or any of the Project Participants or their respective Affiliates, or any branch or permanent establishment thereof, to any Entity (other than an SCP Participant) that is incorporated or otherwise legally created or established outside the Territory, and no Taxes shall be withheld with respect to payments or deemed payments made in connection with SCP Activities by all or any of the Project Participants or their respective Affiliates, or any branch or permanent establishment thereof, to any Entity or to any physical person who is not an employee of the payor. For purposes of the preceding sentence, (i) Taxes on payments shall include any Taxes on interest, royalties, fees for services and dividends or other distributions or other remittances of profit, and (ii) Taxes on deemed payments shall include any Taxes on undistributed profit after imposition of any Taxes on profit. No Taxes shall be imposed on or with respect to payments made by an SCP Participant, Operating Company or Sales Participant to an Affiliate thereof, or to an Interest Holder or an Affiliate thereof, in reimbursement of costs incurred on behalf of the payor.

8.6 Employee Taxes.

- (i) All Foreign Employees shall be liable to pay Taxes only on their income earned as a direct result of their employment in the Territory, subject to any applicable Double Tax Treaty (or the OECD Treaty in accordance with Section 8.1(ii)); provided, however, such a Foreign Employee shall be liable for such Taxes for a Year only if he or she is present in the Territory for one hundred eighty-three (183) or more days during the Year. Any Project Participant whose employee(s) is subject to Taxes for any Year pursuant to this Section 8.6(i) shall be obligated to withhold and pay to the State Tax Inspectorate any Taxes which are due with respect to such employee following the time in such Year when the employee becomes subject to such Taxes pursuant to this Section 8.6(i).
- (ii) The Project Participants and their Affiliates shall not be required to make payments of Azerbaijan State social insurance (including payments to the pension fund, employment fund, social insurance fund and any medical fund) and other similar payments with respect to their Foreign Employees, nor shall any such payments be made by such Foreign Employees.
- (iii) Notwithstanding the foregoing, a Foreign Employee (including a Foreign Employee who is seconded to the Project) shall be subject to any Taxes to the extent such Taxes are specifically provided for under a production sharing agreement entered into by or on behalf of the Azerbaijan Republic.
- (iv) Except as otherwise provided in this Article 8, the SCP Participants, Sales Participants and Contractors shall be subject to any Taxes and Tax compliance and filing obligations applicable to them under Azerbaijan Law with respect to their employees.

8.7 No Taxes on Transfers, Contributions, Loans, Etc.

No Taxes shall be imposed on any Person on or with respect to any assignment, transfer or pledge of, or any other adjustment in, all or any of the rights or obligations of an SCP Participant, a Sales Participant, an Operating Company, an Interest Holder or a predecessor or Affiliate of any of the foregoing arising under any Project Agreement or in connection with the Project or the SCP System; an Interest Holder's interest in an SCP Participant, a Sales Participant or an Operating Company; an interest in an Interest Holder or an Operating Company; or any rights or obligations of an SCP Participant, an Operating Company or any Interest Holder, Sales Participant or other Person with respect to the receipt, transportation or delivery of Natural Gas in and/or through the Facilities or the SCP System or of Shah Deniz Natural Gas, except that any income or loss of an SCP Participant on a sale of rights with respect to the transportation of Natural Gas in and/or through the Facilities shall be included in Other Income or Deductions of such SCP Participant. No Taxes (including any import Taxes) shall be imposed on any Person on or with respect to any contribution of assets or any loan to or by any Project Participant or any payment or other transfer to any Project Participant in connection with the Project, the SCP System or the Sales Activities. The provisions of this Section 8.7 shall apply to any assignment, transfer, pledge, adjustment, contribution or loan described above, whether made before, on or after the Effective Date.

8.8 Operating Companies.

Any Operating Company shall be entitled to all the exemptions and privileges accorded to the SCP Participants under this Article 8 and shall have no Profit Tax liability or compliance or filing obligations.

8.9 VAT; Certificates.

- (i) Each of the SCP Participants, Interest Holders, Contractors, Operating Companies, Sales Participants and their respective Affiliates shall be exempt with credit (zero percent (0%) rate) from VAT on all (1) goods (including Natural Gas and Shah Deniz Natural Gas), works, services and technology supplied, directly or indirectly, to or by it in connection with SCP Activities, (2) its imports and exports of Natural Gas which is transported through the Facilities or Shah Deniz Natural Gas, (3) imports of goods, works, services and technology acquired by it in connection with SCP Activities and (4) exports and re-exports of goods, works, services and technology by it in connection with SCP Activities. In addition, every supplier of goods (including Natural Gas and Shah Deniz Natural Gas), works, services and technology to each of the SCP Participants, Interest Holders, Contractors, Operating Companies, Sales Participants and their respective Affiliates in connection with SCP Activities shall treat those supplies for VAT purposes as being exempt with credit (zero percent (0%) rate). For the avoidance of doubt, a similar exemption with credit (zero percent (0%) rate) from VAT shall apply, and no other transfer Taxes or notarial or other fees shall apply, in the case of any transfer of Rights to Land, directly or indirectly, to the SCP Participants. Notwithstanding the foregoing, notarial fees may be imposed in accordance with

Azerbaijan Law on transfers to the SCP Participants of Rights to Land with respect to Nonstate Land to the extent such notarial fees are of a non-discriminatory nature, but in no event shall such notarial fees with respect to such transfers on or before the date ten (10) years after the date of commencement of the construction phase respecting the Facilities exceed the amounts that would be imposed pursuant to Azerbaijan Law as enacted and generally applicable and in force in the Territory on 1 January 2000, and in no event shall such notarial fees be imposed on such a transfer if notarial fees were previously paid on a transfer of the same Rights to Land to the MEP Participants (within the meaning of the BTC HGA). In no event shall notarial fees (or similar fees) be imposed on transfers to the SCP Participants of Rights to Land with respect to State Land. In the event of the transfer of Rights to Land with respect to Nonstate Land to the MEP Participants (within the meaning of the BTC HGA), any notarial fees previously paid in connection with a transfer of the same Rights to Land to the SCP Participants shall be refunded to the Person that paid such notarial fees as soon as reasonably practicable following the transfer to the MEP Participants.

- (ii) The State Tax Inspectorate or other appropriate tax or customs authority shall provide each Person, as well as each successor or permitted assignee of such Person, that is entitled to the exemptions and/or VAT zero percent (0%) rate as provided in this Agreement with a certificate or other legally valid documentation confirming such exemptions and/or VAT zero percent (0%) rate as provided in this Agreement within thirty (30) days of its requesting such certificate or documentation. The State Tax Inspectorate and the SCP Participants shall, as soon as practicable after the Effective Date, enter into an agreement as described in Section 8.10(iii) which sets forth procedures for issuing certificates or other documentation confirming the VAT zero percent (0%) rate, including the information or documentation required to obtain such certificate or documentation. In the event VAT is paid, or in the event any other Taxes are paid prior to the Effective Date, by an SCP Participant, Operating Company, Sales Participant or Contractor, it shall be entitled to offset the amount of such VAT or other Taxes against any Taxes which it otherwise would be required to pay in accordance with this Agreement (including Profit Tax, as well as Taxes, such as income tax withheld from payments to employees, which it is required to pay but for which it is not liable). Moreover, in the event VAT is paid, or in the event any other Taxes are paid prior to the Effective Date, by an Operating Company, Sales Participant or Contractor and it is not able to fully offset the amount of such VAT or other Taxes against Taxes which it otherwise would be required to pay within six (6) months after such VAT or other Taxes are paid (or, if later, within six (6) months after the Effective Date), then such offset shall instead be made by the SCP Participants. Any SCP Participant, Operating Company, Sales Participant or Contractor that makes an offset under this Section 8.9(ii) shall notify the State Tax Inspectorate or other appropriate tax or customs authority in writing of such offset (including the amount thereof). In the case of any such offset against Taxes, the amount of such offset shall be treated for all purposes as a payment of such Taxes by the SCP Participant, Operating Company, Sales Participant or Contractor (or other Person liable for such Taxes). In particular, in the case of

any such offset against Profit Tax liability of an SCP Participant, the amount of such offset shall be treated as a payment of such Profit Tax by such SCP Participant for purposes of Sections 8.2 and 8.3 (including the requirement that a tax receipt be issued in accordance with Section 8.3(v)).

- (iii) For the avoidance of doubt, in the case of any value added tax or similar tax imposed by any state in the former Soviet Union and paid or incurred by an SCP Participant, Sales Participant or Operating Company in respect of the acquisition of goods (including Natural Gas and Shah Deniz Natural Gas), works, services or technology used in connection with the SCP Activities, the SCP Participant, Sales Participant or Operating Company shall be entitled to such remedies as may be provided for under Azerbaijan Law.

8.10 Other.

- (i) The SCP Participants shall pay any registration or similar fees, other than customs service/documentation fees (covered by Section 14.4), which may be imposed by the State Authorities, but only to the extent they are nominal and of a non-discriminatory nature.
- (ii) An SCP Participant shall be subject to only the following interest, penalties and fines (including financial sanctions and administrative penalties) with respect to Taxes:
 - (1) Interest payable as computed under clause (3) of Section 8.3(iii).
 - (2) If an SCP Participant fails to file a Profit Tax return for a Year, it shall be liable for a penalty of twenty-five percent (25%) of the Profit Tax required to be paid with such Profit Tax return.
 - (3) If the amount of Profit Tax due as shown on the Profit Tax return of an SCP Participant for a Year was understated due to Fraud by the SCP Participant which is demonstrated by the State Tax Inspectorate, it shall be liable for a penalty of fifty percent (50%) of the amount of the understatement.
- (iii) The State Tax Inspectorate and the SCP Participants may enter into one or more agreements, which may not be amended without the written consent of each of them, containing detailed rules regarding the administration and application of the provisions of this Article 8.
- (iv) Notwithstanding any provisions in this Article 8 to the contrary, each Operating Company shall have the right to maintain all records in accordance with accounting standards which are generally accepted in the international Natural Gas transportation industry, which records may be maintained in Dollars.
- (v) The rules set forth in this Article 8, other than Sections 8.2 and 8.3, and Article 14 shall apply to any Project Participant in respect of any facilities or other assets

which are expected to be or are used primarily in connection with the SCP System, Sales Activities, Natural Gas that is transported through the Facilities or Shah Deniz Natural Gas.

- (vi) For purposes of any Taxes, any payment to or by an SCP Participant, its Interest Holders or Affiliates, a Sales Participant or an Operating Company shall be taken into account on the basis of the actual amount of such payment (irrespective of the identity of the payor or payee or its relationship to the SCP Participant, Interest Holder, Affiliate, Sales Participant or Operating Company).
- (vii) The provisions of this Article 8 shall survive the termination of this Agreement. If an SCP Participant is no longer a Party to this Agreement, the provisions of this Article 8 shall continue to apply to Taxes or any Tax compliance or filing obligations arising from or related, directly or indirectly, to the SCP Participant's assets or activities pursuant to this Agreement for all periods in which the SCP Participant was a Party to this Agreement.

ARTICLE 9

COMPENSATION FOR LOSS OR DAMAGE

- 9.1 Without prejudice to the right of the SCP Participants to seek full performance by the State Authorities of the State Authorities' obligations under any Project Agreement, the Government shall provide monetary compensation as provided in this Article 9 for any Loss or Damage to Project Participants which is caused by or arises from:
- (i) any failure of the State Authorities, whether as a result of action or inaction, to satisfy or perform all of their obligations under all Project Agreements;
 - (ii) any misrepresentation by the State Authorities in any Project Agreement;
 - (iii) any failure by the State Authorities, whether as a result of action or inaction, to maintain Economic Equilibrium as provided in Section 7.2(x);
 - (iv) any requisitioning by Governmental security forces or authorities of the assets of any Project Participant during any event of war (declared or undeclared); or
 - (v) any act of Expropriation by the State Authorities.

Without limiting the foregoing but subject to Section 7.4 of this Agreement, the obligation of the Government to provide monetary compensation also applies with respect to any such Loss or Damage caused by or arising from any of the foregoing by any Person which was a State Entity at the time the applicable Project Agreement was executed by it.

- 9.2 In the event and to the extent any Project Participant suffers any Loss or Damage of the kind described in Section 9.1, the Government shall provide prompt, adequate and effective compensation for all such Loss or Damage. Solely for purposes of this Article 9, any reference to Project Participants shall not include Lenders or Insurers; provided,

however, nothing contained herein shall alter, amend, waive, condition or release (i) any State Authority from any claims, causes of action or rights of Lenders or Insurers which may exist independent of this Agreement or which may arise independent of this Agreement or (ii) step-in rights, rights of subrogation or other similar rights, and the exercise of same, which Lenders and/or Insurers may have in respect of any other Project Participant in respect of the Project. In respect of the adequacy of compensation, if the Loss or Damage:

- (i) is of the kind described in Section 9.1(i) through (iv), the Government shall accord as among the monetary remedies of (1) money damages, (2) restitution, (3) reimbursement, (4) indemnification and (5) other forms of monetary relief (excluding punitive or exemplary damages), that monetary remedy or combination of monetary remedies as the SCP Participants may elect to the end that all Project Participants shall be fully and fairly compensated and kept whole by the State Authorities respecting all such Loss or Damage;
- (ii) is, notwithstanding the monetary remedies set forth in Section 9.2(i), applicable to the events described in Section 9.1(iv), a result of any event of war (declared or undeclared), armed conflict or similar event in the Territory, the Government shall accord to the SCP Participants for themselves and/or any other Project Participants the most favourable treatment (including such remedies as restitution, money damages, indemnification or other settlement) of those treatments accorded any other Person affected by such event; and
- (iii) results from or relates to any act of Expropriation by the State Authorities (as described in Section 9.1(v)), the Government shall pay Fair Market Value.

9.3 With respect to all monetary relief under this Article 9, all amounts shall be expressed and paid in a currency that is widely traded in international foreign exchange markets and widely used in international transactions, on the basis of the market rate of exchange for that currency at the close of business of the London Stock Exchange on the date of payment, and shall be paid together with interest at the Agreed Interest Rate from the date of breach by the State Authorities of a Project Agreement, the date of misrepresentation by the State Authorities in any Project Agreement, the date of change in Economic Equilibrium, the date of requisitioning, loss or damage of assets during war or the date of Expropriation, as the case may be, to the date of payment to the SCP Participants by the State Authorities.

9.4 In the event the State Authorities should ever carry out any act of Expropriation with respect to the Project, the State Authorities shall do so only where such Expropriation is (i) for a purpose which is an overriding public purpose, (ii) not discriminatory, (iii) carried out under due process of law and (iv) accompanied by the payment of compensation as provided in Section 9.2(iii). For purposes of the foregoing, due process respecting any claim of Expropriation shall include the SCP Participants' right to resort to the arbitration provisions of this Agreement for purposes of establishing that an Expropriation has taken place (both as to themselves and on behalf of any Project Participants) and for the assessment through arbitration of the amount owed by the State

Authorities to the SCP Participants as adequate compensation as provided in Section 9.2(iii) for all Loss or Damage suffered by the SCP Participants and/or and all other Project Participants caused by or arising from such Expropriation.

- 9.5 The Government's obligation to provide monetary compensation to the SCP Participants under this Article 9, including any obligation to provide monetary compensation to the SCP Participants as the result of the application of Article 17:
- (i) is several, independent, absolute, irrevocable and unconditional and constitutes an independent covenant and principal obligation of the Government, separately enforceable from all other obligations (including monetary compensation obligations) of the State Authorities under the Project Agreements, without regard to the invalidity or unenforceability of any such other obligations;
 - (ii) is enforceable, jointly and severally, against the constituent elements of the State Authorities and, regardless of against whom enforcement is sought, any award or claim for payment due under this Article 9 may be submitted to the Government and such award or claim for payment (granted, with respect to a claim for payment, such claim is not disputed by the State Authorities) shall be paid to the SCP Participants on or before thirty (30) days after receipt by the Government of the related award or claim for payment;
 - (iii) shall not be modified, impaired or rendered unenforceable by any defense available to the State Authorities or as a result of the occurrence of any event (including bankruptcy, re-organisation, dissolution or other similar event that, but for this Section 9.5(iii), would discharge that obligation other than by the full performance thereof in accordance with this Agreement.
- 9.6 The Government shall compensate the SCP Participants for any Loss or Damage set forth in this Article 9 suffered by the SCP Participants and/or another Project Participant. In no event shall the Government's obligation to provide compensation under this Article 9 include any punitive or exemplary damages.

ARTICLE 10

LIMITATION OF LIABILITY

- 10.1 The SCP Participants shall be liable to the State Authorities for Loss or Damage caused by or arising from any breach by them of (i) any Project Agreement or (ii) applicable Azerbaijan Law; provided, however, that the SCP Participants shall have no liability hereunder if and to the extent the Loss or Damage is caused by or arises from any breach of any Project Agreement and/or breach of duty by any State Authority. Notwithstanding the foregoing, (i) the SCP Participants shall not be liable to the State Authorities for any punitive, consequential or exemplary damages, and (ii) nothing herein is intended to or shall limit the rights of the SCP Participants against any third parties in respect of such Loss or Damage.
- 10.2 The SCP Participants shall be liable to a third party (other than the State Authorities and any Project Participant) for Loss or Damage suffered by such third party determined by

applicable Azerbaijan Law; provided, however, (i) that the SCP Participants shall have no liability hereunder if and to the extent the Loss or Damage is caused by or arises from any breach of any Project Agreement by any State Authority and/or breach of duty by any State Authority, (ii) the SCP Participants shall have no liability to third parties for claims for rights of ownership, possession, use or similar rights in respect of Rights to Land, (iii) the SCP Participants shall not be liable for any environmental pollution or contamination, or any Loss or Damage, in respect of Pre-Existing Environmental Conditions, (iv) nothing herein is intended to or shall limit the rights of the SCP Participants against any other Person in respect of such Loss or Damage, and (v) the SCP Participants shall have no liability for punitive, consequential or exemplary damages, pursuant to applicable Azerbaijan Law.

- 10.3 The SCP Participants shall have no joint and several liability under this Agreement except in respect of liability arising from their failure to comply with applicable law in the conduct of Pipeline Activities (other than liability in respect of any matters relating to Taxes) and with the terms of Article 12 and Appendix 4.
- 10.4 Except as set forth in Section 3.4 hereof, it is understood and agreed that under no circumstances whatsoever shall the Government or any State Authorities have the right to seek or declare any cancellation or termination of this or any other Project Agreement as a result of any breach by the SCP Participants or any other Project Participants.

ARTICLE 11

SECURITY

- 11.1 Commencing with the initial SCP Activities relating to route identification and evaluation and continuing throughout the life of the Project, the State Authorities shall ensure the safety and security of the Rights to Land, the Facilities and all Persons within the Territory involved in SCP Activities and shall protect the Rights to Land, the Facilities and those Persons from all Loss or Damage resulting from civil war, sabotage, vandalism, blockade, revolution, riot, insurrection, civil disturbance, terrorism, kidnapping, commercial extortion, organised crime or other destructive events.
- 11.2 In order to avoid or mitigate harm to the Project of the kind described in Section 11.1, the State Authorities shall, on request by and in consultation with the SCP Participants, exert their Best Endeavours consistent with Appendix 4 to enforce any relevant provisions of Azerbaijan Law relating to threatened and/or actual instances of loss or damage caused by third parties (other than Project Participants) to the Rights to Land, the Facilities or loss or injury to Persons within the Territory involved in SCP Activities.
- 11.3 Without limiting the State Authorities' obligations under Sections 11.1 and 11.2, the Government, at its sole cost and expense, but in regular consultation with the SCP Participants, shall use the security forces of the State to provide physical security for the Rights to Land, the Facilities and Persons within the Territory involved in SCP Activities. As among the Parties, the Government shall be solely liable for the conduct of all operations of the security forces of the State and neither the SCP Participants nor any other Project Participants shall have any liability or obligation to any Person for any acts

or activities of the security forces of the State or be obligated to reimburse the Government for the cost and expense of providing security as contemplated hereby.

ARTICLE 12
ENVIRONMENT, HEALTH, SAFETY AND SOCIAL IMPACT

- 12.1 The applicable environmental, health and safety standards and practices for the Project shall be as set forth in Appendix 4 attached hereto and shall be applicable notwithstanding any conflicting standards and practices otherwise required or approved by Azerbaijan Law. The Parties hereby agree to the standards and practices set forth in Appendix 4 and the State Authorities hereby consent to any action taken by or on behalf of the SCP Participants and other Project Participants in conformity therewith. If a release of Natural Gas occurs from the Facilities or in conducting SCP Activities, or any other event occurs which is causing or likely to cause material environmental damage or material risk to health and safety, the SCP Participants shall take all necessary action as set forth in Appendix 4 and, on request by or on behalf of the SCP Participants, the State Authorities shall, in addition to any indemnification obligations the State Authorities may have under the Project Agreements, use their Best Endeavours to make available promptly and in reasonable quantities, any labor, materials and equipment not otherwise readily available to the SCP Participants or their Contractors to assist in any remedial or repair effort.
- 12.2 The applicable social impact standards and practices for the Project shall be effected as set forth in Appendix 4 attached hereto. The Parties hereby agree to the standards and practices set forth in Appendix 4 and the State Authorities hereby consent to any action taken by or on behalf of the SCP Participants and other Project Participants in conformity therewith.
- 12.3 Notwithstanding the provisions of Article 10 or any other term of any Project Agreement, solely in respect of any loss or damage arising from or related to any adverse environmental, health or safety event or occurrence, the SCP Participants shall be obligated, regardless of fault or causation, to take all action necessary to remedy the harm and to restore the land, property and other harmed matter(s) to the maximum practicable extent to their prior condition and use, all in accordance with and as required by the standards and practices set forth in this Article 12 and Appendix 4, and incur all expenses necessary to so remedy the harm, it being further agreed that if and to the extent that any harm cannot be so fully remedied, the SCP Participants shall pay full, adequate and fair compensation in respect of any such unremedied harm; provided, however, that if and to the extent any such loss or damage relating to the environment, health or safety is caused by or arises from any breach of any Project Agreement and/or breach of duty by any State Authority, the State Authorities shall indemnify and hold the SCP Participants and other Project Participants harmless with respect thereto, including for all costs and liabilities incurred by the SCP Participants or Project Participants for third-party loss or damage. Notwithstanding the foregoing, (i) the SCP Participants shall not be liable to the State Authorities for any punitive or exemplary damages and (ii) nothing herein is intended to or shall limit the rights of the SCP Participants against any third parties in respect of any

loss or damage arising from or related to adverse environmental, health or safety events or occurrences.

ARTICLE 13 CURRENCY

- 13.1 The State Authorities confirm that the SCP Participants and all other Project Participants shall have the right for the duration of and in order to conduct SCP Activities:
- (i) to bring into or take out of the Territory Foreign Currency and to utilise, without restriction, Foreign Currency accounts in the Territory and to exchange any currency at market rates;
 - (ii) to open, maintain and operate Local Currency bank and other accounts inside the Territory and Foreign Currency bank and other accounts both inside and outside the Territory;
 - (iii) to purchase and/or convert Local Currency with and/or into Foreign Currency at the market exchange rate legally available or, if applicable, at a rate of exchange made available in respect of similar sums of money by the central bank of the State or any successor organisation to foreign Entities doing business in the Territory, without deductions or the imposition of fees other than usual and customary banking charges;
 - (iv) to transfer, hold and retain Foreign Currency outside the Territory;
 - (v) to be exempt from all mandatory conversions, if any, of Foreign Currency into Local Currency or other currency;
 - (vi) to pay abroad, directly or indirectly, in whole or in part, in Foreign Currency, the salaries, allowances and other benefits received by any Foreign Employees;
 - (vii) to pay Contractors abroad, directly or indirectly, in whole or in part, in Foreign Currency, for their goods, works, technology or services supplied to the Project;
 - (viii) to make any payments provided for under any Project Agreement in Foreign Currency; and
 - (ix) to set SCP System tariffs in Foreign Currency and to invoice and receive payment for SCP System tariffs in Foreign Currency, whether inside and/or outside the Territory, at the option of the SCP Participants.
- 13.2 All payments to be made by the State Authorities under any Project Agreement shall be made in Dollars and on the basis of the market rate of exchange at the time of payment, except that any such payments with respect to Taxes that have been paid shall be made in the currency in which such Taxes were paid. The State Authorities shall take all steps and measures required to ensure that all such payments shall be made without any withholdings or other deductions whatsoever.

ARTICLE 14

IMPORT AND EXPORT

- 14.1 At any time and from time to time, each Project Participant has the right to import into or export or re-export from the Territory, free of Taxes and restrictions, whether in its own name or on its behalf, all equipment, materials, machinery, tools, vehicles, spare parts, supplies, Natural Gas, fuels and lubricants to be used in connection with the Project or Sales Activities and all other goods, works, services or technology necessary or appropriate for use in connection with the Project or Sales Activities. At any time and from time to time, each Project Participant has the right to import into the Territory, free of Taxes and restrictions (subject to procuring any applicable licences in accordance with Section 7.3), whether in its own name or on its behalf, any form of hydrocarbon, electricity or other energy source to be used as fuel in connection with the Project; provided, however, that no Project Participant shall be exempt from VAT on any import, export or re-export described in this Section 14.1 except to the extent specified in Section 8.9, 14.2 or 14.3, or in Article 13.
- 14.2 Each Foreign Employee of each Project Participant, each Contractor who is a physical person and is not a citizen of the State, each family member of any such employee or Contractor and each Project Participant on behalf of any such employee, Contractor or family member shall have the right at any time and from time to time to import into or export or re-export from the Territory, free of Taxes and restrictions (subject to procuring any applicable licences in accordance with Section 7.3), whether in its own name or on its behalf, all goods, works, services or technology for its own use and personal consumption or for the use and personal consumption of such employees, Contractors and family members; provided, however, that subject to Article 8, all sales by any such Person within the Territory of any such imported goods to any other Person will be taxable, and, in the case of sales of automobiles, furniture and professional tools and instruments, will result in liability for customs import tariff, in accordance with Azerbaijan Law. The authorisations and exemptions granted under this Section 14.2 may be restricted by Azerbaijan Laws generally applicable for the protection of cultural heritage, public health, safety and public order.
- 14.3 Natural Gas transported, or to be transported, by any of the SCP Participants for any Shipper or for its or their own account through the Facilities shall be considered goods-in-transit for all purposes of the customs laws of the State and shall be exempt from all Taxes. Except as may otherwise be provided in this Agreement, the SCP Participants and each such Shipper shall have the right at any time and from time to time to import and export, free of all Taxes and restrictions, all Natural Gas which is, or is to be, transported through the Facilities.
- 14.4 All imports to and exports from the Territory in connection with the Project or Sales Activities shall be subject to the procedures and documents required by applicable customs laws and regulations; provided, however, such imports and exports shall be subject to the exemptions from Taxes set forth in Articles 8 and 13 and Sections 14.1, 14.2 and 14.3, except that, in the case of any such imports and exports of goods by a Project Participant other than those described in Section 14.3, the Project Participant shall

pay any customs service/documentation fees to the extent they are of a non-discriminatory nature and generally applicable to imports into or exports from, as the case may be, the Territory, but in no event shall the customs service/documentation fees exceed the following:

Declared Value of Shipment	Fees
\$0 to \$100,000	0.15% of value
\$100,001 to \$1,000,000	\$150 plus 0.10% of value over \$100,000
\$1,000,001 to \$5,000,000	\$1,050 plus 0.07% of value over \$1,000,000
\$5,000,001 to \$10,000,000	\$3,850 plus 0.05% of value over \$5,000,000
More than \$10,000,000	\$6,350 plus 0.01% of value over \$10,000,000

- 14.5 Each Project Participant shall be exempt from the provisions of any foreign trade regulations of the State Authorities relating to any goods, works, services or technology acquired or performed, directly or indirectly, in connection with the Project or Sales Activities or otherwise relating to Natural Gas in the Facilities, including those purporting to prohibit, limit or restrict the import or export thereof or relating to determinations of country of origin or destination.

ARTICLE 15
BINDING EFFECT

- 15.1 This Agreement and the rights, obligations and other provisions of this Agreement and any other Project Agreement shall bind and apply to the Parties and:
- (i) in the case of the State Authorities, shall continue to bind the Government, all State Entities and all Local Authorities notwithstanding any change in the constitution, control, nature or effect of all or any of them and notwithstanding the insolvency, liquidation, reorganisation, merger or other change in the viability, ownership or legal existence of the State Authorities (including the partial or total privatisation of any State Entity); and
 - (ii) in the case of any SCP Participant, shall bind and apply to the benefit of all and any successors, and permitted assignees and transferees of such SCP Participant from time to time in respect of this Agreement or any of the rights, obligations and other provisions of this Agreement (as the case may be).
- 15.2 Except as otherwise provided in Article 16, the State Authorities shall not assign, transfer or otherwise deal with (or carry out or permit any act inconsistent with their continued retention of) their interests under this Agreement or any other Project Agreement and all or any of the rights, obligations and other provisions on their part set out in this Agreement or any other Project Agreement.

ARTICLE 16
SUCCESSORS AND PERMITTED ASSIGNEES

- 16.1 Each SCP Participant shall be entitled to transfer, assign, share or otherwise deal with all or any of its rights under this Agreement, with binding effect on the State Authorities, subject only to the prior notification by the SCP Participant transferor to the State Authorities of details of such transferred rights and the recipient thereof, and if the SCP Participant transferor so elects, delivery to the State Authorities of an agreement duly executed by the SCP Participant and the recipient of such rights; provided, however, that the State Authorities shall have the right, within twenty (20) days of receipt of such notification, to disapprove such transfer, assignment, sharing or dealing if the proposed transferee, assignee or other party poses a threat to national security, defense and/or public safety in violation of Azerbaijan Law. Upon delivery of the form of agreement as contemplated by this Section 16.1, the Government shall promptly execute the agreement and return same to the SCP Participant transferor.
- 16.2 Each SCP Participant shall be entitled to transfer, assign or otherwise deal with all or any of its obligations under this Agreement, with binding effect on the State Authorities, subject to the requirement that the SCP Participant transferor provide to the State Authorities not less than twenty (20) days' prior notification of:
- (i) the details of the proposed transaction with respect to obligations proposed to be retained and those transferred;
 - (ii) the details of the recipient in the context of the proposed transaction and, in particular, the obligations proposed to be assumed; and
 - (iii) certified financial statements, disclosure documents and other relevant information reasonably demonstrating to the State Authorities that the transferee has the financial and (to the extent it may be required in the circumstances) technical capability to observe and perform such obligations.

The State Authorities shall have the right, within twenty (20) days of receipt of the foregoing, to disapprove such transfer, assignment, sharing or other dealing on the basis that the proposed transferee has not reasonably demonstrated that (i) it has the financial or (to the extent it may be required in the circumstances) technical capability to observe and perform such obligations or (ii), except when the proposed recipient of the obligation is an SCP Participant, the proposed recipient poses a threat to national security, defense and/or public safety in violation of Azerbaijan Law. If the State Authorities have not provided notice of disapproval of such proposed transaction to the SCP Participant transferor within twenty (20) days after receipt of transaction notification and supporting information, such transaction shall be deemed approved. Unless the SCP Participant transferor and the recipient of obligations otherwise agree, the terms of their agreement of transfer shall provide, in form and substance satisfactory to the SCP Participant transferor (1) that the transferor shall cease to be a Party to this Agreement and is released from any obligations hereunder, (2) that the recipient shall become a party to this Agreement in succession to the transferor and shall observe all obligations and assume any liabilities as

if it had at all times been a Party to this Agreement, (3) that the recipient shall indemnify the transferor and all other Parties from and against obligations and liabilities that otherwise would have been the responsibility of the transferor and (4) the effective date of the transfer and such other matters that the transferor shall reasonably require. Upon delivery of such agreement, the Government shall promptly execute the agreement and return same to the SCP Participant transferor. Notwithstanding the foregoing in this Section 16.2 or anything else contained in this Agreement, no SCP Participant shall have the right to assign all or any portion of its obligation to pay Taxes except when such transfer of obligation is in conjunction with a transfer of all or a corresponding portion of its rights under Section 16.1.

- 16.3 Without releasing the SCP Participant from its obligations under this Agreement, each SCP Participant shall be entitled to undertake the Project and/or discharge all or any of its obligations hereunder by causing or procuring that such obligations are performed on its behalf by any Person; provided, however, that if the Person acting on behalf of the SCP Participant is a State Authority, then unless and to the extent the applicable Project Agreement provides to the contrary such State Authority shall bear responsibility under this Agreement for any failure or nonperformance of such obligations and the SCP Participant shall have no responsibility under this Agreement with respect thereto.
- 16.4 Without prejudice to the provisions of Section 16.1, each SCP Participant shall be entitled to create security interests in relation to its rights and obligations under this Agreement and any other Project Agreement in favour of banks or other financing entities (providing for, among other things, enforcement of such security by means of succeeding to the interests of the SCP Participant under this Agreement and any other Project Agreement); provided, however, that the Government shall have the right within fifteen (15) days receipt of notification to disapprove any assignment, lien creation, charge or security interest hereunder if the proposed assignee, lien holder, charge beneficiary or secured party or other party poses a threat to national security, defense, and/or public safety in violation of Azerbaijan Law. Except as set forth in the preceding sentence, such creation of security interests and the exercise of such security interests shall be made without any requirement of consent or permission of the State Authorities and such security interests shall be binding on the State Authorities upon the SCP Participant notifying to the Government details of such security interests and the beneficiary of such security interests and the State Authorities shall, if requested by the SCP Participant, enter into such agreements or other arrangements with such banks or other financing entities as may be required by such banks or other financing entities to give effect and business efficacy to the security interests so created including, among other things:
- (a) advance notice by the State Authorities of any default by the SCP Participant and any intention of the State Authorities to take action in respect thereof; and
 - (b) an acknowledgment of the existence and potential exercise of rights to remedy or cure any such default and rights to acquire or otherwise step

into the position of the SCP Participant under this Agreement and any other Project Agreements pursuant to such security interests.

- 16.5 Without prejudice to any rights or exemptions which may have vested in the Project Participants by operation of Azerbaijan Law (including the ratification and enactment of Project Agreements into Azerbaijan Law as provided herein), it is acknowledged by the State Authorities that the implementation of the Project may result in circumstances in which Project Participants other than the SCP Participants are to be subject to some or all of the obligations, or are to enjoy some or all of the rights, set out in this Agreement for such Project Participant (other than in circumstances of transfer, assignment or other dealing) by the SCP Participants, and the State Authorities agree that, in such circumstances, they will, upon receipt of a duly executed agreement in form and substance satisfactory to the relevant SCP Participant or Participants to the effect that such other Project Participant shall become a contracting party and shall have the rights, exemptions and/or privileges of the applicable Project Agreements and in that respect, the State Authorities shall promptly execute such form of agreement and return it to the relevant SCP Participant or Participants. For the avoidance of doubt, the provisions of this Section 16.5 shall not operate to (i) make the subject Project Participant an SCP Participant or (ii) cause the Tax treatment of any Project Participant to be other than as set forth in Articles 8 and 14 and the other provisions of this Agreement relating specifically to Taxes.
- 16.6 The State Authorities expressly acknowledge that both assignments of rights and transfers of obligations by the SCP Participants pursuant to this Article 16 are foreseeable and intended by the Parties to the Agreement. In accordance with the foregoing, the State Authorities agree and commit at the request of an SCP Participant to promptly provide, receive and/or execute any further or other documentation as may be necessary in order to (i) confirm a Project Participant's status and rights as a third-party beneficiary as described in Section 23.15, and/or (ii) effect a legally enforceable assignment of rights or novation of obligations hereunder or to allow Project Participants to become contracting parties as contemplated by Section 16.5 above.

ARTICLE 17

DISPUTE RESOLUTION AND APPLICABLE LAW

- 17.1 The provisions of this Article 17 shall be valid and enforceable notwithstanding the illegality, invalidity, or unenforceability under the law specified in Section 17.13 of any other provisions of this Agreement. Arbitration pursuant to this Article 17 shall not be subject to the condition of exhaustion of local remedies such as that referred to in Article 26 of the ICSID Convention. In order to provide prior notice and a reasonable opportunity for the Parties to resolve disputes without resorting to arbitration, as a condition to any Party or Parties submitting a dispute to arbitration under this Article 17, the Party or Parties shall provide written notice of the dispute to all other Parties and shall submit the dispute to arbitration only after the passage of thirty (30) days from the date of delivery of such notice on all Parties pursuant to Article 22 of this Agreement; provided, however, that where a Party has given notice of dispute(s) it shall not be necessary for any other Party to give a similar notice in order to participate in the arbitration of such

dispute(s); and provided, further, that once a dispute is submitted to arbitration no additional notice of dispute(s) shall be required in order for any Arbitrating Party to add, to modify or to redefine those disputes which it seeks to resolve in such arbitration. Any dispute arising under this Agreement, or in any way connected with this Agreement (including its formation and any questions regarding arbitrability or the existence, validity or termination of this Agreement), between (i) the Government, the State, any State Entity and/or the Local Authorities, on the one hand, and (ii) one or more of the SCP Participants, on the other hand, may be submitted to arbitration pursuant to this Article 17. The SCP Participants may submit any dispute to arbitration jointly and may assign rights granted under this Agreement among themselves for purposes of arbitration, it being further understood and agreed that the foregoing shall not require that, in an arbitration to which more than one SCP Participant is a party, the SCP Participants must take a joint position on any or all disputed issues. In addition, any SCP Participant that demonstrates to the reasonable satisfaction of the arbitral tribunal that it has a genuine interest in the issues in dispute and agrees to be bound by any award in respect of any fact or matter determined in the proceeding may intervene in any arbitration proceeding in which it is not already a party, subject only to its willingness to accept the record as previously established in the proceeding prior to its notice of intervention.

- 17.2 Except as otherwise expressly provided in the State's reservation to the ICSID Convention, the Government and all other Parties hereby consent to arbitrate any such dispute pursuant to the ICSID Convention and the ICSID Arbitration Rules. The Government shall take any actions or decisions as may be necessary to ensure the effectiveness of the State Authorities' consent to ICSID jurisdiction for all disputes arising under this Agreement or in any way connected with this Agreement. In the event of any conflict between the ICSID Arbitration Rules and the arbitration provisions of this Agreement, this Agreement shall govern. For purposes of Article 25(1) of the ICSID Convention and for any other purposes related to this Agreement, any dispute among the Parties shall be considered a legal dispute arising directly out of an investment. As of the Effective Date any dispute among the Parties shall be considered a legal dispute arising directly out of investment activities which have "effectively started" and which have obtained all necessary permissions and authorisations in accordance with the relevant legislation of the State on foreign capital. If and to the extent the State's reservation to the ICSID Convention is later modified or rescinded such that any disputes heretofore not subject to arbitration under the ICSID Convention become eligible for ICSID arbitration, the Government and all other Parties consent to arbitrate all such eligible disputes pursuant to the ICSID Convention and the ICSID Arbitration Rules.
- 17.3 If, for any reason, and notwithstanding the consent granted in Section 17.2, ICSID arbitration is not available for the resolution of any such dispute (including by reason of the State's reservation to the ICSID Convention), then the dispute shall be finally resolved under the Rules of Arbitration of the International Chamber of Commerce ("ICC Rules"). In the event of any conflict between the ICC Rules and the arbitration provisions of this Agreement, this Agreement shall govern.
- 17.4 An arbitral tribunal constituted pursuant to this Agreement shall consist of three (3) arbitrators, one of which shall be appointed by the Arbitrating Party or Arbitrating Parties

first requesting arbitration, and one of which shall be appointed by the opposing Arbitrating Party or Arbitrating Parties. The third arbitrator, who shall be the presiding arbitrator of the arbitral tribunal, shall be appointed by agreement of the first two arbitrators appointed. If either of the first two appointments is not made within thirty (30) days after the request for arbitration, or if the first two arbitrators fail to agree on a third arbitrator within thirty (30) days after the later of them shall have been appointed, the unfilled appointment will be made, upon the request of any Arbitrating Party, by the International Chamber of Commerce, acting in accordance with the provisions addressing appointment of arbitrators in the ICC Rules. With respect to arbitration proceedings held under the ICSID Convention and ICSID Arbitration Rules, the Parties agree that the period of time to which reference is made in Article 38 of the ICSID Convention shall be extended to ninety (90) days after the submission of a request by an Arbitrating Party to the International Chamber of Commerce to appoint a third and presiding arbitrator.

- 17.5 With respect to any arbitration proceedings arising under this Agreement, additional or alternative procedural rules may be adopted at any time by written agreement of the Arbitrating Parties.
- 17.6 The Parties agree that the seat of any arbitration held pursuant to this Agreement shall be Geneva, Switzerland, unless the Arbitrating Parties agree in writing to hold the arbitration in another country that has ratified or acceded to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. The language used during any arbitration proceeding shall be the English language and the English language text of this Agreement will be used and relied upon for all purposes by the arbitral tribunal. Interpretation of any live proceedings of the arbitration and translation of written arguments and documentation shall be provided if requested by any Arbitrating Party, at the expense of such requesting Arbitrating Party.
- 17.7 The Parties shall provide the arbitral tribunal with reasonable opportunity to inspect the Facilities as may be necessary for the determination of a dispute. Each Arbitrating Party shall, at the request of an opposing Arbitrating Party or the arbitral tribunal, make available to the arbitral tribunal and the opposing Arbitrating Party all documents and witnesses substantially relevant, as determined by the tribunal, to the dispute.
- 17.8 An arbitral tribunal's award issued pursuant to this Article 17 shall be final and binding on the Arbitrating Parties upon being rendered, and the Arbitrating Parties undertake to comply with any such award without delay. Judgment on the award may be entered and execution had in any court having jurisdiction, or application may be made for a judicial acceptance of the award and an order of enforcement and execution, as applicable.
- 17.9 Subject to Section 9.2(i), if monetary damages are included in a final award, the award shall be rendered and payment shall be made in Dollars and, in accordance with the terms of this Agreement as relate to amounts due and payable, shall include interest calculated at the Agreed Interest Rate from the date of the event, breach, misrepresentation or other violation giving rise to the dispute to the date when the award is paid in full. The arbitral tribunal may also order any interim or conservatory measures it deems appropriate.

- 17.10 With respect to arbitration proceedings held under the ICSID Convention and ICSID Arbitration Rules, the Parties agree any *ad hoc* committee appointed in accordance with Article 52 of the ICSID Convention shall not stay enforcement of an award unless the Arbitrating Party requesting annulment posts an irrevocable and unconditional bank guaranty in the full amount that the award directs the Arbitrating Party requesting annulment to pay. With respect to arbitration proceedings held under the ICC Rules, the Arbitrating Parties hereby waive the right to judicial intervention in the proceedings themselves and also waive the right to have any interim or conservatory order or any final award annulled or set aside by the courts of any jurisdiction other than the jurisdiction in which the arbitration is held.
- 17.11 Each State Authority hereby waives any claim to immunity in regard to any proceedings to enforce this Agreement or to enforce any interim or conservatory order or any final award rendered by an arbitral tribunal constituted pursuant to this Agreement, including immunity from service of process, immunity from jurisdiction of any court, and immunity of any of its property from pre-judgment attachment based on an interim or conservatory order or from execution based on a final award; provided, however, that notwithstanding anything to the contrary in this Agreement, the waiver of immunity with respect to property in this Section 17.11 shall only apply to property owned or controlled by State Authorities located outside the Territory and shall not apply to (i) property which is used or intended for use solely for the exercise of diplomatic rights, including the State's diplomatic missions, consular posts, special missions, missions to international organisations or to international conferences and including their furnishings, means of transportation and funds held in bank accounts solely for use in funding such missions, posts, organisations and/or conferences; (ii) property of a military character or used or intended for use for military purposes; (iii) property constituting or forming part of the essential cultural heritage of the State or part of its archives and not placed or intended to be placed on sale, including museums, archaeological sites and artifacts, libraries and related historical preservation and research facilities, cemeteries, monuments and other similar property; (iv) property forming part of an exhibition of objects of scientific or historical interest which is outside the Territory and not placed or intended to be placed on sale; (v) ships and aircraft to the extent used solely for governmental service; (vi) physical assets being used to perform the essential government functions, such as Parliament and governmental buildings and their furnishings; (vii) property of the judiciary, such as court buildings and their furnishings; and (viii) property of public health care, welfare and educational, as well as that of the police and other law enforcement, systems.
- 17.12 (a) Nothing in this Article 17 shall preclude the Parties from entering into a written agreement to use other dispute resolution procedures (including use of internationally recognised independent experts) ("Expedited Dispute Resolution") for any dispute but in the absence of such separate written agreement the provisions of this Article 17 shall control.
- (b) In the event that the Parties enter into a written agreement to use Expedited Dispute Resolution for a dispute (or particular type of dispute), the following procedures shall apply:

- (i) the Party wishing to refer such a matter to expedited dispute resolution shall notify the other Party pursuant to Article 22 of this Agreement (a) that a disagreement exists (and such notification shall outline the issue in dispute in summary form), (b) that the Party wishes to submit the dispute to “expedited dispute resolution” pursuant to this Section 17.12(b), and (c) that the other Party is requested to join with the Party giving notice to appoint a single independent “Expert” to resolve the dispute;
- (ii) if within thirty (30) days of giving such notice the Parties have not jointly appointed an Expert who is willing to act, then the dispute shall immediately be referred to arbitration pursuant to the provisions of Article 17 other than this Section 17.12(b) and the notification provided pursuant to Section 17.12(b)(i) shall be deemed to have been a notice of dispute pursuant to Section 17.1;
- (iii) as soon as the Parties have jointly selected a person to function as an Expert, the Parties shall forthwith notify such person in writing of such selection and the proposed terms thereof, including, *inter alia*, a covenant that the Expert will not during the term of the appointment accept any duty or acquire or agree to acquire any interest which materially conflicts with or may materially conflict with the Expert’s function under such appointment. The Parties shall request the jointly selected person to confirm within seven (7) days acceptance of the appointment as Expert on the terms proposed and to disclose any existing interest or duty which conflicts or may conflict with such person’s function as Expert under such appointment;
- (iv) if such person shall either be unwilling or unable to accept such appointment as Expert on the terms proposed or shall not have confirmed acceptance of such appointment within such seven (7) day period then, unless the Parties are able to agree upon different terms with such person from those previously proposed or unless the Parties are able to agree upon the selection of a different Expert within thirty (30) days of the notification given pursuant to Section 17.12(b)(i), the dispute shall be referred to arbitration pursuant to the provisions of Article 17 other than this Section 17.12(b);
- (v) each Party shall have twenty (20) days from the date of the final appointment of the Expert to make representations in writing to such Expert, copied at the same time to the other Party pursuant to Article 22 of this Agreement, which other Party shall have the right, within ten (10) days of receipt of such representations, to submit comments in writing thereupon to the Expert, and copies of any such comments shall be supplied to the other Party at the same time pursuant to Article 22 of this Agreement (provided that the Expert shall have the right to extend such periods if the Expert considers such extension necessary for a fair determination of the dispute in question);

- (vi) the Expert shall be entitled to require the Parties to produce, within specified periods, documents which the Expert considers necessary to determine the dispute in question. Any documents so produced shall at the same time be copied by the producing Party to the other Party pursuant to Article 22 of this Agreement;
- (vii) any oral submission to the Expert shall be made at a convenient time and place to be decided upon by the Expert in the presence of all Parties willing to attend who shall have the right to respond thereto and make their own submission in response;
- (viii) Expert proceedings, both written and oral, shall be conducted in the English language;
- (ix) the Expert shall be entitled to obtain such independent professional, secretarial and/or technical advice as may be reasonably required;
- (x) the Expert shall render a determination (which determination shall be limited to the issue(s) described in the notice delivered pursuant to Section 17.12(b)(i)), together with full written reasons for such determination, within forty-five (45) days of his final appointment, which term may be extended by agreement of the Parties (such extension not to exceed fifteen (15) days), which agreement shall not be unreasonably withheld;
- (xi) if the Expert does not render a determination within forty-five (45) days (or sixty (60) days, if applicable) of his final appointment, then (i) if the Parties so agree, another Expert shall be appointed pursuant to the procedure described in this Section 17.12(b) and, on acceptance of such appointment, the appointment of the original Expert shall cease unless, prior to the date when the new Expert accepts his appointment, the original Expert shall have rendered his determination hereunder, in which case such determination shall be binding on the Parties and the instructions of the new Expert shall be withdrawn, or (ii) if the Parties do not agree to appoint a new Expert (which lack of agreement may be determined by written notice of one Party to the other Party after such forty-five (45) day period (or sixty (60) day period, if applicable), the dispute shall be referred to arbitration pursuant to the provision of Article 17 other than this Section 17.12(b);
- (xii) the Expert's determination shall be final and binding on the Parties and shall not be subject to arbitration hereunder save in the event of (i) a material mistake of fact or manifest error by the Expert, (ii) failure by the Expert to disclose any relevant conflicting interest or duty, (iii) breach by the Expert of the covenant specified in Section 17.12(b)(iii), or (iv) fraud;
- (xiii) if an Expert duly appointed in accordance with the provisions of this Article 17.12(b) becomes unwilling or unable to act or determines that he

is not, or no longer is, independent or does not in fact act in the matter for which he is appointed, then another Expert shall be appointed by the Parties; if the Parties cannot so agree, the dispute shall be referred to arbitration pursuant to the provisions of Article 17 other than this Section 17.12(b);

- (xiv) each Party shall bear the costs and expenses of all lawyers, advisers, witnesses and employees retained by the Expert in connection with the conduct of the expedited dispute resolution procedure; the costs and expenses of the Expert, including his secretarial and administrative costs and expenses, and any independent advisers to the Expert retained by him in connection with a determination, shall be borne one-half by each Party;
- (xv) the Expert shall not be deemed an arbitrator but shall render his determination as an expert, and the provisions of the Arbitration Act 1950-1979 and the laws relating to arbitration shall not apply to the Expert or his determination or the procedure by which he reaches his determination; and
- (xvi) except as otherwise provided in Section 17.12(b)(xii), the Expert's determination shall be complied with by the Parties, and in the event that either Party fails to comply with such determination, such failure shall be deemed to be a breach of this Agreement. Either Party may apply to any court having jurisdiction for an order to compel the non-complying party to comply with the terms of the Expert's determination; such application may include an order for specific performance and/or damages.

17.13 This Article 17 shall be governed in accordance with the substantive law of England, but excluding any rules or principles of English law that would (i) prevent adjudication upon, or accord presumptive validity to, the transactions of sovereign states or (ii) require the application of the laws of any other jurisdiction to govern this Article 17.

ARTICLE 18

OPERATING COMPANY

18.1 Subject only to any requirement under Azerbaijan Law that any Operating Company register to conduct business within the Territory and taking into account the applicable principles of facilitation and coordination set forth in Section 2.3 hereof, the SCP Participants shall have the right to establish, own and control one or more Operating Companies, and/or appoint or select one or more Operating Companies, that have been organised in any jurisdiction, whether inside or outside the Territory. The SCP Participants shall have the right to appoint jointly any Operating Company (i) to enforce on behalf of the SCP Participants any or all obligations of the State Authorities under any Project Agreement and (ii) to exercise on behalf of the SCP Participants any or all rights of the SCP Participants arising under any Project Agreement. To the extent authorised by the SCP Participants, any and all Operating Companies may act as the SCP Participants'

agent or independent contractor, as the SCP Participants may indicate, in respect of any and all SCP Activities.

- 18.2 The SCP Participants and any Contractor (including any Operating Company) are hereby authorised to select and determine the number of employees to be hired by it or them in connection with SCP Activities. All citizens of the State hired in respect of the Project shall be hired pursuant to written employment contracts that specify the hours of work required of the employees and the compensation and benefits to be paid or furnished to them and other material terms of employment. Consistent with their respective employment contracts, such employees may be located wherever deemed appropriate in connection with their employment. Subject to requirement that no Project Participant shall be required to follow any employment practices or standards that (i) exceed those international labor standards or practices which are customary in international Natural Gas transportation projects or (ii) are contrary to the goal of promoting an efficient and motivated workforce, all employment programmes and practices applicable to citizens of the State working on the Project in the Territory, including hours of work, leave, remuneration, fringe benefits and occupational health and safety standards, shall not be less beneficial than is provided by the Azerbaijan labor legislation generally applicable to its citizenry.
- 18.3 In respect of their procurement of services, equipment, materials, machinery and tools, vehicles, spare parts, goods and supplies necessary for the proper conduct and achievement of SCP Activities, the SCP Participants and any Contractor (including any Operating Company) shall give preference to Azerbaijan suppliers in those cases in which such Azerbaijan suppliers are in all material respects competitive in price, quality and availability with those available from other sources. For purposes of this Section 18.3, an Azerbaijan supplier shall mean any production, economic or other Entity (including a State Entity) which has validly represented and warranted to the procuring Project Participant before it tenders to supply any of the above-referenced services or items that (i) it is registered, incorporated and legally operating in the Territory and (ii) not less than twenty percent (20%) of the control of such supplier is held, directly or indirectly, by citizens of the State.
- 18.4 The SCP Participants, in consultation with the Government SCP Representative, through the Operating Company or otherwise, will provide a minimum of 5,000 student-hours per year of training and educational services (in the areas of health, safety, environment, or otherwise) to the citizens of the State. Such training can be performed and administered by the Operating Company, Contractors or through grants to local educational providers.

ARTICLE 19

FORCE MAJEURE

- 19.1 Nonperformance or delays in performance on the part of any Party respecting any obligations or any part thereof under this Agreement, other than the obligation to pay money, shall be suspended if caused or occasioned by Force Majeure, as defined in this Agreement.

- 19.2 Force Majeure with respect to State Authorities shall be limited to (i) natural disasters (earthquakes, landslides, cyclones, floods, fires, lightning, tidal waves, volcanic eruptions and other similar natural events or occurrences), (ii) wars between sovereign states where the Azerbaijan Republic has not initiated the war under the principles of international law and (iii) international embargoes of sovereign states other than the Azerbaijan Republic; provided in every case the specified event or cause (whether of the type set forth in (i), (ii) and/or (iii) above) and any resulting effects prevent the performance by the State Authorities of their obligations, or any part thereof, are beyond their control, and, concerning those events or causes (whether of the type set forth in (i), (ii) and/or (iii) above) which are reasonably foreseeable, are not caused or contributed to by the negligence of the State Authorities or by their breach of this Agreement or any other Project Agreement.
- 19.3 Force Majeure with respect to the SCP Participants shall be limited to those events or causes and any resulting effects that prevent the performance by the SCP Participant(s) of its (or their) obligations, or any part thereof, are beyond its (or their) reasonable control, and, concerning events or causes which are reasonably foreseeable, are not caused or contributed to by the negligence of the SCP Participants or by its (or their) breach of this Agreement or any other Project Agreement. Force Majeure under this Section 19.3 shall include the following events and causes to the extent they otherwise satisfy the requirements of this Article 19: natural disasters (earthquakes, landslides, cyclones, floods, fires, lightning, tidal waves, volcanic eruptions and other similar natural events or occurrences), wars, strikes or other labor disputes, rebellions, acts of terrorism, international embargoes, the inability to obtain necessary goods, materials, services or technology, the inability to obtain or maintain any necessary means of transportation, the application of laws, treaties, rules, regulations and decrees, the actions or inactions of the State Authorities and other events or causes, whether of the kind enumerated or otherwise, which are beyond the control of the SCP Participants.
- 19.4 If a Party is prevented from carrying out its obligations or any part thereof under this Agreement as a result of Force Majeure, other than the obligation to pay money, it shall promptly notify in writing the other affected Party or Parties to whom performance is owed. The notice must:
- (i) specify the obligations or part thereof that the Party cannot perform;
 - (ii) fully describe the event of Force Majeure;
 - (iii) estimate the time during which the Force Majeure will continue; and
 - (iv) specify the measures proposed to be adopted by it (or them) to remedy or abate the Force Majeure.

Following this notice, and for so long as the Force Majeure continues, any obligations or parts thereof which cannot be performed because of the Force Majeure, other than the obligation to pay money, shall be suspended.

- 19.5 Any Party that is prevented from carrying out its obligations or parts thereof as a result of Force Majeure shall take such actions as are available to it and expend such funds (and in the case of a State Authority, the actions and funds of other State Authorities) as reasonably necessary to remove or remedy the Force Majeure and resume performance of its obligations and all parts thereof as soon as reasonably practicable.
- 19.6 Any State Authority that is prevented from carrying out its obligations as a result of Force Majeure shall take, and shall seek to also procure that other appropriate State Authorities take, all such action as may be reasonably required to mitigate any loss suffered by any SCP Participant or other Project Participant during the continuance of the Force Majeure and as a result thereof.
- 19.7 In respect of the obligation of the State Authorities to provide compensation for Loss or Damage as a result of the events or causes specified in Section 9.1, the State Authorities shall have no right to declare Force Majeure under this Agreement in respect of subsections (ii), (iii), (iv) and (v) of said Section 9.1.

ARTICLE 20

ACKNOWLEDGMENTS

- 20.1 The State Authorities hereby acknowledge that they have received and reviewed this Agreement and the Intergovernmental Agreement and hereby declare them to be acceptable.
- 20.2 The Parties hereby acknowledge that it is their mutual intention that no Azerbaijan Law now or hereafter existing (including the interpretation and application procedures thereof) that is contrary to the terms of this Agreement or any other Project Agreement shall limit, abridge or affect adversely the rights granted to the SCP Participants or any other Project Participants in this or any other Project Agreement or otherwise amend, repeal or take precedence over the whole or any part of this or any other Project Agreement; provided that the Parties recognise that the Constitution takes precedence over this Agreement and any other Project Agreement.

ARTICLE 21

COOPERATION AND COORDINATION MECHANISMS

- 21.1 The Government shall use its Best Endeavours to negotiate and enter into such other intergovernmental or multilateral agreements or treaties as may be necessary or appropriate between or among it and the other governments and states in the region to authorise, enable, support and facilitate the Project. Without limiting the foregoing, the Government shall discuss with the SCP Participants concerning those measures by which the State Authorities, in conjunction with other governments, may make crossborder SCP Activities more effective, timely and efficient, including streamlined and coordinated customs and transit procedures and practices and the use of common measurement and metering facilities within or without the Territory to monitor the transportation of Natural Gas.

- 21.2 On the request of any or all of the SCP Participants, solely for the purpose of assisting in any attempt to finance all or any part of the Project or all or any part of its or their SCP Activities or to insure against risks to the Project, the Government, on its own behalf and on behalf of the State Authorities, shall confirm in writing, or, as appropriate, execute such documents as are necessary or appropriate to extend directly to any and all applicable Lenders and Insurers (including multilateral lending agencies and export credit agencies) the representations, warranties, guarantees, covenants and undertakings of the State Authorities as, and to the extent, set forth in this Agreement.
- 21.3 The Government hereby acknowledges that this Project and the project described in the BTC HGA and the related Project Agreements as defined in the BTC HGA (“the BTC Project Agreements”) are separate and distinct projects. Nothing in this Agreement or any other Project Agreement is intended to change the rights and obligations created by the BTC Project Agreements. In order to allow the Project Participants, as defined in this Agreement, and the Project Participants, as defined in the BTC HGA, to coordinate the exercise of their respective rights under the Project Agreements and the BTC Project Agreements, as the case may be, the SCP Participants intend to enter into a cooperation agreement (the “Cooperation Agreement”) with the MEP Participants. The Government agrees that, upon the request of the SCP Participants and the MEP Participants and to the extent the respective rights described in the Cooperation Agreement are consistent with the rights described in the BTC Project Agreements and Project Agreements, the Government shall issue a written acknowledgment to the SCP Participants and the MEP Participants that the Cooperation Agreement constitutes a valid agreement for the exercise of the respective rights of the SCP Participants and the MEP Participants under the Project Agreements and the BTC Project Agreements. The Government agrees that the execution of the Cooperation Agreement shall not in any way limit the rights and obligations created by the Project Agreements and/or the BTC Project Agreements.
- 21.4 The Government hereby covenants and agrees (on its behalf and acting on behalf of and committing the State Authorities) that throughout the term of this Agreement the Government and the State Authorities (i) shall not use as a defense to their respective obligations under any Project Agreement any default or other situation existing in relation to any BTC Project Agreement, (ii) shall not use as a defense to their respective obligations under any BTC Project Agreement any default or other situation existing in relation to any Project Agreement, and (iii) shall not refuse to issue or renew, or withdraw, any right, license, permit, certificate, authorisation, approval or permission (which the Government and/or State Authority would otherwise be obliged to issue, renew or extend) to or from (1) any Project Participant on the basis of any default or other situation existing in relation to any BTC Project Agreement, or (2) any Project Participant, as defined in the BTC HGA, on the basis of any default or other situation existing in relation to any Project Agreement.

ARTICLE 22

NOTICES

All notices given under this Agreement by any Party shall be given in writing in the English language and may be given by fax or letter to the address set forth below for each Party (or such

other address as a Party may notify in advance to the other Party from time to time in accordance with this Article 22). A notice given by telex or fax sent to the correct address as set forth below or as notified pursuant hereto shall be deemed to be delivered on the first Business Day following the date of dispatch. A notice sent by letter shall not be deemed to be delivered until the first Business Day following receipt.

THE STATE AUTHORITIES:

THE GOVERNMENT OF THE AZERBAIJAN REPUBLIC

The Ministry of Fuel and Energy of the Azerbaijan Republic
Zardabi Avenue 88
370012 Baku
Azerbaijan
Attention: The Minister of Fuel and Energy of the Azerbaijan Republic
Tel: + (994 12) 47 05 84
Fax: + (994 12) 31 90 05

THE SCP PARTICIPANTS:

**STATE OIL COMPANY OF THE
AZERBAIJAN REPUBLIC**

370004, Baku, Neftchilar Ave., 73
Attention: President
Tel: + (994 12) 920745
Fax: + (994 12) 921015

BP EXPLORATION (AZERBAIJAN) LTD.

Villa Petrolea
2 Neftchilar Prospekti
370003 Baku Azerbaijan
Attention: President, BP Exploration
(Azerbaijan) Ltd.
Tel: + (994 12) 97 90 00
Fax: + (994 12) 97 97 37

**TOTALFINAELF E&P CAUCASIAN
GAS SA**

2, Place de la Coupole
La Defense 6
92400 Courbevoie France
Attention: Chairman / General Manager
Tel: + (33) 1 47 44 51 34
Fax: + (33) 1 47 44 39 66

LUKAgip N.V.

Pyatnitskaya Ulitsa, 58
113095 Moscow
Russia
Attention: Chairman / General Manager
Tel: + (7 095) 951 8710
Fax: + (7 095) 230 2714

NAFTIRAN INTERTRADE CO. (NICO) LIMITED

22 Grenville Street, St. Helier, Jersey JE4 8 PX, Channel
Islands
Attention: Chairman of the Board and Managing Director
Tel: + (441534) 74343 Fax: + (441534) 79069 / 36844
Copy to:
NAFTIRAN TRADING SERVICES LIMITED
NIOC House, 4 Victoria Street, London SW1 ONE
Tel: + (44207) 9768314 Fax: + (44207) 9768148

STATOIL AZERBAIJAN a.s.

Nizami Street 96
“Landmark”, 5th Floor
370010 Baku
Azerbaijan
Attention: President
Tel: + (994 12) 97 73 40
Fax: + (994 12) 97 79 44

**TURKISH PETROLEUM OVERSEAS
COMPANY LIMITED**

340, Nizami Street,
ISR Plaza, 4th Floor
370000 Baku

Azerbaijan

Attention: TPAO Representative

Tel: + (994 12) 98 95 26 / 93 14 98

Fax: +(994 12) 98 14 35

with copy to:

Mustafa Kemal Mahallesi, 2

Cadde, No.86 Esentepe

06520 Ankara

Turkey

Attention: International Projects Group

Manager

Tel: + (90 312) 287 74 37

Fax: + (90 312) 285 42 38

**ARTICLE 23
MISCELLANEOUS**

- 23.1 Interest shall accrue at the Agreed Interest Rate on the amount, if any, payable under or pursuant to this Agreement from the time that amount is payable through the date on which that amount, together with the accrued interest thereon, is paid in full.
- 23.2 This Agreement, together with all appendices attached hereto and all the other Project Agreements, constitutes the entire agreement of the Parties relating to the subject matter of those agreements and no Party has given any warranty, representation, statement, assurance, covenant, agreement, undertaking, indemnity or commitment of any nature whatsoever other than as are expressly set out in this Agreement or the other Project Agreements. This Agreement may not be amended or otherwise modified, except by the written agreement of the Parties. Without limiting the generality of the foregoing, no Article (including any Section thereof) may be amended or otherwise modified, except by a written agreement of the Parties that specifically provides for such amendment or modification and references the Article and any Section thereof intended by the Parties to be so amended or otherwise modified. In no event shall any Article (including any Section thereof) be considered amended or otherwise modified by compromise or negotiation between the Parties or purported amendments or modifications to this Agreement that do not so specifically provide for such amendment or modification and reference the subject Article and any applicable Section thereof. No waiver of any right, benefit, exemption, interest or privilege under this Agreement shall be effective unless made expressly and in a writing referencing the Article (including any applicable Section thereof) providing that right, benefit, exemption, interest or privilege. Any such waiver shall be limited to the particular circumstance in respect of which it is made and shall not imply any future or further waiver.

- 23.3 The table of contents to and the topical headings used in this Agreement are inserted for convenience only and are not intended by the Parties to have, and are not to be construed as having, any substantive significance or as indicating that all provisions of this Agreement relating to any particular subject matter are to be found in any particular Article or Section.
- 23.4 Unless the context otherwise requires, references to all Articles, Sections and Appendices are references to Articles and Sections of, and Appendices to, this Agreement. The words “hereof,” “herein” and “hereunder” and words of similar import when used in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. The words “includes” and “including” and words of similar import shall neither limit that which precedes it in the text nor be interpreted as making exclusive that which succeeds it, but instead shall always mean “including without limitation” or “including but not limited to” whenever used in this Agreement. Unless the context otherwise requires, reference to the singular includes a reference to the plural, and *vice-versa*, and reference to either gender includes a reference to both genders.
- 23.5 All references in this Agreement to “rights,” “rights and privileges,” “rights and entitlements,” “exemptions,” and other similar references are to be construed, as the context may require, to include grants, rights, privileges, guarantees, entitlements, exemptions, benefits, protections, assurances, authorisations, approvals, consents, waivers, indemnities and other similar matters. Similarly, all references in this Agreement to “obligations” or “requirements” and other similar references are to be construed, as the context may require, to include obligations, requirements, undertakings, commitments, promises, guarantees, agreements, waivers, indemnities and other similar matters.
- 23.6 The rights and remedies of a State Authority or a Project Participant, as the case may be, provided in any Article (including any Section thereof) shall apply cumulatively and shall not apply to the exclusion of any other right or remedy that a State Authority or Project Participant may have under any other provision of this Agreement or any provision of any other Project Agreement.
- 23.7 The State Authorities, on the one hand, and the other Parties to this Agreement, on the other hand, shall maintain or cause to be maintained the confidentiality of all data and information of a non-public or proprietary nature that they may receive, directly or indirectly, from the other or pertaining to any of the Project Participants or the Project; provided, however, that the Parties hereto may each disclose such data and information (a) to their respective advisors for use in connection with rendering advice with respect to the Project, Project Agreements and SCP Activities, (b) to potential or actual financing sources and financial investors of Project Participants, and the respective advisors of such financing sources and financial investors, provided such financing sources, investors and advisors agree to keep such information on a confidential basis consistent with the provisions of this Section 23.7, (c) as is required to be disclosed by operation of law or applicable laws, rules and regulations, or stock exchange requirements, and (d) if such information is already known to the Person(s) to whom such data or information is disclosed.

- 23.8 Each Party shall, on the request of the other Party, exert its Best Endeavours to execute and deliver, or cause to be executed and delivered, such written agreements, documents and instruments as are necessary or appropriate to enable the Party making such request to fulfill its obligations under any Project Agreement.
- 23.9 Notwithstanding anything to the contrary in this Agreement or any other Project Agreement, no SCP Participant shall be required to act or refrain from acting if to do so would render that SCP Participant or any of its Affiliates subject to demonstrable risk of liability for civil or criminal penalties under the laws of any jurisdiction applicable to such Person.
- 23.10 This Agreement (including the provisions concerning arbitration set forth in Article 17) shall be governed in accordance with the substantive law of England, but excluding any rules or principles of English law that would (i) prevent adjudication upon, or accord presumptive validity to, the transactions of sovereign states or (ii) require the application of the laws of any other jurisdiction to govern this Agreement.
- 23.11 This Agreement is executed in multiple counterparts in the English and Azeri languages. In the event of any conflicting interpretations of any provisions of this Agreement or any notices hereunder as between the language counterparts, the English language counterpart version shall prevail.
- 23.12 The Government, on the one hand, and each of the other Parties to this Agreement, on the other hand, reserves to itself all rights, counterclaims and other remedies and defenses which such Party has under or arising out of this Agreement. All obligations of the Government to make payments to an SCP Participant under this Agreement may be set off or recouped out of any amounts otherwise payable hereunder to the Government by such SCP Participant. All obligations of an SCP Participant (including a Person treated as an SCP Participant pursuant to Section 8.2(xvi)) to make payments of Profit Tax may be set off or recouped out of any amounts otherwise payable hereunder to such SCP Participant by the Government. In addition, the amounts of Profit Tax payments to be made by an SCP Participant (including a Person treated as an SCP Participant pursuant to Section 8.2(xvi)) hereunder may, at such SCP Participant's option, instead be paid by such SCP Participant to the Gas Supply Company to the extent of any amounts payable by the Government to the Gas Supply Company under the Guarantee with respect to a sale of Natural Gas by the Gas Supply Company to a State Authority, provided that such payment by such SCP Participant to the Gas Supply Company shall not be made unless (i) the Gas Supply Company notified such SCP Participant in writing not later than thirty (30) days before the due date of the applicable Profit Tax payment that the amount is owed by the Government under the Guarantee and that at least ten (10) days have passed since the Gas Supply Company made a formal demand under the Guarantee for payment of the amount, (ii) such payment is made at least fifteen (15) days after such SCP Participant notified the Government in writing that it received the notification described in clause (i), and (iii) such SCP Participant has not in the meantime received a written notice that the amount owed to the Gas Supply Company has been paid. In the event of a set-off or recoupment out of Project Tax, or a payment by an SCP Participant to the Gas Supply Company, under this Section 23.12, the amount of such set-off, recoupment or

payment shall be treated as a payment by such SCP Participant of such Profit Tax for purposes of Sections 8.2 and 8.3 (including the issuance of tax receipts in accordance with Section 8.3(v)). In the case of any such offset, recoupment or payment, the SCP Participant shall notify the State Tax Inspectorate in writing thereof (including the amount thereof).

- 23.13 If and for so long as any provision of this Agreement shall be deemed or be judged illegal, invalid or unenforceable for any reason whatsoever under the law specified in Section 23.10, such illegality, invalidity or unenforceability shall not affect the legality, validity, enforceability or operation of any other provision of this Agreement except only insofar as shall be necessary to give effect to the construction of such illegality, invalidity or unenforceability, and any such illegal, invalid or unenforceable provision shall be deemed severed from this Agreement without affecting the legality, validity and enforceability of the balance of this Agreement.
- 23.14 Any reference to “Persons acting as agent and/or representative of a State Authority” or as “duly appointed representative of a State Authority” or similar references is not intended, and shall not be construed as, imposing personal liability on any such Person except and to the extent such Person is otherwise liable and/or obligated to perform under the terms of this Agreement.
- 23.15 A Person who is not a Party shall have no rights under the Contracts (Rights of Third Parties) Act 1999, except in the case of (i) Project Participants granted rights pursuant to this Agreement, and (ii) in respect of Sections 21.3 and 21.4, Project Participants (as defined in the BTC HGA) granted rights pursuant to Sections 21.3 and 21.4. Notwithstanding any rights granted to any Person by the preceding sentence or pursuant to the terms of this Agreement, the Parties may vary or rescind this Agreement, in whole or in part, without notice to or consent of any such Person, irrespective of reliance or acceptance by any such Person, provided that the rights granted to Project Participants (as defined in the BTC HGA) pursuant to Sections 21.3 and 21.4 shall not be varied or rescinded without the prior written consent of the MEP Participants (as defined in the BTC HGA).

ARTICLE 24

SALES SUPPORT

- 24.1 In addition to the guarantees specified in Article 5, the Government hereby guarantees (the “Guarantees”):
- (a) the payment obligations of all State Authorities pursuant to all agreements entered into with the Gas Supply Company for the purchase by any such State Authority of Shah Deniz Natural Gas (a “Gas Purchase Agreement”);
 - (b) the performance obligations of all State Authorities pursuant to all agreements entered into between any State Authority and the Gas Supply Company for the sale by any such State Authority of Shah Deniz Natural Gas (a “Gas Sales Agreement”); and

- (c) the payment and performance of the obligations of all State Authorities pursuant to:
 - (i) each indemnity agreement entered into between any such State Authority and the Gas Supply Company; and
 - (ii) each cross indemnity agreement entered into between or among any such State Authority and all or any of the owners of the Gas Supply Company.

24.2 In addition to the covenants specified in Article 7, the Government hereby covenants that it shall ensure that, in respect of each Agency Agreement and each Gas Sales Agreement, the State Authority which is party to such agreement shall, immediately on being so requested by the Gas Supply Company:

- (a) grant the Gas Supply Company a security interest over the proceeds of sale payable to such State Authority pursuant to such Agency Agreement or Gas Sales Agreement securing all monies payable to the Gas Supply Company under any Gas Purchase Agreement; and
- (b) enter into a contractual arrangement permitting the Gas Supply Company to set-off any sums due and payable to the Gas Supply Company under any Gas Purchase Agreement against any monies due and payable by the Gas Supply Company under any Agency Agreement or Gas Sales Agreement.

In each case such security interest or contractual set-off arrangement shall be in such form as the Gas Supply Company shall require.

24.3 The Government hereby further covenants that it shall:

- (a) ensure that immediately on the request of the Gas Supply Company, the State Oil Company of the Azerbaijan Republic (“SOCAR”) shall enter into an agreement with BOTAS Petroleum Pipeline Corporation and the Gas Supply Company, under which the rights and obligations of SOCAR under the agreement entitled “Natural Gas Sales and Purchase Agreement between State Oil Company of the Azerbaijan Republic and BOTAS Petroleum Pipeline Corporation,” as such agreement may be amended or replaced, shall be assigned to the Gas Supply Company;
- (b) execute and deliver all written documents, agreements and instruments as may be required from time to time by the Gas Supply Company in order to give legal effect and validity to the Guarantees; and
- (c) execute and deliver, and ensure that any State Authority so requested by the Gas Supply Company shall execute and deliver, all written documents, agreements and instruments as may be required from time to time by the Gas Supply Company in order to give legal effect and validity to any security interest or contractual arrangement specified in Section 24.2, including, where considered necessary by the Gas Supply Company, the grant by the Government and any

relevant State Authority of equal and ratable rights to any multi-lateral lending institution (including the IBRD, European Bank for Reconstruction and Development, the Asian Development Bank and any other international, publicly funded lending institution).

IN WITNESS HEREOF the Parties have caused this Agreement to be executed by their duly authorized representatives the day and year first above written.

**THE GOVERNMENT OF
THE AZERBAIJAN REPUBLIC**

BY: _____
TITLE: Minister of Fuel and Energy of the
Azerbaijan Republic

THE SCP PARTICIPANTS:

**STATE OIL COMPANY OF THE
AZERBAIJAN REPUBLIC**

BY: _____
TITLE: _____

**BP EXPLORATION (AZERBAIJAN)
LTD.**

BY: _____
TITLE: _____

**TOTALFINAELF E&P CAUCASIAN
GAS SA**

BY: _____
TITLE: _____

LUKAgip N.V.

BY: _____
TITLE: _____

**NAFTIRAN INTERTRADE CO. (NICO)
LIMITED**

BY: _____
TITLE: _____

STATOIL AZERBAIJAN a.s.

BY: _____
TITLE: _____

**TURKISH PETROLEUM OVERSEAS
COMPANY LIMITED**

BY: _____
TITLE: _____

APPENDIX 1

CERTAIN DEFINITIONS

The capitalised terms used and not otherwise defined in the Host Government Agreement to which this Appendix 1 is attached shall have the following meanings:

“40th Anniversary Date” is defined in Section 3.1.

“50th Anniversary Date” is defined in Section 3.1.

“ACG PSA” means Agreement on the Joint Development and Production Sharing for the Azeri and Chirag Fields and the Deepwater Gunashli Field in the Azerbaijan Sector of the Caspian Sea dated 20 September 1994.

“Adjusted Balance” is defined in Section 8.2(xi).

“Affiliate” means, with respect to any Person, any other Person that directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with that Person. For purposes of this definition, “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of a majority or other controlling interest in the voting securities or other equity ownership interest in an Entity, by law, or by agreement between Persons conferring such power or voting rights.

“Agency Agreement” means any agreement entered into between a State Authority and the Gas Supply Company under which the Gas Supply Company is appointed as sales representative for the sale of Shah Deniz Condensate by such State Authority.

“Agreed Interest Rate” means, for each day of an Interest Period with respect to any amount due and payable under or pursuant to this Agreement, interest at the rate per annum equal to three and one-half percent (3.5%) plus LIBOR in effect on the Business Day immediately preceding the first day of the initial applicable Interest Period and, thereafter, as in effect on the Business Day immediately preceding the first day of each succeeding Interest Period.

“Agreement” means this Host Government Agreement, including all Appendices attached hereto, together with any written extension, renewal, replacement, amendment or other modification hereof signed by all the Parties, all of which by this reference are incorporated herein.

“Allocation Method” is defined in Section 8.2(v).

“Application Requirements” is defined in Section 7.3.

“Arbitrating Parties” means the Party or Parties that submit a dispute to arbitration or which intervene or are added to the arbitral proceeding pursuant to the provisions of this

Agreement, on the one hand, and the Party or Parties against whom that dispute is submitted, on the other hand, and “Arbitrating Party” means any one of them.

“Azerbaijan Law” means the laws of the Azerbaijan Republic binding and legally in effect from time to time and forming the organic law constituting the entire legal regime of the Azerbaijan Republic, including the Constitution, all other laws, codes, decrees with the force of law, decrees, by-laws, regulations, communiques, declarations, principle decisions, orders, normative acts and policies, all international agreements to which the Azerbaijan Republic is or may be a party together with all domestic enactments, laws and decrees for the ratification or implementation of such international agreements, and prevailing judicial interpretations of all such legal instruments.

“Best Available Terms” means, at any time with respect to any goods, works, services or technology specified by a Project Participant to be rendered or provided at any location, the prevailing rates then existing in the ordinary course of business between unrelated Persons for goods, works, services or technology which are of a similar kind and quality provided at the same location and under terms and conditions comparable to those applicable to the subject goods, works, services or technology. For the purposes hereof, the rates, terms and conditions of transactions entered into by and between State Authorities and/or State Entities shall not be applicable in determining what constitutes “Best Available Terms”.

“Best Endeavours” means the taking by the relevant Person of all lawful, reasonable steps in such Person’s power which a prudent and determined man acting in his own interest and anxious to achieve what is required would have taken under the circumstances.

“BTC HGA” means that certain Host Government Agreement which has been or will be entered into by and between the Government of the Azerbaijan Republic and the MEP Participants pertaining to the Baku-Tbilisi-Ceyhan Crude Oil Pipeline Project, as such agreement may be extended, renewed, replaced, amended or otherwise modified from time to time in accordance with its terms.

“BTC Project Agreements” is defined in Section 21.3.

“BTC System” means the Baku-Tbilisi-Çeyhan petroleum pipeline system and all related appurtenances owned or used in connection therewith, including facilities located within or outside the Territory, as such system exists from time to time.

“Business Day” means any day that is not a Saturday, Sunday or legal holiday in the Azerbaijan Republic and, with respect to the determination of LIBOR, days on which clearing banks are customarily open for business in London, England.

“Code of Practice” means those codes and regulations regarding the construction, installation, operation and maintenance of the Facilities, as well as such other provisions, as set forth in Appendix 4.

“Constitution” means the constitution of the State, as the same may be amended or otherwise modified or replaced from time to time.

“Construction Corridor” is defined in Article 6 of Appendix 2.

“Contractor” means any Person supplying, directly or indirectly, to or for the benefit of all or any of the SCP Participants, Sales Participants or their respective Affiliates goods, works, services or technology related to the SCP System or SCP Activities, and any successors or permitted assignees of such Person. The term includes an Interest Holder, Affiliate of an SCP Participant, Shipper or Operating Company, but does not include an SCP Participant, that is supplying such goods, works, services or technology. The term does not include a physical person acting in his or her role as an employee of any other Person.

“Cooperation Agreement” is defined in Section 21.3.

“Corridor of Interest” is defined in Article 6 of Appendix 2.

“Cure Period” is defined in Section 3.4.

“Disposition” is defined in Section 8.2(xiv).

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

“Double Tax Treaty” means any applicable or relevant treaty or convention with respect to Taxes that is in force in the Azerbaijan Republic.

“Economic Equilibrium” means the economic value of the relative balance established under the Project Agreements at the applicable date between the rights, interests, exemptions, privileges, protections and other similar benefits provided or granted to a Project Participant and the concomitant burdens, costs, obligations, liabilities, restrictions, conditions and Imitations of such Project Participant under the applicable Project Agreement(s).

“Effective Date” is defined in Section 3.1.

“Entity” means any company, corporation, limited liability company, partnership, limited partnership, joint venture, enterprise, association, trust, or other juridical entity, or other organisation, whether of a governmental or private nature, established or organised under the laws of any state or jurisdiction or by written agreement between two or more Persons.

“Expedited Dispute Resolution” is defined in Section 17.12(a).

“Expropriation” means any nationalisation or expropriation, or any measure or measures having an effect equivalent to nationalisation or expropriation, and for the avoidance of doubt, the term includes, without limitation:

- (i) expropriating the assets of a Person;

- (ii) the taking of property or rights, or the limiting of the use thereof, in a manner which is equivalent to expropriation, including expropriating through the ownership of equity or assets; and
- (iii) measures or effects which individually or separately may not constitute expropriation but when taken together are equivalent to expropriation.

“Facilities” means a main trunkline transmission system and interconnections for the transit of Natural Gas, and for the receipt, transportation and delivery of Natural Gas within, across, to and/or through the Territory and all above and below ground or seabed installations and ancillary equipment, together with any associated land as provided for in the applicable Project Agreement, all receipt, delivery, treating, pressure reduction, compressing, measuring, sampling, testing and metering facilities, all SCADA, communications, telemetry, fiber optic and other cabling and similar equipment to support state-of-the art system communications requirements used only for the operation, monitoring and maintenance of the SCP System (and/or in cooperation with the project described in the BTC Project Agreements), all pig launching and receiving facilities, all Natural Gas which is used as line pack, all pipelines, conduit and other related equipment, including power lines, used to deliver any form of liquid or gaseous fuel and/or power necessary to operate pump and/or compressor stations or for other system needs, cathodic protection devices and equipment, all monitoring posts, markers and sacrificial anodes, all terminaling, storage and related installations, all associated physical assets and appurtenances (including roads and other means of access and operational support) required from time to time for the proper functioning of any and all thereof, constructed, installed, maintained, repaired, replaced, expanded, extended, owned, controlled and/or operated by or on behalf of the SCP Participants in respect of the SCP Project, as they may be modified, expanded (including by way of additional pipeline loopings) or extended (including by way of laterals) in accordance with the provisions of a Project Agreement.

“Fair Market Value” means the value of a Project Participant’s interests, investments, property, commercial arrangements, rights, privileges and exemptions which are taken, diminished, devalued, damaged or otherwise detrimentally affected as a result of the Expropriation, taking into account that Project Participant’s business and investments, all as related to or affected by the Project, and determined on the basis of an ongoing concern utilising the discounted cash flow method, assuming a willing buyer and willing seller in a nonhostile environment and disregarding all unfavourable circumstances (including any diminution of value) leading up to or associated with the Expropriation. In determining said value the principle of indemnification shall apply, with value determined as of the time immediately prior to the Expropriation.

“Fixed Asset” means any asset located in the Territory or related to SCP Activities that, in accordance with generally accepted international tax accounting principles, is treated as a fixed or intangible asset and the cost of which exceeds fifteen thousand Dollars (\$15,000) (or equivalent value in other currency based on market exchange rates at the time the cost is incurred).

“Foreign Currency” means any freely convertible currency, including Dollars, that is the lawful currency of a state and is issued other than by the State Authorities, and is not subject to general limitations or restrictions of the issuing authority on conversion or exchange.

“Foreign Employee” means any employee of any Person who is involved in SCP Activities and is not a citizen of the State.

“Fraud” means a knowing and intentional failure to pay Profit Tax with the intent of concealing income in order to permanently evade the payment of Profit Tax.

“Gas Purchase Agreement” is defined in Section 24.1(a).

“Gas Sales Agreement” is defined in Section 24.1(b).

“Gas Supply Company” means any supply company to be established by the Contractor Parties (within the meaning of the SD PSA) and SOCAR, for the purchase and sale of Shah Deniz Natural Gas and the entry into certain transportation agreements, and any successors or assignees thereof.

“Government” means the central government of the State, including any and all instrumentalities, branches and administrative and other subdivisions thereof or therein, and any and all executive and regulatory bodies, agencies, departments, ministries, authorities and officials thereof or therein that have the authority to govern, regulate, levy or collect taxes, levies, duties, customs, imposts, contributions, assessments or other fees or charges, grant licenses or permits or approve or otherwise affect (whether financially or otherwise), directly or indirectly, SCP Activities or any Project Participant’s rights or obligations in respect of the Project (excluding Local Authorities and State Entities), notwithstanding any change at any time or from time to time in structure, form or otherwise.

“Government SCP Representative” is defined in Section 2.2.

“Guarantees” is defined in Section 24.1.

“Holding Entity” is defined in Section 8.2(xvi).

“ICSID” means the International Centre for the Settlement of Investment Disputes established by the ICSID Convention.

“ICSID Convention” means the 1965 Washington Convention on the Settlement of Investment Disputes between States and Nationals of Other States.

“Individual Election” is defined in Section 8.2(xvi).

“Initial Point” is defined in Article 6 of Appendix 2.

“Insurer” means any insurance company or other Person providing insurance in relation to covering all or a portion of SCP System risks, SCP Activities or other risks to any Project Participant, and any successors or permitted assignees of such Person.

“Interest Holder” means, at any time, any Person holding any form of equity interest in an SCP Participant, Operating Company or Sales Participant, together with all Affiliates, successors and permitted assignees of that Person.

“Interest Period” means, for purposes of the definition of “Agreed Interest Rate,” a period of thirty (30) days, beginning the first day after the date on which any such amount becomes due and payable and ending thirty (30) days thereafter, with each succeeding Interest Period beginning on the first day after the last day of the Interest Period it succeeds.

“Intergovernmental Agreement” means that certain “Agreement Between the Azerbaijan Republic and Georgia Relating to the Transit, Transportation and Sales of Natural Gas In and Beyond the Territories of the Azerbaijan Republic and Georgia Through the South Caucasus Pipeline System” dated 27 July 2001, together with its appendices as set forth therein as such agreement may be acceded to, extended, renewed, replaced, amended or otherwise modified from time to time in accordance with its terms.

“Lender” means any financial institution or other Person providing any loan, financial accommodation, extension of credit or other financing to any SCP Participant or Sales Participant or any of its Affiliates or any Interest Holder in connection with the SCP System, SCP Activities or any related upstream investment (including any refinancing thereof), and any successor or assignee of any of them.

“LIBOR” means, for any day on which clearing banks are customarily open for business in London, the London interbank fixing rate for three-month Dollar deposits, as quoted on Reuter’s LIBO page on that day or, if the Reuter’s LIBO page ceases to be available or ceases to quote such a rate, then as quoted in the London Financial Times, or if neither such source is available or ceases to quote such a rate, then such other source, publication or rate selected by the Parties.

“Local Authorities” means any and all local, regional and municipal authorities of the State and all their constituent elements, notwithstanding any change at any time or from time to time in structure, form or otherwise, including any and all instrumentalities, administrative bodies and other subdivisions thereof or therein, and any and all executive, regulatory, municipal and local bodies, agencies, departments or ministries, authorities and officials thereof or therein that have the authority to govern, adjudicate, regulate, levy or collect taxes, levies, duties, customs, imposts, contributions, assessments or other fees or charges, grant licenses or permits or approve or otherwise impact (whether financially or otherwise), directly or indirectly, SCP Activities or the rights or obligations of any Project Participant in respect of the Project.

“Local Currency” means any freely convertible currency issued by the State.

“Loss or Damage” shall mean any loss, cost, injury, liability, obligation, expense (including interest, penalties, reasonable attorneys’ fees and disbursements), litigation, proceeding, claim, charge, penalty or damage suffered or incurred by a Person. Solely in the case of an act of Expropriation by a State Authority, Loss or Damage may include indirect, incidental or consequential losses (including, for the avoidance of doubt, any loss of profits, reliance losses, costs of mitigation or third party costs).

“MCM” shall mean one thousand cubic meters of Natural Gas. “One cubic meter of Natural Gas” is the amount of Natural Gas that occupies the volume of one cubic meter at a temperature of plus 15 degrees Celsius at an absolute pressure of 1.01325 bar.

“MEP Participants” means any one or more, or all, of the Parties to the BTC HGA (including by novation and/or accession as an MEP Participant pursuant to any Project Agreement (as defined therein)), other than the State Authorities (as defined therein), and any successors and permitted assignees of any of the foregoing.

“Natural Gas” means the effluent vapour stream, consisting essentially of methane, produced in its natural state from wells, but including all hydrocarbon and nonhydrocarbon constituent gases produced in association with or liberated from crude oil and the residue gases resulting from the treating or processing of such effluent vapour streams after their production from gas wells or oil wells.

“Non-SCP Facilities” means any Natural Gas pipeline and ancillary facilities in the Territory, other than the SCP System, which may be used or which may later become available for use by Shippers, the Gas Supply Company or their customers to transport and/or deliver Natural Gas to delivery points in the Territory, including pipelines which may exist or be constructed, replaced, expanded or extended at any point in the future.

“Nonstate Land” means those lands in the Territory, and any and all rights and privileges of every kind and character, however arising, and however characterised with respect thereto, other than State Land. For the avoidance of doubt, all lease, license and other non-ownership rights held as of the Effective Date by any Person (other than a State Authority) for State Land shall be classified as Nonstate Land for purposes of this Agreement (including Appendix 2).

“OECD Treaty” is defined in Section 8.1(ii).

“Operating Company” means one or more Persons appointed or selected by the SCP Participants or their Affiliates to implement, manage, coordinate and/or conduct for or on behalf of the SCP Participants or their Affiliates all or any portion of the day-to-day SCP Activities including serving as an operator of all or any portion of the SCP System, whether as an agent for or independent contractor to the SCP Participants or their Affiliates, and any successors or permitted assignees of any such Person.

“Other Income” is defined in Section 8.2(vi).

“Owners” is defined in Section 8.2(xvi).

“Parties” means the Government as signatory to this Agreement and its successors, as well as other signatories to this Agreement and their respective successors and permitted assignees.

“Permanent Land” is defined in Article 6 of Appendix 2.

“Person” means any physical person or any Entity.

“Pre-Existing Environmental Condition” is defined in Section 7.2(vii)(12).

“Point of Entry” is defined in Article 6 of Appendix 2.

“Point of Terminus” is defined in Article 6 of Appendix 2.

“Preferred Route Corridor” is defined in Article 6 of Appendix 2.

“Principles With Respect to Contract Access to SCP System” means those policies and procedures which will be used by the SCP Participants in respect of their contracting with Shippers for the provision of services on the SCP System and the Facilities, as set forth in Appendix 3.

“Primary Term” is defined in Section 3.1.

“Profit Tax” is defined in Section 8.2(i).

“Project” means, in relation to the SCP System, the evaluation, development, design, acquisition, construction, installation, financing, insuring, ownership, operation (including the transportation by any or all of the Shippers of Natural Gas through the SCP System), and the transit, transportation, receipt, delivery and other SCP System services, including entering into contracts, transit or transportation agreements and other commercial contracts typical in the Natural Gas pipeline industry), repair, replacement, refurbishment, maintenance, capacity expansion (including by way of additional pipeline loopings), extension (including by way of laterals) and protection of the SCP System, and the conduct of Sales Activities, from time to time, in the Territory.

“Project Activities” means any and all activities conducted in the Territory relating to or arising out of, directly or indirectly, the Project, including any and all activities of the SCP Participants in respect of their rights or obligations under any Project Agreement and any such activities conducted in the Territory prior to the Effective Date.

“Project Agreements” means this Agreement, the Intergovernmental Agreement, and all other existing and future agreements, contracts and other documents to which, on the one hand, any of the State Authorities and, on the other hand, any SCP Participant or Sales Participant are or later become a party relating to any SCP Activities, as such agreements, contracts or other documents may be extended, renewed, replaced, amended or otherwise modified from time to time in accordance with their terms.

“Project Participants” means any and all of the SCP Participants and any Affiliates thereof, the Interest Holders, the Operating Companies, the Contractors, the Sales Participants, the Lenders and the Insurers.

“Rights to Land” means those rights of examination, testing, evaluation, analysis, inspection, construction, use, lease, possession, occupancy, control, assignment and enjoyment with respect to land in the Territory as set forth in Appendix 2 to this Agreement. The term is used in its broadest sense to refer not only to the Permanent Land within, over or under which the Facilities, as completed, will be located, but also such other and additional lands (including seabeds) and land rights (encompassing both State Land and Nonstate Land) within the Territory as the SCP Participants and their designated Contractors may require in connection with SCP Activities and designate for purposes of evaluating and choosing the particular routing and location(s) desired by the SCP Participants for the Permanent Land in respect of the Facilities.

“Sales Activities” means any and all activities relating to or arising out of, directly or indirectly, the marketing, sales or purchases (or efforts to market, sell or purchase) by or on behalf of a Sales Participant of Natural Gas that is or is to be transported in or through the SCP System or Shah Deniz Natural Gas, whether such activities are conducted in the Territory or elsewhere, take place before, on or after the Effective Date or are undertaken individually or jointly by Sales Participants, and whether or not the relevant transaction is ultimately consummated; provided that, in the case of any Natural Gas that is, or is to be, sold and consumed in the Territory, the purchaser (or prospective purchaser) is the State, any State Authority, or any other Person that is duly licensed or otherwise duly authorised by applicable State Authorities to purchase Natural Gas. Without limiting the foregoing, the term includes: (i) the sale or purchase of such Natural Gas or Shah Deniz Natural Gas, (ii) the proposal, evaluation, development, preparation, negotiation, execution, implementation and performance of, the existence and enforcement of rights and the winding up of business under, the negotiation and execution of any amendments, revisions, modifications, extensions, replacements, terminations or other agreements in relation to, and the assignment, transfer or pledge of rights or obligations under, any (a) agreement for the purchase, sale, exchange, assignment, transfer or delivery of such Natural Gas or Shah Deniz Natural Gas, including the development of and agreement on the various terms, provisions or conditions of any such agreement, (b) agreement for the receipt, transportation, transit, transmission or delivery of such Natural Gas or Shah Deniz Natural Gas (whether such receipt, transportation, transit, transmission or delivery is for the account of the Sales Participant(s) or its or their purchasers or transporters) and/or (c) other agreements typical and customary in the Natural Gas industry respecting the marketing of Natural Gas or Shah Deniz Natural Gas; (iii) meeting and negotiating with Lenders, Insurers and other Persons providing insurance, credit or investment in respect of upstream development or the pipelines or Non-SCP Facilities used or proposed to be used in connection with the purchase, sale, exchange, assignment, transfer or delivery of such Natural Gas or Shah Deniz Natural Gas, the transportation or transmission of such Natural Gas or Shah Deniz Natural Gas, and the preparation and execution of agreements, contracts, policies, instruments and other documents which support insurance, credit or investment obtained in connection with such upstream development and such sales, exchanges, assignments, transfers, deliveries, transportation,

transmission or other Sales Activities; (iv) meeting with, seeking approvals from, appearing before or otherwise interacting with or enforcing rights with respect to, any State Authorities under any Project Agreements or with respect to sales and transportation matters concerning such Natural Gas or Shah Deniz Natural Gas, including submitting documents and information to State Authorities with respect to any Project Agreements, any purchase, sale or exchange agreement, any transportation or transmission agreement, the transit or transportation of such Natural Gas or Shah Deniz Natural Gas and/or the marketing, transportation, sale, delivery and distribution of such Natural Gas or Shah Deniz Natural Gas to markets within and outside the Territory; (v) ongoing nomination, administration, dispatching, reporting, accounting, notification and operation under any of the agreements described above and other agreements, contracts, instruments or documents entered into in connection with the co-ordination of activities carrying out or relating to the marketing, receipt, transportation, purchase, sale, delivery and distribution of such Natural Gas or Shah Deniz Natural Gas; (vi) any other actions or activities typically and customarily undertaken or associated with the activities described above; and (vii) all agreements entered into in respect of any of the foregoing and all payments made or received under any such agreements.

“Sales Participant” means any Shipper, the Gas Supply Company, any agent or representative of any of the foregoing and any Affiliate of any of the foregoing (to the extent such Affiliate is an agent or representative of the foregoing), and their respective successors or permitted assignees.

“SCP Activities” means any and all activities relating to or arising out of, directly or indirectly, the evaluation, development, design, acquisition, construction, installation, financing, insuring, ownership, operation (including the transportation by any or all of the SCP Participants and/or Shippers of Natural Gas through the SCP System and the transit, transportation, receipt, delivery and other SCP System services, including entering into contracts, transit or transportation agreements and other commercial contracts typical in the Natural Gas pipeline industry)), repair, replacement, maintenance, capacity expansion (including by way of additional pipeline loopings), extension (such as laterals) and protection of the SCP System and the conduct of Sales Activities, whether or not such activities are conducted inside the Territory or outside the Territory, and any such activities conducted prior to the Effective Date.

“SCP Participants” means any one or more, or all, of the Parties to this Agreement (including by novation and/or accession as an SCP Participant pursuant to any Project Agreement), other than the State Authorities, and any successors and permitted assignees of any of the foregoing.

“SCP Representative(s)” is defined in Section 2.3.

“SCP System” means, at any time, the South Caucasus Pipeline System and all related appurtenances owned or used in connection therewith, including the Facilities located within the Territory and all other such related facilities located outside the Territory.

“SD PSA” means the Agreement on the Exploration, Development and Production Sharing for the Shah Deniz Prospective Area in the Azerbaijan Sector of the Caspian Sea dated 4 June 1996.

“Shah Deniz Condensate” means crude mineral, condensate oil and all other kinds of liquid hydrocarbons regardless of gravity obtained from natural gas or liquid petroleum by vaporisation, condensation or extraction, including natural gas liquids or any hydrocarbon product refined or produced in the Contract Area (within the meaning of the SD PSA) from any of the foregoing.

“Shah Deniz Natural Gas” means (i) Natural Gas that is produced in the Contract Area (within the meaning of the SD PSA), (ii) Natural Gas that is or is to be sold under an agreement in lieu of Natural Gas described in clause (i) as a result of the temporary unavailability of such Natural Gas, and (iii) Shah Deniz Condensate.

“Shippers” means those Persons (including the SCP Participants) that have contracted, directly or indirectly, for Natural Gas transit or transportation services (as well as, if applicable, any related services) through or by use of all or a portion of the SCP System and have the right to tender Natural Gas for transit or transportation through the SCP System, and their respective successors and permitted assignees.

“SOCAR” is defined in Section 24.3.

“Specified Corridor” is defined in Article 6 of Appendix 2.

“State” means the sovereign state of the Azerbaijan Republic.

“State Authorities” means, as the context and jurisdiction of the various governmental elements requires, (i) the Government, (ii) any and all State Entities, (iii) any and all Local Authorities, and (iv) any Persons acting on behalf of, and all successors or permitted assignees of, any or all of the foregoing.

“State Entity” means any Entity in which, directly or indirectly, the State or the Government has an equity or similar economic interest or which is, directly or indirectly, controlled by the Government, including agents and representatives of the Government. For purposes of this definition, “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract, by law, or otherwise; provided, however, that any State Entity which may also be an SCP Participant shall not be a State Entity whenever it is acting in the role of SCP Participant.

“State Land” means those lands in the Territory, and any and all rights and privileges of every kind and character, however arising and however characterised with respect thereto, which are owned, controlled, used, possessed, enjoyed or claimed by any State Authority and which are included within the Rights to Land as provided herein and in Appendix 2. For the avoidance of doubt, those ownership, reversionary, lessor, licensor and other similar rights of the State Authorities respecting land in the Territory which, as of the Effective Date, was leased, licensed, or otherwise granted to any Person (other than

a State Authority) shall be classified as rights in relation to State Land and shall be included within the grant of State Land to the SCP Participants under this Agreement, including for purposes of Appendix 2.

“State Tax Inspectorate” means the Ministry of Taxes of the Azerbaijan Republic and any successor thereto.

“Tariff Income” is defined in Section 8.2(v).

“Taxes” means all existing or future taxes, levies, duties, customs, imposts, contributions (such as pension fund, employment fund, social insurance fund and any medical fund contributions), assessments or other similar fees or charges payable to or imposed by the State Authorities, together with interest, penalties and fines (including financial sanctions and administrative penalties) with respect thereto, and “Tax” means any of the foregoing.

“Territory” means territory of the State, including the internal waters of the State, the sector of the Caspian Sea belonging to the State, the airspace above the State, as well as any other territory determined (or which shall be determined in the future), in accordance with international law and the national law of the State, to be territory in respect of which the State exercises its sovereign rights, including the subsurface, the seabed, the continental shelf and natural resources in respect of such territory.

“VAT” means value added Tax and any other similar Tax applicable to the provision of goods (including Rights to Land, Natural Gas and Shah Deniz Natural Gas), works, services or technology.

“Year” means a Gregorian calendar year.

APPENDIX 2

RIGHTS TO LAND IN THE TERRITORY ASSOCIATED WITH THE PROJECT

1. RIGHTS TO LAND

- 1.1 This Appendix 2 sets forth and provides for the rights to land in the Territory and associated rights (including rights of exclusive use, possession and control, rights of ingress and egress, rights of construction upon and/or under, licenses to enter and perform SCP Activities on the land of third parties, and all other similar rights in the Territory) which are to be notified by the SCP Participants to the State Authorities as the phased implementation of the Project (including later repairs, replacements, capacity expansions and extensions of the Facilities) requires, obtained by the State Authorities in accordance with Azerbaijan Law, and granted to the SCP Participants (in such form as is requested by the SCP Participants) in respect of the Project.
- 1.2 The Rights to Land granted to the SCP Participants shall be enforceable by the SCP Participants against all State Authorities and against all third parties.
- 1.3 The SCP Participants shall have no obligation to pay to the State Authorities any compensation in respect of any land or Rights to Land in relation to State Land; provided, however, that in respect of any land or Rights to Land in relation to State Land, the SCP Participants shall be obligated to pay to the appropriate State Authority the amount determined by reference to and in accordance with the Rules of Assessment and Compensation of Agricultural and Forestry Productive Losses and Damages (approved by Resolution No. 42 of the Cabinet of Ministers of the Azerbaijan Republic dated 15 March 2000, and as in effect on 31 July 2001) for the cost of substituting for such State Land compensatory parcels of land for agricultural or forestry purposes (as set forth in such Rules of Assessment) to the extent that (i) such State Land is part of the Construction Corridor and/or Permanent Land, (ii) as of 31 July 2001, such State Land is designated as agricultural or forestry land in the applicable State cadastre, and (iii) such State Land is disabled from use for agricultural or forestry purposes for the entire Primary Term as a result of Project Activities.
- 1.4 The State Authorities shall cause all landowners and occupiers of affected properties and/or land rights to observe and respect all of the Rights to Land obtained by the State Authorities and granted to the SCP Participants, whether permanently, temporarily and/or from time to time, as the case may be, to enable the construction and operation of the Facilities and the conduct of all other SCP Activities. Without limiting the foregoing and that which is provided in the Agreement to which this Appendix is appended, the State Authorities shall assist the SCP Participants in avoiding and in rectifying any interference by third parties, including landowners and occupiers of affected properties and/or land rights, with the SCP Participants' exercise and enjoyment of the Rights to Land, including any encroachments on the areas constituting Permanent Land or affecting the Facilities.

1.5 Subject to the foregoing and without limiting that which is provided in the Agreement to which this Appendix is appended, the Rights to Land shall include all of the rights as hereinafter provided for the phased development of the Project, including, the right of the SCP Participants to develop one or more main trunkline transmission pipelines in one or more Corridors of Interest, and to develop one or more laterals extending from the trunkline portion(s) of the Facilities.

2. PHASE 1 - PRECONSTRUCTION PHASE (ROUTE SELECTION)

2.1 Corridor of Interest

Without limiting the rights which may be necessary and shall be granted in order to accomplish route selection, during the preconstruction phase the following rights will be required and shall be obtained and secured, subject to relevant provisions of Azerbaijan Law with respect to matters such as national security, defense, public safety and civil aviation and other similar matters by the State Authorities and granted to the SCP Participants in respect of the Corridor of Interest:

- (i) Rights to fly and land fixed wing or helicopter surveillance craft within and across the borders of the Territory.
- (ii) Rights to record and map any property within the Corridor of Interest by video tape and by photographs.
- (iii) Rights of access to and use of detailed maps and photographic records of the Corridor of Interest for, among other evaluations, desktop route study exercises.
- (iv) Rights of free and safe access and passage from time to time on and off the public highways and other roadways and offshore areas within and across the borders of the Territory for vehicles and vessels to perform reconnaissance, including rights to make video/photographic records of said area.

The Parties hereby designate and approve an initial Corridor of Interest, as described in Appendix 5. If the SCP Participants determine in their sole discretion that construction and installation of the Facilities is not viable within any previously designated Corridor of Interest or portion thereof, the SCP Participants will have the right to so notify the State Authorities and the SCP Participants will have the further right to modify an existing Corridor of Interest, or designate new Corridors of Interest for further study, as aforesaid.

2.2 Preferred Route Corridor

Once the Corridor of Interest has been assessed and confirmed by notice to the State Authorities, and without limiting the rights which may be necessary and shall be granted in order to conduct SCP Activities, the following rights with respect to the entire Corridor of Interest will be required and shall be obtained and secured by the State Authorities and granted to the SCP Participants for the selection by the SCP Participants of the Preferred Route Corridor:

- (i) All rights defined in Section 2.1 hereof and, in addition, vehicular access (including the right to create temporary and/or permanent access roads) at the SCP Participants'

discretion on and off the public highways within and across the borders of the Territory for detailed route reconnaissance.

- (ii) Full access to all relevant and nonclassified information held at the central, regional, district and local levels of the State Authorities respecting:
 - (1) geology
 - (2) hydrology and land drainage
 - (3) archaeology
 - (4) ecology
 - (5) mining, mineral deposits and waste disposal
 - (6) urban and rural planning and development, including relevant topographical standards and criteria of the State
 - (7) the environment
 - (8) seismology
 - (9) highways and navigations
 - (10) utility and commercial service apparatus records, including pipeline crossings
 - (11) areas under current or former restriction by the State
 - (12) Local Authorities' structure and administration requirements
 - (13) agricultural, forestry and park lands
 - (14) current and prior land development, ownership, use and occupation
 - (15) meteorology
 - (16) oceanography
- (iii) If the SCP Participants determine in their sole discretion that construction and installation of the Facilities (or portions thereof) is not viable within any previously designated Preferred Route Corridor or portion thereof, the SCP Participants will have the right to so notify the State Authorities and the SCP Participants will have the further right to modify an existing Preferred Route Corridor, or designate new Preferred Route Corridors, for further study, as aforesaid.

2.3 Specified Corridor

- (i) From the information gained in Sections 2.1 and 2.2 above, the Specified Corridor will be defined by the SCP Participants and notified to the State Authorities. Within this Specified Corridor, the SCP Participants and their Contractors will conduct further detailed studies as provided herein.
- (ii) In respect of the Specified Corridor, the State Authorities shall obtain and secure, in addition to the rights defined in Sections 2.1 and 2.2 above, the necessary additional Rights to Land and grant to the SCP Participants such rights so that the SCP Participants will possess the full right of access to and passage within the Specified Corridor for the following activities:
 - (1) Topographical survey in accordance with relevant topographical standards and criteria of the State requiring pedestrian and on/off highway vehicular access within and across the borders of the Territory at the SCP Participants' discretion. These rights shall extend over the area necessary to undertake the survey and could extend outside the Specified Corridor, as notified by the SCP Participants.
 - (2) Geotechnical survey-rights for vehicles, vessels, equipment and service personnel to enter on to land and offshore areas to excavate trenches or boreholes and record information, including the right of removal of such material from the site as is necessary.
 - (3) Cathodic protection resistivity and soil sample surveys requiring vehicular and pedestrian access onto land to take and remove soil samples for further analysis.
 - (4) One or more land and offshore use surveys.
- (iii) The right to undertake surveys shall include the right to leave monitoring equipment on site to collect necessary data.

2.4 Subject to the provisions of Section 23.7 of the Agreement to which this Appendix is appended, the SCP Participants shall have the right to use, publicise and export any data and information obtained by the SCP Participants and their Contractors in connection with the activities described in this Appendix 2.

2.5 If the SCP Participants determine in their sole discretion that construction and installation of the Facilities is not viable within any previously designated Specified Corridor or portion thereof, the SCP Participants will have the right to so notify the State Authorities and the SCP Participants will have the further right to modify the existing or designate a new Specified Corridor for further study, as aforesaid.

3. PHASE 2 - FACILITIES CONSTRUCTION AND INSTALLATION PHASE

If the SCP Participants determine in their sole discretion that the construction and installation of the Facilities is viable within any previously designated Specified Corridor, the SCP Participants will have the right to so notify the State Authorities and designate the Construction Corridor. At

the earliest practicable date after such designation, the State Authorities will obtain, secure and grant to the SCP Participants the following Rights to Land:

- 3.1 Right to transport all construction material, plant and equipment within the Territory and cross border by land or air without hindrance, including the right to construct and maintain temporary and permanent roads and to use such airfields as are designated, from time to time, by the SCP Participants.
- 3.2 Right to designate and use other areas of land, both in the vicinity of the proposed Facilities and remote from the Facilities, for the conduct of all SCP Activities, including for pipe storage dumps, site compounds, construction camps, fuel storage dumps, parking areas, roads and other activity sites.
- 3.3 Right to install generation and transmission equipment and to connect to any existing electricity supply and, where necessary, the right to lay cables from such supply to the Construction Corridor.
- 3.4 Right of entry onto such land and offshore areas with all necessary materials and equipment to lay and construct and thereafter use, maintain, protect, repair, alter, renew, augment, expand, inspect, remove, replace or render unusable the Facilities as is required for construction and installation of the Facilities and right to commence and undertake construction and installation.
- 3.5 Right to receive confirmation that each affected landowner and/or occupier has been made aware of and has consented to and/or has been compensated under Azerbaijan Law for the rights acquired by the SCP Participants through the State Authorities.
- 3.6 Right to receive from the State Authorities details of land ownership and use, including names and addresses of landowners and occupiers and details of land holding defined on plans showing all such details for all property falling within two hundred fifty (250) metres either side of the Construction Corridor.
- 3.7 All rights of access over any land as required by the SCP Participants and their Contractors for the purposes of conducting SCP Activities, including rights of access (including the right to construct and use temporary or permanent roads) over other land between the public highway and the Construction Corridor, not affected by the construction or operation of the Facilities, such routes to be defined by notice from the SCP Participants prior to road construction and/or use.
- 3.8 The right to the exclusive use, possession and control, and the right to construct upon and/or under, and peaceful enjoyment of, these Rights to Land without hindrance or interruption.
- 3.9 The right of the SCP Participants to require that it shall be unlawful for any Person without prior written consent of the SCP Participants:
 - (i) to use explosives within an area of five hundred (500) metres either side of the Facilities.

- (ii) to undertake any pile-driving within fifty (50) metres either side of the Facilities.
 - (iii) to encroach on the Construction Corridor or other areas where land has been granted to the SCP Participants to conduct SCP Activities.
 - (iv) to cross or otherwise interfere with the SCP Participants' Rights to Land with any road, railway, power line, utility, pipeline or other public project ("Crossing Project") and the SCP Participants shall in no event be required to consider a request for consent to such Crossing Project unless and until the State Authorities have approved the proposed Crossing Project and the party proposing the Crossing Project has provided to the SCP Participants (1) details of the proposed Crossing Project sufficient, in the sole opinion of the SCP Participants, to enable the SCP Participants to assess in its sole discretion the practicability of conducting the Crossing Project safely, efficiently, and without unreasonably interfering with SCP Activities and (2) a guarantee of compensation to the SCP Participants for any costs incurred by the SCP Participants to accommodate the Crossing Project.
- 3.10 The right, in accordance with Azerbaijan Law, to extract and source appropriate local materials for construction purposes and to dispose of waste arising from SCP Activities, including during the construction and any later repair, replacement, capacity expansion or extension process.
- 3.11 Any additional regulatory and other administrative compliance requirements.

4. PHASE 3 - POST CONSTRUCTION PHASE

- 4.1 Following the completion of the Facilities, the SCP Participants will require the following Rights to Land, all of which shall be obtained and secured by the State Authorities and granted to the SCP Participants:
- (i) The exclusive use, possession and control of, as well as the right to construct upon and/or under, the Pipeline Corridor and other Permanent Land.
 - (ii) All rights previously described to the extent applicable to the use and enjoyment of the Facilities once constructed (including, but not limited to, temporary and permanent roads), the construction and use of additional Facilities within the Pipeline Corridor and other Permanent Land and the future maintenance, protection, repair, alteration, renewal, augmentation, capacity expansion, extension, inspection, removal, replacement or the rendering unusable of any such Facilities.
 - (iii) The right to add any equipment as the SCP Participants deem necessary.
 - (iv) The right to fly along the route of the Facilities within and across the borders of the Territory, in accordance with relevant provisions of Azerbaijan Law, to inspect it and to land wherever it is deemed necessary to ensure the safe and efficient operation of the Facilities.

- (v) The right to erect and thereafter maintain the Facilities, including SCADA, marker posts, cathodic protection test posts and aerial marker posts or signaling equipment and any other equipment or installations necessary for the Project in such locations and positions as deemed necessary by the SCP Participants.
- (vi) The right of access over any land between the public highway and Pipeline Corridor and other Permanent Land without prior notice in cases of emergency;
- (vii) Subject to the Project Agreements, the right to allow use of the Facilities by third parties under such terms and conditions as the SCP Participants and the Interest Holders may elect.

5. GOVERNMENTAL NOTIFICATIONS

- 5.1 Within fifteen (15) days after the Effective Date of the Host Government Agreement of which this Appendix is a part, the SCP Participants and the Government will designate to each other in writing those persons, agencies and regulatory bodies which each will be entitled to communicate with and rely on in giving the various notices and securing and confirming the various rights described herein. Such notified contact persons or bodies shall be subject to change, from time to time, on not less than fifteen (15) days prior written notice (except for emergencies).

6. DEFINITIONS

- 6.1 In this Appendix, all capitalised terms not otherwise defined shall have the same meaning as specified in the Agreement to which this Appendix is appended. Additionally, the following terms shall have the following meanings:

“Corridor of Interest” in respect of the trunkline portion(s) of the Facilities means an area of land ten (10) kilometres wide and extending from the Initial Point to the Point of Terminus for each such trunkline, and in respect of any laterals from the trunkline portion(s) of the Facilities means an area of land five (5) kilometres wide and extending from the point of trunkline interconnect to the end point, all as determined in accordance with the provisions of this Appendix 2.

“Preferred Route Corridor” means an area of land within the Corridor of Interest five hundred (500) metres wide and extending from the Initial Point to the Point of Terminus (with respect to each trunkline portion of the Facilities), and extending from the point of trunkline interconnect to the end point (with respect to any laterals from the trunkline portion(s) of the Facilities), all as determined in accordance with the provisions of this Appendix 2.

“Specified Corridor” means an area of land within the Preferred Route Corridor one hundred (100) metres wide and extending from the Initial Point to the Point of Terminus (with respect to each trunkline portion of the Facilities), and extending from the point of trunkline interconnect to the end point (with respect to any laterals from the trunkline portion(s) of the Facilities), all as determined in accordance with the provisions of this Appendix 2.

“Construction Corridor” means an area of land (including exclusive and unrestricted control of the area above such land and rights to the land’s subsurface, in each case to be specified upon designation of the Construction Corridor by the SCP Participants), within the Preferred Route Corridor thirty-six (36) metres wide and extending from the Initial Point to the Point of Terminus (with respect to each trunkline portion of the Facilities), and extending from the point of trunkline interconnect to the end point (with respect to any laterals from the trunkline portion(s) of the Facilities), within which the centreline of the Pipeline Corridor will be located, and such other areas determined by the SCP Participants in their sole discretion as reasonably necessary for the conduct of SCP Activities within which Rights to Land required for the construction and installation phases as set forth under Phase 2 of this Appendix shall be exercised, all as notified by the SCP Participants to the State Authorities.

“Initial Point” means the outlet flange at the Sangachal Terminal or such other point as may be agreed among the Parties.

“Pipeline Corridor” means an area of land (including exclusive and unrestricted control of the area above such land and rights to the land’s subsurface, in each case to be specified upon designation of the Construction Corridor by the SCP Participants), within the Construction Corridor eight (8) metres wide and extending from the Initial Point to the Point of Terminus (with respect to each trunkline portion of the Facilities), and extending from the point of trunkline interconnect to the end point (with respect to any laterals from the trunkline portion(s) of the Facilities), all as determined in accordance with the provisions of this Appendix 2.

“Permanent Land” refers to the grants described in Section 4.1(iii) and the procedures set forth in Section 7.2(vii) and in this Appendix 2 of this Agreement, and means in respect of State Land and Nonstate Land (i) the Pipeline Corridor and (ii) those other areas of land (contiguous or noncontiguous) designated in the SCP Participants’ sole discretion and granted to the SCP Participants in accordance with this Appendix and the Agreement to which this Appendix is appended for use as the locations upon or under which the Facilities exist, from time to time, throughout the life of the Project.

“Point of Terminus” means the terminus of the Facilities at a point to be selected by the SCP Participants on the border between the Azerbaijan Republic and Georgia.

7. MISCELLANEOUS

- 7.1 Any reference to any access from a public highway means an access of not less than seven (7) metres in width suitable for use by construction plant and equipment.

APPENDIX 3

PRINCIPLES WITH RESPECT TO CONTRACT ACCESS TO SCP SYSTEM

1. These principles apply to Available Capacity associated with Available Services on the SCP System, as it exists from time to time.
2. Contract access to Available Capacity associated with Available Services shall be provided, subject to the following principles:
 - I. all access will be through negotiations on a transparent basis and without discrimination as to the origin, destination, or ownership of Natural Gas;
 - II. the SCP Participants, the Interest Holders and their respective Affiliates will be entitled to make reasonable provision of future capacity for their own use;
 - III. there will be no requirement to idle capacity incident to the provision of other services within the system (in addition to the capacity actually requested) as a result of accepting any new request for service. For instance, agreeing to transport Natural Gas from a small field could compromise the ability of the the SCP Participants to complete negotiations to provide comparable service to a large field. Similarly, agreeing to transport short-haul quantities may preclude long-haul transit services which would utilize a greater amount of overall system capacity; and
 - IV. the SCP Participants are entitled to take into account effects on existing users in deciding whether to and the extent of making capacity available. For instance, accommodating a new user may cause compression suction pressure to rise which would have a material detrimental impact on the deliverability of the existing fields.
3. For the purposes of this Appendix 3, “Available Capacity” means the total physical operating capacity of the SCP System (or relevant system segment) associated with Available Services, less the physical operating capacity:
 - I. necessary for the fulfillment of present and long term commitments under any valid and legally binding agreements (including service agreements and commitments under loan or other financing agreements for the SCP System) and/or provisions relating to security of supply;
 - II. necessary to account for the reasonably forecasted requirements for transporting Natural Gas from (a) reserves owned or controlled by the SCP Participants, the Interest Holders or their respective Affiliates, or (b) other reserves owned or controlled by Persons to the extent that the SCP System has been established or expanded for the specific purpose of transporting Natural Gas from such other reserves;

- III. necessary for the safe and efficient operation of the SCP System, including provision for line pack, estimated loss contingencies and any operating margin necessary to ensure the security and reliability of the SCP System and the provision of Available Services; and
 - IV. necessary to fulfil the terms and conditions of that certain "Natural Gas Sales and Purchase Agreement between State Oil Company of the Azerbaijan Republic and BOTAS Petroleum Pipeline Corporation", as such agreement may be amended or replaced.
4. For purposes of this Appendix 3, "Available Services" means all services (including classes of service) which are being made available, from time to time, on the SCP System. For instance, such services may include Natural Gas transit service across the Territory; receipt, transportation, delivery and/or redelivery services within the Territory; backhaul, exchange or similar services; and other services, all as determined by the SCP Participants.

APPENDIX 4

CODE OF PRACTICE

This Code of Practice sets forth the agreed technical, environmental, health, safety and social standards and practices to be complied with and relied upon by the SCP Participants, any Operating Company, and any Person acting for or on behalf of any of them with respect to the Facilities and the conduct of Pipeline Activities (as defined below). In identifying, harmonising, and complying with all such standards and practices, the SCP Participants, any Operating Company, and any Person acting for or on behalf of any of them shall act as a prudent operator and shall have the right and obligation to take any action that a prudent operator would take under the same or similar circumstances. All capitalised terms not otherwise defined in this Appendix 4 shall have the same meaning as specified in the agreement to which this Code of Practice is appended (the “Agreement”).

“Applicable Technical Standards” shall have the meaning set forth in Section 2.1 hereof.

“Baseline Study” shall have the meaning set forth in Section 3.5 hereof.

“Comparable projects” or projects which are “comparable to the Project” means those involving the trunkline transmission of pipeline quality Natural Gas at high pressures (above fifty (50) bar) through large diameter (sixteen (16) inches nominal diameter or greater) pipe through terrain comparable to that existing along the proposed pipeline corridor, with recognition that the Facilities are planned to be new-built.

“EIA” shall have the meaning set forth in Section 3.4 hereof.

“Emergency Response Plan” shall have the meaning set forth in Section 3.7 hereof.

“Environmental Strategy Product” shall have the meaning set forth in Section 3.8 hereof.

“Final Exit Study” shall have the meaning set forth in Section 4.3 hereof.

“Health and Safety Standards” shall have the meaning set forth in Section 5.1 hereof.

“Letter of Credit” shall have the meaning set forth in Section 4.2 hereof.

“Pipeline Activities” means the design, planning, construction, reconstruction, expansion, extension, relocation, repair, replacement, maintenance, operation, use, decommissioning, dismantling, removal or abandonment of the Facilities.

“Preliminary Exit Study” shall have the meaning set forth in Section 4.3 hereof

“Specified Technical Standards” shall have the meaning set forth in Section 2.1 hereof.

1. AGREED ACTIONS

1.1 In conducting Pipeline Activities, the SCP Participants and any Operating Company or Person acting for or on behalf of them shall:

- (i) install as part of the Facilities and maintain at (a) each Initial Point, (b) each other receipt point into the Facilities and (c) each other delivery point out of the Facilities, all in accordance with the applicable Specified Technical Standards in Section 2.2 of this Appendix 4, metering, monitoring, testing and calibration equipment capable of continuous metering and measurement to determine the quantity (duly compensated for temperature and pressure) and quality characteristics (i.e., as a minimum, composition, and, at each Initial Point, water dewpoint and hydrocarbon dewpoint) of the Natural Gas, which equipment shall be tested and calibrated to operating conditions by the SCP Participants at least once each calendar month during the first two (2) years after the completion of construction, and thereafter in accordance with generally accepted practices and standards and any procedures specified by the vendors of such equipment (or more often if necessary to insure continuing accuracy);
 - (ii) continuously measure quantity, monitor quality and periodically sample all Natural Gas transported through the Facilities;
 - (iii) maintain a true and complete monthly record of the volumes from meter readings, meter correction factors, temperature, pressure, gas quality and other necessary characteristics of the flow stream; and
 - (iv) on or before the tenth (10th) day of each calendar month, provide a statement to the Government SCP Representative of the aggregate quantity of Natural Gas transported through the Facilities as measured at the Initial Point and the other delivery point(s) or, in the event that such quantity is unavailable, a best good-faith estimate thereof, subject to prompt correction if and when such information may later become available. The Government SCP Representative shall be responsible for distributing this statement to the Government, to the extent required by Azerbaijan Law.
- 1.2 The Operating Company shall measure volumetric flow rate (with the goal that such measurement to be accurate within a margin of one percent (1%)), pressure, temperature, and composition of Natural Gas flowing through the custody transfer meters at all custody transfer points and entry and exit points to determine calorific values. The measurement standards and procedures will be taken from or provided by relevant ISO measurement standards.

2. TECHNICAL STANDARDS

- 2.1 In conducting Pipeline Activities, it is agreed that those of the technical standards and practices established by the organisations/entities specifically set forth below in Section 2.2 of this Appendix 4 (the “Specified Technical Standards”) which are appropriate under the circumstances or, to the extent the Specified Technical Standards are silent or are inapplicable under the circumstances, then the then-current technical standards and practices generally used by the international community (within Canada, the United States or Western Europe) with respect to Natural Gas pipeline projects comparable to the Project, shall be applied, including in any instance in which a different technical

standard or practice is included in, referenced by, or otherwise relied upon in any Health and Safety Standards. The relevant technical standard or practice shall be determined by the SCP Participants based on the foregoing from time to time, as the needs of the Project require, and notified to the Government SCP Representative. Such notification shall briefly explain the purpose of the new technical standard or practice and shall either cite where such standard or practice may be found (if readily available) or be accompanied by a copy thereof (if not otherwise readily available). The technical standards and practices set forth in Section 2.2, as augmented by technical standards and practices determined under this Section 2.1, shall be referred to herein as the “Applicable Technical Standards.”

2.2 It is agreed that for purposes of conducting Pipeline Activities, the standards, and the practices required by or associated with such standards, as the Uniform Building Code (or “UBC”) with respect to above-ground portions of the Facilities, and “Guidelines for Seismic Design for Oil and Gas Pipeline Systems”, (1984) as promulgated by the American Society of Civil Engineers, as applied in comparable projects, for below ground portions of the Facilities, as well as those of the following organisations shall be acceptable for all purposes of technical compliance, provided that in cases where such standards and practices are less stringent than the standards and practices which would be applied in the case of comparable projects applying such standards and practices in the United Kingdom, the applicable standards and practices of the United Kingdom shall apply. In cases where a specified organization has more than one applicable code or standard, those most applicable to “comparable” pipelines shall be applied.

SSPC	-	Steel Structures Painting Council
AGA	-	American Gas Association
ANSI	-	American National Standards Institute
API	-	American Petroleum Institute
ASME	-	American Society of Mechanical Engineers
ASNT	-	American Society of Non-destructive Testing
ASTM	-	American Society for Testing and Materials
AWPA	-	American Wood Preservers’ Association
AWS	-	American Welding Society
BSI	-	British Standards Institution
CEN	-	European Committee for Standardisation
CENELEC	-	European Committee for Electrotechnical Standardisation

Standardisation

DIN	-	Deutsche Institut fur Normung
ETSI	-	European Telecommunication Standards Institute
IEC	-	International Electrotechnical Commission
IEEE	-	Institute of Electrical and Electronics Engineers (USA)
IGE	-	Institution of Gas Engineers (UK)
IP	-	Institute of Petroleum (UK)
ISA	-	Instrument Society of America
ISO	-	International Standards Organisation
ITU	-	International Telecommunication Union
MSS	-	Manufacturer's Standardisation Society
NACE	-	National Association of Corrosion Engineers (USA)
NEMA	-	National Electrical Manufacturers Association (USA)
NFPA	-	National Fire Prevention Association (USA)
TEMA	-	Tube Exchanger Manufacturers Association

3. ENVIRONMENTAL STANDARDS

- 3.1 In conducting all Pipeline Activities, the SCP Participants shall use Best Endeavours to minimise potential disturbances to the environment, including the surface, subsurface, sea, air, lakes, flora, fauna, other natural resources and property. The order of priority for actions shall be protection of life, environment and property.
- 3.2 The SCP Participants shall promptly notify the Government of all emergencies and other events (including explosions, leaks and spills), occurring in relation to Pipeline Activities that result in or threaten loss of life or significant damage to the environment or property. Such notice shall include a summary description of the circumstances, and steps taken and planned by the SCP Participants to control and remedy the situation. The SCP Participants shall provide such additional reports to the Government as are necessary to keep it apprised of the effects of such events and the course of all actions taken to prevent further loss and to mitigate deleterious effects.
- 3.3 If any regional or intergovernmental authority having jurisdiction over the conduct of Pipeline Activities or the Facilities enacts or promulgates environmental standards or

practices relating to the Facilities, Pipeline Activities or areas where Pipeline Activities occur, the SCP Participants and the Government SCP Representative will confer respecting the possible impact thereof on the Project, but in no event shall the Project be subject to any such environmental standards or practices to the extent they are different from, in addition to, or more stringent than the standards and practices generally prevailing in the international Natural Gas pipeline industry for comparable projects.

3.4 In connection with the selection of the general location of the Facilities, a review of environmental conditions and the potential risks to the environment associated with Pipeline Activities shall be completed. This will consist of a scoping study and an environmental risk assessment. The scoping study will be the basis for the environmental impact assessment (“EIA”) further described in Section 3.6 hereof. The environmental risk assessment will serve to highlight potential environmental risks and costs impacts to the engineering design requirements of the Project.

3.5 After completion of the scoping study and risk assessment described in Section 3.4, the SCP Participants shall cause to be conducted a contaminated land baseline study (the “Baseline Study”) to provide a qualitative assessment of the existing pollution and contamination in the areas within the Territory relevant to Pipeline Activities as of the Effective Date. The Baseline Study shall include:

- (i) a desk study review of the relevant and available information;
- (ii) an audit of relevant existing operations and practices and the collection of relevant environmental data from the areas surrounding the location of the Facilities, including information on:
 - (a) surface and subsurface geology;
 - (b) geomorphology;
 - (c) rock permeability and the presence of aquifers;
 - (d) assessment of existing quality of surface waters;
 - (e) the effect of any existing contamination on flora, fauna, landscapes and ecosystems; and
 - (f) a qualitative assessment of any pollution, environmental damage and contamination in respect of the Facilities.

3.6 Upon completion of the Baseline Study, the SCP Participants shall cause an EIA of Pipeline Activities and associated operations to be conducted with respect to potential environmental impacts to the Territory (whether from Pipeline Activities within or without the Territory). The EIA shall include:

- (i) a project description;

- (ii) an environmental and socio-economic description of the relevant areas of possible impact;
- (iii) an evaluation of impact to the environment of the proposed construction and operation of the Facilities, including an estimate of those emissions and discharges into the environment (e.g., associated air emissions, aqueous discharges and solid waste produced) that are reasonably foreseeable;
- (iv) a plan for the identification and implementation of practicable mitigation measures for each identified impact;
- (v) an assessment of the environmental risks associated with Pipeline Activities; and
- (vi) the formulation of a monitoring programme to verify that mitigation measures are effective, and in the event that additional impacts are identified to ensure that additional appropriate mitigation measures are effected;

3.7 Prior to the completion of the Facilities and in relation to Pipeline Activities, a plan for emergency response capability (“Emergency Response Plan”) as to leaks or emissions of Natural Gas within or that could threaten or endanger life or property or adversely affect the Territory will be created and implemented by the SCP Participants. The Emergency Response Plan will include:

- (i) environmental mapping of habitats vulnerable to potential Natural Gas leaks or emissions in the entire SCP System;
- (ii) situational scenarios of potential leaks, emissions, explosions, fires and responses, taking into consideration local circumstances;
- (iii) plans for the provision of relevant emergency response equipment, materials and services;
- (iv) plans for the deployment of relevant equipment and emergency response notification details of the organisation required to handle Natural Gas leaks, emissions, explosions and fires; and
- (v) plans for the evacuation and care for injured persons and the remediation, restoration of damaged property, and the treatment and disposal of any resulting contaminated materials.

In the event of a loss or damage suffered by a third party (other than a State Authority or any Affiliate of a State Authority) because of the occurrence of an event that is associated with the Project Activities, the SCP Participants, at the request of the Government SCP Representative, shall make funds available to such third parties who have suffered such Loss or Damage. Distribution of such funds shall be made in accordance with the agreement of the Government SCP Representative and the SCP Representative on an expedited basis to assist such affected third parties; however, any such payment shall not be in excess of \$50,000 per event. Such payment shall be made without prejudice to any

claims; or liability for such event. In the case where the SCP Participants are found to have no liability associated with such Loss or Damage, the SCP Participants shall be entitled to offset any payments made under this paragraph of this Section 3.7 against any amounts (including Taxes) owed by SCP Participants pursuant to this Agreement, in accordance with the provision of Section 23.12 of the Agreement. In any regard, the terms of this paragraph of this Section 3.7 shall not apply when such Loss or Damage is the result of a security breach, as determined by the SCP Participants.

- 3.8 Each of the scoping study, risk assessment, Baseline Study, EIA and Emergency Response Plan (collectively, the “Environmental Strategy Product”) shall be prepared by one or more recognised independent international environmental consulting firms selected by the SCP Participants; in recognition of the work done to date in connection with the Environmental Strategy Product, no approval by the Government of such environmental consulting firm shall be required. The costs of the items constituting the Environmental Strategy Product, and implementation of the environmental strategy reflected in the EIA and the Emergency Response Plan, shall be borne by the SCP Participants except that the Government SCP Representative shall be liable for all costs associated with the official and technical representatives of the Government or of the Government SCP Representative.
- 3.9 The development and completion of the Baseline Study, the EIA and the Emergency Response Plan shall be subject to the following procedures to ensure that they represent implementation of an appropriate environmental strategy with respect to the Project:
- (i) The consulting firm(s) involved and representatives of the SCP Participants shall, at the request of the Government SCP Representative, consult with the official and technical representatives of the Government SCP Representative, at reasonable times and places, during the preparation of the Baseline Study, the EIA and the Emergency Response Plan.
 - (ii) The Baseline Study, the EIA and the Emergency Response Plan shall each be subject to approval of the Government SCP Representative in accordance with the following procedures:
 - (a) The Baseline Study, the EIA (with executive summary demonstrating adequate response to public concerns, as described below) and the Emergency Response Plan shall each be submitted to the Government SCP Representative upon its completion, The Government SCP Representative shall approve each such item if it has been prepared in accordance with the requirements of this Appendix 4.
 - (b) If the Government SCP Representative requires clarification of any portion of the Baseline Study, the EIA or the Emergency Response Plan, or determines that it has not satisfied the requirements of this Appendix 4, it shall submit its specific concerns or questions to the SCP Participants in writing within thirty (30) days of receipt of the item in question.

- (c) The Baseline Study, the EIA or the Emergency Response Plan, as the case may be, shall be deemed approved by the Government SCP Representative if, within thirty (30) days after having been submitted to the Government SCP Representative, the SCP Participants have received no written submission of additional concerns or questions. If the Government SCP Representative submits specific concerns or questions, the item in question shall be deemed approved if, within thirty (30) days after the response to such concerns or questions is submitted to the Government SCP Representative, the SCP Participants have received no written submission of concerns or questions with respect to such response.
 - (d) If the Government SCP Representative disapproves of any of the Baseline Study, the EIA or the Emergency Response Plan and the SCP Participants believe that the Government SCP Representative has unreasonably withheld its acceptance, then the SCP Participants shall so notify the Government SCP Representative and the Parties shall attempt to amicably resolve any dispute. Failing resolution of any such dispute within fifteen (15) days of the receipt of such notice by the Government SCP Representative, the SCP Participants may cause the dispute to be resolved in accordance with the provisions of Article 17 of the Agreement.
 - (iii) The EIA shall be subjected to public review and comment in accordance with the following procedures:
 - (a) Affected public and non-governmental organisations will be notified about the nature of the operation of the Facilities during the development of the draft EIA through dissemination of information to these organisations through meetings and exhibitions.
 - (b) Following the completion of the draft EIA, the public will be provided with information on the environmental aspects of the Project to enable it to comment with respect thereto. To facilitate this process the draft EIA and an executive summary (both of which shall be in both the English and Azerbaijan languages) will be made available in a public place for review and comments; additionally an information copy of the executive summary shall be submitted simultaneously to the Government SCP Representative.
 - (c) A maximum of sixty (60) days will be allowed for public comments, which will be provided to the Government SCP Representative by the SCP Participants within thirty (30) days after the expiration of said sixty (60)-day period. Demonstration that the SCP Participants have reasonably addressed public concerns (through issuance of the final EIA) which includes a final executive summary that will be submitted to the Government SCP Representative.

- 3.10 Creation of the Environmental Strategy Product shall include and take account of and implementation of the environmental strategy reflected therein shall be in accordance with the standards and practices generally prevailing in the international Natural Gas pipeline industry and Applicable Technical Standards, as appropriate.
- 3.11 Once approved by the Government SCP Representative, the SCP Participants shall implement the mitigation and monitoring activities specified in the EIA. The results shall be published in reports available to the public and submitted to the Government SCP Representative . The EIA monitoring programme shall be updated as required on an informal basis. Any disputes respecting the contents or implementation of the EIA monitoring programme shall be resolved in accordance with the provisions of Article 17 of the Agreement.
- 3.12 Any dispute as to implementation of the environmental strategy reflected in the Environmental Strategy Product shall be resolved in accordance with the provisions of Article 17 of the Agreement.
- 3.13 Without limiting the generality of Article 10 or Article 12 of the Agreement, the SCP Participants and other affected Project Participants shall not be liable for any environmental pollution or contamination, damage, or other conditions if and to the extent the same were in existence on the Effective Date, which shall be deemed to include all conditions identified in the Baseline Study. The foregoing shall not preclude the SCP Participants from later establishing, through one or more subsequent studies prepared under the procedures applicable to the Baseline Study, the existence as of the Effective Date of other such conditions not identified by the Baseline Study, it being recognised that no study can be expected to identify all conditions that may exist.

4. ABANDONMENT

- 4.1 By not later than thirty (30) days after any termination of this Agreement, the SCP Participants shall provide to the Government SCP Representative a written plan describing the proposed actions to be taken by them associated with the abandonment or other disposition of the Facilities (the “Abandonment Plan”). The Abandonment Plan shall address, among other things:
- (i) the removal of all surface installations;
 - (ii) the clearance of all waterways and marine areas of material and equipment posing a navigational hazard;
 - (iii) the removal and proper disposition of any remaining Natural Gas in the Facilities;
 - (iv) to the extent the SCP Participants do not plan to remove and salvage said pipelines, the disconnection from all sources and supplies of Natural Gas to those buried pipelines or similar underground installations and either abandonment of same in place or removal of same in those areas where abandonment in place poses a substantial risk of harm to the environment which is not reasonably susceptible to other remediation techniques, all as determined in accordance with

the standards and practices generally prevailing in the international Natural Gas pipeline industry, Health and Safety Standards and/or Applicable Technical Standards, as applicable;

- (v) to the extent the SCP Participants do not plan to remove and salvage said pipelines, the filling of all abandoned pipeline located underwater with water or inert material, the sealing of such pipelines at the ends and the taking of such other action as may be reasonably necessary in order to result in any abandoned facilities being left in an environmentally safe condition;
- (vi) the filling of all trenches, holes, and other surface depressions left by the removal of surface installations and such underground pipelines and installations as are removed by the SCP Participants for salvage; and
- (vii) the revegetation of the Pipeline Corridor consistent with the terrain features and other prevailing conditions in the subject area.

The Abandonment Plan shall be subject to approval by the Government SCP Representative, which approval shall not be unreasonably withheld or delayed. The Abandonment Plan shall be deemed approved by the Government SCP Representative if, within thirty (30) days after having been submitted to the Government SCP Representative, the SCP Participants have received no written submission of concerns or questions. If the Government SCP Representative submits specific concerns or questions, the SCP Participants shall respond to same in writing and the Abandonment Plan, as same may have been adjusted or modified by said response, shall be deemed approved if, within thirty (30) days after the response to such concerns or questions is submitted to the Government SCP Representative, the SCP Participants have received no written submission of concerns or questions with respect to such response. If the Government SCP Representative disapproves of the Abandonment Plan and the SCP Participants believe that the Government SCP Representative has unreasonably withheld its acceptance, then the SCP Participants shall so notify the Government SCP Representative and the Parties shall attempt to amicably resolve any dispute. Failing resolution of any such dispute within thirty (30) days of receipt of such notice by the Government SCP Representative, the SCP Participants may cause the dispute to be resolved in accordance with the provisions of Article 17 of the Agreement. Once the Abandonment Plan has been approved or all disputes respecting same resolved, by not later than thirty-six (36) months after the later of the date of termination of this Agreement or approval by the Government SCP Representative of the Abandonment Plan, the SCP Participants shall be obligated to accomplish the abandonment of the Facilities in accordance with the Abandonment Plan. Said abandonment obligations are hereinafter referred to as the "Abandonment Obligations."

- 4.2 Within thirty (30) days after the Government SCP Representative's approval of the Abandonment Plan, as provided in Section 4.1 of Appendix 4, in order to financially secure their Abandonment Obligations hereunder and without impairing their obligation to perform same, the SCP Participants shall provide the Government one or more irrevocable direct pay letters of credit (collectively, the "Letter of Credit"). The Letter of

Credit shall (i) be in an aggregate amount to be reasonably agreed by the SCP Participants and the Government SCP Representative as a component of the Abandonment Plan, (ii) be issued to the Government by a financial institution(s) having a long-term unsecured senior debt rating of at least “A” or its equivalent by Standard & Poor’s Corporation, a division of the McGraw-Hill Companies, or “A2” or its equivalent by Moody’s Investors’ Service, Inc. at the time of issuance, or be otherwise acceptable to the Government SCP Representative (the “Issuer”), (iii) be in form and substance reasonably acceptable to the Government SCP Representative, (iv) have a minimum term of one (1) year, (v) be for the benefit of the Government, (vi) automatically extend for a term of at least one (1) year or until the full performance in all material respects by the SCP Participants of the Abandonment Obligations and (vii) provide that the Issuer shall provide at least thirty (30) days prior written notice to the Government of any termination or non-renewal of the Letter of Credit. In the event the Abandonment Obligations remain unperformed and any existing Letter of Credit is not replaced by the SCP Participants in accordance with the foregoing procedures (but in an aggregate amount that reflects any reduction of the Letter of Credit for any previous drawings or for any reduction in the amount of estimated remaining Abandonment Obligations) by not later than fifteen (15) days prior to the termination of the existing Letter of Credit, then, in order to assure completion of any Abandonment Obligations which remain outstanding, the Government shall be entitled to draw upon the Letter of Credit as of said fifteenth day prior to the notified termination date thereof up to an amount that is the Government’s good faith estimate of the remaining Abandonment Obligations for which the SCP Participants are liable under the Abandonment Plan, subject, however, to reimbursement by the Government to the SCP Participants of the amount, if any, by which the funds so withdrawn by the Government exceed the actual costs incurred by the Government to complete any unfulfilled Abandonment Obligations.

4.3 The following provisions shall apply with respect to the obligations of the SCP Participants for environmental matters after termination of this Agreement and performance of the Abandonment Obligations:

- (i) After completion of the Abandonment Obligations the SCP Participants shall cause an environmental assessment similar in scope to, and prepared in accordance with the same standards as are applicable to, the Baseline Study (the “Preliminary Exit Study”) to be prepared by a recognised independent international environmental consulting firm selected by the SCP Participants. If the Preliminary Exit Study is prepared at the request of the Government SCP Representative as contemplated above, it shall be delivered to the Government SCP Representative within one hundred eighty (180) days after performance of the Abandonment Obligations.
- (ii) Once such study is prepared and delivered to the Government SCP Representative, it shall be subject to approval by the Government SCP Representative, which approval shall not be unreasonably withheld or delayed. The Preliminary Exit Study shall be deemed approved by the Government SCP Representative if, within thirty (30) days after having been submitted to the Government SCP Representative, the SCP Participants have received no written

submission of concerns or questions. If the Government SCP Representative submits specific concerns or questions, the Preliminary Exit Study shall be deemed approved if, within thirty (30) days after the response to such concerns or questions is submitted to the Government SCP Representative, the SCP Participants have received no written submission of concerns or questions with respect to such response. If the Government SCP Representative disapproves of the Preliminary Exit Study and the SCP Participants believe that the Government SCP Representative has unreasonably withheld its acceptance, then the SCP Participants shall so notify the Government SCP Representative and the Parties shall attempt to amicably resolve any dispute. Failing resolution of any such dispute within thirty (30) days of the receipt of such notice by the Government SCP Representative, the SCP Participants may cause the dispute to be resolved in accordance with the provisions of Article 17 of the Agreement.

- (iii) Once the Preliminary Exit Study is approved or all disputes respecting same are resolved, the SCP Participants shall be obligated to continue to monitor those areas where Pipeline Activities occurred in order to identify and remediate those adverse environmental impacts related to Pipeline Activities which may subsequently become evident. Such monitoring and remediation obligation shall continue for a period of two (2) years, at which time the above-stated provisions of this Section 4.3 respecting the Preliminary Exit Study shall apply for purposes of preparing a Final Exit Study. Once the Final Exit Study is prepared, submitted for approval by the Government SCP Representative and it has been approved by the Government SCP Representative, then from and after the end of said two-year period, and completion of the activities, if any, called for in the Final Exit Study, the SCP Participants shall be released from any liability for environmental impacts with respect to or resulting from the Project and the Government shall indemnify, defend and hold harmless the Project Participants with respect to any claims of any third parties with respect thereto
- (iv) If a Final Exit Study is performed and if said Final Exit Study, as approved by the Government SCP Representative, indicates that there have been no environmental impacts of Pipeline Activities that have not been remediated or otherwise appropriately addressed in accordance with this Appendix 4, or if impacts that are identified are remediated or otherwise appropriately addressed in accordance with such standards and this is reflected in an update to the Final Exit Study, then from and after delivery of the Final Exit Study (as so updated) to the Government SCP Representative, the SCP Participants shall be released from any liability for environmental impacts with respect to or resulting from the Project and the Government shall indemnify, defend and hold harmless the Project Participants with respect to any claims of any third parties with respect thereto.

4.4 In addition to their applicability to the SCP Participants, the standards set forth in this Appendix 4 shall apply with respect to each Project Participant other than an SCP Participant, and all of its actions, to the extent such actions constitute conduct or performance of Pipeline Activities.

5. HEALTH AND SAFETY STANDARDS

- 5.1 With respect to promoting health and safety in respect of the Facilities and SCP Activities, including those related to Persons involved in SCP Activities, the SCP Participants shall conform to the health and safety standards and practices generally observed by the international community with respect to Natural Gas pipeline projects comparable to the Project but in the event such health and safety standards and practices are less stringent than the relevant standards and practices applied in the United Kingdom, the SCP Participants shall conform to the latter (the “Health and Safety Standards”); such Health and Safety Standards shall be incorporated in the Project HSE Plan.
- 5.2 If any regional or intergovernmental authority having jurisdiction enacts or promulgates health and/or safety standards or practices relating to the Facilities, Pipeline Activities or areas where Pipeline Activities occur, the SCP Participants and the Government SCP Representative will confer respecting the possible impact thereof on the Project, but in no event shall the Project be subject to any health and/or safety standards or practices to the extent they are different from, in addition to, or more stringent than the Health and Safety Standards..
- 5.3 Where any work requiring the use of explosives for blasting rock is carried out, notice will be given to all persons who may in the reasonable opinion of the SCP Participants be affected. Appropriate precautionary measures will be taken. Any use of explosives will be confined to the hours of daylight.
- 5.4 Whenever an area has been declared an infected area on account of a notifiable human or livestock disease requiring quarantine or other similar measures, all SCP Activities involving entry on the land will be suspended unless there are exceptional circumstances in which case the approval of the relevant Governmental ministry will first be obtained. Nothing in this clause shall prevent the SCP Participants entering on the land forthwith and without giving notice or obtaining any approval in order to address any emergency situation, including to remedy a breach or leak in the pipeline.
- 5.5 The SCP Participants in conjunction with the adjacent landowners and occupiers directly affected by SCP Activities will take such reasonable precautions as may be necessary to avoid the spreading of notifiable soil borne pests and diseases or other soil borne pests and diseases as may be notified to the SCP Participants by such landowners or occupiers or the State Authorities prior to entry.

6. SOCIAL IMPACT ASSESSMENT

- 6.1 In conducting the SCP Activities the SCP Participants shall use Best Endeavours to minimise potential disturbances to surrounding communities and the property of the inhabitants thereof.
- 6.2 If any regional or intergovernmental authority having jurisdiction enacts or promulgates social regulations or guidelines applicable to areas where SCP Activities occur, the SCP Participants and the Government SCP Representative will confer respecting the possible

impact thereof on the Project, but in no event shall the Project be subject to any such standards to the extent they are different from or more stringent than the standards and practices generally prevailing in the international Natural Gas pipeline industry for comparable projects.

- 6.3 In connection with the selection of the general location of the Facilities, a general review of social conditions in the applicable areas shall be completed, consisting of a scoping study and a risk assessment. These will together form the basis of the content and structure for a social impact assessment of SCP Activities and associated operations (“SIA”) to be conducted by the SCP Participants with respect to social impacts to the Territory (whether from SCP Activities within or without the Territory). Contents of such SIA shall be in general conformance with World Bank standards (excluding any World Bank prescribed time periods for review and consultation in respect of the SIA).

7. MISCELLANEOUS

During the course of construction works and the exercise of Rights to Land, if any fossils, coins, any antiquities or other articles of value are discovered, ownership of such objects will be determined in accordance with Azerbaijan Law.

APPENDIX 5

CORRIDOR OF INTEREST

Attached hereto is a map showing a selected Corridor of Interest, which Corridor of Interest has been approved by the State Authorities. The identification of a Corridor of Interest in this Appendix 5 shall not in any manner whatsoever limit the rights of the SCP Participants to modify a selected Corridor of Interest, or designate new Corridors of Interest, as described in Section 2.1 of Appendix 2 of the Agreement.

APPENDIX 6

PREFERRED ROUTE CORRIDOR

Attached hereto is a map showing a proposed Preferred Route Corridor that has been submitted to the State Authorities for review. The identification of a Preferred Route Corridor in this Appendix 6 shall not in any manner whatsoever limit the rights of the SCP Participants to modify a selected Preferred Route Corridor, or designate new Preferred Route Corridors, as described in Section 2.2(iii) of Appendix 2 of the Agreement.