

LAW OF TURKMENISTAN

On Hydrocarbon Resources

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The Present Law establishes a legal basis of relations arising in the process of exploration, production of hydrocarbon resources and fulfillment of other types of petroleum works on the territory of Turkmenistan, including Turkmen sector of the Caspian sea and is directed at securing rational use of hydrocarbon resources and protection of the natural wealth of Turkmenistan for future generations.

CHAPTER 1. General Provisions

Article 1. Basic Concepts

The following basic concepts are used in the present Law:

- 1) *Agency* – State Agency on management and use of hydrocarbon resources under the President of Turkmenistan – a legal entity which in accordance with the present Law and acts of the President of Turkmenistan is authorized to manage and use Hydrocarbon resources.
- 2) *Block* – territorial area on land or water, which is partially or completely under the jurisdiction of Turkmenistan and is correspondingly indicated on a specially compiled map of blocks.
- 3) *Internal water basins* - lakes, artificial water reservoirs and other water surfaces circumvented by land under the jurisdiction of Turkmenistan.
- 4) *Production* - all types of operations for extraction of Hydrocarbon resources using primary methods or with artificial sustenance of bed energy; storage, preparation, shipment, warehousing, transportation, metering, delivery and marketing of Hydrocarbon resources and other types of activity, including acquisition and lease of tangible and intangible assets in accordance with the Contract.
- 5) *Contract* - agreement concluded between the Agency or a Concern (Corporation) and a Contractor for conduct of Petroleum Operations.
- 6) *Contract Area* - delineated and defined by geographical coordinates area, within the bounds of which a Contractor is allowed to conduct Petroleum operations and description of which is provided in Appendices to a Contract.
- 7) *Concern (corporation)* – a production entity of a petroleum industry of Turkmenistan conducting Petroleum operations independently or within the framework of Joint Activity or in other forms.
- 8) *License* - a legal instrument instituted in the form of legal act, issued by the Agency to a Contractor and Operator and granting the right to carry out Petroleum Operations or parts of Petroleum Operations in accordance with the provisions of the present Law.
- 9) *Person* - a physical or a legal person.
- 10) *Field of an industrial significance* – field of Hydrocarbon resources, which after its discovery and study of all the pertinent data, operative, technical and economic indicators can be developed on an industrial scale in accordance with conditions of the Contract.
- 11) *Petroleum Operations* – all operations relating to exploration and production conducted in accordance with the Contract.

- 12) *Normal Atmospheric Pressure and Temperature* - pressure of 1,01325 atmospheres and temperature of 60 degrees Fahrenheit.
- 13) *License Holder* – a Person being granted a License in accordance with the present Law and other acts of Turkmenistan.
- 14) *Discovery* – any new discovery of Hydrocarbon resources, which was made in the Contract area whether or not it has yet been determined by the Contractor as a Field of an industrial significance.
- 15) *Operator* – a Person who conducts direct daily Petroleum operations on behalf of and on the instructions of a Contractor in accordance with the Operator's License.
- 16) *Contractor* – a Person (Persons), who is a License Holder and has concluded a Contract with the Agency and (or) Concern (Corporation) in accordance with the present Law.
- 17) *Rules of exploitation* – Rules of exploitation of hydrocarbon fields of Turkmenistan dated 22 October 1999.
- 18) *Natural Gas* - hydrocarbons, which are in the gaseous state at Normal Atmospheric Pressure and Temperature, associated or non-associated to Crude Oil.
- 19) *Commercial Pipeline* – technical structure including overland, underwater and other objects, communications and equipment used for transporting Hydrocarbon resources from the Production site to the Delivery Point.
- 20) *Delivery point* – point or points within or outside the Contract Area, where the produced Hydrocarbon resources are delivered and where metering takes place and where Contract Parties in accordance with the Contract get their share of the produced Hydrocarbon resources.
- 21) *Exploration* - geological, geophysical and other works, including drilling of shotholes, selection of kerns, stratigraphic tests, drilling of wells, aerospace shooting, purchase and lease of tangible and intangible assets conducted for the purpose of discovery of fields of Hydrocarbon resources and carried out in accordance with the Contract.
- 22) *Parent Company* - a legal entity which owns more than 50% or controls stock or shares of Contractor, which entitle it to manage and control the Contractor.
- 23) *Affiliate* - a legal entity which executes control over the Contractor or is controlled by such Contractor, or is controlled by another legal entity which simultaneously executes control over the Contractor. For the purposes of this definition the control is understood as the power to define strategy of a legal entity or the Contractor though direct or indirect ownership of more than 50% of shares, providing the right of the management and control.
- 24) *Services* - separate types of Petroleum Operations carried out in accordance with the Contract of Services with risk.
- 25) *Joint Activity* - activity carried out by an amalgamation of Persons without formation of a new legal entity, jointly participating in the supply of technical, financial and other resources for the implementation of the Contract entered into between the Agency and such amalgamation of Persons.
- 26) *Contracting Parties* – Agency or Concern (Corporation) and the Contractor, having concluded the Contract.
- 27) *Crude Oil* - any hydrocarbons, including distillates and condensates extracted from Natural Gas, which at Normal Atmospheric Pressure and Temperature, are in liquid state at the well head or oil/gas separator.
- 28) *Subcontractor* – a Person supplying goods, fulfilling works or providing services required to be undertaken by the Contractor to fulfill its obligations within the framework of the Contract of such

- Contractor (including joint activity). Person fulfilling separate types of Petroleum Operations for Subcontractors within the framework of fulfilling of another contract is also defined as a Subcontractor.
- 29) *Pipeline transport* – an aggregate of technical structures, including Commercial Pipeline and Export Trunk Pipeline.
- 30) *Hydrocarbon resources* - Crude Oil and Natural Gas as well as all components derived there from or produced therewith.
- 31) *Export Trunk Pipeline* – technical structure, including overland, underwater and other objects of communication and equipment used for transportation of Hydrocarbon resources from the Delivery Point to Export Point.
- 32) *Export Point* – point or points within the territory of Turkmenistan, to where the Contract Parties' share of Hydrocarbon resources designated for export in accordance with the Contract are delivered

Article 2. Sphere of application of the present law

1. The present Law regulates relations arising in the course of conduct of Petroleum Operations in the territory under the jurisdiction of Turkmenistan, including Turkmen sector of the Caspian sea and Internal water basins, order of issuance of Licenses, conclusion and implementation of the Contracts on conduct of such operations, and regulates functions and powers of state authorities, as well as Persons carrying out Petroleum Operations.
2. In case where rules are established by the legislation of Turkmenistan other than those stipulated by the present Law, provisions of the present Law shall apply.
3. In case if the present Law does not regulate particular relations arising in the course of Petroleum Operations which meet the characteristics indicated in paragraph one of the present Article, then such relations are regulated by other legal acts of Turkmenistan.
4. Should an international treaty to which Turkmenistan is a signatory party set rules different from rules contemplated herein, then the rules of the international treaty shall apply.

Article 3. Applicable Law

The applicable law under the present Law is the exclusive law of Turkmenistan, in accordance with which the Contract concluded in accordance with the present Law, is regulated and interpreted

Article 4. Ownership of Hydrocarbon Resources

1. Hydrocarbon resources in their natural state within the interior of the territory of Turkmenistan are the exclusive property of Turkmenistan.
2. Authority for ownership, exploitation and disposal of Hydrocarbon resources is granted to the Cabinet of Ministers (the Government) of Turkmenistan.
3. Management of Hydrocarbon resources and their use within the authorities established by the present Law, is carried out by the Agency.

CHAPTER 2. Competence of the Cabinet of Ministers (the Government) of Turkmenistan, the Agency and the Concern (Corporation) in the sphere of management and use of Hydrocarbon resources.

Article 5. Competence of the Cabinet of Ministers (the Government) of Turkmenistan

The Cabinet of Ministers (the Government) of Turkmenistan:

- 1) defines the strategy for use of Hydrocarbon resources;

- 2) sets the order of use of Hydrocarbon resources and the rules of protection thereof;
- 3) introduces restrictions for conduct of Petroleum Operations in certain areas with the purpose of saving holy sites, historical and cultural monuments and the like, being important for the safeguard and development of the traditional values and culture of the Turkmen people;
- 4) exercises other powers granted to it by the Laws and the acts of the President of Turkmenistan.

Article 6. Basis of the legal status of the Agency

1. The Agency has the status of a legal entity, is an independent subject of economic activity, has solitary property and is responsible for its obligations with this property; can on its behalf acquire and exercise property and personal non-property rights, carry out obligations, be plaintiff and respondent in a court, international court and arbitration.

2. The Agency is entitled to establish enterprises (companies), purchase shares in other enterprises (companies), and open its representative offices and other subdivisions on the territory of Turkmenistan and abroad.

Article 7. Basic functions and powers of the Agency

1. The Agency carries out the following basic functions in the area of management and use of Hydrocarbon resources:
 - 1) establishes uniform rules for the development of Hydrocarbon resource fields, which should comply with the standards of international practice for the conduct of Petroleum Operations, as well as other rules and procedures while conducting Petroleum Operations;
 - 2) carries out work on preparation and conduct of a tender to be held in compliance with the rules set by this Law and other legislative acts of Turkmenistan; conducts negotiations on the issuance of a License based on the results of the conducted tender and on conclusion of the Contract with the candidate;
 - 3) conducts direct (non-exclusive) negotiations with the candidate for obtaining a License and conclusion of the Contract;
 - 4) issues Licenses and carries out their registration;
 - 5) signs Contracts and ensures their registration with the relevant state management authorities in accordance with the legislation of Turkmenistan;
 - 6) executes control over the conduct of Petroleum Operations and their compliance with the legislation of Turkmenistan, as well as with the terms of the License and the Contract;
 - 7) executes control over measures taken by Contractors for the natural environment, public life and health protection, ensuring healthy and safe labour conditions in the conduct of Petroleum Operations;
 - 8) carries out coordination of activity between Contractors during conduct of Petroleum Operations;
 - 9) organizes statistical reporting on Hydrocarbon resources;
 - 10) suspends, resumes, extends and cancels a License pursuant to the present Law;
 - 11) carries out negotiations and enters into agreements with relevant Persons of other States concerning the construction and operation of pipelines and other transportation facilities for the transportation of the produced Hydrocarbon resources through their territory and also concerning the utilization of such transportation facilities, being available and used in these Countries;
 - 12) carries out asset and financial resources management at the internal and external markets;
 - 13) determines the order of obtaining and use of Hydrocarbon resources due to Agency in accordance with the Contract for conduct of Petroleum Operations;
 - 14) disposes of Agency's income received in accordance with the Contract for conduct of Petroleum Operations;
 - 15) carries out management, ownership, use and disposal of its property (assets) in any form on the internal and external market;
 - 16) carries out accounting and control over the use and alienation of Contractors property for the benefit of the Agency in cases stipulated by Article 54 of the present Law;
 - 17) acts as plaintiff and respondent in a court, international court and arbitration on disputes arising out of the Contract and carries out obligations with its property;

- 18) exercises other functions attributed to the Agency by the laws of Turkmenistan and acts of the President of Turkmenistan.
 2. The Agency is entitled to require the Contractor to submit a bank guarantee or the guarantee of its Parent Company.
 3. For the purpose of realization of its functions the Agency is entitled to:
 - 1) check and test equipment and appliances used for the conduct of the Petroleum Operations;
 - 2) withdraw samples of Hydrocarbon resources and other substance from any territory on which the Petroleum Operations are conducted;
 - 3) conduct examination of technical, financial and other documents relevant to Petroleum Operations, make extracts and take copies of such documents;
 - 4) provide instructions and introduce restrictions on the activity of the Contractor related to ensuring protection of environment, safety of health of personnel and population;
 - 5) conduct technical, ecological and financial audits, analytical and other researches, as well as collection of information on the issue of compliance by the Contractor with the laws and other normative legal acts of Turkmenistan, terms of the License and the Contract;
 - 6) exercise systematic control over the compliance by the Contractor and the Operator with the present Law, License and the Contract;
 - 7) exercise other rights, granted to the Agency in accordance with the present Law and other normative legal acts of Turkmenistan.
 4. The authorized officials of the Agency are entitled to have free access to any area including the Contract Area, to any structure, transportation device which is used in relation to conduct of Petroleum Operations.
 5. The Agency is entitled to use local and foreign specialists and experts while fulfilling functions and powers granted to it.
 6. The Agency is obliged to comply with provisions of the present Law, other normative legal acts of Turkmenistan as well as with terms of the Contract, while fulfilling functions and powers granted to it.

Article 8. Competence of the Concern (Corporation)

1. The Concern (Corporation) assists the Agency in exercise of its functions and powers.
2. The Concern (Corporation) is entitled to sign Contract on Joint Activity and act as a member of Joint Activity.

CHAPTER 3. Licensing of Petroleum Operations

Article 9. Types of Licenses

1. The present Law establishes the following types of Licenses for conduct of Petroleum Operations:
 - 1) Exploration License;
 - 2) Production License;
 - 3) Exploration and Production License.
2. A Subcontractor is not required to obtain any license for fulfillment of separate types of Petroleum Operations under its contract with Contractor or another Subcontractor.

Article 10. Methods for granting Licenses

1. A License may be granted on the basis of a tender or direct (non-exclusive) negotiations carried out by the Agency with the License applicant.
2. The choice of the method of granting a License is determined by the Agency.

Article 11. Forms and the order of a tender conduct

1. The method of the participants' selection to tender can be:
 - 1) open, when all the interested Persons participate;
 - 2) closed, when Persons who have special invitation from the Agency participate.
2. The method of the tender conduct is determined by the Agency.

Article 12. Application for the grant of a License

1. An application for the grant of a License should be submitted by the applicant prior to commencement of direct (non-exclusive) negotiations. Based on the application the Agency makes a decision about expediency of conduct of such negotiations.

Where a tender is conducted, the application for the grant of a License is submitted in accordance with the order of the tender conduct.

2. The application for the grant of an Exploration License shall contain:
 - 1) name of the applicant, its address, country of origin (for legal entities) and citizenship (for individuals);
 - 2) information about Parent companies, owners and managers of the applicant (for legal entities), as well as about authorized representatives who will represent it during a tender conduct or during direct (non-exclusive) negotiations as well as upon granting a License and signing the Contract;
 - 3) information about applicant's technical, managerial, organizational and financial capabilities;
 - 4) information on previous activities of the applicant, including a list of the states where it has conducted Petroleum Operations during the last five years, as well as financial reports for the indicated period;
 - 5) numbers of the Blocks applied for by an applicant;
 - 6) sources of financing of Petroleum Operations;
 - 7) time period for which works on Exploration are applied;
 - 8) proposals of the applicant with respect to the conduct of Petroleum Operations, including minimum commitments with indication of scope of work and expenses for its implementation;
 - 9) preliminary feasibility project, including geological and economic models, as well as other necessary information;
 - 10) obligations of the applicant concerning natural environment protection including replanting and reclamation of the Contract Area;
3. An application for a Production License shall contain:
 - 1) information on geological exploration works;
 - 2) official notification of discovery of the Field of industrial significance, including relevant data and conclusions (with respect to Exploration License holder applying for Production License);
 - 3) a detailed plan for the development of the Field of industrial significance indicating geological resources, proven and extracted reserves of Hydrocarbon resources;
 - 4) expected start-up date of the plan for the development of the Field of industrial significance and the expected date for the start-up of the production of Hydrocarbon resources;
 - 5) forecast profile (curve) of Production and expected date for attaining its peak production;
 - 6) an estimated calculation of capital and other expenditures, associated with the development, Production and of the income from the sale of Hydrocarbon resources;
 - 7) analysis of economic viability of the Field of industrial significance based on geological, technical and economic models;
 - 8) obligations of the applicant concerning natural environment protection including replanting and reclamation of the Contract Area;
 - 9) a proposal for funding educational and social programs within the framework of the project.
4. An application for grant of Exploration and Production License shall contain conditions required for the applications for grant of an Exploration and a Production License.

Article 13. Terms and procedures for the issuance of Licenses

1. A Person, who is successful in respect to tender or direct (non-exclusive) negotiations to carry out Petroleum Operations , is granted a License.
2. The order of the License issuance procedure is determined in compliance with the rules set forth by the present Law and other regulatory legal acts of Turkmenistan adopted in accordance with the present Law.
3. A foreign individual is granted a License on condition of his/her registration as an individual entrepreneur; and a foreign legal entity – on condition of opening a branch in Turkmenistan.
4. A license is registered by the Agency.

Article 14. Purpose of a License

1. No person is entitled to conduct Petroleum Operations without a relevant License. A License Holder is entitled to conduct only those kinds of Petroleum Operations which are specified in the License.
2. The terms of the Contract shall comply with the terms of the License.

Article 15. Content of a License

1. An Exploration License should indicate:
 - 1) data on the License grantee;
 - 2) type of Petroleum Operations the License is issued for;
 - 3) delineation of the Contract Area through the indication of the geographical coordinates;
 - 4) License validity period and conditions of its extension;
 - 5) The type of the Contract concluded between the Contracting Parties;
 - 6) commitments of the License holder to comply with the requirements for the protection of the natural environment and other obligations;
 - 7) other information as determined by the Agency.
2. A Production License should indicate:
 - 1) information on the License grantee;
 - 2) type of Petroleum Operations the License is issued for;
 - 3) delineation of the part of the Contract Area which encompasses the Field of industrial significance in accordance with geographical coordinates indicated in the Contract;
 - 4) License validity period and conditions for its extensions;
 - 5) commitments of the License holder to comply with the requirements for the protection of the natural environment and other obligations;
 - 6) other information as determined by the Agency.
3. An Exploration and Production License should contain all the conditions contained in Exploration and a Production Licenses.

Article 16. License validity periods

1. An Exploration License shall be granted for the period of up to 6 years.
2. The validity period of an Exploration License may be extended twice with duration of each extension period of up to 2 years in accordance with the conditions of the License and the Contract.
3. If the Contractor makes a discovery in the Contract Area, however, it is unable to assess it because of a justified cause before the completion of the validity period of an Exploration License, then the Contractor is entitled to negotiate with the Agency for the issue of a new License for Exploration with respect to the Contract Area for the period necessary for completion of such assessment of the discovery.

4. A Production License shall be granted for the period of 20 years. The validity period of a Production License may be extended for a further period of 5 years in accordance with the conditions of the License and the Contract.
5. An application for the extension of the License validity period shall be considered not later than three months from the date of its submission to the Agency.
6. An Exploration and Production License shall be granted for a period, which includes the Exploration License and the Production License validity periods, including their possible extensions.
7. The License validity period is counted from the date of the Contract's coming into effect.

Article 17. Rights of a License Holder

1. An Exploration License Holder shall have an exclusive right in accordance with the present Law and the terms of a License to carry out Exploration of Hydrocarbon resources and to conduct all types of Petroleum Operations related to Exploration stipulated by the Contract.
2. An Exploration License Holder in case of discovery of a Field of industrial significance shall have an exclusive right to obtain a Production License on condition that a relevant application is made in accordance with the terms of the Contract.
3. A Production License Holder shall have the exclusive rights pursuant to the present Law and the terms of the License to:
 - 1) carry out Production in the Contract Area in accordance with the terms of the License and the Contract;
 - 2) dispose of its share of Hydrocarbon resources in accordance with the terms of the Contract;
 - 3) carry out petroleum Operations within and outside the Contract Area in accordance with conditions of the License and the Contract.

Article 18. Termination of the License

1. Validity of a License shall terminate:
 - 1) upon expiration of the License validity periods or extensions thereof;
 - 2) if it is cancelled in accordance with the present Law;
 - 3) in the event of termination of the Contract on the grounds stipulated by the Contract.
2. In exceptional cases when development of the Contract Area will exceed the stipulated period of a Production License, it is in the commercial interests of the Contracting parties and is justified by a commercial project, the Agency's may extend the validity period of a Production License for up to a further ten years.

Non-fulfillment of a program and plan of development due to expiration of validity period of a Production License cannot serve as the basis for extension of the period of such a License in accordance with the present Article unless the Agency decides otherwise.

Article 19. Suspension and Reinstatement of a License

1. The validity of a License shall be suspended by the Agency in the event the License Holder:
 - 1) conducts Petroleum Operations not stipulated in the License;
 - 2) carries out activities within the framework of a License, but not in accordance with the plan and program of Petroleum Operations agreed with the Agency while fulfilling the Contract;
 - 3) in the course of its activities systematically and (or) significantly violates legislation of Turkmenistan in respect of protection of subterranean resources and of natural environment and of safe conduct of works;
 - 4) in other cases stipulated by the present Law.

2. In the event of suspension of the License validity, the Agency shall notify the License Holder in writing of the reasons of such suspension and shall set a reasonable deadline for their elimination. Suspension of a License's validity does not imply suspension of actions of License Holder on elimination of drawbacks.

3. Upon elimination by the License Holder of the reasons which have caused the License suspension, its validity shall be immediately reinstated and the License Holder shall be notified in writing to that effect.

4. Suspension of the License validity shall entail suspension of Petroleum Operations under the Contract. The validity of the Contract shall be reinstated at the same time as the License validity is restored.

5. Suspension of the License validity shall not be the basis for extension of the period of validity of the License and the Contract.

Article 20. Cancellation of a License

1. The Agency shall have the right to cancel the issued License in the following cases:

- 1) when the License Holder refuses to eliminate the causes that have resulted in taking the decision to suspend the License or if it fails to eliminate such causes within the established deadline;
- 2) upon discovery of the fact of a deliberate submission to the Agency of false information which has materially affected the latter's decision to issue a License;
- 3) in case of violation of deadlines of commencement of Petroleum Operations, stipulated by the Contract;
- 5) in other cases stipulated by the present Law.

2. Cancellation of the License shall entail simultaneous termination of the Contract.

CHAPTER 4. Contracts

Article 21. Types of Contracts

1. In accordance with the present Law the following types of Contracts shall be applied for carrying out of Petroleum Operation:

- 1) Production Sharing Contract;
- 2) Concession Contract on Terms of Royalty and Tax;
- 3) Joint Activity Agreement;
- 4) Service Contract with Risk.

2. Production Sharing Contract, Concession Contract on Terms of Royalty and Tax, and Service Contract with Risk shall be concluded between the Agency and the Contractor. Concern (Corporation) may also act as a Contractor.

3. Concern (Corporation) may participate in Joint Activity Agreement in the capacity of a Contractor.

4. Depending on the nature of the specific Petroleum Operations and other circumstances, a combination of the aforementioned types of Contracts and other types of Contracts are allowed.

Article 22. Validity periods and terms of a Contract

The validity period and terms of a Contract shall be determined by the agreement between the Parties in conformity with the present Law and the License.

Article 23. Order of concluding and registration of a Contract

1. Provisions of the Contract related to protection of natural environment, subterranean resources, securing safety and health of the population while conducting Petroleum Operations shall be agreed by the

Agency with the pertinent competent state authorities. The order and terms of such agreement shall be determined by the Agency.

The absence of agreement on the Contract terms from the side of the indicated authorities within the established deadlines cannot serve as the basis for refusal by the authorized authorities to register a Contract.

2. A Contract shall enter into force from the date of its registration with the pertinent authorities of state management.

Article 24. Amendments to the terms of a Contract and its termination

1. Amendments to the terms of the Contract can be made only upon written consent by the Contracting Parties unless otherwise provided by the present Law.

2. The Agency and a Contractor may terminate the Contract on the grounds and in accordance with the procedure provided for in a Contract.

3. The Validity of a Contract is terminated where a License is cancelled in accordance with the present Law.

4. The Contract Parties are not exempt from fulfilling current obligations which remain outstanding at the time of cessation of a Contract's validity.

5. In the event of premature termination of a Contract the Contractor shall, unless otherwise provided for in a Contract, have the right to freely dispose of the owned assets. In this case the Agency shall have the priority right to an acquisition of such assets.

6. The issues concerning the transfer of ownership of such assets belonging to the Contractor, during the Contract validity period as well as upon its expiration, are stipulated in the Contract.

7. Upon a Contract's termination, the Contractor shall return the Area of conduct of Petroleum Operations to the condition which corresponds to the requirements of Turkmen legislation on protection of natural environment, subterranean resources, safety and health of population and rules of international practice of conduct of Petroleum Operations.

CHAPTER 5. Conduct of Petroleum Operations

Article 25. Conditions for the conduct of Petroleum Operations

1. Conditions for the conduct of Petroleum Operations shall be specified in a Contract.

2. If the Exploration results in a Discovery of a field of Hydrocarbon resources, the Contractor shall be obliged to notify the Agency of such discovery, to carry out an appraisal of the field including an appraisal of its reserves and prepare a report on whether the field is of industrial significance. The deadline for the notification of the discovery, the results of the field appraisal and the preparation of a report on whether the field is of industrial significance shall be defined in a Contract.

3. In case of discovery of a Field of industrial significance, the terms of a Production Sharing Contract shall include the Contractor's right for recovery of its expenses incurred in conducting Petroleum Operations. The quarterly amount of cost recovery shall not exceed the amount of the proceeds for its Hydrocarbon resources entitlement share.

In the case of discovery of a Field of industrial significance under Contracts other than a Production Sharing Contract, the Contractor is entitled to cost recovery of Petroleum Operations, the quarterly amount of which shall be determined in accordance with the terms of that Contract.

4. If, upon the expiration of the Exploration License validity or its extension periods no Field of industrial significance is discovered, the Contractor shall have no right of cost recovery. In this case, the validity of the Exploration License shall terminate.

5. In a case where the Contractor deems that the field does not have an industrial significance or refuses to develop a Field of industrial significance, the Contractor shall be obliged to relinquish that part of the Contract Area, which encompasses such field, in compliance with terms of part 7 of Article 24 of the present Law.

Article 26. Joint Development of a Field

1. Joint Development of a field means coordination between two or more Contractors carrying out their activity for the development of the same field which is located on the adjoining Contract Areas.

Such Contractors are obliged to enter into an agreement between themselves on joint development of the field as one object, and such field shall be developed under one plan developed by the Contractors. The agreement and one plan of joint development are subject to the approval by the Agency.

2. If any of the Contractors refuses to enter into an agreement on joint field development with another Contractor (Contractors), the Agency is entitled to bind it to enter into such agreement.

If any of the Contractors refuses to develop one plan of joint field development, the Agency is entitled to entrust preparation of such plan to an independent expert at the account of the Contractors. Implementation of such plan is mandatory for the Contractors. In case of refusal to fulfill of such obligations by any of the Contractors, the Contractor shall relinquish the relevant territory of such field.

Article 27. Artificial Islands, Dams and Other Structures

1. Construction, operation and use of artificial islands, dams and other structures installed for the purpose of conduct of Petroleum Operations on the territory of Turkmenistan, including the Turkmen sector of the Caspian sea and Internal water basins, shall be carried out on the basis of the separate permission issued to the Contractor by the Agency, subject to the protection by the Contractor of natural environment and bio-resources.

A safety zone shall be established around such artificial islands, dams and other structures which shall extend to a distance of 500 meters from each point of their external boundaries.

2. Location of the artificial islands, dams and other structures shall not constitute an impediment to the customary sea routes of significance for navigation and fishing activities.

3. Contractor or Subcontractor in charge of the construction, maintenance and operation of artificial islands, dams and other structures shall ensure their safety and the constant availability of warning facilities, signaling their location.

4. Abandoned or unused artificial islands, dams and other structures shall, if they cannot be used for other purposes, be dismantled in such a manner, that they do not constitute a hazard for human safety and an impediment to the navigation and fishing activities.

Article 28. The Agency's right to purchase Hydrocarbon resources

1. The Agency shall have the priority right to commercial acquisition of the Contractor's share of Hydrocarbon resources at any time on a competitive market basis.

2. The Agency shall also have the priority right to the acquisition of the Contractor's share of Hydrocarbon resources in order to satisfy the internal market requirements, and, on the condition that such requirements were not satisfied by full utilization of the produced Hydrocarbon resources. The maximum amounts of the purchased Hydrocarbon resources, pricing procedure, form of the payment and the payment currency shall be specified in the Contract.

Article 29. Forced paid alienation (requisition) of Hydrocarbon resources and their compensation

1. In the event of war, threat of war, natural disaster or other circumstances, specified by the legislation of

Turkmenistan in emergency situations, the Cabinet of Ministers (the Government) of Turkmenistan shall have the right for forced paid alienation (requisition) of part or full share of Hydrocarbon resources belonging to the Contractor. The forced paid alienation (requisition) shall be carried out in the amount as is necessary to satisfy the needs of Turkmenistan during the whole period of such emergency situations determined by the Cabinet of Ministers (the Government) of Turkmenistan.

2. The Cabinet of Ministers (the Government) of Turkmenistan shall guarantee the compensation for the requisitioned Hydrocarbon resources of the Contractor in kind or by payment of its value in freely convertible currency at fair prices.

Article 30. State control over the conduct of Petroleum Operations

1. State control over the conduct of Petroleum Operations shall be carried out by the Agency in accordance with the present Law.

Ministries and other state management authorities shall carry out pertinent state control and surveillance within the framework of their competence established by the legislation of Turkmenistan.

Ministries and other state management authorities are obliged to keep confidentiality of any information received by them while carrying out such control or surveillance.

2. Ministries and other state management authorities, prior to the conduct of relevant audits and inspections within their competence in carrying out control and surveillance in accordance with the legislation of Turkmenistan, shall agree in writing with the Agency regarding the conduct of the audits and inspections.

3. Ministries and other state management authorities are not entitled to interfere in relations of the Contract Parties in the course of carrying out audits and inspections indicated in part 2 of the present Article.

4. Ministries and other state management authorities shall submit their conclusions, references, reports and other acts made on the basis of the audit and inspection results to the Agency for consideration and taking measures in accordance with the present Law, a License and a Contract.

5. Law-enforcement authorities carry out control and surveillance over the compliance with the legislation of Turkmenistan during conduct of Petroleum Operations within their competence, stipulated by the legislation of Turkmenistan.

Law-enforcement authorities shall inform the Agency of the forthcoming audits. References, conclusions, protocols and other acts of such audits shall be submitted to the Agency.

6. The Agency informs ministries, other state management authorities and law-enforcement authorities which have submitted their conclusions, references, reports and other acts, on the results of their consideration.

Article 31. Measurement and weighing of Hydrocarbon resources

1. The Contractor shall carry out measuring and weighing of Hydrocarbon resources, produced and (or) saved within and outside the Contract Area, at regular time intervals, specified in the Contract, applying methods adopted in the international practice of conduct of Petroleum Operations.

Application of other methods for measurement or weighing of Hydrocarbon resources as well as appliances and equipment used for such purposes by the Contractor shall be done only with the permission by the Agency.

2. The Agency shall have the right, systematically and at specified time intervals, to request that the equipment or appliance used for weighing and measurement of Hydrocarbon resources be tested and the results of such tests shall be submitted to the Agency.

3.If any Hydrocarbon resources weighing or measuring equipment or appliance, upon its test or examination, is found to be faulty or inaccurate, such equipment or appliance shall, if it is impossible to determine the time at which such equipment or appliance became faulty or inaccurate, be deemed to have been faulty or inaccurate during a period which is represented by half of the period from the last date upon which the equipment and appliances were tested and found to be in good order to the date upon which such equipment and appliance were found to be faulty or inaccurate. Adjustment to all relevant terms under a Contract, containing calculations and indicators, shall be then effected.

CHAPTER 6. Rights, obligations and responsibility of a Contractor and an Operator

Article 32. Rights of a Contractor

In the course of conduct of Petroleum Operations a Contractor shall have the right to:

- 1) use the Contract Area for carrying out activities specified in a License and in a Contract;
- 2) construct inside and outside the Contract Area objects of production, administrative and social sphere necessary for the conduct of Petroleum Operations, and also to use, upon agreement with the owners, facilities and communications of general use inside as well as outside the Contract Area;
- 3) use services of Subcontractors in performing certain types of Petroleum Operations;
- 4) freely dispose of its share of Hydrocarbon resources in Turkmenistan as well as outside Turkmenistan;
- 5) conduct negotiations with the Agency on the issue of obtaining a new License for Exploration in accordance with part 3 of Article 16 of the present Law;
- 6) surrender all or part of its rights and to terminate its activities in the Contract Area in accordance with terms specified in a Contract;
- 7) exercise other rights provided for by the present Law.

Article 33. Obligations of a Contractor

In the course of conduct of Petroleum Operations a Contractor shall be obliged to:

- 1) use the most efficient methods and technologies for the conduct of Petroleum Operations, based on standards of the international practice of conduct of Petroleum Operations;
- 2) conduct Petroleum Operations in strict compliance with the present Law, Rules of exploitation, terms of a Contract and a License;
- 3) comply with the requirements pertaining to the protection of natural environment and subterranean resources, ensuring safety and population health protection in accordance with the legislation of Turkmenistan, including:
 - a) to strictly control Production and prevent the waste or leakage of Hydrocarbon resources inside or outside the Contract Area;
 - b) to avert and prevent damage of productive strata caused by the stratum pressure fall, water or other substance penetration into Hydrocarbon reservoirs;
 - c) to take measures to prevent pollution of any water spring, river, canal, irrigation system, lake, sea by the leakage of Hydrocarbon resources, salt water, drilling mud, chemical additives or any other waste product or effluent. If pollution occurs, the Contractor shall clean or disperse using ecologically acceptable methods;
- 4) ensure conduct of Petroleum Operations incurring minimum justified expenses with the purpose of achieving the best economic result;
- 5) give preference to the equipment, materials and finished products produced in Turkmenistan, if they are competitive in terms of quality, price, operating parameters and delivery conditions;
- 6) give preference to Turkmen citizens in hiring personnel for the conduct of Petroleum Operations and to provide for training programs of such personnel in accordance with the terms of a Contract;

- 7) provide free access to the necessary documents, information and the sites of operations to the authorized representatives and employees of the Agency;
- 8) make timely payment of taxes and other mandatory payments in accordance with the present Law;
- 9) participate in the development of social infrastructure in accordance with a Contract;
- 10) restore, at its own expense, parts of land and other natural sites which have been damaged in connection with the conduct of Petroleum Operations to the condition acceptable for their further utilization.
- 11) notify the Agency of all the disputes with third Persons which can influence a Contract fulfillment;
- 12) carry out other obligations arising out of the present Law.

Article 34. Responsibility of a Contractor

Contractor shall be responsible for conduct of Petroleum Operations in accordance with the present Law, other normative legal acts of Turkmenistan, a License and a Contract.

Contractor shall be also responsible for compliance with standards of international practice for the conduct of Petroleum Operations.

Article 35. Rights and obligations of an Operator

Rights and obligations of a Contractor stipulated by Articles 32 and 33 of the present Law also apply to an Operator.

Provided that one of the Contractors is an Operator, it has the same rights and obligations in the area of hard currency, tax and customs regulation, which a Contractor has in accordance with the present Law. If an Operator is the third Person, including a Contractor's Affiliate, it has the same rights and obligations in the area of hard currency, tax and customs regulation, which a Sub-Contractor has in accordance with the present Law and other normative legal acts of Turkmenistan.

Article 36. Responsibility of an Operator

Responsibility of an Operator for the conduct of Petroleum Operations is determined by the present Law and other normative-legal acts of Turkmenistan, by a License and a Contract.

A Contractor has direct responsibility in accordance with the present Law, other normative legal acts of Turkmenistan, a License and a Contract for the conduct of Petroleum Operations by an Operator as if these actions were its own.

CHAPTER 7. Pipeline Transport

Article 37. Ownership of the Pipeline Transport

1. A Contractor within the framework of conduct of Petroleum Operations under a Contract is entitled to construct a Commercial Pipeline and is an owner in accordance with the terms of a Contract.
2. Right of ownership of the Export Trunk Pipeline belongs to Turkmenistan unless a different decision is made by the Cabinet of Ministers (the Government) of Turkmenistan.
3. Construction, financing, operation and maintenance of the Export Trunk Pipeline can be carried out:
 - 1) by a specially established company, joint owners of which can be the Agency, a Contractor, independent enterprises (companies) or indicated Persons jointly;
 - 2) by Contractors on the basis of a separate agreement with the Agency, which acts as the customer of the construction.

Article 38 Use of Export Trunk Pipeline

In case of a written confirmation by the owner of the Export Trunk Pipeline of the availability of additional or free carrying capacity of the Export Trunk Pipeline, a Contractor can use additional or free carrying capacity of the Export Trunk Pipeline for transportation of produced Hydrocarbon resources, based on tender or negotiations conducted by the owner.

Article 39. Transportation tariff

Transportation tariff for transportation of Hydrocarbon resources using the Export Trunk Pipeline shall be set and charged by its owner based on the agreement with the Agency.

Article 40. Construction of Pipeline Transport

1. Construction and use of Pipeline Transport shall be carried out in accordance with norms of technical maintenance, safety measures and reliability used in international practice of conduct of Petroleum Operations and legislation of Turkmenistan. Control over the compliance and correct use of such norms including safety measures, health of population and protection of natural environment shall be carried out by the Agency and other authorized state authorities of Turkmenistan.

2. The owner of the Pipeline Transport develops plan of the joint control over the safety of Pipeline Transport operation, prevention of possible breakdowns and accidents jointly with the state authorities, which carry out control over safety measures, health of population and protection of natural environment

3. Conduct of any works or other actions in the safety zone of the Pipeline Transport is forbidden.

4. Within the boundaries of the minimum distance from the Pipeline Transport established in accordance with the standards of construction and safety norms applied in Turkmenistan, it is forbidden to construct any objects and structures not related to Pipeline Transport and its purpose.

Article 41. Construction, laying and operation of submarine Pipeline transport

Construction, laying and operation of submarine Pipeline transport shall be carried out in strict conformity with the safety and natural environment protection rules applied in the international practice for conduct of Petroleum Operations in respect of such types of activities.

CHAPTER 8. Natural environment protection, ensuring safety and health of population

Article 42. Obligation of measures on natural environment protection, safety and health of population

Natural environment protection, safety and health protection measures for population while conducting Petroleum Operations by a Contractor are obligatory in accordance with provisions of the present Law, legislation of Turkmenistan on natural environment protection, safety and protection of health of population, as well as a License and a Contract.

Article 43. Ecological grounds for conduct of Petroleum Operations

1. Prior to commencement of Petroleum Operations a Contractor shall submit to the Agency for agreement with special authorized authorities in the area of natural environment protection and other state authorities, a plan of activities on natural environment protection, safety and health of population, which a Contractor intends to adopt in the implementation of its work program.

2. Conclusions of the special authorized authorities in the area of natural environment protection and other state authorities shall be provided in writing to the Agency within 30 calendar days of the date of submission of the aforesaid plan. In the absence of the provision of such conclusions within the fixed deadline, a Contractor shall have the right to start implementation of the aforesaid plan based on the written permission of the Agency.

Article 44 Ecological requirements for conduct of Petroleum Operations

1. While conducting Petroleum Operations the following is forbidden:

- 1) discharge of polluting substance without its prior cleaning up to the maximum allowable levels of pollution in accordance with the normative legal acts of Turkmenistan;
- 2) discharge and burial on land, in sea and shallow waters of all types of waste products without preliminary permission of specially authorized state authorities;
- 3) use of equipment and methods the safety of which is not confirmed by the relevant authorized state authorities;
- 4) use of explosive works on land, in water and seabed without permission of the authorized state authorities;

2. Conduct of Petroleum Operations on state specially protected natural territories is forbidden.

3. Works related to excavation and movement of soil in the sea and Internal water basins is allowed on condition of availability of a special permission issued by the authorized state authorities.

4. Construction, mounting and dismantling of structures can be carried out only in case of use of technologies securing collection of all types of polluting substances.

5. A Contractor is obliged to take all necessary measures, including use of modern equipment and technologies in order to prevent incineration or waste products of Natural gas into the atmosphere. In exceptional cases in order to prevent danger for the natural environment, health and life of people and in other cases stipulated by the legislation of Turkmenistan, a Contractor can temporarily burn (waste) accompanying gas, having properly cleaned it beforehand.

6. Pumping of drilling waste products into the subterranean is forbidden without prior neutralizing operations and is allowed in exceptional cases based on agreement with specially authorized state authorities.

7. Drilling rig (barge) and service vessels must be equipped with the equipment for cleaning and neutralizing sewage and (or) tanks for collection, storing and further transfer of sewage to specialized vessels and (or) coastal receiving structures. For collection and processing of garbage, corresponding facilities should be stipulated.

8. Sites for placing sea drilling rigs within the Contract Area must be selected with consideration of maximum possible preservation of sea districts, which have a potential significance for fishing industry, preservation and reproduction of valuable types of fish and other objects of water industry.

9. While carrying out Petroleum Operations a Contractor shall ensure conduct of activities for prevention, restriction and liquidation of emergency leakage.

10. While constructing oil and gas pipelines on the territory of Turkmenistan, including sea and Internal water basins, technical means and equipment to ensure minimal damage to lands and seabed should be applied, as well as technologies and methods to localize diffusion of suspended substance in water should be used.

11. Along oil and gas pipelines in the sea and Internal water basins, security zones shall be established as sites of water area from surface down to the bottom made between parallel levels located 500 meters away from each side of axes of outermost pipeline string.

12. Construction of coastal bases, including fuel and lubricants warehouses, stations for transportation vehicles' maintenance, with the exception of ports and berths, shall be made outside the security zone of the coast of sea and Internal water basins using the existing infrastructure. Construction of objects and fulfillment of works in water-security zones is only allowed in cases stipulated by the legislation of Turkmenistan.

13. Areas of berths and supply bases shall be planned in such a way as to allow compliance with all requirements for protection of the natural environment and health of the population, while carrying out operations of supply, technical maintenance and fuelling.
14. Upon completion of operation of objects of infrastructure and their dismantling re-cultivation of lands should be made in accordance with the project documentation agreed with the authorized authorities in the area of natural environment protection.
15. When liquidating wells, drilled from the rigs of any type, the structure shall be completely demounted and withdrawn, and heads of pressurized wells shall be cut at the bottom level to avoid hindrance to fishing and navigation.

Article 45. Monitoring of natural environment

1. In order to take all necessary measures for the prevention, elimination and decreasing any negative impact on the environment and ensuring ecological safety of conduct of Petroleum Operations including the Turkmen sector of the Caspian sea, a Contractor is obliged to conduct monitoring of the natural environment.

Before starting the conduct of Petroleum Operations and for the entire period of their conduct, a Contractor shall set up a monitoring system for obtaining comprehensive current information on changes occurring in the natural environment and on the nature of environmental impact of the Petroleum Operations.

2. Assessment by a Contractor of the impact on environment at each stage of Petroleum Operations shall stipulate ecological and industrial monitoring including:

- 1) background research on the environment prior to commencement of each of the Petroleum Operations including geophysical data, exploration drilling, production of hydrocarbons, as well as after the cessation of operations;
- 2) monitoring of sources of pollution;
- 3) monitoring of status of the environment;
- 4) monitoring of consequences of pollution of the environment as a result of accidents.

3. Conduct by a Contractor of the ecological and industrial monitoring of the natural environment should include observance over the following parameters:

- 1) level of pollution of atmosphere, soil, surface waters, bottom deposits using all the accepted indicators;
- 2) natural circulatory processes, hydro-meteorological indicators (water temperature, streams, speed and direction of wind, atmospheric precipitation, atmosphere pressure, air humidity).

4. Where necessary and on request of the authorized state authorities in the area of natural environment protection, a Contractor shall conduct additional research of the state of natural environment.

5. A Contractor shall determine types and methods of observance over the state of the environment requested by the authorized state authorities in the area of natural environment protection.

6. While conducting the industrial monitoring a Contractor shall consider the results of the previous years' observations and use indicators of the existing stations located in the area of works (within the Contract Area and its surroundings) for the purpose of long-term observations.

7. A Contractor is obliged to submit to the Agency results of ecological and industrial monitoring.

CHAPTER 9. Financial and taxation regime

Article 46. Currency transactions

1. Rules for carrying out currency transactions by a Contractor shall be determined by the legislation of Turkmenistan in the area of currency regulation with consideration of the provisions of the present Law.

The rules for carrying out of currency transactions shall be stated in a Contract.

2. Revenue received by a Contractor from the sale of its Hydrocarbon resources entitlement share may be deposited in the accounts in Turkmen banks as well as in foreign banks. In doing so, a Contractor shall submit statements of such accounts to the Agency and the Central Bank of Turkmenistan for control in accordance with the legislation of Turkmenistan in the area of currency regulation.

3. A Contractor shall have the right to open and maintain accounts in banks in the territory of Turkmenistan, as well as to settle payments on these accounts in national currency and foreign currency for the conduct of Petroleum Operations.

4. A Contractor is entitled to conclude contracts with Persons of Turkmenistan stipulating the payment terms in foreign currency.

5. Provisions of the present Article shall also apply with respect to a Subcontractor.

Article 47. Customs regime and registration of the contract

1. Customs regime of Petroleum Operations shall be applied in accordance with the legislation of Turkmenistan with consideration of the present Law provisions.

2. Goods, materials and equipment assigned for conduct of Petroleum Operations under a Contract and imported into Turkmenistan by a Contractor, as well as products exported out of Turkmenistan by a Contractor which belong to it in accordance with a Contract, shall be exempt from customs duties and fees established by the legislation of Turkmenistan.

3. Contracts (agreements) for import and export of goods, materials and equipment assigned for conduct of Petroleum Operations are exempt from registration at the State Commodity Exchange of Turkmenistan.

4. The Cabinet of Ministers (the Government) of Turkmenistan shall determine the procedures for customs execution of importation into Turkmenistan of goods, materials and equipment for conduct of Petroleum Operations; exportation out of Turkmenistan of the indicated goods, materials and equipment as well as volumes of Hydrocarbon resources due to a Contractor.

5. A Contractor shall not be exempt from payment of custom duties and other payments for the conduct of operations other than Petroleum Operations.

6. Provisions of the present Article shall also apply with respect to a Subcontractor.

7. Provisions of the present Article shall apply to activities of the Agency if such activities are related to the conduct of Petroleum Operations and fulfillment of its functions and powers in accordance with the present Law.

Article 48. Taxes and payments

1. In the conduct of Petroleum Operations a Contractor shall only be liable to pay the following taxes and payments:

1) profit (income) tax on legal entities at the rate established by the Tax Code of Turkmenistan and fixed in a Contract. This tax rate remains unchanged during the entire period of a Contract notwithstanding any rate changes in the Tax Code of Turkmenistan;

2) subsoil use payments.

2. Contractor's subsoil use payments may include:

1) royalty on production of Hydrocarbon resources established as a percentage of the volume of production of Hydrocarbon resources or of the cost of produced output and paid by a Contractor in a monetary form or in kind by way of part of produced Hydrocarbon resources;

- 2) bonus, paid as a one-time payment at the time of signing the Agreement, commercial discovery of a Field of industrial significance, achievement of certain level of production of Hydrocarbon resources defined in a Contract and in other cases stipulated by a Contract.

The method of calculation and payment of the indicated payments as well as their amounts shall be determined by a Contract.

3. While conducting Petroleum Operations, the Contractor is not liable for any other taxes, fees, dues and other mandatory payments established by the legislation of Turkmenistan, unless provided otherwise by the present Law.

4. The taxable profit of a Contractor is determined in accordance with the international practice of accounting and reporting used in the conduct of Petroleum Operations, provisions of a Contract and the requirements of the present Article.

If a Contract's provisions differ from the provisions established in the present Article, the provisions of the present Article shall apply.

If a Contract's provisions differ from the international practice of maintaining accounting and reporting used in the conduct of Petroleum Operations, the provisions of a Contract shall apply.

Provisions not reflected in a Contract shall be adopted in accordance with the international practice of accounting and reporting used in the conduct of Petroleum Operations.

Procedures related to the application of international treaties (agreements) on avoidance of double taxation shall be determined by the legislation of Turkmenistan.

5. While conducting Petroleum Operations the provisions of part three of this article also apply to a Subcontractor.

6. The method of determination of the taxable profit of a Subcontractor received from activities in accordance with the present Law are established by the Tax Code of Turkmenistan taking into account in the provisions of the present Article.

Taxation of a Subcontractor with respect to other activity shall be carried out in accordance with the Tax Code of Turkmenistan in the generally established order.

7. For determination of the taxable profit (income) the following peculiarities shall be considered:

- 1) the gross income of a Contractor included for the calculation of profit taxable under the present Law shall include all income determined under a Contract. Other income of a Contractor shall be included into gross income taxable in accordance with the order established by the Tax Code of Turkmenistan;
- 2) for determination of income from sale of goods, fulfillment of works and provision of services actual prices (tariffs) applied by a Contractor and a Subcontractor can be used as a real market price. The afore-mentioned can not be considered allow a Contractor and a Subcontractor to deduct expenses for procurement of goods, works and services, at prices which significantly (over 10 per cent) exceed the real market prices, and do not exclude the right of tax authorities to make corrections to the taxable income of Contractors and Subcontractors.
- 3) taxation of income from sale of property belonging to a Contractor or a Subcontractor as the right of ownership during the period of completion of its activity on the territory of Turkmenistan shall be carried out with consideration of provisions of the present Law. The same order applies during the period of these Persons' activity with respect to sale of non-functional and obsolete machines, equipment and other property belonging to them as the right of ownership. Provisions of parts 3-5 of the present Article shall apply to such activity (transaction);
- 4) transfer of right of ownership for Contractor's property to the Agency after its cost has been accounted as a Contractor's recoverable expense, as well as in other cases established by a Contract, shall not be considered as sale of such property by a Contractor. Gratuitous use of such property by a Contractor after the transfer of right of ownership from a Contractor to the Agency shall not be considered as income;
- 5) in cases established by a Contract the relevant part of general administrative expenses of a Contractor for a general administrative support provided by Affiliates of a Contractor outside of

Turkmenistan can be recognized as a deduction as a fixed value calculated based on percentage established by such a Contract;

- 6) income from transfer (assignment) of all or part of rights and obligations of a Contractor under a Contract to a new Contractor shall be accounted as income subject to taxation. The costs of acquisition by a new Contractor of all or part of the rights under a Contract shall be considered as expenses and accounted as deductions through amortization over 4 years for the purposes of taxation. The indicated income and expenses shall not be accounted while calculating recoverable costs;
- 7) depreciation of a Subcontractor shall be calculated using the norms determined based on the justified assets' useful life of the property in accordance with the international practice used in conduct of Petroleum Operations. Amortization with respect to intangible assets by a Contractor shall be accounted as deductions based only on the conditions stipulated by the Turkmen legislation and confirmation of their factual use for the income generation. Property received on gratuitous basis shall be excluded from the list of depreciated property;
- 8) sick leave payments to employees as well as other social allowances and payments established by the legislation of Turkmenistan and (or) a Contract at the account of a Contractor shall be accounted as expenses even if such expenses are not recoverable;
- 9) tax privileges for Persons which are Contractors and Subcontractors shall be applied only in accordance with provisions of the Tax Code of Turkmenistan;
- 10) Carry-forward of losses of a Contractor is determined by a Contract but should not exceed the period of 10 years from the time of commencement of commercial production of Hydrocarbon resources. All expenditures incurred prior to commercial production of Hydrocarbon resources shall be amortized using the norms established by a Contract after commencement of such commercial production.

8. Subcontractor – an individual shall pay individual income tax computed in accordance with the Tax Code of Turkmenistan in the generally established order.

9. Taxation of Subcontractors – foreign legal entities, activities of which do not result in formation of a permanent establishment on the territory of Turkmenistan shall be taxed at the source of income payment without deductions at the rate and in the order established by the Tax Code of Turkmenistan. The amount of such tax may not increase the cost of works fulfilled and services rendered.

10. Taxation of a Person before obtaining the status of a Contractor shall be carried out in the order established by the Tax Code of Turkmenistan.

11. Taxation of a Person which has had a Subcontractor's status during the period when it has not carried out activity on fulfillment of separate types of Petroleum Operations under a contract with a Contractor or another Subcontractor within the framework of a Contract, shall be made in the order established by the Tax Code of Turkmenistan.

12. If a Contractor acts as a party to two and more Contracts, it shall maintain separate accounting of income and deductions as well as taxable profit received under each Contract separately.

13. If a Contractor conducts an activity other than Petroleum Operations, it shall account for income and expenses (deductions), as well as taxable profit related to Petroleum Operations under each Contract and other activity – separately. If it is impossible to maintain separate accounting for separate types of expenses (deductions) these shall be distributed in proportion to the share of the pertinent income to the total volume of all income of such Person.

The aforementioned provision shall be applied to a Subcontractor while conducting activity not related to Petroleum Operations.

14. The reporting and tax periods for Contractors and Subcontractors is a tax year. Deadlines for submission of tax declarations and payment of taxes maybe established by provisions of a Contract. If a Subcontractor conducts Petroleum Operations for several Contractors (Subcontractors), which have different deadlines in accordance with a Contract, the later deadlines for filing and payment apply.

No advance payment of taxes is made by such Persons.

In cases where no deadlines for filing declarations and payment of taxes are established by a Contract, the deadlines established by the Tax Code of Turkmenistan shall apply.

15. A Contractor and a Subcontractor may also make the payment of the profit (income) tax through tax agents in a free convertible currency.

16. In the event when a Person acts as a Contractor under different Contracts or acts as a Contractor or a Subcontractor and conducts other activity, separate tax declarations shall be made under each Contract and other activity.

17. For the purposes of application of provisions of the present Article status of a Subcontractor shall be confirmed by a Contractor in the order established by the Agency and the Main State Tax Service of Turkmenistan.

18. In case if after conclusion of a Contract new taxes or payments are introduced, a Contractor shall pay only those which are established instead of the taxes and payments paid by a Contractor. In such case the overall amount of such mandatory payments to Turkmenistan may not exceed the amount of taxes and levies imposed on a Contractor at the time a Contract was put into effect.

19. A Contractor and (or) a Subcontractor are exempt from payment of taxes, fees, dues and other mandatory payments established by the legislation of Turkmenistan in case of a gratuitous transfer of goods (fulfillment of works and provision of services) to a legal entity of Turkmenistan subject to written agreement by the Agency as a humanitarian, charitable and other assistance even if such gratuitous transfer of goods (fulfillment of works and provision of services) is not stipulated by a Contract provisions.

20. A Contractor and a Subcontractor are not exempt from payment of penalty, financial sanctions and fine established by the legislation of Turkmenistan.

21. Calculation and payment of individual income tax, city (settlement, villages) maintenance fee with respect to individuals employed by a Contractor or a Subcontractor shall be made in accordance with the Tax Code of Turkmenistan in the generally established order.

Article 49. Bookkeeping and auditing

1. While conducting Petroleum Operations a Contractor shall maintain accounting and prepare financial statements in compliance with the international practice of bookkeeping and reporting applied in the conduct of Petroleum Operations and in accordance with Contract provisions. Freely convertible currency shall be used as a monetary unit of accounting.

If a Contractor conducts activity other than Petroleum Operations, it shall maintain accounting and prepare financial statements in accordance with the legislation of Turkmenistan.

2. The order of preparation and submission by a Contractor of the financial and statistical reporting to the Agency and other authorized state authorities is established by the Agency based on agreement with such authorities.

Financial reporting in accordance with the accounting standards of Turkmenistan should not be made.

3. Financial reporting submitted to the state authorities of Turkmenistan shall be prepared based on the results for the year. For such reporting, forms of financial reporting made in accordance with the requirements of part 2 of the present Article shall be used by converting of indicators to the national currency of Turkmenistan at the official exchange rate of the Central Bank of Turkmenistan as of the last date of the reporting period.

4. Audit of financial and economic activity of a Contractor shall be carried out by the Agency or other state authorities specifically authorized by the Cabinet of Ministers of Turkmenistan. The indicated authorities are entitled to use services of independent auditors, including international experts.

5. Control over the compliance with the tax legislation of Turkmenistan shall be executed by the tax service authorities of Turkmenistan with consideration of the provisions of the present Law by preliminary notification of the Agency 20 days before such tax audit.

6. Provisions of the present Article shall also apply with respect to a Subcontractor, with the exception of the provisions related to application of a Contract.

Article 50 Non-recoverable expenses in the conduct of Petroleum Operations

In the conduct of the Petroleum Operations the following types of expenses are not recovered to a Contractor:

- 1) profit (income) tax of a Contractor;
- 2) royalty for production of Hydrocarbon resources;
- 3) bonuses paid as one-time payment at the time of signing the Agreement, commercial discovery of a Field of industrial significance, achievement of certain level of production of Hydrocarbon resources and in other cases stipulated by a Contract;
- 4) expenses and taxes related to assignation of Contractor's rights;
- 5) fines, penalty, forfeit and other types of financial and administrative sanctions applied to a Contractor for violation of the legislation of Turkmenistan;
- 6) damage and losses made to legal and physical persons, employees of a Contractor, which a Contractor is obliged to reimburse in accordance with the legislation of Turkmenistan;
- 7) damage and losses made to foreign legal and physical persons, employees of a Contractor, which a Contractor is obliged to reimburse in accordance with the courts' decisions of foreign states and international arbitral courts;
- 8) expenses incurred by a Contractor without agreement of the Agency;
- 9) expenses not related to conduct of Petroleum Operations;
- 10) other non-recoverable expenses as set out in a Contract

Article 51 Sources of income and taxation of the Agency

1. The following are the sources of income of the Agency:

- 1) royalty on production of Hydrocarbon resources established as a percentage to the volume of production of Hydrocarbon resources or to the cost of produced output and paid by a Contractor in a monetary form or in kind by a part of produced Hydrocarbon resources;
- 2) bonuses paid as one-time payment at the moment of signing the Agreement, commercial discovery of a Field of industrial significance, achievement of certain level of production of Hydrocarbon resources determined by a Contract and in other cases stipulated by a Contract;
- 3) income received by the Agency in the framework of a Production Sharing Contract (Agreement) as the result of production sharing;
- 4) income received by the Agency in the framework of other types of Contracts in the conduct of Petroleum Operations by a Contractor;
- 5) other income received by the Agency under other contracts concluded in accordance with the present Law, also as the result of its activity including management of movable and (or) immovable property including assets and financial funds.

2. The Agency makes the payment of 10% of income indicated in paragraphs 1-4 of part 1 of the present Article to the State budget of Turkmenistan.

The order of calculation and payment of the indicated contributions to the State budget of Turkmenistan shall be determined by the Ministry of Economy and Finance of Turkmenistan, Main State Tax Service of Turkmenistan and the Agency.

The remaining part of income of the Agency after payment of these contributions is not subject to taxation, is not included into gross income for determination of the Agency's taxable profit, remains at the disposal of the Agency and used independently in accordance with its decisions.

3. The order of taxation established by Article 48 of the present Law applies to the Agency as a Contractor. Profit (income) tax on income indicated in paragraph 5 of part 1 of the present Article shall be

calculated and paid in the generally established order in accordance with the Tax Code of Turkmenistan. Cost of Hydrocarbon resources received as the royalty in the framework of a Production Sharing Contract (Agreement) in kind (paragraphs 1,3 of part 1 of the present Article) shall be regarded as deductions while determining the taxable profit of the Agency from subsequent sale of such Hydrocarbon resources.

Gratuitous provision of right to use the property to a Contractor after transfer of the right of ownership from a Contractor to the Agency shall not be considered as income. In case of sale of such property, its net book value determined in accordance with the norms established by the legislation of Turkmenistan, shall be accounted as deductions. The order of calculation, payment of profit (income) tax and submission of tax declarations by the Agency shall be determined with consideration of peculiarities established by part 1 of Article 46 of the Tax Code of Turkmenistan.

The remaining part of income indicated in paragraph 5 of part 1 of the present Article after payment by the Agency of profit (income) tax shall be used by it independently in accordance with its decision.

CHAPTER 10. Legal terms

Article 52. Stable terms of a Contract

Where the legislation of Turkmenistan, which was effective at the time of a Contract's conclusion is changed, including change caused by the amendment of international treaties to which Turkmenistan is a party, so as to significantly influence the commercial terms of a Contract and interest of the Contract Parties, the Agency and a Contractor may make amendments to the contents of a Contract in order to secure the balance of interests of the Contract Parties and economic results expected by them at the time of the Contract conclusion, based on the principles of fair partnership.

The indicated provision on change of Contract terms shall not be applied if the legislation of Turkmenistan makes changes to the norms, rules, standards of labor legislation, on protection of natural environment and population health, protection of subterranean resources, safe conduct of works including for the purposes of putting them in accordance with analogical norms, rules and standards of international practice.

Article 53. Assignment of Contractor's rights and obligations

1. Contractor may assign all or part of its rights and obligations under a License and a Contract only based on prior written permission of the Agency.
2. In the event of change of management and control over a Contractor, a Contractor shall notify the Agency beforehand. In this case the Agency is entitled to cancel a License and terminate a Contract unilaterally.
3. Transfer of rights and obligations under a Contract is executed in a written form by making a special act which is an inalienable part of a Contract in the order determined by a Contract.
4. While a Contractor keeps any participation in a License and a Contract, it and a Person to which rights and obligations are transferred, have a joint responsibility under a Contract.
5. Expenses related to transfer of rights and obligations are born by a Contractor.
6. The Agency has a priority right to purchase a share of a Contractor's participation in a Contract.

Article 54. Ownership of property and information on subterranean resources

1. Property acquired or created anew by a Contractor and used by it in conduct of Petroleum Operations under a Contract shall be a Contractor's property.

The right of ownership for the aforementioned property transfers from a Contractor to the Agency from the date when the cost of the property has been fully recovered or as otherwise established by a Contract.

During the period of a Contract's validity, the Contractor shall be entitled to use this property for the Petroleum Operations on a gratuitous basis, and a Contractor shall be responsible for its proper maintenance and the risks of accidental destruction or damage.

2. Geological, geophysical, geochemical, ecological and other information, results of its interpretation and derivative data information, data on petroleum and gas reserves, as well as samples of rocks and minerals, including kerns, bed liquids obtained by a Contractor in the course of conduct of Petroleum Operations under a Contract, shall belong to the Cabinet of Ministers (the Government) of Turkmenistan.

This information shall not include proprietary rights and trade secrets of a Contractor.

3. A Contractor in observance of the terms of confidentiality stipulated by Article 62 of the present Law and a Contract shall be entitled to use gratis information, data and samples indicated in part two of the present Article for the conduct of Petroleum Operations under a Contract.

4. The order of export by a Contractor or its Subcontractor of information, data and samples belonging to the Cabinet of Ministers (the Government) of Turkmenistan outside of Turkmenistan is determined by the legislation of Turkmenistan and is specified in a Contract.

Article 55. Insurance

1. A Contractor shall be obliged to use and maintain the following types of insurance while conducting the Petroleum Operations:

- 1) insurance in accordance with 'all risks' package, covering all plant, equipment, buildings and other property of a Contractor, used or intended for use in the conduct of Petroleum Operations;
- 2) insurance, covering eventual loss of Hydrocarbon resources and their by-products up to the point in time and location at which the title is transferred from Contractor to the Agency (in respect to the Agency's entitlement share of production) or other persons;
- 3) insurance covering costs related to preventive measures, liquidation of damage to the natural environment, including pollution of the air, water, surface and subsurface soil and subterranean resources inside and outside the Contract Area;
- 4) 'general liability' insurance covering property damage and life and health harm, including third Persons, resulted from or in connection with the conduct of Petroleum Operations;
- 5) 'control-of-well' insurance, covering control of well and redrill costs caused by accidents at wells in the Contract Area.
- 6) health, life and accidents insurance, covering insurance for employees and other persons, engaged by a Contractor for the conduct of Petroleum Operations;
- 7) mandatory types of insurance stipulated by the legislation of Turkmenistan;
- 8) other types of insurance, as would be applied by the Contractor in compliance with the international practice for conduct of Petroleum Operations;

2. A Contractor shall be obliged:

- 1) to comply with the provisions of the legislation of Turkmenistan on insurance while insuring the Petroleum Operations;
- 2) to require an Operator and a Subcontractor, whose activities are connected to the conduct of Petroleum Operations, to use and maintain insurance in types and amounts stipulated by the relevant subcontracts and legislation of Turkmenistan in the area of insurance.

Article 56. Employment relations

1. Employment relations of a Contractor with its employees are regulated by the legislation of Turkmenistan, collective or individual employment contracts, as well as other normative legal acts applied in accordance with the labor legislation of Turkmenistan.

2. A Contractor shall be entitled to employ foreign individuals. The number of foreign employees, not later than one year after the Contract's coming into effect, may not exceed 30% of all employees engaged by a Contractor.

Involvement of foreign employees in excess of the established quota is allowed to a Contractor on agreement with the Agency where there is an absence of employees who are citizens of Turkmenistan possessing relevant specialty and qualification. A Contractor shall be obliged to develop a special program of training of personnel for such specialties.

3. Employment contracts of a Contractor with foreign employees may contain specific provisions in accordance with the international practice of their execution. In such case, the level of guarantees of labour rights of foreign employees should not be lower than the level of guarantees, provided for by the legislation of Turkmenistan for citizens of Turkmenistan.

4. Provisions of the present Article shall also apply to a Subcontractor.

Article 57. Social insurance and social security

1. Social insurance and social security of employees, who have employment relations with a Contractor (except for the pensions provisions of foreign employees), are regulated by the legislation of Turkmenistan.

2. Contractor may contribute to the State social insurance in respect of foreign employees only in cases when they wish to enjoy social benefits on the territory of Turkmenistan.

3. Provisions of this Article are also applied with respect to a Subcontractor.

Article 58. Guarantees of a Contractors` rights

A Contractor shall be guaranteed the protection of its rights in accordance with the provisions of international treaties to which Turkmenistan is a party, by the present Law, a License and a Contract.

Article 59. Resolution of disputes

1. Disputes:

a) between the Agency and a License holder related to suspension and (or) cancellation of a License shall be possibly resolved by way of negotiations;

b) between the Agency and a Contractor related to fulfillment of a Contract shall be possibly resolved by way of negotiations, including the involvement of independent international experts, or in accordance with dispute resolution procedures previously agreed in a Contract.

2. In the event that the disputes indicated in part 1 of the present Article cannot be resolved within 3 months from the time of a written communication from either part of the dispute, the other party may, with prior written notification of the opposite party, may refer the matter to international arbitration bodies, in accordance with a Contract.

3. All other disputes, including disputes between a Contractor, the Agency and other Persons of Turkmenistan, shall be resolved by courts of Turkmenistan.

Article 60. Force Majeure

1. Failure by a Contractor to fulfill the terms of a License and (or) a Contract or to comply with the requirements of the legislation of Turkmenistan shall not constitute their infringement if such actions are caused by war, threat of war, natural hazard or other events stipulated by the legislation of Turkmenistan on extraordinary events, which are of an extraordinary character and beyond the will and actions of a Contractor, or by other causes, envisaged in a Contract as circumstances of Force-Majeur.

2. In the event of failure to fulfill terms of a License and (or) a Contract as a result of force-majeure, a Contractor shall be obliged to immediately inform the Agency in that respect with indication of causes for such circumstances to arise.

3. Validity periods of a License and (or) of a Contract shall be extended for periods during which a Contractor did not exercise its rights and obligations in compliance with the present Law, a License and (or) a Contract due to the circumstances of Force-Majeure.

4. In the event that circumstances of Force-Majeur endure for more than 1 year, either party has the right to propose to the other to terminate a Contract. Upon reaching agreement by the parties a Contract shall terminate.

5. In the event that the circumstances of Force-Majeur remain during a period of more than 2 years, either party has the right to unilaterally terminate a Contract with prior one month's notification to the other party.

In the event that the Contractor did not recover its costs connected to the conduct of Petroleum Operations a Contract may be terminated based on agreement of a Contractor.

6. In the event that the circumstances of Force-Majeur remain during a period of more than 5 years, the Agency has the right to unilaterally terminate a Contract reimbursing a Contractor's expenses under a Contract. The amount and the order of expenses' reimbursement is determined by way of negotiations between the Agency and a Contractor.

7. The force of this Article shall not apply on the requirement of payments to be made in due time, as provided for by this Law, a License and (or) a Contract.

CHAPTER 11. Final provisions

Article 61. Information required by the Agency

The Agency shall have the right to summon a Contractor to furnish in writing an information and data related to Petroleum Operations, such data including also world prices on Hydrocarbon resources. A Contractor shall be obliged to provide such information.

Article 62. Confidentiality of information

1. Neither Party has the right to publish, disclose or transfer any information to a third party, which is considered confidential and is related to the Petroleum Operations, , without prior written consent of the other Contracting Party.

2. Confidential information may be supplied to legal counsels, accountants, consultants, underwriters, lenders, Subcontractors, shipping companies, subject to a prior written undertaking from such Persons not to disclose the information received.

Article 63. Immunity of the Cabinet of Ministers (the Government) of Turkmenistan

A License Holder - a Contractor shall keep the Cabinet of Ministers (the Government) of Turkmenistan indemnified against all actions, claims and demands of any other third Persons which may be brought against the Cabinet of Ministers (the Government) of Turkmenistan in relation to any action of a License holder – a Contractor, in the exercise of the rights and obligations under the Law, a License and a Contract.

Article 64. Coming into force of the present Law

1. The present Law comes into effect from the date of its official publication.
2. From the date of coming into effect of the present Law the following is recognized as invalid:

Law of Turkmenistan "On hydrocarbon resources" (new edition) adopted by the Parliament of Turkmenistan on 6th December 2005 ('Vedomosti Mejlisa Turkmenistana', 2005, #3,4, pg 27);
part five of the Law of Turkmenistan "On amendments to some legal acts of Turkmenistan adopted by the Parliament of Turkmenistan on 30th March 2007 ('Vedomosti Mejlisa Turkmenistana', 2007, #3, pg 40);

3. Henceforth, prior to putting laws and other normative legal acts in compliance with the present Law they are applied to the extent to which they do not contradict the present Law.

4. The effect of the present Law extends to legal relations of parties arising after its coming into force.

For legal relations of parties arising prior to coming into effect of the present Law, its provisions shall apply to rights and obligations, which arose after coming into force of the present Law.

With respect to legal relations which have arisen on the basis of normative legal acts of Turkmenistan, which are recognized as becoming invalid due to coming into effect of the present Law, provisions of those normative legal acts shall apply, with the exception of cases when parties of the relations express their wish to regulate their relations in accordance with the provisions of the present Law.

Where the present Law adversely affects a License Holder, who has obtained a License prior to the present Law coming into effect, and Parties of a Contract under effective Contracts, the present law has no retroactive force.

5. Putting into effect the present Law does not entail amendment of terms of earlier issued Licenses and effective Contracts.

6. Provisions of part 2 of Article 9 of the present Law shall apply to the pertinent legal relations which have arisen since 18th October 2005.

7. Licensing of separate types of Petroleum Operations not regulated by the present Law, shall be carried out in accordance with the Law of Turkmenistan "On licensing of separate types of activity."

President of Turkmenistan

Gurbanguly Berdymuhamedov

Ashgabat city, 20th August 2008

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