

Petroleum Law of Turkmenistan

The Present Law is elaborated by the President of Turkmenistan Saparmurat Turkmenbashy on the basis of the Constitution of Turkmenistan, taking into consideration the national interests of Turkmenistan and its people, and is directed towards securing rational and effective exploitation of the Petroleum resources and the protection of the natural wealth of Turkmenistan for future generations.

Chapter 1. General Provisions

Article 1. Definitions

In this Law the definitions listed hereunder shall have the following meanings:

“Block” - areal section on land or on water which is partially or completely located in the territory under the jurisdiction of Turkmenistan and designated as such on a specially compiled map of Blocks.

“Internal water basins” - lakes, artificial water reservoirs and other surface water circumvented by land under the jurisdiction of Turkmenistan.

“Production Operations” - all types of operations for recovery of Petroleum, its saving, treating, handling, storing, transporting, metering, delivery and marketing as well as operations connected with primary and secondary production and other kinds of activities connected with these operations.

“Contract” - agreement entered into between a Contractor (Contractors) and the Competent Body or Concern for the conduct of Petroleum Operations.

“Contract Area” - the area delineated and defined by geographical coordinates, as described in the Appendices to a Contract, within which a Contractor is allowed to conduct Petroleum Operations.

“Competent Body” - State Body, to which the Cabinet of Ministers delegates powers, to issue Licenses and enter into the Contracts with the Contractors.

“Concern” - an operating structure of the Petroleum Sector of Turkmenistan, conducting Petroleum Operations on its own account or in a Joint Venture or in other forms.

“License” - the legal instrument instituted in the form of legal act and issued by the Competent Body and granting the right to carry out all or certain types of Petroleum Operations.

“Person” - a physical or legal person.

“Commercial Discovery” - a discovery of Petroleum, which, after consideration of all relevant data and of the operative, technical and economical factors could be developed commercially.

“Petroleum Operations” - all Exploration and Production Operations and related operations for treating, metering, saving, storing, marketing, delivery and transportation of Petroleum and its derivatives as well as other operations connected to the implementation of a Contract.

“Normal Atmospheric Pressure and Temperature” - pressure of 1,01325 atmospheres and temperature of 60 degrees Fahrenheit.

“License Holder” - a Physical or a Legal Person being granted a License pursuant to the present Law.

“Contractor” - a Physical or a Legal Person being a License Holder and having entered into a Contract with the Competent Body or the Concern pursuant to the present Law.

“Natural Gas” - hydrocarbons, which are in the gaseous state at Normal Atmospheric Temperature and Pressure associated or non-associated to Crude Oil.

“Exploration Operations” - geological, geophysical, aerial and other surveys, the drilling of such shotholes, core holes, stratigraphic tests and other wells for the discovery of Petroleum and the purchase as well as the leasing of materials and equipment therefor.

“Parent Company” - a Legal Person which owns more than 50% of the voting shares of the Contractor and which controls him at the general meetings.

“Affiliate” - a Legal Person which executes control over the Contracting Party or is controlled by such Contracting Party, or is controlled by an other Legal Person which at the same time executes control over the Contracting Party. For the purposes of this definition the control is understood as the power to define strategy of the Legal Person or the Contracting Party through direct or indirect ownership of more than 50% of the voting shares.

“Joint Venture” - the activity carried out by an aggregation of Persons, without constitution of a new legal entity, jointly participating in the supply of technical and financial resources for the implementation of the Contract entered into between the Competent Body and such aggregation.

“Contracting Parties” - the Competent Body or the Concern and a Contractor at the moment of entering into a Contract.

“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.

“Model Contract” - standard form of an agreement elaborated by the Competent Body for drafting a Contract and entering into a Contract with a Contractor.

“Petroleum” - Crude Oil and Natural Gas as well as all components derived therefrom or produced therewith.

Article 2. Sphere of application of the present law

The present Law regulates relations arising in the course of conduct of Petroleum Operations in the territory under the jurisdiction of Turkmenistan, including sea and internal water basins, issuance of the Licenses, entering into and implementation of the Contracts on conduct of such Operations, and regulates powers, rights and obligations of State Entities as well as of the Companies, Enterprises and Organisations carrying out Petroleum Operations.

Should the legislation of Turkmenistan contain rules conflicting with those contemplated herein the provisions of this Law shall apply.

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. Ownership of Petroleum

Petroleum in its natural state in or upon the land in the territory of Turkmenistan is the exclusive property of Turkmenistan.

Competence for ownership, exploitation and disposal of Petroleum is granted to the Cabinet of Ministers (the Government) of Turkmenistan pursuant to the provisions of this Law.

Chapter 2. Competence of the Cabinet of Ministers (the Government) of Turkmenistan, the Competent Body and the Concern in the sphere of exploitation of Petroleum resources

Article 4. Competence of the Cabinet of Ministers (the Government) of Turkmenistan

The Cabinet of Ministers (the Government) of Turkmenistan within the field of exploitation of Petroleum resources and the conduct of Petroleum Operations:

- defines the strategy for exploitation, further expansion of the productivity of Petroleum reserves as well the rates of its production;
- sets the order of priority for the exploitation of Petroleum resources and the rules of protection thereof.
- takes measures for the natural environment, public life and health protection, ensuring healthy and safe labour conditions in the conduct of Petroleum Operations;
- organises statistic reports on Petroleum reserves;
- sets restrictions for the 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;
- exercises other powers granted to it by the Laws and the acts of the President of Turkmenistan.

Article 5. Competence of the Competent Body

The Competent Body in the field of exploitation of Petroleum reserves and the conduct of Petroleum Operations:

- under the assignment by the Cabinet of Ministers (the Government) of Turkmenistan sets uniform rules for the development of Petroleum fields which shall comply with the uniform standards of the international practice for the conduct of Petroleum Operations;
- carries out the activity for preparation of a tender to be held in compliance with the rules set by this Law and other legislative acts of Turkmenistan and publishes terms, conditions and procedure for holding a tender;
- works out a Model Contract and gives it for consideration to Legal and Physical entities interested to obtain a License;
- carries out negotiations with a License applicant;
- carries out negotiations with a potential License Holder and Contractor about the terms and conditions of a Contract;
- issues the Licenses pursuant to this Law;
- signs a Contract;
- provides for registration of the Contract within fifteen (15) days from the date of its signature;
- executes control over the conduct of Petroleum Operations and their compliance with the laws as well as with the terms of the License and the Contract;
- suspends and revokes a License pursuant to this Law;
- upon the nomination by the Cabinet of Ministers (the Government) and jointly with the Contractor carries out negotiations and enters into agreements with relevant authorities of other States concerning the construction and operation of transportation facilities for the transportation of the produced Petroleum through their territory and also concerning the utilisation of such transportation facilities, being available and used in these Countries;
- submits annual reports to the Cabinet of Ministers (the Government) of Turkmenistan on the implementation

of Contracts;

- exercises other powers attributed to him by the laws and the acts of the President of Turkmenistan.

The Competent Body is entitled to require the License Holder and the Contractor to submit a bank guarantee or the guarantee of its Parent Company. Granting of the License and entering into the Contract may be subject to providing such guarantees.

The Competent Body in the exercise of its powers shall comply with the national interests of Turkmenistan.

Article 6. Competence of the Concern

The Concern assists the Competent Body in the exercise of its powers.

The Concern is entitled to sign Contracts, conduct on its own account Petroleum Operations in specific sites of the Turkmen territory, to act as a member of Joint Ventures as well as an entity authorised to execute control over the conduct of Petroleum Operations in accordance with the established order.

Chapter 3. Licensing of Petroleum Operations

Article 7. Types of Licenses

The present Law determines the following types of Licenses:

Exploration License;

Production License;

combined Exploration and Production License.

Article 8. Methods for granting a Licenses

An Exploration or a Production License or a combined Exploration and Production License shall be granted on the basis of a tender or direct negotiations carried out by the Competent Body with the License applicant.

The method for granting a License shall be determined by the Cabinet of Ministers (the Government) of Turkmenistan.

Article 9. Main conditions for holding a tender

A tender could be open or with a short list of bidders.

Tender conditions are published or delivered to the potential bidders not later than 90 days prior to the tender starting date.

A tendering procedure consists of 2 phases: submission of the application to prequalify and the submission of the bidding proposal.

All Persons wishing to prequalify are entitled to obtain an information related to the procedure and conditions for holding a tender.

A notice for holding a tender should contain the following information on:

- timing and location of the tender and on the deadline for submission of applications;
- main conditions for prequalification;
- location and description of the Blocks, offered for conduct of Petroleum Operations.

An application for prequalification should contain:

- name of the applicant, its address, its nationality (for legal persons) or citizenship (for physical persons);
- data on applicant`s shareholders, its directors and authorised representatives which shall represent it upon holding the tender or conducting the negotiations, as well as upon the granting of the License;
- data on applicants`s technical, managerial, organisational and financial capabilities.

An application shall be accepted for consideration after the payment by the applicant of a tender fee, the amount of which is determined by the Competent Body.

Upon the compliance with the conditions for submission of applications, it shall be accepted for participation to a tender, and the applicant shall be notified to this effect within one month from the date of its filing.

Prequalified applicants shall be notified about the second phase of the tender. Such notification should contain an information on the cost of the package with technical and legal documents, on the deadline for paying such cost and on the main conditions for determination of the tender winner.

Article 10. Bidding proposal

An applicant, within the deadlines set by terms of the tender, and in compliance with the requirements set therein, shall compile a bidding proposal and submit it to the Competent Body.

A bidding proposal shall be regarded as an application for the grant of an Exploration or a Production License or a combined Exploration and Production License, as the case may be.

Article 11. Evaluation of bidding proposals

The Competent Body shall form a commission of experts for the evaluation of technical, financial and organisational capabilities of the applicants and their bidding proposals.

The winner of the tender is determined on the basis of a combination of the following criteria:

- the commencement date of the operations and the work implementation pace;
- the expected date for start-up of Production and the projected time to attain the peak production (in the case of the issuance of a Production or a combined Exploration and Production License);
- the minimum commitments of an applicant in terms of conduct of geological and geophysical operations and exploratory drilling as well as appraisal and development drilling (in the case of the issuance of a combined Exploration and Production License) and of the expenditures for the conduct of aforesaid operations;
- compliance with the requirements for the protection of natural environment and subterranean resources and the safe conduct of operations;
- a projection of revenues for Turkmenistan during the Contract validity.

Article 12. Application for the grant of a License

An application for the grant of an Exploration License shall contain:

- name of the applicant, its address, nationality (for Legal Persons) and citizenship (for Physical Persons);
- data on applicants` shareholders, its directors and authorised representatives which shall represent it upon holding a tender or conduct of negotiations as well as upon granting a License;

- data on applicant`s technical, managerial, organisational and financial capabilities;
- information on previous activities of the applicant, including a list of the States where he has conducted Petroleum Operations during the last five years, and also a balance sheet for the said period;
- proposals of the applicant in respect to the conduct of Petroleum Operations, including minimum commitments with indication of quantity of work and expenses for its implementation;
- obligations of the applicant concerning natural environment protection including replanting and reclamation of the Contract Area;
- numbers of the Blocks applied for by an applicant;
- sources of financing of Petroleum Operations;
- the time period the Exploration License is applied for.

In case of a Commercial Discovery the Exploration License Holder shall have an exclusive right to be granted a Production License subject to the submission of an application therefore.

An application for a Production License shall contain:

- data on the results of the Exploration Operations;
- official notification of the Commercial Discovery including relevant data and conclusions;
- a detailed plan for the development of the Commercial Discovery with the indication of recoverable Petroleum reserves;
- an expected start-up date for the development of the Commercial Discovery and the expected date for the start-up of the production of Petroleum;
- an estimated profile of production and expected date for attaining its peak production;
- an estimated calculation of the expenditures, associated with the development and production operations and of the proceeds from the sales of Petroleum;
- an analysis of the economic viability of the Commercial Discovery;
- a projected cash flow for Turkmenistan and recovery for capital investments into the development of an operational and social infrastructure of the Contract Area.

An application for a grant of a combined Exploration and Production License shall contain conditions required for the application for a grant of an Exploration and a Production License.

Article 13. Terms and procedures for the issuance of Licenses

A License shall be issued to a Person to which the right to conduct Petroleum Operations shall be granted as the result from a tender or direct negotiations..

A License shall be issued upon reaching an agreement on the terms of the relevant Contract and concurrently to its conclusion.

The License issuance procedure shall be 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.

A License shall be issued to Foreign Physical and Legal Persons who register in Turkmenistan as an individual entrepreneur or open a branch in Turkmenistan of a foreign Legal Person or register as a member

of Joint Venture.

Article 14. Purpose of a License

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.

The terms of the Contract shall comply with the terms of the License.

Article 15. Licensing Body

The issuance of the Licenses giving the right to conduct Petroleum Operations is carried out by the Competent Body after its approval by the Decree of the President of Turkmenistan.

Article 16. Content of an Exploration License

An Exploration License should contain:

- data on the License grantee;
- type of Petroleum Operations the License is issued for;
- delimitation of the Contract Area through the indication of the geographical coordinates;
- License validity period;
- type of the Contract entered into between the Contracting Parties;
- commitments of the Contractor to comply with the requirements for the protection of the natural environment;
- conditions for the extension of the License validity period;
- other similar elements, as may be determined by the Competent Body.

Article 17. Content of a Production License

A Production License should contain:

- data on the License grantee;
- type of the Petroleum Operations the License is issued for;
- delimitation of the part of the Contract Area which encompasses the Commercial Discovery;
- License validity period and conditions for its extensions;
- confirmation of the applicability of the Contract entered into by the Contracting Parties;
- commitments of the License Holder to comply with the requirements of natural environment protection;
- other similar elements as may be determined by the Competent Body.

A combined Exploration and Production License should contain all the conditions contained in an Exploration and a Production Licenses.

Article 18. License validity periods

An Exploration License shall be granted for the period of up to 6 years.

An Exploration License Holder shall have the right to extend the License validity period subject to the fulfilment of the work program and other commitments stipulated in the License and the Contract.

The validity period of an Exploration License may be extended twice with duration of each extension period of up to 2 years.

A Production License shall be granted for the period of 20 years. The validity period of a Production License may be extended for the period of 5 years, if the License Holder applies for the extension of the License not earlier than 2 years and not later than 1 year prior to the Production License expiry date.

An application for the extension of the License validity periods shall be examined not later than in one month from the date of their submission to the Competent Body.

A combined Exploration and Production License shall be granted for a period, which includes the Exploration License validity period and the Production License validity period, including their possible extensions.

The License validity period is counted from the date of its simultaneous registration with the Contract in the authorised bodies.

Article 19. Rights of a License Holder

An Exploration License Holder shall have an exclusive right to carry out an Exploration of Petroleum and required kinds of Petroleum Operations connected to the Exploration pursuant to this Law and the terms of a License and provided for in the Contract.

A Production License Holder shall pursuant to the present Law and the terms of the License, have the exclusive rights:

- to carry out Exploration development and Production Operations in that parts of the Contract Area, which are specified in the content of the License;
- to sell or otherwise dispose of its share of Petroleum;
- to carry out such operations and works inside and outside the Contract Area as required for or connected to the issues provided for in the section 2 of this Article 21.

Article 20. Termination of the License

A License shall terminate:

- upon expiration of the License validity periods or extensions thereof;
- if it is revoked in accordance with the present Law;
- in the event of the termination of the Contract pursuant to the provisions provided therein.

Article 21. Suspension of a License

The validity of a License shall be suspended by the Competent Body in the event when the License Holder:

- conducts Petroleum Operations not provided for in the License;
- carries out the activities within the framework of the License, but not under the program provided for in the Contract;
- in the course of its activities systematically violates the legislation of Turkmenistan in respect with the

protection of subterranean resources and of natural environment and of safe conduct of Petroleum Operations.

In the event of suspension of the License validity, the Competent Body shall notify in written the License Holder of the reasons for such suspension and shall set a reasonable deadline for their elimination.

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

The suspension of the License validity shall entail the suspension of the Contract entered into on the basis of said License. The validity of the Contract shall be restored at the same time as the License validity is restored.

Article 22. Revocation of a License

The Competent Body shall have the right to revoke the issued License in the following cases:

- when the License Holder refuses to eliminate the causes that have resulted in taking the decision to suspend the License or if he fails to eliminate such causes within the fixed deadline;
- upon discovery of the fact of a deliberate submission to the Competent Body of false information which has materially affected the latter's decision to issue a License to such person;
- in the event of a deliberate infringement by the License Holder of the deadline for the signing and registration of the Contract as well as the commencement date for conduct of Petroleum Operations stipulated in the Contract;
- in other cases provided for in this Law.

Revocation of the License shall entail the cancellation of the Contract entered into on its basis.

Chapter 4. Contracts

Article 23. Types of Contracts

For carrying out Petroleum Operations in Turkmenistan the following types of Contracts shall be adopted:

- Production Sharing Contract;
- Joint Venture Contract.

Under a Production Sharing Contract the Concern and/or the Competent Body shall sign the Contract on behalf of the Turkmen side. Under such type of the Contract also the Concern shall have the right to act in the role of Contractor.

Under a Joint Venture Contract the Concern or any other entity designated by the Government shall participate as one party to the Joint Venture.

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 24. Validity periods and terms of a Contract

The validity period and terms of a Contract shall be defined by the agreement between the Parties in conformity with the present Law and the License, and also taking into account provisions of the Model Contract.

Article 25. Signing of Contracts and registration procedure

It is a mandatory procedure that the Contract shall be agreed upon with State Entities in charge of health protection and sanitation, ecology, subterranean resources protection and safe conduct of Petroleum Operations. The time for such agreement shall not exceed 15 days from the date of filing of the contractual documents by the relevant entities. The absence of the agreement of the aforesaid entities within the fixed deadline shall not constitute an impediment for the registration of the Contract.

A Contract shall be registered in the competent entities designated by the Cabinet of Ministers (the Government) of Turkmenistan.

A Contract shall enter into force from the date of its registration in the competent entities.

Article 26. Annulment of a Contract

A contract shall be rendered null and void in case of revocation of the License granted to the Contractor.

Article 27. Amendments to and termination of the Contract

Amendments to the terms of the Contract can be made only upon written consent by the Contracting Parties provided that such terms are consistent with requirements of the License and the present Law.

A Contractor and the Competent Body may terminate the Contract on the grounds and in accordance with the procedure provided for in the Contract.

Revocation of the License shall entail termination of the Contract.

The parties shall not be released from the discharge of current obligations which remain outstanding at the time of delivery of the notice on termination of the Contract.

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

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

A Contractor shall leave the Contract Area in the condition which corresponds to the duly approved rules for conduct of Petroleum Operations and the protection of subterranean resources and natural environment.

Chapter 5. Conduct of Petroleum Operations

Article 28. Conditions for the conduct of Petroleum Operations

Conditions for the conduct of Petroleum Operations including a work program and a budget for expenditures for its implementation shall be specified in the Contract.

If the Exploration results in a Commercial Discovery of Petroleum, the Contractor shall be obliged to notify the Competent Body of such discovery, to carry out an appraisal of the field including an appraisal of its reserves and prepare a report on whether the latter constitutes a Commercial Discovery. The deadline for the notification of the discovery, the results of the field appraisal and the preparation of a report on whether the field constitutes a Commercial Discovery shall be defined in the Contract.

If a Commercial Discovery is achieved the Contractor shall have the right to full recovery of its expenses related to the conduct of Petroleum Operations, the amount of which shall not exceed an amount of proceeds for its Petroleum entitlement share.

If, upon the expiration of the Exploration License validity or its extension periods no Commercial Discovery is achieved, a Contractor shall have no right to recover its investments. In this case, the validity of the License and the Contract shall terminate.

In the event, that the Contractor deems that the field doesn't constitute a Commercial Discovery or fails to proceed with the development of the Commercial Discovery, Contractor shall be obliged to relinquish that part of the Contract Area, which encompasses such field.

Article 29. Unit Development of a Field

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

Contractors may enter into written agreements between themselves on unit development of the field, such agreement being subject to the approval by the Competent Body.

If Contractor (Contractors) fails to enter into an agreement with another Contractor (Contractors), or, if Contractor is not in agreement with the unit development plan, the Competent Body is entitled to bind him (them) to enter such agreement, or to direct preparation of such plan by an independent expert and its following mandatory implementation. In the event of failing to comply with the Competent Body's directions, the Production License issued for such field shall be revoked, and the relevant area shall be withdrawn from the exploitation by the Contractor (Contractors).

Article 30. Artificial Islands, Dams and Structures

The construction, operation and use of artificial islands, dams and other structures installed for the purpose of conduct of Petroleum Operations at sea, shall be carried out on the basis of the permission issued to the Contractor by the Competent Body, subject to the protection by the Contractor of natural environment and bioresources.

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.

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.

Contractors or subcontractors in charge of the construction, maintenance and operation of artificial islands, dams and other structures shall ensure their safeguard and constant availability of warning facilities, signalling their location.

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 31. Discharge and burial of wastes associated with the conduct of Petroleum Operations

Discharge into and burial in the sea of wastes associated with the conduct of Petroleum Operations shall not be allowed.

Discharge of industrial waters into the sea shall be allowed only on the condition of their pre-treatment in order to bring them down to the permissible levels of impurity.

Article 32. Turkmenistan's right to purchase Petroleum

The Cabinet of Ministers (the Government) of Turkmenistan shall have the priority right to purchase, at the proportionate basis, Petroleum from the entitlement share of foreign or Turkmen contractors of the private form of property, in order to satisfy the internal market requirements, and, on the condition that such requirements were not satisfied by full utilisation of the Turkmenistan's entitlement share of Petroleum.

The maximum amounts of the Petroleum purchased, pricing procedure, form of the payment and the payment currency shall be specified in the Contract.

Article 33. Requisition of Petroleum and its compensation

In the event of war, natural hazard or other circumstances, specified by the legislation on emergency situations, the Cabinet of Ministers (the Government) of Turkmenistan shall have the right to requisition Petroleum belonging to the Contractor.

The requisition shall be carried out to such an extent as is necessary to satisfy the needs of Turkmenistan during the period when such emergency situation remain.

The Government of Turkmenistan shall guarantee the compensation of the requisitioned Petroleum either in kind or by payment of its value in freely convertible currency at the international market price.

Article 34. State control over the conduct of Petroleum Operations

State control over the conduct of Petroleum Operations shall be carried out by the Competent Body and other state entities (within their competence) in accordance with the current legislation of Turkmenistan. The officers of such entities shall be obliged to secure the confidentiality of any information received during an inspection.

Article 35. Measurement of Petroleum produced

The Contractor shall carry out measuring and weighing of Petroleum, produced or saved in the Contract Area, at regular time intervals, specified in the Contract, with the application of methods adopted in the international practice for conduct of Petroleum Operations.

Application of other methods for measurement or weighing of Petroleum as well as appliances and equipment used for such purposes by the Contractor, shall be done only upon the written consent of the Competent Body.

The Competent Body shall have the right, systematically and at specified time intervals, to direct that the equipment or appliance used for weighing and measurement of Petroleum be tested.

If any Petroleum weighing or measuring equipment or appliance, upon its test or examination, found to be false or unjust, such equipment or appliance shall, if it is impossible to determine the time at which such equipment or appliance became false or unjust, be deemed to have been false or unjust 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 false or unjust. Adjustment to all relevant terms under a contract shall be then effected.

Chapter 6. Rights and obligations of a Contractor

Article 36. Rights of a contractor

Contractor shall have the right:

- to use the Contract Area for carrying out the activities specified in the Contract and in the License;
- to construct inside and outside the Contract Area facilities of operative, logistic and social infrastructures necessary for the conduct of Exploration and Production Operations, and also to use, upon agreement with the owners, facilities and communications of general use inside as well as outside the Contract Area;
- to avail itself of the services of sub-contractors in performing certain types of Petroleum Operations;

- to freely dispose of its Petroleum entitlement share in Turkmenistan as well as in other States, subject to the special agreement with such States;

-to carry out, with the right of first refusal, negotiations in respect with the extension of the Contract validity period above the periods provided for in the part 4 of Article 18

- to surrender all or part of its rights and to terminate its activities in accordance with terms specified in the Contract.

Article 37. Obligations of a Contractor

In the course of implementation of a Contract the Contractor shall be obliged:

- to adopt the most efficient methods and technologies for the conduct of Petroleum Operations, based on standards of the international practice for the conduct of Petroleum Operations.

- to conduct Petroleum Operations in strict compliance with this Law, terms of the Contract and the License, to comply with the requirements pertaining to the protection of natural environment and subterranean resources;

- to control the flow and prevent the waste or escape of Petroleum inside or outside the Contract Area;

- to prevent damage of productive strata, caused by water or other matter entering into Petroleum reservoirs;

- to take measures to prevent pollution of any water spring, river, canal, irrigation system, lake, sea by the escape of Petroleum, salt water, drilling mud, chemical additives or any other waste product or effluent. In case if pollution occurs, Contractor shall treat or disperse it in an ecologically acceptable manner;

- to 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;

- to 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 the Contract;

- to provide free access to the necessary documents, information and the sites of operations to the authorised representatives and officers of the Cabinet of Ministers (the Government) of Turkmenistan and of the Competent Body;

- to make payment of taxes and other mandatory payments in due time;

- to participate in the development of social infrastructure in accordance with the Contract;

- to restore, at its own account, 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 utilisation.

Contractor shall be liable for the damages resulting from risks connected with the conduct of Petroleum Operations. The enumeration of such risks is given in Article 52.

Chapter 7. Main pipeline

Article 38. Ownership of the Main Pipeline

Main Pipeline means an engineering facility consisting of the main (linear) part of the pipelines systems and associated on-land facilities, communications and equipment designated for transportation of Petroleum from the place of production (treatment) to the place of transfer to another transportation, refining and consumption facilities.

Construction, financing, operation and maintenance of the Main Pipeline shall be carried out by a specially established company, the owners of which can be the Government, Contractor, independent investors or jointly aforesaid entities and persons.

Article 39. Transportation tariff

Transportation tariff shall be set and charged by the Pipeline Company

Article 40. Construction of main pipeline

Main Pipeline shall be planned and constructed in such a way as to allow a throughput capacity, necessary for handling and transportation to land or seaboard terminals of Petroleum, estimated in accordance with medium and long term projections of production.

In the event that an extra throughput capacity is available in the Main Pipeline, and subject to the payment of relevant transportation tariff, independent producers may use such capacity for the transportation of their Petroleum production.

Article 41. Maintenance of the Main Pipeline

The maintenance of the Main Pipeline and its associated facilities shall be carried out in conformity with the norms for maintenance, safety and security applied in the international practice for conduct of Petroleum Operations. A control over the application of such norms shall be executed by the Cabinet of Ministers (the Government) of Turkmenistan and the Competent Body.

The owner (owners) of the Main Pipeline jointly with the Governmental Bodies of the States, which territories are crossed by the pipeline, shall elaborate the plan for joint control over the safe operation of the Main Pipeline and prevention of eventual accidents and emergencies.

A conduct of any operations or actions within the security zone of the Main Pipeline, set by owners, shall be prohibited.

Construction of any objects and facilities, which are not related to the pipeline and its purpose, shall be prohibited within the minimum distance from the Main Pipeline, set in conformity with the construction standards and safety norms, applicable in Turkmenistan.

Article 42. Construction, laying and operation of submarine pipelines and cables

Construction, laying and operation of submarine pipelines and cables shall be carried out in 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

Article 43. Status of natural environment protection measures

Natural environment and health protection measures for the population and the Contractors` personnel are the obligatory condition for planning and carrying out any types of Petroleum Operations.

Article 44. Ecological grounds for conduct of Petroleum Operations

Before starting a conduct of Petroleum Operations a Contractor shall submit to the special competent State entities a plan for the natural environment protection measures that he intends to adopt in the implementation of its work program.

Conclusion of the special Competent Body shall be given in writing within 30 days of the date of submission

of the aforesaid plan and shall be applied by the Contractor to the extent to which it is compatible with the conduct of the planned activity and relevant planned expenditures. In case of absence within the fixed deadline of the decision of the special competent bodies the Contractor shall have the right to start implementation of the aforesaid plan.

Article 45. Monitoring

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 conducted, with the purpose of taking necessary measures to eliminate and reduce the negative impact on the natural environment and ensure ecologically safe conduct of Petroleum Operations.

Chapter 9. Financial and fiscal regime

Article 46. Currency transactions

The procedure for carrying out currency transactions by the Contractor and sub-contractor shall be determined by the current legislation of Turkmenistan and specified in the Contract.

Proceeds accruing to the Contractor from the sale of its Petroleum entitlement share may be deposited on the accounts in Turkmen banks as well as in foreign banks. In doing so, the Contractor shall submit statements of such accounts to the competent entities of Turkmenistan for control in accordance with the current legislation of Turkmenistan.

Contractor shall have the right to open and maintain accounts in national currency of Turkmenistan and foreign currency in banks in the territory of Turkmenistan.

Article 47. Customs regime

Customs regime shall be applied in accordance with the legislation of Turkmenistan.

All materials and equipment used in the conduct of Petroleum Operations shall be exempted from custom duties and the registration at the State Commodity Exchange of Turkmenistan.

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

Article 48. Taxes and payments

In the conduct of Petroleum Operations the Contractor shall pay only the following taxes and levies:

- a tax on profit at the rate established by the legislation of Turkmenistan. Procedure for determination of the taxable profit shall be provided for in the Contract.

- a royalty on Petroleum production at the rate specified in the Contract.

Payment of the bonus in form of lump-sum may be provided for in the Contract at the rate specified therein. A bonus may be paid upon the signing of the Contract and upon achievement of certain Petroleum production level specified in the Contract.

In the event that new taxes or levies are introduced subsequently to the date of entering into a Contract, a Contractor shall pay only those which are substituting taxes and levies paid by him. In such a case, an overall amount of due payments shall not exceed the amount of taxes and levies imposed on the Contractor as for the time the Contract is entered into.

Payment of taxes and levies envisaged in the present Law and the Contract shall not release Contractor from the payment of other taxes and levies due for the activities other than Petroleum Operations.

A sub-contractor shall pay profit tax at the same rate as imposed on the Contractor and no other taxes than the Contractor.

Employees of contractor and of its subcontractors shall pay income tax in accordance with the legislation of Turkmenistan and provisions of the Contract.

In the event of amendments to the legislation of Turkmenistan, which was applicable at the time when the Contract was entered into, including amendments due to the changes to the international treaties to which Turkmenistan is a signatory party, the Contractor and the Competent Body shall consider an issue of introducing the amendments into the Contract in order to secure balance in the interests of the Contracting Parties and economic results, which were expected by them in accordance with the terms of the Contract at the time the Contract was entered into.

Article 49. Bookkeeping and auditing

Contractor (sub-contractor) shall maintain bookkeeping and submit accounting in compliance with the legislation of Turkmenistan in respect with the salaries and social security of the Turkmen employees.

For the purpose of recording Contractor`s costs and revenues, as well as for calculation of the taxable profit, bookkeeping and accounting shall be maintained in compliance with the international practice for bookkeeping and accounting applied in the conduct of Petroleum Operations and in accordance with the Contract provisions. For the purposes of foregoing a freely convertible currency shall be used as the monetary unit of the bookkeeping.

National currency shall be used for the purpose of periodical and annual reporting through the translation of foreign currency at the official exchange rate of the Central Bank of Turkmenistan.

Auditing of the financial and economic activity of the Contractor (subcontractors) shall be carried out by the Competent Body or other State entity designated by the Government, at the time intervals, specified in the Contract. The aforementioned entities shall be entitled to avail themselves of the services of independent auditing firms.

Chapter 10. Legal terms

Article 50. Assignment of the Contractor`s rights and obligations

Contractor may assign all or part of its rights and obligations under the License and the Contract to the other interested party, with the prior written consent of the Competent Body.

Contractor shall be entitled to assign all or part of its rights and obligations under the License and the Contract to an Affiliate or one of its members (in case of the multi-membered Contractor), with no consent required, subject to the submission of the document, endorsed by assignor, such document stating the joint liability of the Contractor for all the actions of the assignee.

As long as Contractor retains any participation interest in the License and the Contract, such Contractor and the assignee of its rights and obligations, shall bear joint responsibility under the Contract.

Expenses associated with the assignment of rights and obligations shall be borne by the Contractor.

Article 51. Ownership of information on subterranean resources

Ownership of geological and geophysical information, data on Petroleum reserves and all other information obtained or prepared by the Contractor in the course of conduct of Petroleum Operations, shall belong to the

Government. Such information shall not include proprietary rights and secrets of the Contractor.

Article 52. Insurance

Contractors shall be obliged to obtain and maintain an insurance as follows:

- all risks insurance, covering all plant, equipment, buildings and other property of the Contractor, used or intended for use in the conduct of Petroleum Operations;
- insurance, covering eventual loss of Petroleum and its by-products up to the point in time and location at which the title is transferred from Contractor to the Competent Body (in respect to the Competent Body's entitlement share of production) or other persons;
- insurance, covering clean-up costs for damage to the natural environment, including pollution of the air, water, surface and subsurface soil under and in the Contract Area;
- general liability insurance, covering property damage and life and health harm resulted from or in connection with the conduct of Petroleum Operations;
- control-of-well insurance, covering control of well and redrill costs caused by accidents to wells in the Contract Area.
- health, life and accidents insurance, covering the insurance for employees and other persons, engaged by the Contractor for the conduct of Petroleum Operations;
- such other types of insurance, as would be applied by the Contractor in compliance with the international practice for conduct of Petroleum Operations;
- such other insurance required by the current legislation of Turkmenistan on obligatory types of insurance.

Contractor shall be obliged to require sub-contractors, which activities are connected to the conduct of Petroleum Operations, to obtain and maintain insurance in such forms and amounts stipulated by the relevant contracts of sub-contractors.

Article 53. Employment relations

The employment legal relations of the Contractors with its employees are regulated by the legislation of Turkmenistan, collective or individual employment contracts.

Employment contracts of the Contractor with foreign employees may contain special provisions in accordance with the international practice for entering such contracts. 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.

Article 54. Social insurance and social security

Social insurance and social security of the employees, which have entered into the employment legal relations with Contractor (except for the pensions provisions of foreign employees), are regulated by the legislation of Turkmenistan.

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

Pension provisions and provisions on other kinds of social security of foreign employees are regulated by employment contracts, and shall comply with the legislation of the States of their permanent residence.

Article 55. Guarantees of Contractors` rights

Contractor shall be guaranteed the protection of its rights in accordance with the principles of international law, legislation of Turkmenistan, the License and the Contract.

Article 58. Resolution of disputes

Disputes associated with the issuance, refusal to issue, suspension or revocation of the License, as well as those related to the implementation of the 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 the Contract.

In the event that disputes cannot be resolved in accordance with the provisions of part 1 of this Article within 3 months from the moment of a written communication from either part to the other, either party may, with prior written notification to the other party, refer to international arbitration bodies, determined by the parties in the Contract.

All other disputes, including disputes between the Contractor and Legal Persons and citizens of Turkmenistan, shall be resolved by competent judicial bodies of Turkmenistan, unless otherwise provided for in the agreement of the parties.

Article 59. Force Majeure

Failure by the Contractor to fulfil the terms of the License and (or) the Contract or to comply with the requirements of the legislation shall not constitute their infringement if such actions are caused by war, act of war, military conflicts, natural hazard or other events, beyond the will and actions of the Contractor, or by other causes, envisaged in the Contract as circumstances of Force-Majeur.

In the event of failure to fulfil terms of the License and/or the Contract, the Contractor shall be obliged to immediately inform the Competent Body in that respect with indication of causes for such circumstances to arise.

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

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 the Contract. Upon reaching agreement by the Parties the Contract shall terminate.

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 the Contract with prior notification to the other party.

In the event that the Contractor did not recover its costs connected to the conduct of Petroleum Operations the Contract may be terminated at the Contractor` option.

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, the License and the Contract.

Chapter 10. Final provisions

Article 60. Information required by the Competent Body

The Competent Body shall have the right to summon the Contractor in writing to furnish an information and data related to Petroleum Operations, such data including also world price of Petroleum, in the event that the Competent Body has the ground to believe that the Contractor is in possession of such information or data, which information and data have not be submitted to the Competent Body in accordance with the provisions

of the Law and terms of the Contract. Contractor shall be obliged to provide such information.

Article 61. Powers of the Competent Body and authorised officers

In order to ensure control over the compliance with present Law and fulfilment of the terms of the Contract, the Competent Body and authorised officers shall have the right to:

- enter any area, structure, vehicle being used in connection with the conduct of Petroleum Operations;
- to carry out an inspection or testing of the equipment or appliance being used in the conduct of Petroleum Operations;
- to extract samples of Petroleum or other substances from any area where Petroleum Operations are being conducted, with the purpose of their analysis or testing, or for use as evidence upon the violation of the Law or infringement of the terms of the Contract;
- carry out an inspection of the documents, relating to the Petroleum Operations, make extracts from and make copies of such documents;
- give directions and introduce restrictions on the activities of Contractor, related to securing safety and health protection of the Contractor`s personnel and of the population;
- carry out any necessary examination and inquiry in respect with the issues of compliance, by the Contractor, with the laws, other regulatory acts and terms of the Contract.

In the exercise of its powers the Competent Body or its authorised officers may involve other persons as experts.

Contractor shall be obliged to supply necessary help and assistance to the Competent Body or an authorised officer in the execution of their powers.

Article 60. Confidentiality of information

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

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

Article 61. Indemnity of Turkmenistan and the Cabinet of Ministers of Turkmenistan

A License Holder and Contractor shall keep the Government indemnified against all actions, claims and demands which may be brought or made against the Government by reason of anything done by such License Holder and the Contractor, in the exercise of the latter`s rights and obligations under the Law, the License and the Contract.

President of Turkmenistan Saparmurat Niyazov

30 December, 1996