

ANNEX XXVII

Law of the Republic of Kazakhstan On Production Sharing Agreements in Offshore Oil Operations

This Law shall establish the legal and economic fundamentals for the interaction of contracting organizations and the state on the basis of production sharing agreements for the purposes of attaining a balance of interests of parties and for the creation of conditions for coordinated development of all sectors of the Republic of Kazakhstan economy.

Chapter I. General Provisions

Article 1. Scope of the Law

1. This Law shall regulate relations associated with granting the right to conduct oil operations in the Kazakhstani Sector of the Caspian Sea and in the Aral Sea, upon conclusion, implementation and termination of Production Sharing Agreements in the oil and gas sector and it shall define the fundamental legal provisions of such Agreements as well as for subsequent distribution of production between the Republic of Kazakhstan and the contracting organization (contractor).

2. Relations which are formed by contractors in the course of combined exploration and extraction or extraction of hydrocarbon raw materials, sharing production as well as in its transportation, processing, storage, sale or other disposal, shall be regulated by the present Law or other legal acts of the Republic of Kazakhstan.

Article 2. The Legislation of the Republic of Kazakhstan on Production Sharing

1. The legislation of the Republic of Kazakhstan on Production Sharing Agreements shall be based upon the Constitution of the Republic of Kazakhstan and shall consist of the present Law, legislative acts concerning the subsurface and subsurface use, other laws and statutory legal acts of the Republic of Kazakhstan.

2. In case, if the laws establish other rules for the conclusion, implementation and termination of Production Sharing Agreements, than as stipulated in this Law, the rules of this Law shall be applied.

3. If an international agreement ratified by the Republic of Kazakhstan stipulates other rules than those contained in this Law, then the rules of the international agreement shall be applied.

Article 3. Offshore Blocks (sections) as Objects of Granting the Right for Subsurface Use

1. Offshore blocks (sections) may be granted for conducting the combined exploration and extraction or extraction of hydrocarbon raw materials on Production Sharing Agreement's terms and conditions only when the previously announced tenders for granting the right for the combined exploration and extraction or for the offshore extraction on other terms and conditions stipulated by the legislation of the Republic of Kazakhstan, which are differed from the production sharing terms and conditions, are recognized as invalid. Such offshore blocks (sections) shall be included by the Government of the Republic of Kazakhstan into the list of the blocks (sections) to be put to tenders on production sharing terms and conditions.

The Government of the Republic of Kazakhstan in pursuance of the implementation of the state programs, international agreements and obligations of the Republic of Kazakhstan, shall approve the list of offshore blocks (sections) in the Kazakhstani Sector of the Caspian Sea and in the Aral Sea, which are to be put under Production Sharing Agreement terms and conditions.

The Government of the Republic of Kazakhstan may grant offshore blocks (sections) with the obligatory share participation of the National Company for the development on Production Sharing Agreement terms and conditions to potential contractors that guarantee the supply and use of special high technology equipment as well as proposals for the development of high technologies, new and processing manufactures, pipelines and other pipelines, construction and joint use of infrastructure and other facilities.

The National Company receiving offshore blocks (sections) on the basis of direct negotiations, shall have a right, in coordination with the competent authority, to determine the type of a contract for the works on the continental shelf exploration and extraction or extraction.

2. The size of the offshore blocks shall be determined by the Government of the Republic of Kazakhstan.

3. The Government of the Republic of Kazakhstan based on the need to ensure the national security as well as for the purposes of preservation of biological resources and environment, upon the proposal of the authorized body in the field of environmental protection, may determine the territorial sections where activities of contractors may be restricted or prohibited.

Article 4. Parties of the Agreement

1. The parties of the agreement shall be:

production between the parties of an Agreement in accordance with the provisions of this Law and other statutory legal acts of the Republic of Kazakhstan as well as of the model Production Sharing Agreement approved by the Government of the Republic of Kazakhstan.

2. The right for the subsurface use at the offshore blocks (sections) may be, in accordance with the established procedure, restricted, suspended or terminated on the terms and conditions of the Agreement concluded in accordance with the legislation of the Republic of Kazakhstan.

Article 6. Period of Time for the Subsurface Use at Offshore Blocks (Sections) on a Production Sharing Terms and Conditions.

1. The right for subsurface use at the offshore blocks (sections) on the terms of production sharing shall emerge after the conclusion of a Production Sharing Agreement with the competent authority and its obligatory registration in accordance with the established procedure.

2. The validity term of an Agreement shall be established by the parties in accordance with the legislation of the Republic of Kazakhstan, that is effective on the date of concluding a given Agreement, but it may not exceed 35 years for operations associated with the combined exploration and extraction, 40 years in case of unconventional deposits of resources, and 25 years for operations associated with the extraction.

3. An intent of a contractor to extend relations associated with the extraction of hydrocarbons by means of concluding a new Production Sharing Agreement in respect of the developed deposit, may be accepted by the competent authority for its consideration twelve months prior to the termination of the validity term of the existing Agreement and only if the contractor has executed its undertaken commitments.

Such a contractor shall be granted an exclusive right on a competition-free basis to initiate negotiations with the competent authority by the conclusion of a new Production Sharing Agreement for a period of time sufficient for the completion of economically expedient extraction of hydrocarbon raw materials for the purposes of rational use and protection of subsurface. The terms and conditions of a Production Sharing Agreement for an additional period of time shall be defined by the parties in accordance with the requirements of the legislation of the Republic of Kazakhstan that is effective at the time of conducting negotiations on the new Agreement.

Chapter 2. Scope of the Executive Authorities and the Authorized Body

Article 7. The Scope of the Government of the Republic of Kazakhstan

The Government of the Republic of Kazakhstan shall:

1) approve the list of the offshore blocks (sections) to be granted for the subsurface use on the production sharing terms and conditions and determine the type of the tender;

2) define sizes of offshore blocks (sections);

3) approve the main economic, technological, geological, ecological, social and other parameters of the Production Sharing Agreement;

4) form a commission for conducting the first stage of the tender for granting the right for combined offshore hydrocarbon exploration and extraction or extraction on the terms and conditions of a production sharing;

5) approve the rules for conducting tenders taking into account the two-stage procedures for selection of contractors for conducting the combined exploration and extraction or extraction of hydrocarbons offshore on the production sharing terms and conditions;

6) approve the procedure for representation of commercial interests of the state by the authorized body in Production Sharing Agreements;

7) appoint the authorized body for Production Sharing Agreements;

8) execute other authorities in the sphere of Production Sharing Agreements in accordance with the laws of the Republic of Kazakhstan.

Article 8. The Functions of the Competent Authority

The functions of the competent authority include:

- 1) preparation and organization of conducting the first and second stages of the tender to select a contractor for carrying out combined exploration and extraction or extraction of hydrocarbons offshore on production sharing terms and conditions;
- 2) annual preparation and submission for approval of the Government of the list of offshore blocks (sections) to be put under on production sharing terms and conditions;
- 3) submission for the approval to the Government of the main economic, technological, geological, ecological, social and other parameters of Production Sharing Agreements;
- 4) fulfillment of other functions in the sphere of Production Sharing Agreements in accordance with the laws of the Republic of Kazakhstan.

Article 9. The Scope of Oblast Local Executive Authorities

The local executive authorities of oblasts, within the bounds of their authority, shall:

- 1) participate in preparation of provisions concerning the main social-economic parameters for Production Sharing Agreements in relation to the territory of the oblast;
- 2) participate in negotiations with the contractor on the side of the competent authority upon preparation of the Production Sharing Agreement;
- 3) fulfill other authorities in the sphere of Production Sharing Agreements in accordance with the laws of the Republic of Kazakhstan.

Article 10. The Scope of Other State Bodies

Other state bodies within the bounds of their authority shall:

- 1) participate in the organization and conducting of tenders for granting the right for the combined exploration and extraction or extraction on production sharing terms and conditions;
- 2) in accordance with the established procedure carry out the expertise of the provisions of production sharing agreements;
- 3) in accordance with the legislation of the Republic of Kazakhstan, execute the control and supervisory functions over the contractor's activities in offshore blocks.

Article 11. The Authorized Body in Production Sharing Agreements

1. In the Production Sharing Agreements that provide for the participation of several organizations as a contractor, the authorized body shall be formed.

The Government of the Republic of Kazakhstan shall appoint the authorized body for a Production Sharing Agreement.

2. The main functions of the authorized body shall be specified in the Law and they shall be an integral part of the Production Sharing Agreements.

3. The main functions of the authorized body shall be:

representing the state interests in Production Sharing Agreements in accordance with the procedure determined by the Government of the Republic of Kazakhstan;

monitoring of the commercial activities of the contractors in the course of carrying out the combined exploration and extraction or extraction of hydrocarbons;

receipt of the Republic's share in production in accordance with the established procedure and the terms and conditions stipulated in the Production Sharing Agreements;

if the Government of the Republic of Kazakhstan introduces the in-kind form of payment of royalties in respect of Production Sharing Agreements, receipt of part of production pertaining to royalties from the contractor or its operator in accordance with the established procedure;

review of justification of inclusion by contractors of costs and expenditures into the production cost in respect of operations carried out in accordance with the Production Sharing Agreements;

monitoring, regulation and control of compliance with the terms and conditions of the Production Sharing Agreements, except for fulfillment of controlling and supervisory functions of state authorities;

obligatory participation in corporate management of the project through the managing committee;

participation in transfer and acceptance of property to be tr

Article 15. The Managing Committee under a Production Sharing Agreement

For the purposes of coordinating activities ~~also~~ with the implementation of operations under a Production Sharing Agreement, the ~~parties~~ must provide for the formation of the managing committee comprising equal number ~~of~~ representatives of the contracting

Article 19. Taxes, Fees and Other Compulsory Payments into the Budget upon the Implementation of the Agreement

1. Conditions and procedure for the distribution of the extracted production between the state and the contractor shall be stipulated in the Production Sharing Agreements concluded in accordance with the tax legislation of the Republic of Kazakhstan.

2. In the course of a Production Sharing Agreement implementation the contractor shall execute tax liabilities in accordance with the Production Sharing Agreement concluded in accordance with the tax legislation of the Republic of Kazakhstan.

3. Reimbursable expenses of the contractor and the composition of the non-compensated expenses shall be regulated by the tax legislation of the Republic of Kazakhstan.

4. Tax control over the execution of tax liabilities by the contractor as well as over the due deduction and transfer of compulsory pension contributions into the accumulation pension funds, over the completeness of calculation and accuracy of payments of compulsory social allocations, shall be carried out by the tax authorities in accordance with the tax legislation and other statutory legal acts of the Republic of Kazakhstan.

Article 20. Accounting and Reporting

1. Accounting for financial and economic activities of the contractor in the course of implementation of operations under an Agreement shall be carried out separately for each Agreement and also separate from such an activity in the course of implementation of other activities not connected with the Agreement. The procedure for this accounting shall be defined in accordance with the legislation of the Republic of Kazakhstan.

2. Accounting and reporting in the course of implementation of operations under the Agreement shall be conducted in the currency of the Republic of Kazakhstan, the tenge or in foreign currency if the contractor selects a foreign investor. In case the accounting is kept in foreign currency, the reporting which is submitted to the state authorities, must contain data computed both in foreign currency and in the tenge. At that, all data computed in foreign currency must be converted into the tenge in accordance with the procedure established by the legislation of the Republic of Kazakhstan concerning accounting and financial reporting and accounting standards as of the date of compilation of the reporting.

Article 21. Bank Accounts and Currency Regulation

The contractor or its operator must have special bank accounts in the currency of the Republic of Kazakhstan and (or) foreign currency in banks of the Republic of Kazakhstan and (or) in the foreign banks, to be used exclusively for the implementation of works under the Agreement. The procedure for conducting currency operations in the framework of the Agreement's implementation shall be determined by the legislation of the Republic of Kazakhstan.

Article 22. Transfers of Rights and Obligations under the Agreement

1. Contractor shall have the right to transfer in full or in part their rights and obligations

Article 25. Economic Interests of the State

In the course of the application of the Production Sharing Agreement as the type of a contract on offshore oil operations, the following economic interests of the state shall be reached:

- 1) receipt of the subscribed bonus, determined in the contract taking into account economic value of the deposit and forecast estimates of the mineral resources volume;
- 2) receipt of the commercial discovery bonus for each commercial discovery in the contracting territory that is economically efficient for extraction to the contractor;
- 3) receipt of the royalty on each type of mineral resources extracted in the territory of the Republic of Kazakhstan;
- 4) receipt of the share of the Republic of Kazakhstan in the profitable production;
- 5) receipt of the established taxes and other compulsory payments charged in accordance with the tax legislation of the Republic of Kazakhstan;
- 6) receipt of additional incomes from the participation of the state in the project in the person of the national company;
- 7) provision of supply of certain volume of contractor's hydrocarbons for processing within the republic;
- 8) engagement of Kazakhstani labor force instead of using foreign labor force;
- 9) use of goods, works, and services of Kazakhstani origin in the course of oil operations in the rates determined in agreements in accordance with the legislative acts of the Republic of Kazakhstan;
- 10) engagement of Kazakhstani organizations as a project operator;
- 11) introduction of high technologies, new processing manufactures, main pipelines and other pipelines, infrastructure and other objects in the territory of the Republic of Kazakhstan;
- 12) receipt of the contractor's property the value of which has been fully compensated.

Article 26. Control over the Implementation of an Agreement

1. The state control over the Agreement's implementation shall be carried out by the competent authority.

2. Other state authorities in accordance with their scope shall control the compliance of contractors' activities with the legislation of the Republic of Kazakhstan.

Article 27. Liability of Parties under the Agreement

The parties shall be liable for nonperformance or improper execution of the obligations under the Agreement, in compliance with the provisions of the Agreement in accordance with the legislation of the Republic of Kazakhstan.

Article 28. Termination of Validity of the Agreement

1. Validity of the Agreement shall be terminated upon expiry of its validity period or prematurely by consensus of the parties, as well as for other reasons and in accordance with the procedure stipulated by the Agreement in accordance with the legislation of the Republic of Kazakhstan which is effective on the date of signing the agreement. Termination of validity of an Agreement upon consensus of the parties shall be into force in accordance with the same procedure as the initial agreement.

sharing only after holding a tender for granting the subsurface use right on the terms and conditions other than production sharing, and declaration of the tender as invalid in connection