

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 terms 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 for 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 contractor in the course of combined exploration and extraction or extraction of hydrocarbon raw materials, sharing of production as well as in its transportation, processing, storage, sale or any 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, oil, 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 it is 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 for 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 the 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 other 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 to tender on 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 the 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, main 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 the right, in coordination with the competent authority, to determine the type of a contract for the works on the combined 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:

The Republic of Kazakhstan, represented in the agreement by the competent authority;
contractors - juridical persons investing their own, borrowed, or third party funds, and in certain cases assets and property rights into combined exploration and extraction or extraction of hydrocarbon raw materials and carrying out offshore oil operations.

The National Company shall be granted with the right of share participation at the rate of not less than 50 % as a contractor in all offshore Production Sharing Agreements concluded by the Republic.

2. An association of juridical persons (consortium) having no status of a juridical person in accordance with the legislation of the Republic of Kazakhstan, may act as a party in a Production Sharing Agreements. Participants of such an association shall have joint rights and shall bear joint obligations under a Production Sharing Agreement and carry out their activities on the basis of the consortium agreement on joint activities. Each participant of a consortium agreement shall sign a Production Sharing Agreement with the competent authority as a contractor.

The participants of an association (consortium) have a right to stipulate the provisions on several liability for the disclosure of the confidential information, for the overdue and incomplete payment of taxes and compulsory payments from the incomes received by the participant, including transfer pricing as well as for the observance of the fiscal accounting rules and administering procedures.

Article 5. Production Sharing Agreement

1. A contract for carrying out the offshore combined exploration and extraction or extraction of hydrocarbon raw materials on the production sharing terms and conditions shall be a Production Sharing Agreement.

In accordance with this Agreement the Republic of Kazakhstan shall grant with compensation and for a definite period of time the right to carry out works on combined exploration and extraction or extraction of hydrocarbon raw materials at the offshore blocks (sections) indicated in the tender terms and conditions. The contractor takes a commitment to carry out the specified operations at the contractor's expense and at his own risk by unconditional execution of the competitive bid proposals filed by the contractor and in compliance with the legislation of the Republic of Kazakhstan, regulations and commitments stipulated in Production Sharing Agreement.

An Agreement shall define all the necessary conditions connected with the subsurface use at the offshore blocks (sections), including conditions and procedure for distribution of the

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 the 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 unique 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 the undertaken commitments.

Such a contractor shall be granted an exclusive right on a competition-free basis to initiate negotiations with the competent authority on 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 the 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 the approval of the Government of the list of offshore blocks (sections) to be put to tender 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 contractors 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 the 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 transferred to the Republic of Kazakhstan by the contractor upon termination of Agreements validity terms or upon the removal from the operation of the equipment and other property, the cost of which is compensated to the contractor for account of compensation production during the validity period of the Agreement, or according to other reasons;

carrying out, as the state's agent, the further operations associated with the transfer to the state's disposal of the part of hydrocarbons to be the Republic's share under the Agreement's terms and conditions, as well as of royalties;

submission to the corresponding state body, within the established period of time of reports on costs compensated for account of the compensation production for the expired calendar year.

The authorized body shall make decisions on other issues associated with the implementation and termination of the Production Sharing Agreement in accordance with the legislation of the Republic of Kazakhstan and provisions of the Production Sharing Agreement.

4. The functions of the authorized body may be entrusted to the National Company on the condition of the transfer by this company of the subsurface use right under the Production Sharing Agreement to its subsidiary (daughter) organization or sale of its share in the project, as well as to the state authority or another juridical person of the Republic of Kazakhstan to which the Government of the Republic of Kazakhstan transfers the part of the rights and obligations or all the rights and obligations of the authorized body in the Production Sharing Agreement.

5. The authorized body in the Production Sharing Agreement will not be created if the share of the national company's participation in the project makes 50 or more percent and the subsidiary (daughter) organization of the national company acts as the operator of the Agreement's works execution.

Chapter 3. Special Considerations in Conducting Tenders for Obtaining the Right to Carry out Oil Operations on Production Sharing Terms and Conditions

Article 12. Tenders for Granting the Subsurface Use Right on Production Sharing Terms and Conditions.

1. Pursuant to the decision of the Government of the Republic of Kazakhstan, tenders for granting the right for combined exploration and extraction or extraction in respect of each offshore block on production sharing terms and conditions by means of two-stage procedures, may be closed or open.

2. Tenders by means of two-stage procedures shall be carried out for the purpose of selecting at the first stage of the contractor for conducting combined exploration and extraction or extraction of hydrocarbons offshore on production sharing terms and conditions, by the commission to be formed by the Government of the Republic of Kazakhstan for conducting tenders for selecting a contractor, in accordance with the rules for conducting tenders to be approved by the Government of the Republic of Kazakhstan.

3. The competent authority approves the feasibility study on the contracted territory in accordance with which it elaborates and submits for the approval to the Government of Kazakhstan the unified quantitative criteria for the tender participants according to the list specified in the paragraph 1 (except for the subparagraph 8) of the article 41-7 of the Law "On Subsurface and Subsurface Use".

The indicated criteria shall be the conditions for accession of potential contractors to the tender for carrying out oil operations and shall be included into the working program of the contractor.

4. Tenders terms shall be elaborated by the competent authority with participation of state authorities concerned and the national company for the subsequent approval by the Government on the basis of feasibility studies as well as those containing main economic, technological, geological, ecological, social, and other parameters of the Production Sharing Agreement.

Besides, the terms of tenders must provide for Kazakhstani content in the course of fulfillment of operations associated with combined exploration and extraction or extraction of hydrocarbon raw materials, obligatory supply for processing of minimum quantities of hydrocarbons in the Kazakhstani territory, additional proposals for development of high technologies, new and processing facilities, main and other pipelines, construction and joint use of infrastructure and other facilities.

5. Additional commitments including high technologies shall be formed taking into account the needs of the Republic in accordance with the procedure established by the legislation concerning subsurface use. Additional commitments shall be the determining (decisive) criteria upon the selection of a tender winner.

The following priority order shall be established with regard to additional commitments in obtaining the subsurface use rights under the Production Sharing Agreement terms and conditions:

first priority - proposals in the sphere of high technologies.

Given proposals shall be subdivided into the following areas and degrees of priority:

1) petrochemical industry, manufactures on further processing of the products of the petrochemical industry;

2) manufactures pertaining or associated with the main activity in the sphere of exploration and extraction of hydrocarbons;

3) manufactures relating to services to be rendered to the subsurface users;

second priority - proposals concerning the creation and use of new and processing production facilities, objects of main and other pipelines;

third priority - proposals associated with construction and joint use of infrastructure and other objects.

6. Where the National Company participates in a project, the terms of the tender must indicate its participation share among the contractors of the Agreement in accordance with the procedure established by the Government of the Republic of Kazakhstan.

7. The Commission for conducting a tender to select a contractor for carrying out the combined exploration and extraction or extraction of hydrocarbons on the production sharing terms in the case of relative equality of the content of the tendering proposals on the additional commitments, indicated in the paragraph 5 of this article, submitted by the participants, shall have the right to determine a short-list of the participants (not less than two). To identify the final winner of a tender, the tendering commission shall have the right to request from the short-listed participants additional proposals or explanations concerning the tendering proposals. The short-listed participants are free to improve their tendering proposals within the period of time fixed by the tendering commission. Based upon the results of the improved tendering proposals of short-listed participants, the tendering commission shall identify the winner of the tender and the participant whose proposal was recognized as the second best after the winner's proposal.

8. Upon summing-up the results, the tendering commission shall be guided by the rules for granting offshore blocks under the production sharing terms and conditions approved by the Government of the Republic of Kazakhstan and stipulating the assessment parameters for additional commitments of the participants with regard to high technologies, new construction, main pipeline, infrastructure objects.

9. At the second stage, after establishing the winner of a tender in accordance with the established procedure, the commission to be formed by the competent authority for the preparation of the Production Sharing Agreement, shall carry out negotiations with the winner on main provisions of the draft Production Sharing Agreement, including the possibility of

improving the unified criteria determined previously. The unified quantitative criteria determined by the Government or criteria improved by the winner of a tender, and additional commitments shall be the obligatory provisions of the agreement. All necessary provisions of an agreement which are not obligatory conditions of the tender, shall not contradict the obligatory conditions of the tender.

Said commission shall be formed in accordance with the established procedure within one month since the date of announcing tender results. Technical, economic, and legal consultants of the parties may participate in the work of the commission. Financing of expenses associated with engagement of consultants on the side of the competent authority shall be at the cost of the state budget funds in accordance with the established procedure.

10. Upon the results of conducting each stage of negotiations the protocol on its results shall be signed between the commission of the competent authority and the contractor.

11. In the case of refusal or evasion of a tender winner from the conclusion of the Production Sharing Agreement within the period of time established by the present Law, the commission of the competent authority shall propose to the participant of the tender whose proposal was recognized as the best after the winner's proposal, to begin negotiations and to conclude a Production Sharing Agreement.

Chapter 4. Conclusion and Implementation of Agreements

Article 13. The Procedure for the Conclusion of an Agreement

1. In accordance with the procedure determined by the Government of the Republic of Kazakhstan, an Agreement shall be concluded with the winner of the tender within the period of time agreed by the parties, but not later than one year after the date of forming the commission of the competent authority for the preparation of the Production Sharing Agreement. Signing of an Agreement shall be carried out upon the completion of negotiations on its terms and conditions by representatives of the parties within the period of time agreed by the parties.

2. The competent authority in conjunction with the state authorities concerned and the winner of a tender shall conclude an additional agreement to be an obligatory part of a Production Sharing Agreement, in accordance with the additional commitments undertaken by the winner with regard to high technologies, new and processing manufactures, objects of main pipeline and other pipelines, objects of infrastructure and other objects if the additional commitments are not associated with the activities in oil operations.

The additional agreement shall stipulate the beginning of its implementation if the contractor declares the commercial discovery under the Production Sharing Agreement.

Article 14. Terms and conditions of the operations implementation.

1. Operations and types of activity stipulated in the Agreement shall be carried out by the contractor according to the programs, projects, plans, budgets and estimates approved in accordance with the procedure established by the Agreement.

2. Operations under the Agreement shall be carried out in compliance with the requirements of the legislation of the Republic of Kazakhstan, including ecological requirements on environment protection and fulfillment of measures aimed at prevention of harmful influence of performed operations upon the natural environment, and at liquidation of consequences of such influence, upon obligatory insurance of liabilities associated with compensation for harm in cases of accidents entailing harmful impact upon the environment, as well as in compliance with the standards (norms, rules), approved in accordance with the established procedure, concerning safety of operations, protection of subsurface, public health, and upon Kazakhstani content.

3. A contractor shall be obliged to clean the territory where the operations under the Agreement were carried out from contamination, as well as to liquidate all facilities, installations and other property offshore upon the completion of operations under the Agreement.

Article 15. The Managing Committee under a Production Sharing Agreement

For the purposes of coordinating activities associated 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 organizations (contractor) and the competent authority. The membership number, rights and obligations of the managing committee as well as the procedure for its functioning shall be defined in the Agreement.

Article 16. The Operator under a Production Sharing Agreement

1. Organization of operations implementation under the Agreement, including the accounting and reporting in accordance with provisions of the present Law, shall be carried out by the contractor or pursuant to the contractor's instructions by the operator under a given Agreement. Juridical persons formed by the contractor in the territory of the Republic of Kazakhstan for the purposes of organizing the specified operations or juridical persons carrying out activities in the territory of the Republic of Kazakhstan engaged by the contractor for these purposes, may act as such operators whose activity must be restricted to organization of specified operations.

2. Contractors shall bear the property accountability before the state for the actions of the operator under the Agreement in the same manner as for their own actions.

3. The contractors finance activities of operators on the terms as specified in the Agreement on joint activities between the contractors within the budget to be approved by the contractor.

4. In order to manage activities of the operator, the contractor may form an operational committee consisting of the contractor's representatives.

Article 17. The Ownership Rights to Assets

1. Assets that have been created or purchased by the contractor and used by the contractor for the implementation of works under an Agreement shall be recognized as a property of the contractor, unless otherwise is specified in the Agreement.

This provision shall not be changed if the said assets are transferred to the operator or purchased by the operator at the contractor's expense.

2. The ownership right to said assets may be transferred from the contractor to the state from the date when the value of said assets is fully compensated for, or from the date of the termination of the Agreement, or from a different date agreed upon by the parties in accordance with the conditions and procedure specified in the Agreement. In that respect, the contractor shall be granted for the validity term of the Agreement the exclusive right to use such assets on a charge-free basis for the implementation of operations under the Agreement, and the contractor shall bear the burden of maintenance of the assets which are in the contractor's use as well as the risk of its accidental damage or destruction.

3. In the case of the transfer to the state of the ownership rights to said assets, the procedure for its appropriation to the republican state property as well as the procedure for further use of those assets shall be established by the Government of the Republic of Kazakhstan.

Article 18. Transportation, Storage and Processing of Hydrocarbon Raw Materials

1. The contractor shall have the right of free access on a contractual basis to the facilities of the main pipeline transport as well as the right to free use, on a contractual basis, of main pipeline facilities and other types of transport, facilities for storage and processing of hydrocarbon raw materials without any discriminatory conditions.

2. The contractor within the framework of the works implemented under the Agreement shall have the right to build objects for storage, processing and transportation of hydrocarbon raw materials, the ownership rights for which shall be defined by the Agreement taking into account the provisions of the present Law.

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 Agreements shall be carried out separately for each Agreement and also separate from such an accounting 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, if 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) in 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 under the Agreement to any juridical person or any natural person in accordance with the procedure established by legislation on the condition that those persons have sufficient financial and technical resources and experience in managerial activities that are necessary for the implementation of works under the Agreement.

When a contractor transfers all the rights under a Production Sharing Agreement to a third party in accordance with the procedure established by the law, all the obligations and rights under the additional agreement on investment of additional commitments of the contractor shall be transferred to that party.

In the case of a partial transfer of the contractor's rights to a third party in accordance with the procedure established by the law, the rights and obligations under the Production Sharing

Agreement and additional investment commitments agreement of the contractor as agreed upon by the Agreement on joint activities between the transferring and acquiring parties shall be transferred to the new party. The Agreement on joint activities shall become an integral part of the Production Sharing Agreement.

2. The transfer of rights and obligations under an Agreement shall be done in writing by means of compiling a special purpose agreement to be an integral part of the Agreement, in accordance with the procedure defined by the Agreement and it shall be accompanied with the corresponding introduction of amendments into the effective Production Sharing Agreement.

3. With the consent of the Competent Authority the contractor may use assets and property rights owned by the contractor as a pledge for securing the contractor's obligations under the agreements concluded in connection with the implementation of the Agreement in compliance at that with the requirements of the civil laws of the Republic of Kazakhstan.

Article 23. Stability of Terms and Conditions of an Agreement

1. Provisions of an Agreement shall remain in force during the entire validity term. Amendments into the Agreement shall be allowed only upon mutual consensus of the parties.

2. In case if during the validity term of an agreement the legislation of the Republic of Kazakhstan establishes norms which worsen or improve commercial results of the contractor's activity within the framework of the Agreement, amendments shall be introduced into the Agreement to secure the commercial results of the contractor that could be obtained by the contractor upon using the legislation which was in effect at the time of concluding the Agreement.

The procedure for the introduction of such amendments shall be defined by the Agreement.

Said provision on changes of contractual terms and conditions shall not apply in case if the legislation of the Republic of Kazakhstan introduces amendments to standards (norms and rules) concerning safety of operations, protection of subsurface, environment and public health, including for the purposes of bringing them into conformity with similar standards (norms and rules) accepted and generally recognized in international practice.

3. The Republic of Kazakhstan shall guarantee the stability of terms and conditions of the Agreement concluded between contractors and state authorities of the Republic of Kazakhstan, except for the cases when amendments into agreements are introduced by the consensus of the parties.

These guarantees shall not apply to the following:

1) changes in the legislation of the Republic of Kazakhstan and (or) entry into force and (or) amendments into international agreements of the Republic of Kazakhstan, that change the procedure and terms of import, production, sale of excisable goods;

2) amendments and addenda that are introduced into the legislative acts of the Republic of Kazakhstan for the purposes of ensuring the national and ecological safety, health and morality.

Article 24. State Guarantees of Contractors Rights

1. Protection of property rights and other rights acquired and executed by contractors in accordance with the Agreement shall be guaranteed.

2. Contractors shall not be subject to the statutory legal acts of the executive authorities, as well as of local self-government authorities if the specified acts establish restrictions of contractors' rights acquired and executed by the contractors in accordance with the Agreement, except for regulations of relevant supervisory authorities which are issued in accordance with the legislation of the Republic of Kazakhstan for the purposes of ensuring safety of operations, protection of subsurface, environment, public health, as well as for the purposes of ensuring public and national security.

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 forecasting 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 the 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 and restriction 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 and 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 Agreements 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 enter into force in accordance with the same procedure as the initial agreement.

2. An Agreement the provisions of which on investors' taxation methods in accordance with Articles 17 and 20 of this Law have not entered into force within one year since the date of signing the Agreement shall be terminated upon expiry of one year since the date of signing it without observing conditions specified in paragraph 1 of this Article.

3. An offshore block in respect of which an Agreement was terminated for reasons specified by paragraph 2 of this Article, may be granted for subsurface use on the terms of production

sharing only after holding a tender for granting the subsurface use right on the terms and conditions other than production sharing, and recognition of the tender as invalid in connection with the absence of participants as well as upon the observance of the provisions of Articles 5 and 13 of the present Law.

Article 29. Settlement of Disputes

1. The right of the Republic of Kazakhstan shall exclusively be applied to relations associated with the carrying out the combined exploration and extraction or extraction on the terms of production sharing

2. Disputes between the state and a contractor associated with the implementation, termination and invalidity of agreements shall be settled through negotiations in accordance with the procedures stipulated in the provisions of the Agreement.

3. Failing to settle a dispute in accordance with the provisions of paragraph 2 of this Article, any party to the Agreement shall have the right to submit the dispute to the consideration of authorities stipulated in the Law of the Republic of Kazakhstan “On Oil”.

Chapter 5. Interim Provisions

Article 30. The Procedure for the Application of the present Law

1. Production Sharing Agreements concluded by the Republic of Kazakhstan prior to the entry into force of the present Law shall remain valid.

2. Contractors that received contractual territories for exploration prior to the entry into force of the present Law and made commercial discovery declaration to the competent authority during the validity of an Agreement, shall have the right to conclude on competition-free basis an Agreement with the competent authority for the extraction on Production Sharing terms and conditions or on other terms and conditions at their discretion.

President
of the Republic of Kazakhstan

N. Nazarbaev