

Model Production Sharing Agreement for Petroleum Exploration and Production in Turkmenistan (Part 1)

Ashgabat - March 20, 1997

Annexes

- Annex "A" - Description of Contract Area
- Annex "B" - Map of Contract Area
- Annex "C" - Exploration Licence
- Annex "D" - Accounting Procedure
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THIS AGREEMENT, made and entered into this _____ day of _____, 199__ by and between:

(A) The Competent Body of Turkmenistan as state entity duly organised and existing under the laws of Turkmenistan; and/or

State Concern _____, a State entity duly organised and existing under the laws of Turkmenistan, hereinafter referred to as "Concern", on the one side;

and

(B) _____, a company duly organised and existing under the laws of _____, and

_____, a company duly organised and existing under the laws of _____, and

_____, a company duly organised and existing under the laws of _____, and

contracting jointly and severally, hereinafter referred to collectively as "Contractor" and each individually as "Contracting Company", on the other hand,

each of Competent Body, Concern, Contractor and each Contracting Company, together with their respective assigns being individually referred to as "Party" and collectively as "Parties".

WITNESSETH

WHEREAS, title to Petroleum in or under any land or water within the territory of Turkmenistan is vested in the Government and all rights related to petroleum operations belong exclusively to the Government;

WHEREAS, the Petroleum Law of Turkmenistan dated Dec. 30, 1996 (the "Law") makes provision with respect to exploring for and producing Petroleum and entitles Competent Body to grant Exploration and Production Licences, separately or in combination as the case may require, to any Person subject to certain limitations and conditions;

WHEREAS, the Law entitles Competent Body and (or) Concern to enter into an agreement with any Person with respect to the terms and conditions of, and related to, the grant of a licence under the Law;

WHEREAS, Contractor intends to apply for an Exploration and/or Production Licence, as the case may require, over the area described in Annex A and shown on the map in Annex B (the "Contract Area"), and the Competent Body, in accordance with the provisions of the Law, is willing to grant the said Licence(s);

WHEREAS, Contractor is willing, on certain terms and conditions, to undertake Petroleum Operations in the Contract Area and has for that purpose the necessary financial capability, technical competence and professional skill to carry out such Operations; and

WHEREAS, Competent Body represents and warrants that the Contract Area is free from any encumbrance and burden under the grant of any previous licence to any third party not being a Party hereto.

NOW, THEREFORE, the Parties hereto agree as follows:

ARTICLE 1 DEFINITIONS

In this Agreement, unless the context otherwise requires, the following words and phrases shall have the meaning ascribed to them below:

1.1 "Accounting Procedure" means the procedures for accounting, financial record keeping and control, and financial reporting as set out in Annex "D" hereto.

1.2 "Affiliate", "Affiliated Company" means:

(a) in relation to any Contracting Company, either:

(i) a company, corporation or other legal entity in which such Contracting Company holds directly or indirectly shares carrying more than fifty percent (50%) of the votes at a general meeting of such company, corporation or other legal entity; or

(ii) a company, corporation or other legal entity holding directly or indirectly shares

carrying more than fifty percent (50%) of the votes at a general meeting of such Contracting Company; or

(iii) a company, corporation or other legal entity of which shares carrying more than fifty percent (50%) of the votes at a general meeting of such company, corporation or other legal entity are held directly or indirectly by a company, corporation or other legal entity which also holds directly or indirectly shares carrying more than fifty percent (50%) of the votes at a general meeting of such Contracting Company; and

(b) in relation to Competent Body and Concern, any entity or enterprise in which they have an interest and the right to control, manage or direct the action thereof.

1.3 "Agreement" means this instrument and the Annexes attached hereto, including any extensions, renewals or amendments thereof agreed to in writing by the Parties.

1.4 "Appraisal", "Appraisal Programme" means appraisal work (being part of Exploration) and a programme carried out following a Discovery of Petroleum for the purpose of delineating the Petroleum Reservoir to which that Discovery relates in terms of thickness and lateral extent and estimating the quantity of recoverable Petroleum therein, and shall include, but not be limited to, geological, geophysical, aerial and other surveys, stratigraphic tests, the drilling of shot holes, core holes, Appraisal Wells and other related holes and wells, and the purchase or acquisition of supplies, materials and equipment therefor.

1.5 "Appraisal Well" means any well drilled for the purposes of an Appraisal Programme.

1.6 "Assets" means the property whether real or personal owned or acquired by Contractor in connection with Petroleum Operations under this Agreement, the Exploration Licence and any Production Licence granted hereunder.

1.7 "Associated Gas" means Natural Gas which is produced in association with Crude Oil, and includes solution gas or gas-cap gas from a Petroleum Reservoir recovered as gas at the surface by separation or other primary field processes.

1.8 "Barrel" means a quantity consisting of forty-two (42) US gallons, liquid measure, corrected to a temperature of sixty degrees (60°) Fahrenheit.

1.9 "Calendar Month" means any of the twelve (12) months of a Calendar Year.

1.10 "Calendar Quarter" means a period of three (3) consecutive Calendar Months commencing with first day of January, April, July and October of each Calendar Year.

1.11 "Calendar Year" means a period of twelve (12) Calendar Months according to the Gregorian Calendar, starting with January 1st and ending with December 31st.

1.12 "Commercial Discovery" means a Discovery that can be developed and produced commercially after consideration of all pertinent operating and financial data collected during performance of the relevant Appraisal Programme and otherwise including any long term testing considered necessary by Contractor, including but not limited to Crude Oil and/or Natural Gas recoverable reserves,

sustainable production levels, transportation and other relevant technical and economic factors.

1.13 “Commercial Production” means Production of Crude Oil or Natural Gas or both and delivery of the same at the Delivery Point under a program of regular production and sale.

1.14 “Competent Body” has the meaning ascribed to it under Article 1 of the Law.

1.15 “Concern” has the meaning ascribed to it under Article 1 of the Law.

1.16 “Contract Area” means (a) on the Effective Date, the area described in Annex A and shown on the map in Annex B; and (b) thereafter, the whole or any part of such area which, at any particular time, remains subject to the Exploration Licence granted to Contractor pursuant to the Law and/or subject to a Production Licence granted to Contractor pursuant to said Law.

1.17 “Contractor” means, _____, _____, _____ and includes any other Person to whom the said company(ies) or any of their assignees or successors assign directly or indirectly their Participating Interest in whole or in part under any Exploration Licence, Production Licence and this Agreement.

1.18 “Contract Expenses” means Exploration Expenditures, Development Expenditures, Production Expenditures, Operating Expenses and Interest Charges incurred by Contractor in conducting Petroleum Operations hereunder, including costs associated with the winding up of such operations.

1.19 “Contract Revenues” means the proceeds earned by Contractor from the sale or other disposition of its entitlement share of all Petroleum produced and saved and not used in Petroleum Operations hereunder.

1.20 “Crude Oil” means any hydrocarbon which:

(a) at atmospheric pressure and temperature of sixty degrees (60°) Fahrenheit is in a liquid state at the well head or gas/oil separator or which is extracted from Natural Gas in a plant, including distillate and condensate; and

(b) has been produced from the Contract Area.

1.21 “Date of Commencement of Commercial Production” means the date as of which the Management Committee determines that Commercial Production is first achieved in the Contract Area.

1.22 “Delivery Point” means the point at which Petroleum produced and saved hereunder enters the Main Pipeline in Turkmenistan for delivery to land or seaboard terminal point of export, or such other point within Turkmenistan as may be agreed to in writing by the Parties.

1.23 “Development” shall include, but not be limited to, all activities pursuant to this Agreement with respect to the drilling and completion of wells to produce and recover

Petroleum or to inject gas, and the design, construction, installation, connection and initial testing of equipment, lines, systems, facilities, plants and related activities necessary for producing, taking and saving, treating, handling, storing and transporting Petroleum.

1.24 "Development Area" means an area within the Contract Area encompassing the areal closure of a Petroleum bearing Reservoir(s) outlined following Appraisal and delineated in a Development Plan.

1.25 "Development Expenditures" means Contract Expenses borne by Contractor in connection with Development.

1.26 "Development Plan" means a plan for the implementation of Development as further detailed in paragraph 12.4 hereunder.

1.27 "Discovery" means any discovery of Petroleum which has been effected in the Contract Area and may be considered for Appraisal to ascertain whether it is a Commercial Discovery.

1.28 "Effective Date" means the date on which this Agreement, after being signed by all Parties hereto, becomes effective pursuant to the provisions of Article 33 hereunder.

1.29 "Exploration" shall include, but not be limited to, such geological, geophysical, aerial and other surveys as may be contained in an approved Work Programme and Budget, and the drilling of such shot holes, core holes, stratigraphic tests, wells for the discovery of Petroleum and other related holes and wells, and the purchase, hire or acquisition of such supplies, materials and equipment therefor, all as may be contained in approved Work Programmes and Budgets.

1.30 "Exploration Expenditures" means Contract Expenses borne by Contractor in connection with Exploration.

1.31 "Exploration Licence" means a Petroleum exploration licence granted pursuant to the Law and the provisions of this Agreement.

1.32 "Exploration Period" means the Initial Exploration Period, First Renewal Period and/or Second Renewal Period referred to in paragraph 3.2 hereunder.

1.33 "Exploration Well" means a well, other than an Appraisal Well, drilled in the course of Exploration operations conducted hereunder.

1.34 "First Renewal Period" has the meaning ascribed to it in paragraph 3.2.2 hereunder.

1.35 "Government" means the President and the Cabinet of Ministers of Turkmenistan.

1.36 "Initial Exploration Period" has the meaning ascribed to it in paragraph 3.2.1 hereunder.

1.37 "Interest Charges" means the interest, calculated at the applicable LIBOR rate, actually incurred and supported by documentary evidence on loans raised to finance Development Expenditures.

1.38 "Law" means the Petroleum Law of Turkmenistan

1.39 "LIBOR" means the one (1) Calendar Year US Dollar London Interbank Offer Rate, as quoted by the London Financial Times, on the date of calculation of interest charges provided for under paragraph 13.6(c).

1.40 "Main Pipeline" has the meaning ascribed to it under Article 39 of the Law.

1.41 "Market Price" has the meaning ascribed to it in paragraph 14.1 hereunder.

1.42 "Maximum Efficient Rate" means the maximum rate of production of Crude Oil, without excessive decline of production or excessive loss of reservoir pressure, in accordance with international good oil-field practice and the provisions of paragraph 6.1.2(p) hereunder.

1.43 "Natural Gas" means both Associated and Non-Associated Gas and all its constituent elements produced from any well in the Contract Area, other than liquids extracted therefrom, and all non-hydrocarbon substances therein.

1.44 "Non-Associated Gas" means Natural Gas other than Associated Gas.

1.45 "Operating Expenses" means direct and indirect running costs borne by Contractor in connection with such work as the operation, maintenance and servicing of all types of facilities required for Petroleum Operations. Operating Expenses shall include workover, repair and maintenance of assets, but shall not include side tracking, re-drilling and changing the status of a well, replacement of assets or part of an asset, additions, improvements, renewals or major overhauling that extend the life of the asset, the latter costs being categorised under the relevant Contract Expenses, other than Operating Expenses.

1.46 "Operator" means the Contracting Company designated to conduct the Petroleum Operations on behalf and in the interest of Contractor pursuant to the provisions of Article 10.

1.47 "Participating Interest" means, in relation Contractor or any Contracting Company, as the case may be, , an undivided and unencumbered interest in the rights and obligations under the Licence and this Agreement.

1.48 "Person" has the meaning ascribed to it under Article 1 of the Law.

1.49 "Petroleum" means collectively or individually, as the context requires, Crude Oil and Natural Gas as well as those substances produced therewith or derived therefrom.

1.50 "Petroleum Operations" means all Exploration, Development and Production activities, as well as those related to transportation and storage of Petroleum, and

other activities related to the performance of this Agreement.

1.51 "Pipeline Company" has the meaning ascribed to it under Article 39 of the Law and paragraph 15.4 hereunder.

1.52 "Production" means every type of operations to produce Petroleum and operate Development wells, and the taking, saving, treating, handling, storing, transporting, metering, marketing and delivering of Petroleum, injection or re-injection, and every other type of operations to obtain primary and enhanced recovery of Petroleum, and transportation, storage and any other work or activities necessary or ancillary to such operations.

1.53 "Production Expenditures" means Contract Expenses borne by Contractor in connection with Production.

1.54 "Production Licence" means a Petroleum production licence granted pursuant to the Law and the provisions of this Agreement.

1.55 "Profit Tax" means the tax upon Contractor's taxable profit from Petroleum Operations, as provided for in paragraph 16.1 hereunder.

1.56 "R Factor" means, for the purposes of Article 13 hereunder, the ratio of the cumulative sum of the Contract Revenues to the Cumulative sum of the Contract Expenses.

1.57 "Renewal Period" means the First Renewal Period or the Second Renewal Period referred to in paragraphs 4.1.2 and 4.1.3 hereunder.

1.58 "Reservoir" means a porous and permeable stratum capable of producing Petroleum and which must be considered, because of the character of the substances it holds (similitude of physical properties, density, Gas-Oil ratio, viscosity and a pressure relationship) as a unit in regard to its natural exploitation.

1.59 "Second Renewal Period" has the meaning ascribed to it in paragraph 4.1.3 hereunder.

1.60 "Work Programme and Budget" means an itemised statement of Petroleum Operations to be carried out in the Contract Area and a detailed breakdown of the Contract Expenses associated therewith, including both capital and operating budgets.

ARTICLE 2 SCOPE

2.1 The object of this Agreement is to carry out Exploration, Development and Production of Petroleum in the Contract Area.

2.2 Contractor shall be responsible to Competent Body for the execution of Petroleum Operations in accordance with the provisions of the Law and this Agreement.

2.3 Competent Body shall be responsible for securing the regular implementation and conduct by Contractor of the Petroleum Operations contemplated hereunder.

2.4 Contractor shall provide all capital, know-how, technology and manpower necessary to conduct Petroleum Operations, except as otherwise provided for in this Agreement.

2.5 Contractor shall carry out Petroleum Operations at its own costs and risk, except as otherwise provided for in this Agreement. The costs incurred by Contractor in carrying out Petroleum Operations will be recovered by Contractor in accordance with the provisions hereof. If no Commercial Discovery is achieved, or if production of Petroleum is insufficient to reimburse Contractor, the latter shall bear its own losses.

2.6 Without prejudice to the Government's ownership of all Petroleum in and under the Contract Area, each Contracting Company shall have the right to receive and dispose of its share of the Petroleum produced and saved therein, as a reimbursement of costs incurred and remuneration for services rendered, pursuant to the provisions of this Agreement.

ARTICLE 3 GRANT OF RIGHTS

3.1 Subject to the assumption by Contractor of the obligations imposed on it by the Law and this Agreement, Contractor will be granted an Exploration Licence in the form set forth in Annex "C" over the Contract Area described in Annex "A" and shown on the map in Annex "B" hereof.

3.2 The Exploration Licence term shall consist of:

3.2.1 an initial term of six (6) years ("Initial Exploration Period") counted from the first day of the first Calendar Month following the Effective Date;

3.2.2 two (2) successive renewals ("First Renewal Period" and "Second Renewal Period") of two (2) years each upon written application therefor by Contractor, if Contractor so elects, to Competent Body not later than ninety (90) days prior to the expiration date of the Initial Exploration Period or the First Renewal Period, as the case may be, subject to the fulfilment of Contractor's Minimum Work and Expenditure obligations for the then current Exploration Period, as specified in Article 4 hereunder.

3.3 Upon declaration by Contractor of achievement of a Commercial Discovery, within the Exploration Licence term, and approval thereof by the Management Committee pursuant to the provisions of paragraph 9.3(e), Competent Body will forthwith grant Contractor, upon application by the latter not later than thirty (30) days following the date of said approval, a Production Licence with respect to the area being the subject of such Commercial Discovery for a term of twenty (20) years.

3.4 Competent Body will grant, upon application therefor by Contractor not later than

one (1) year prior to the expiration of any such Production Licence, an extension thereof for a five (5) year term. A further extension of up to five (5) years of any Production Licence may be granted, under contractual terms to be mutually agreed to.

3.5 Unless otherwise terminated in accordance with the terms of this Agreement and the Law, this Agreement shall terminate on the date as of which the last Production Licence has expired.

3.6 Contractor shall, subject to the Law and the terms and conditions herein set forth, have the exclusive right to conduct Petroleum Operations within the Contract Area for the term of the Exploration Licence and any Production Licence granted to it in accordance with the Law and the provisions of this Agreement.

3.7 Competent Body reserves the right to grant licences to third parties to prospect for, explore for and mine minerals other than Petroleum within the Contract Area, and further reserves to itself the right to so prospect, explore and mine directly. Contractor shall use its best efforts to avoid obstruction or interference with such licensees' or Competent Body's operations and similarly Competent Body shall use its best efforts to ensure that its own operations or those of third parties do not obstruct or interfere with Contractor's Petroleum Operations within the Contract Area.

3.8 If more than one Person comprises Contractor, the duties and obligations of the Persons constituting Contractor hereunder shall be the joint and several liability of such Persons, save in respect of the payment of Profit Tax.

ARTICLE 4 MINIMUM EXPLORATION WORK PROGRAMME BANK GUARANTEE

4.1 In discharge of its obligation to carry out Exploration operations in the Contract Area, Contractor shall, in accordance with the provisions of this Article, carry out the Minimum Exploration Work Programmes and shall expend the corresponding Minimum Expenditures as follows:

4.1.1 Initial Exploration Period

Commencing on the day on which the Exploration Licence becomes effective and terminating on the fourth anniversary of such date, the following Exploration work shall be carried out:

(a) Minimum Work Programme:

(i) geological and geophysical work: (to be specified);

(ii) Exploration drilling: the drilling and evaluation of at least _____ (____) Exploration Wells. The drilling programmes shall adequately test the estimated Petroleum bearing horizons.

(b) Minimum Expenditures:

(i) in respect of geological and geophysical work: ____ (___) US dollars;

(ii) in respect of Exploration drilling: _____ (___) US dollars.

4.1.2. First Renewal Period

Commencing on the day on which the first renewal of the Exploration Licence is granted to Contractor pursuant to Article 3 hereof and terminating on the second anniversary of such date:

(a) Minimum Work Programme:

(i) geological and geophysical work: (to be specified);

(ii) Exploration drilling: the drilling and evaluation of at least ____ (___) Exploration Wells. The drilling programmes shall adequately test the estimated Petroleum bearing horizons.

(b) Minimum Expenditures:

(i) in respect of geological and geophysical work: ____ (___) US dollars;

(ii) in respect of exploration drilling: ____ (___) US dollars.

4.1.3 Second Renewal Period

Commencing on the day on which the second renewal of the Exploration Licence is granted to Contractor pursuant to Article 3 hereof and terminating on the second anniversary of such date:

(a) Minimum Work Programme:

(i) geological and geophysical work: (to be specified);

(ii) exploration drilling: the drilling and evaluation of at least ____ (___) Exploration Wells. The drilling programmes shall adequately test the estimated Petroleum bearing horizons.

(b) Minimum Expenditure:

(i) in respect of geological and geophysical work: ____ (___) US dollars;

(ii) in respect of exploration drilling: _____ (___) US dollars.

4.2 For the purposes of this Article, Exploration Wells shall, unless otherwise provided in the drilling program relating thereto, be drilled to the depth necessary for the testing of the geological formation identified by the available data as the objective formation which the standards of international good oil-field practices would require

Contractor to attain, unless before reaching the aforementioned target depth:

(a) basement is encountered;

(b) further drilling would present an obvious danger owing to circumstances such as the presence of abnormal pressure;

(c) impenetrable formations are encountered.

In such circumstances, the drilling of any Exploration Well may be terminated at a lesser depth and such Well shall, if the circumstances described in subparagraphs (a), (b) and (c) above occur after Contractor has attained two-thirds of the target depth, be deemed to have satisfied the minimum depth criteria provided for hereunder. In all other circumstances in which a Well is terminated at a lesser depth, a substitute Exploration Well shall be drilled.

4.3 If any category of work carried out by Contractor in the Initial Exploration Period or any Renewal Period thereafter exceeds that required in the Minimum Work Programme relating thereto, the excess work may, at Contractor's option, count towards the satisfaction of the same category of work required in the Minimum Work Programme(s) for the ensuing Renewal Period(s). It is understood that compliance with the required Minimum Expenditures for each category of work in the Initial Exploration Period, or any Renewal Period thereafter, shall not relieve Contractor of its obligation to comply with the required Minimum Work Programme corresponding thereto for such Initial Exploration Period, or Renewal Period, as the case may be; provided, however, in the event Contractor satisfies the required Minimum Work Programme for the Initial Exploration Period or Renewal Period, as the case may be, having expended less than the Minimum Expenditures corresponding thereto, the obligation to expend such Minimum Expenditures shall be deemed satisfied.

4.4 The Exploration Licence issued to Contractor pursuant to Article 3 and any renewal thereof shall be on terms and conditions relating to Minimum Work Programmes and Expenditures which correspond to the obligations of Contractor under this Article and it is accordingly understood and agreed that any discharge by Contractor of its obligations under this Article in respect of any Exploration Period will discharge for that period the Minimum Work and Expenditure obligations of Contractor in respect of the Exploration Licence.

4.5 (a) Within sixty (60) days of the Effective Date and, where the Exploration Licence is renewed pursuant to paragraph 3.2.2, within thirty (30) days from the starting date of the First and Second Renewal Periods, Contractor shall provide security by means of a bank guarantee, in the form set forth in Annex "E", equal to the total Minimum Expenditures for each category of work set forth in paragraph 4.1 for the Initial Exploration Period, or for the First or Second Renewal Period, as the case may be. Upon prior confirmation by independent accountants acceptable to both Contractor and Competent Body of the Exploration Expenditures actually incurred in respect of each category of work, such security shall, following each anniversary date of the effectiveness or renewal of the Exploration Licence, as applicable, be reduced in the manner provided for in such bank guarantee by the amount so incurred by Contractor during the preceding twelve (12) month period.

(b) Without prejudice to any other remedies that Competent Body may have under Article 35, if, at the end of the Initial Exploration Period, or any Renewal Period thereafter, Contractor has not fully satisfied the Minimum Exploration Work Programme herein specified, a portion of the security corresponding to the monetary value of unfulfilled part of such Minimum Exploration Programme shall be paid to Competent Body pursuant to such bank guarantee.

4.6 For the purposes of this Article, and without prejudice to their recoverability as Contract Expenses for other purposes under this Agreement, expenditure by Contractor on the following shall not be treated as Minimum Expenditures obligations set out in paragraph 4.1:

(a) any Appraisal Programme pursuant to paragraph 12.2(a) hereunder and paragraph 29.2 of the Law;

(b) the value of stock items listed in inventory;

(c) the training of Turkmenistan nationals pursuant to Article 21 of this Agreement; and

ARTICLE 5 RELINQUISHMENT

5.1 Voluntary Relinquishment

Contractor, on giving to Competent Body not less than ninety (90) days notice in writing may, at any time during the Exploration Licence term, voluntarily:

5.1.1 relinquish its rights and be relieved of its obligations in respect of the whole of the Contract Area, provided that its Minimum Work and Expenditures obligations under Article 4 hereunder in respect of the relevant Exploration Period have been fulfilled;

5.1.2 relinquish its rights and be relieved of its obligations in respect of any part of the Contract Area provided, however, that no relinquishment by Contractor of its rights over any such part of the Contract Area shall relieve Contractor of its obligation to satisfy the Minimum Work and Expenditure obligations referred to in Article 4 hereof.

5.2 Mandatory relinquishment

5.2.1 If Contractor elects to enter into the First Renewal Period of the Exploration Licence, it shall relinquish on the effective date of such First Renewal Period twenty five percent (25%) of the original Contract Area, as reduced by any area being the subject of Appraisal or of a Production Licence.

5.2.2 Should Contractor elect to enter into the Second Renewal Period of the Exploration Licence, it shall relinquish on the effective date of such Second Renewal Period another twenty five percent (25%) of the original Contract Area, as reduced by any area being the subject of Appraisal or of a Production Licence.

5.2.3 At the expiration of the Exploration Licence term (or the Initial Exploration Period or the First Renewal Period, according to Contractor's election pursuant to paragraph 3.2.2 above), Contractor shall relinquish each part of the Contract Area which is not within any area being the subject of a Production Licence; provided, however, that Contractor shall be allowed to retain for twenty-four (24) months thereafter, any part of the Contract Area where Appraisal operations are currently being carried out, or which contains a Discovery which in the opinion of Contractor may, together with any other Discovery within the Contract Area, be able to constitute a Commercial Discovery.

5.2.4 At the expiration of each Production Licence term, Contractor shall relinquish the entirety of the area relating to such Production Licence.

5.3 Areas relinquished need not be contiguous, but shall be of a shape and size which will readily permit delineation and subsequent award of petroleum rights to a third party.

5.4 This Agreement shall terminate with respect to all relinquished areas immediately upon relinquishment and Contractor shall have no further rights with respect to such areas.

ARTICLE 6 RIGHTS AND OBLIGATIONS OF CONTRACTOR

6.1 Subject to the further terms and conditions of this Agreement, in carrying out the activities to be conducted hereunder, Contractor will, throughout the duration of this Agreement, have the rights and obligations enunciated hereunder.

6.1.1 Rights of Contractor

Contractor shall have:

(a) the sole and exclusive right to conduct Petroleum Operations in the Contract Area and to produce the reserves of Petroleum located therein, to act as Operator with respect to Petroleum Operations, to furnish all technical expertise and assistance including foreign personnel required for the conduct of such Petroleum Operations;

(b) the right of free access to and egress from the Contract Area and such other areas within the territory of Turkmenistan as are necessary to undertake Petroleum Operations;

(c) in connection with the conduct of Petroleum Operations and subject to the applicable laws of Turkmenistan, the right to install, construct, operate and use, on the Contract Area, other areas adjacent thereto and within the territory of Turkmenistan, telecommunications facilities and other facilities (including pipelines and other transportation facilities, roads, causeways, bridges, landing fields, terminals, housing, storage facilities, gathering stations and separation and treatment plants);

(d) the right to engage subcontractors to carry out any part of Petroleum Operations, provided that (i) Contractor retains overall responsibility for the performance of such Petroleum Operations and (ii) Contractor shall ensure the compliance by each of its subcontractors with the terms of this Agreement;

(e) the right to use free of charge Petroleum produced from the Contract Area to the extent reasonably required for Petroleum Operations;

(f) the right to receive at the Delivery Point unencumbered title to Contractor's share of Petroleum hereunder;

(g) the right, in its sole discretion, to transport within and export from Turkmenistan, and to sell, trade, assign, pass unencumbered title to, mortgage, Contractor's share of Petroleum hereunder;

(h) the right to use, without acquiring title, land neighbouring the Contract Area and within Turkmenistan as necessary for the efficient conduct of Petroleum Operations;

(i) the right to construct, lay, use and operate pipelines (whether existing or new) for the transportation of Petroleum produced from the Contract Area (i) within the Contract Area and (ii) subject to applicable laws of Turkmenistan and the rights of third parties, from the Contract Area to points of sale, export or delivery for further transportation or processing within Turkmenistan;

(j) subject to the payment of the relevant monetary countervalue to Competent Body, the right to acquire all the data from previous petroleum operations, in the possession or under the control (as of the Effective Date) of Competent Body;

(k) the right to import, stock and use foreign materials, equipment and services as are necessary to be imported for the performance of its obligations hereunder, including reasonable amounts of household goods and personal effects for the personal use of expatriate employees engaged in Petroleum Operations, free of any customs duties;

(l) subject to the ownership rights of Competent Body pursuant to Article 22, the right to (i) export from Turkmenistan materials and equipment imported for the purpose of performing its obligations hereunder, free of any customs duties or charges; (ii) re-sell such materials and equipment exceeding the requirements of Petroleum Operations in Turkmenistan subject to the payment by the buyer of applicable taxes, duties and fees;

(m) the right to obtain entry and work permits for expatriate personnel whose services are necessary for the performance of Contractor's obligations hereunder;

(n) to the extent necessary for the efficient conduct of Petroleum Operations and subject to applicable laws of Turkmenistan, the right to move freely plant, equipment and materials across the territory of Turkmenistan (whether such plant, equipment and materials are imported into or acquired within Turkmenistan); and

(o) such other and additional rights as may be provided to Contractor hereunder;

6.1.2. Obligations of Contractor

Contractor shall have:

(a) the obligation to start the implementation of the Petroleum Operations not later than three (3) months from the Effective Date, to be responsible for all Petroleum Operations whether carried out directly or through subcontractors, to perform them diligently, safely and efficiently in accordance with international good oil-field practice and the international conservation and environmental standards necessary to protect the ecological conditions of the area where the Petroleum Operations are carried out;

(b) the obligation to observe all laws of Turkmenistan and the terms and conditions of this Agreement;

(c) the obligation to carry out the Exploration Work Programme and all Appraisal Programmes and Development Plans in accordance with annual Work Programmes and Budgets approved by the Management Committee and in accordance with the Accounting Procedure;

(d) the obligation, in case of emergency, to take such steps and make such immediate expenditures as are necessary for the protection of life, the environment and property;

(e) the obligation to submit all programmes and reports in respect of Petroleum Operations as are customary in international oil industry practice and as provided in Article 8;

(f) the obligations to maintain appropriate records, logs and reports on Petroleum Operations including maintenance of books of account as provided in Article 8;

(g) the obligation to undertake competitive tendering for purchase of materials and services, the costs of which exceed an amount of ____ (____) US dollars;

(h) the obligation to give preference to Turkmenistan's suppliers of services and materials as provided in Article 20;

(i) the obligation to employ citizens of Turkmenistan and to provide training to personnel and transfer of modern technology as provided in Article 21;

(j) the obligation to fund social and other infrastructure projects as provided in paragraph 20.3;

(k) the obligation to provide and be solely responsible for the payment of all costs related or incidental to all services, equipment and supplies necessary for the execution of the activities to be conducted by Contractor under this Agreement;

(l) the obligations to take all measures consistent with international good oil field practice (i) to control the flow and prevent loss or waste of Petroleum, and (ii) to

prevent any injurious ingress of water into, and damage to, Petroleum bearing horizons;

(m) the obligation to keep Competent Body and the Management Committee promptly advised in writing of all material developments which occur, or the occurrence of which is reasonably foreseeable, affecting or likely to affect Petroleum Operations;

(n) the obligation to notify immediately Competent Body if Contractor becomes aware of any unusual event or circumstance occurring in the Contract Area or elsewhere that affects or relates to the environment;

(o) the obligation of Contractor (and each Contracting Company thereof) to register to do business in Turkmenistan in accordance with the Law and with other applicable laws of Turkmenistan, with each of them notifying Competent Body of the name and address of the persons representing them and ordinarily resident in Turkmenistan;

(p) the obligation to use its reasonable endeavours to produce Petroleum at the Maximum Efficient Rate and to submit to the Management Committee, following the Date of Commencement of Commercial Production and prior to the first day of each Calendar Quarter, an estimated production schedule for each Production Licence; and

(q) the obligation to submit actual Petroleum production reports for each Calendar Quarter to the Management Committee within thirty (30) days after the end of each such Calendar Quarter.

(r) the obligation to pay compensation and dues to the Government (or its agencies) and to Competent Body in return for specific services or facilities rendered in favour of Contractor.

(s) the obligation to remove any and all equipment, materials and assets in general used in the conduct of Petroleum Operations, and to restore to their original status any relinquished areas pursuant to Article 5.

ARTICLE 7

RIGHTS AND OBLIGATIONS OF COMPETENT BODY AND CONCERN

7.1 Subject to the further terms and conditions of this Agreement, Competent Body, with the operational assistance of Concern, shall have the rights and obligations enunciated hereunder.

7.1.1 Rights of Competent Body and Concern

Competent Body, with the operational assistance of Concern, shall have :

(a) the right to have full and complete access to the Contract Area at all reasonable times with a right to observe Petroleum Operations and the right to inspect all assets,

records and data owned or maintained by Contractor relating to Petroleum Operations and this Agreement. In doing so, Competent Body shall not unduly interfere with Contractor's Petroleum Operations. However, Competent Body may make a reasonable number of surveys, drawings, tests and copies for the purpose of implementing this Agreement. In so doing, Competent Body shall be entitled to make reasonable use of the equipment and instruments of Contractor, and its representatives shall be given assistance by Contractor for such functions. Contractor shall afford to Competent Body's representatives all facilities and privileges afforded to its own personnel in the field, including the use of available office space and housing, free of charge;

(b) the right to receive and retain copies of all manuals and technical specifications, design documents, drawings, construction records, data, programs and reports prepared or maintained in respect of Petroleum Operations as are customary in international oil industry practice;

(c) the right to audit Contractor's accounts with respect to all Petroleum Operations as provided in Article 36;

(d) the right to receive at the Delivery Point unencumbered title to Competent Body's share of Petroleum hereunder; and

(e) such additional rights as may be attributed to Competent Body hereunder.

7.1.2 Obligations of Competent Body

Competent Body shall have:

(a) the obligation to observe all laws of Turkmenistan and the terms and conditions of this Agreement;

(b) the obligations to procure the grant or provision of the following:

(i) all necessary permits and licenses required to enable Contractor to obtain access to the Contract Area and such other areas within Turkmenistan as are necessary for efficient conduct of Petroleum Operations;

(ii) all approvals or licenses necessary to open, maintain and operate bank accounts within Turkmenistan in foreign and local currencies to the extent necessary for the efficient conduct of Petroleum Operations;

(iii) all permits and approvals necessary to transport out of Turkmenistan documents, data and samples for analyses or processing in connection with Petroleum Operations;

(iv) obtaining entry and work permits for persons involved in the conduct of Petroleum Operations;

(v) obtaining licenses necessary with respect to any and all equipment and materials to be used in the conduct of Petroleum Operations; and

(vi) all other permits, licenses, authorisations and approvals required from any ministry or other national or local governmental agency, subdivision or instrumentality of Turkmenistan to carry out Petroleum Operations as contemplated in this Agreement, and to give effect to this Agreement, any of the activities to be carried out hereunder and the rights granted to Contractor hereunder;

(c) the obligation to assist Contractor with the following:

(i) obtaining housing, medical facilities, office space, office supplies, approvals for installation and operation of telecommunication facilities, transportation and pipeline facilities and other logistical aspects of conducting Petroleum Operations;

(ii) the acquisition and/or allocation of the right to use land, buildings, facilities and utilities and store production goods, equipment, materials and spare parts;

(iii) the formalities of exchanging foreign currencies;

(iv) the formalities of customs and obtaining, in a timely fashion, all customs clearances and import and export licenses; and

(v) such other matters as Contractor may reasonably request in order to give effect to this Agreement, the activities to be carried out hereunder and the rights granted to Contractor hereunder;

(d) the obligation to allow Contractor to have access to pipelines and other transportation, export and infrastructure facilities owned or controlled by Turkmenistan, on terms not less favourable than those granted to other local or foreign users;

(e) the obligation to assist in arranging, when requested by Contractor, introductions to governmental, regional and local ministries, authorities, organisations and institutes, and otherwise to assist in co-ordinating with such ministries, authorities, organisations and institutes, in each case, as may be required for the efficient and timely conduct of Petroleum Operations;

(f) the obligation to deliver to Contractor, subject to the payment of relevant monetary countervalue, all data derived from previous petroleum operations held (as of the Effective Date) by Competent Body or other agencies of Turkmenistan; and

(g) the obligation to use all means at its disposal to prevent any activity within the Contract Area which would unduly or unreasonably interfere with, hinder or delay the conduct of Petroleum Operations by Contractor.

ARTICLE 8

RECORDS, REPORTS AND DATA

8.1 Contractor shall prepare and maintain accurate and current records of Petroleum Operations and its activities in the Contract Area hereunder. Contractor shall furnish Competent Body, in conformity with international oil industry practice and as Competent Body may reasonably require, information, reports and data concerning its activities and operations under this Agreement.

8.2 Contractor shall keep logs and records of the drilling, deepening, plugging or abandonment of wells consistent with international good oil-field practice and containing particulars of:

- (a) the geological strata through which the well is being drilled;
- (b) the casing, tubing and down-hole equipment run in the well and modifications and alterations thereof; and
- (c) Petroleum, water and workable minerals encountered.

The foregoing information shall be supplied to Competent Body in the form of well completion reports within thirty (30) days of completion of the well.

8.3 Contractor shall supply to Competent Body:

- (a) daily reports on drilling operations and weekly reports on geophysical operations as soon as they are available;
- (b) within thirty (30) days after the end of each Calendar Quarter a report on the progress of Petroleum Operations during such Calendar Quarter covering:
 - (i) a description of the Petroleum Operations carried out and the factual information obtained; and
 - (ii) a description of the locations in which Contractor has conducted Petroleum Operations;
- (c) within two (2) Calendar Months of the end of each Calendar Year, an annual report covering the matters specified in paragraph 8.3(b) for such Calendar Year, including well completion reports; and
- (d) reports on completion of major elements of Petroleum Operations or unforeseen events.

8.4 Contractor shall save and keep for the duration of this Agreement all unused cores, cuttings, fluids and samples taken from the wells drilled, which shall be forwarded to Competent Body in the prescribed manner or at such time and in the manner directed by Competent Body. All cores and samples acquired by Contractor shall be available for inspection by Competent Body at all reasonable times. Unless previously forwarded to Competent Body pursuant to instruction given under this paragraph, Contractor shall forward to Competent Body all remaining cores, cuttings, fluids and samples upon relinquishment of the Contract Area.

8.5 In the case of exporting any rock or Petroleum samples from Turkmenistan for

the purpose of testing and analysis, Contractor shall ensure that samples equivalent in size and quantity shall, before such exportation, be kept in Turkmenistan at Competent Body's disposition..

8.6 Originals of records and other data can be exported only with the permission of Competent Body, provided, however, that magnetic tapes and any other data which must be processed or analysed by Contractor outside Turkmenistan may be freely exported if a comparable record is maintained in Turkmenistan and provided that such exported records and data shall be repatriated to Turkmenistan.

8.7 Contractor shall provide at no cost to Competent Body in an appropriate and reproducible form all original data resulting from Petroleum Operations, including, but not limited to, geological, geophysical, petrophysical, engineering, well logs, production data and completion status reports and any other data which Contractor may compile during the term hereof, including all reports, analyses, interpretations, maps and evaluations thereof prepared by Contractor and any subcontractors or consultants to Contractor or by Affiliates, and cuttings of all samples that have been obtained or compiled during the term hereof ("Data"). Except as otherwise provided in this Article 8, such Data shall be forwarded to Competent Body at such time and in the manner directed by Competent Body. All such Data shall be the property of Competent Body, provided that Contractor shall have the right to retain copies of such Data.

8.8 The Data shall not be disclosed to third parties by Competent Body prior to relinquishment of the area to which they relate, or prior to the expiration of the Exploration Licence if such area is not sooner relinquished, provided, however, that Competent Body may make copies available to professional consultants, legal counsel, accountants, underwriter, lenders and Government entities as may need to be made aware thereof or have the right to require disclosure.

Contractor shall not disclose such Data to any third parties without Competent Body's prior written consent, provided, however, that Contractor may make copies available to professional consultant, legal counsel, accountants, underwriters and to such government entities as may need to be made aware thereof or have the right to require disclosure, and provided further that the disclosure is made on terms which ensure that such Data are kept confidential by such recipients.

ARTICLE 9 MANAGEMENT COMMITTEE

9.1 Not later than ninety (90) days after the Effective Date, a committee shall be established by Competent Body and Contractor to be known as the Management Committee. The Management Committee shall consist of ____ (__) members, ____ (__) of whom shall be appointed by Competent Body and ____ (__) by Contractor, it being understood that Competent Body's representatives and Contractor's representatives shall be equal in number. Each member shall have one (1) vote. The Chairman of the Management Committee shall be designated by Competent Body from among the members it has appointed.

9.2 All meetings of the Management Committee shall be held in Ashgabat or such

other place in Turkmenistan or elsewhere as may be unanimously agreed by the members of the Management Committee. Meetings of the Management Committee shall require a quorum of ____ (___) members. Any member of the Management Committee may vote by written and signed proxy held by another member. Competent Body and Contractor shall also designate alternate members and shall have the right to designate a substitute member or alternate at any time, which right shall be exercised by written, telexed or faxed notification addressed to the other Party(ies) hereto. In the case of absence or incapacity of a member of the Management Committee, his alternate shall automatically assume the rights and obligations of the absent or incapacitated member. Competent Body and Contractor shall have the right to bring expert advisers to any meeting of the Management Committee to assist in the discussion of technical and other matters requiring expert advice.

9.3 Without prejudice to the rights and obligations of Contractor for day-to-day management of Petroleum Operations carried out hereunder, the Management Committee shall have the following functions:

- (a) to oversee and supervise the Petroleum Operations;
- (b) to consider and determine all matters relating to general policies, procedures and methods in the conduct of Petroleum Operations;
- (c) subject to the provisions of paragraph 9.4 (a) hereunder, to review and approve annual Work Programmes and Budgets (and amendments thereto) proposed by Contractor under Article 11;
- (d) to review and approve the Appraisal Programmes and relevant Budgets (and amendments thereto) proposed by Contractor under Article 12.2(a);
- (e) to review and approve the Appraisal reports and the relevant notification that a Commercial Discovery has been ascertained, submitted by Contractor pursuant to paragraph 12.3;
- (f) to review and approve Development Plans and relevant Budgets (and amendments thereto), presented by Contractor pursuant to paragraph 12.4;
- (g) to review and approve the annual production forecast statements presented by Contractor pursuant to paragraph 12.7;
- (h) to review and approve the insurance program and the environmental protection program provided under Articles 30 and 28 ;
- (i) to supervise and control the award of major contracts in connection with Petroleum Operations, involving amounts in excess of ____ (___) US dollars, through competitive tender procedures;
- (j) to determine the Date of Commencement of Commercial Production;
- (k) to ensure that the accounting of costs and expenses and the maintenance of

operating records and reports for Petroleum Operations are made in accordance with this Agreement, the Accounting Procedure and accounting principles and procedures generally accepted in the international petroleum industry;

(l) to appoint such technical, administrative, financial and other advisory committees as the Management Committee determines are necessary or appropriate for the timely and efficient conduct of Petroleum Operations; and

(m) to consider any other matter relating to Petroleum Operations which may be referred to the Management Committee by the Parties or any of them (other than any proposal to amend this Agreement) and which is not specifically delegated to the Operator pursuant to this Agreement.

The Management Committee shall take no action or make any decisions which would infringe the applicable laws of Turkmenistan, or would harm the international relations of Turkmenistan with any other sovereign state.

9.4 Decisions of the Management Committee shall be made unanimously. All decisions made unanimously shall be deemed to be formal decisions and shall be equally binding upon Competent Body and Contractor. Regarding the matters on which agreement can not be reached, on the basis of sound and reasonable arguments brought forth by each Party's representative in the Management Committee, Competent Body and Contractor may convene another meeting and shall attempt in good faith to find alternative solutions. However, if the Management Committee fails thereafter to reach a decision:

(a) on any Exploration operations included in an annual Work Programme and Budget (or amendments thereto), Contractor's view shall prevail, and such Exploration operations shall be deemed approved, to the extent that they are not inconsistent with the Minimum Exploration Work Programmes and Expenditures specified in Article 4;

(b) on the matters specified in paragraphs 9.3(d), 9.3(e) and 9.3(f), either Party may, within ninety (90) days of the submission by Contractor, refer the matter for determination in accordance with paragraph 29.3.

The determination in accordance with paragraph 29.3 in respect of the matters under paragraph 9.4(b) shall be final and such matters shall be deemed to have been approved by the Management Committee as determined.

9.5 The Management Committee shall meet at least semi-annually. The Chairman of the Management Committee shall call semi-annual meetings, and may call additional meetings at any time, by giving notice to the other representatives on the Management Committee at least twenty-one (21) days in advance of such meeting. Any other member in the Management Committee may request a meeting of the Management Committee by giving notice to the Chairman. Upon receipt of such request, the Chairman shall call a meeting of the Management Committee for a date not less than twenty-one (21) days nor more than thirty (30) days after receipt of such request. The above notice periods may be waived with the unanimous written consent of all the members in the Management Committee.

9.6 Each notice of a meeting of Management Committee shall contain (i) the date, time and location of the meeting and (ii) an agenda of the matters to be considered at such meeting, accompanied, if possible, by all information reasonably necessary for the members of the Management Committee to make an informed decision with respect to the matters to be considered. A member on the Management Committee, by notice to the other members on the Management Committee given not less than seven (7) days prior to the date set for a meeting, may add additional matters to the agenda for a meeting. The Management Committee may only consider at a meeting a matter not contained in the agenda for that meeting if the members of the Management Committee unanimously agree that such matter be considered.

9.7 In addition to presiding at each meeting of the Management Committee, the Chairman shall have responsibility for (i) the timely preparation and distribution of the agenda, (ii) the organisation of the meeting and (iii) supervision of the preparation of the minutes of each meeting and a written record of each vote taken at each meeting. The Chairman may appoint a secretary to carry out these functions..

9.8 The secretary shall provide each member of the Management Committee with a copy of the minutes of each Management Committee meeting within twenty-one (21) days after the end of the meeting. Each member of the Management Committee shall have twenty-one (21) days after receipt of such minutes to give notice to the secretary of corrections or additions to the minutes. Within ten (10) days of receipt of such revised minutes each member of the Management Committee shall give notice to the secretary of his approval or disapproval of such revised minutes. A failure to give notice of disapproval of such revised minutes within such ten (10) day period shall be deemed to be approval of such revised minutes.

9.9 Voting by written consent may be adopted in lieu of holding a meeting of the Management Committee. The Chairman of the Management Committee, or any other member of the Management Committee through the Chairman, may submit any proposal for a decision of the Management Committee by giving each member of the Management Committee notice describing the proposal. Each member of the Management Committee shall communicate his vote on such proposal in writing to the Chairman and the other members of the Management Committee within fifteen (15) days of the date of receipt of the notice describing such proposal. The voting and the results thereof will be as if a meeting of the Management Committee were actually held.

ARTICLE 10 OPERATOR

10.1 For the purposes of this Agreement, _____ is hereby designated and agrees to act as Operator on behalf and in the interest of Contractor. Each Contracting Company hereby appoints and authorises Operator to take such actions as agent on behalf of Contractor and to exercise such rights, privileges and powers and to comply with such obligations under this Agreement as are attributed or imposed to Contractor by the terms hereof. In such capacity, the Operator shall,

subject to the terms and conditions of this Agreement, have all of the rights, privileges, powers and responsibilities of Contractor set forth herein including, without limitation, exclusive charge of the conduct of all Petroleum Operations and other activities of Contractor contemplated by this Agreement.

10.2 All acts and omissions of the Operator under this Agreement shall be binding upon, and deemed to constitute acts and omissions of Contractor.

10.3 The Operator may not resign or be removed or replaced until such time as a substitute Operator has been appointed by Contractor and notice therefore has been given to Competent Body.

10.4 Upon any change of Operator being made pursuant to paragraph 10.3, the replaced Operator will be released and discharged of all its rights and obligations as Operator hereunder, and the replacing Operator shall assume all such obligations, rights and privileges as are indicated in paragraph 10.1.

Model Production Sharing Agreement for Petroleum Exploration and Production in Turkmenistan (Part 2)

ARTICLE 11

WORK PROGRAMMES AND BUDGETS

11.1 So long as the Exploration Licence and any Production Licences issued to Contractor hereunder remain in force, at least ninety (90) days prior to the beginning of each Calendar Year, Contractor shall prepare and submit to the Management Committee for its review and approval, pursuant to Article 9, a detailed annual Work Programme and Budget, setting forth the Petroleum Operations which Contractor proposes to carry out in the ensuing Calendar Year, and the estimated costs thereof. The first annual Work Programme and Budget in relation to the period from the Effective Date to the end of the relevant Calendar Year shall be submitted to the Management Committee within thirty (30) days after the Effective Date; provided however that, in the event the Effective Date falls in the second semester of such Calendar Year, the first Work Programme and Budget shall cover the period from the Effective Date to the end of the next succeeding Calendar Year.

11.2 Every Work Programme and Budget submitted to the Management Committee during the Exploration Period pursuant to this Article and every revision or amendment thereof shall be consistent with the requirements set out in Article 4 relating to the Minimum Work Programmes and Expenditures for the Exploration Period within which the Work Programme and Budget will fall.

11.3 Each proposed annual Work Programme and Budget shall include, as a minimum, the following:

(a) a detailed description of the work to be performed during the following Calendar

Year, proposals as to subcontractors and suppliers necessary for the implementation of such work and a time schedule for performing it; and

(b) a detailed estimate of the expenditure to be incurred in performing the proposed annual Work Programme and a time schedule for the incurrence of such expenditures.

11.4 Within thirty (30) days of submission of the proposed annual Work Programme and Budget, the Management Committee shall meet to review and approve it pursuant to the provisions of paragraph 9.4.

11.5 By giving notice in that respect to the Management Committee, Contractor may propose amendments to approved annual Work Programmes and/or Budgets, provided such amendments are consistent with Contractor's Minimum Exploration Work and Expenditures obligations under Article 4. Any notice given pursuant to this paragraph shall state the reasons why, in the opinion of the Contractor, an amendment is necessary or desirable. Within thirty (30) days of submission of any such amendments, the Management Committee shall meet to review and approve it pursuant to the provisions of paragraph 9.4.

11.6 Contractor shall conduct quarterly reviews of the annual Work Programme and Budget. To the extent that excess expenditures incurred by Contractor in respect of any item in an approved annual Work Programme and Budget are limited to ten percent (10%) of the budgeted amount relating to each such item, and provided that such excess expenditures do not cause the overall Budget to exceed by five percent (5%) the approved annual Budget, such excess expenditures will be allowable Contract Expenses for the purposes of Article 13. Excess expenditures beyond the above limits shall not be allowable Contract Expenses, unless a revised annual Work Programme and Budget is subjected to prior review and approval by the Management Committee pursuant to paragraph 9.4.

11.7 In case of emergency involving possible danger to lives, environment and/or property, Contractor shall undertake all actions and incur all such expenditures as are required to counter the above circumstance. Contractor shall forthwith inform the Management Committee of actions taken and expenditures incurred. Such expenditures will be allowable expenditures for Cost Recovery purposes hereunder.

ARTICLE 12 DISCOVERY, DEVELOPMENT AND PRODUCTION

12.1 Where a Discovery of Petroleum (other than a Discovery of Non-Associated Gas in which case the provisions of Article 19 shall apply) is made by Contractor, the latter shall forthwith inform Competent Body in respect thereto. Within thirty (30) days of the Discovery, a notice to that effect shall be forwarded to Competent Body and shall include all detailed data and information regarding the Discovery and a summary report analysing such data, with particulars of any well-testing program to be undertaken. As soon as practicable after the completion of the well-testing program (or where no well-testing is to be undertaken), Contractor shall notify Competent Body of its views as to whether: (i) the Discovery is a Commercial

Discovery; or (ii) Appraisal is necessary to determine if the Discovery is a Commercial Discovery; or (iii) the Discovery is not a Commercial Discovery and Appraisal is not warranted; or (iv) the Discovery may, together with any other Discovery within the Contract Area, be capable of constituting a Commercial Discovery.

12.2 (a) In the case of paragraph 12.1(ii), Contractor shall, promptly after the technical evaluation of the test results relating to such Discovery has been completed, prepare and submit for review and approval by the Management Committee an Appraisal Work Programme and Budget relevant to such Discovery. As soon as the Management Committee has, pursuant to paragraph 9.4, reviewed and approved an Appraisal Work Programme and Budget submitted by Contractor as aforesaid, Contractor shall promptly thereafter commence implementation thereof.

(b) In the case of paragraph 12.1(iii), Contractor shall relinquish, at the expiration of the Exploration Licence, the area pertaining to the Discovery which was notified by Contractor as not being a Commercial Discovery, provided however that,

(c) In the case of paragraph 12.1(iv), the provisions under paragraph 5.2.3. shall apply.

12.3 Within ninety (90) days following completion of an Appraisal Programme, Contractor shall prepare and submit to the Management Committee a detailed Appraisal report on the conduct of the Appraisal Programme and the detailed data of its results, including, but not limited to, the delineation of the areal extent of the Petroleum Reservoir to which the Discovery relates in terms of thickness, lateral extent, estimate of the quantity of recoverable Petroleum therein, along with the conclusion as to whether, in Contractor's opinion, the Discovery is a Commercial Discovery.

12.4 Within one hundred and eighty (180) days following the notification under paragraph 12.1(i) or following the submission of the Appraisal report under paragraph 12.3 indicating that the Discovery is a Commercial Discovery, Contractor shall prepare and submit to the Management Committee, for review and approval, pursuant to paragraph 9.4, a Development Plan and Budget on the basis of sound engineering and economic principles, in accordance with international good oil-field practice. Such Development Plan shall comprise, but shall not be limited to:

(a) designation of the Development Area;

(b) proposals on spacing, drilling and completion of wells;

(c) proposals for production, storage, transportation and delivery facilities;

(d) proposals for necessary infrastructure developments;

(e) proposals for the employment of citizens of Turkmenistan and use of local material and services, in each case, consistent with the requirements of Articles 21 and 20.

(f) an estimate of the reserves together with wells productivity and production forecasts based on the Maximum Efficient Rate principle;

(g) an estimate of the expenditures necessary to implement the Development Plan; and

(h) an estimate of the time required to complete each phase of the Development Plan.

12.5 If subsequent to the designation of a Development Area, as approved by the Management Committee, the extent of the area encompassing the Commercial Discovery is reasonably expected to be greater than the aforesaid Development Area, Contractor shall submit to the Management Committee the description of such larger area and such description shall be reviewed for approval by the Management Committee to the effect of designating a revised Development Area.

12.6 Contractor shall use its best efforts to produce Crude Oil from each Development Area at the Maximum Efficient Rate. The Maximum Efficient Rate of production for Crude Oil and the production rate for Non-Associated Gas shall be established in the Development Plan for each Development Area. Such rates shall be reviewed and approved annually, at the time of submission by Contractor of the annual Work Programme and Budget to the Management Committee.

12.7 Not less than ninety (90) days prior to the beginning of each Calendar Year following the Date of Commencement of Commercial Production, Contractor shall prepare and furnish to the Management Committee for its review and approval a forecast statement setting forth, by Calendar Quarter, the total quantity of Crude Oil (by quality, grade and gravity) and Natural Gas that Contractor estimates can be produced, saved and transported hereunder from any and all Development Areas during such Calendar Year in accordance with international good oil-field practices. Contractor shall endeavour to produce in each Calendar Year the forecast quantity.

ARTICLE 13 COST RECOVERY AND PRODUCTION SHARING

13.1 Cost Recovery

For the purposes of this Article 13, all Petroleum produced and saved in the Contract Area, after deduction of Petroleum used by Contractor in the conduct of Petroleum Operations and after further deduction of the Royalty provided for in Article 34, is defined as "Available Petroleum".

13.2 Subject to the auditing provision set forth in Article 36, Contractor shall have the right to recover all Contract Expenses incurred in the carrying out of Petroleum Operations from a maximum of _____ percent (___%) of Available Petroleum. Such maximum _____ percent (___%) of Available Petroleum used for cost recovery by Contractor ("Cost Recovery") shall be known in general as "Cost Recovery Petroleum" and sometimes as "Cost Recovery Oil" or "Cost Recovery Gas", as the case may be.

13.3 Contract Expenses shall be recoverable by Contractor out of Cost Recovery Petroleum as of the Calendar Year in which they are incurred, or the Calendar Year in which the Date of Commencement of Commercial Production occurs, whichever is the later.

13.4 Contractor shall be entitled in each Calendar Quarter to take delivery of the whole of the Cost Recovery Petroleum or a portion thereof (as the case may be) which, when valued in accordance with the provision of Article 14, shall be equal to the cumulative Contract Expenses to be recovered by Contractor up to that Calendar Quarter. All Contract Expenses related to Crude Oil accumulations shall be recovered from Cost Recovery Oil, and the aforesaid deliveries shall be made accordingly. All Contract Expenses related to Natural Gas accumulations shall be recovered from Cost Recovery Gas. However, should Crude Oil or Natural Gas production be insufficient for the full recovery of Crude Oil or Natural Gas Contract Expenses respectively, either production may be used for the purpose of such full recovery..

13.5 Valuation according to Article 14 of the Cost Recovery Petroleum to be allocated to the recovery of Contract Expenses, and the assessment of the relevant volume of such Cost Recovery Petroleum delivered to Contractor for this purpose, shall be made on a Calendar Quarter basis, in accordance with the provisions of paragraph 13.9 below.

13.6 Cost Recovery of allowable Contract Expenses will include the following, and will be effected according to the following order of priority:

- (a) Operating Expenses;
- (b) Exploration Expenditures;
- (c) Interest Charges on Development Expenditures;
- (d) Development Expenditures;
- (e) Production Expenditures, other than Operating Expenses.

13.7 For the purpose of Cost Recovery, the allowable Contract Expenses shall not include:

- (a) Signature and Production Bonuses;
- (b) Profit Tax paid to the Government pursuant to Article 16, and taxes paid outside Turkmenistan;
- (c) interest and fees pertaining to loans, if any, incurred for the financing of Petroleum Operations, other than Development;
- (d) fines and penalties imposed on Contractor in connection with any failure to comply with the provisions of this Agreement and the laws of Turkmenistan; and

(e) donations and contributions by Contractor which are not previously approved by the Management Committee.

13.8 If Cost Recovery Petroleum during any Calendar Quarter is not sufficient for the recovery of Contract Expenses in full, the unrecovered balance thereof shall be carried forward for recovery during the ensuing Calendar Quarters(s) until Contract Expenses are fully recovered, subject to the Cost Recovery Petroleum limit set in paragraph 13.2.

13.9 Contractor's Cost Recovery Petroleum entitlement to be lifted and disposed of under this Article 13 shall be determined for each Calendar Quarter and in respect of the unrecovered Contract Expenses cumulated up to the end of such Calendar Quarter. In respect of a given Calendar Quarter the volume of Cost Recovery Petroleum to be lifted and disposed of by Contractor shall be provisionally calculated on the basis of the Contract Expenses and the relevant Cost Recovery Petroleum quarterly estimates provided for under paragraph 13.10 below. Within thirty (30) days of the end of the aforementioned Calendar Quarter, adjustments in respect thereto shall be made on the basis of the quarterly updates under said paragraph 13.10 below, evidencing Contract Expenses actually incurred, the corresponding Cost Recovery Petroleum which should have been lifted by Contractor and the balance thereof (positive or negative) with respect to the Cost Recovery Petroleum actually lifted in that Calendar Quarter. Within ninety (90) days of the end of each Calendar Year, final calculation shall be prepared based upon the detailed accounts submitted by Contractor for such Calendar Year pursuant to paragraph 36.2, and any necessary adjustments shall be made. Any discrepancy arising in the Management Committee concerning the determination of Contract Expenses and Cost Recovery Petroleum, which cannot be resolved amicably, shall be referred to and resolved pursuant to the provisions of paragraph 29.3.

13.10 Not less than thirty (30) days prior to the beginning of each Calendar Year, Contractor shall prepare and furnish to the Management Committee an estimate by Calendar Quarters for that Calendar Year of all Contract Expenses to be incurred and Contractor's Cost Recovery Petroleum entitlement thereof. Such estimates shall, as far as possible, be consistent with the Petroleum production forecast furnished pursuant to paragraph 12.7 and shall set forth the assumed Market Price under Article 14 upon which they are based. Quarterly updates of such estimates shall be submitted by Contractor to the Management Committee for approval within thirty (30) days after the end of each Calendar Quarter. Such estimates, and the quarterly updates thereto, shall serve as the basis for the quarterly provisional calculations of Contractor's Cost Recovery Petroleum and the adjustments thereto, as required pursuant to paragraph 13.9.

13.11 Production Sharing

The amount of the Available Petroleum remaining after the deduction of the Cost Recovery Petroleum used for Cost Recovery purposes, and inclusive, should the case occur, of any Cost Recovery Petroleum not used for Cost Recovery purposes,

is hereinafter referred to as "Profit Petroleum". Such Profit Petroleum shall be shared, on a Calendar Year basis, between Competent Body and Contractor.

13.12 In order to determine the percentages of Profit Petroleum accruing to Competent Body and Contractor, the ratio of the cumulative Contract Revenues to the cumulative Contract Expenses (hereinafter the "R Factor") shall be applied, as a function of which such percentages shall be set.

13.13 Subject to the provisions of Article 36 and the Accounting Procedure, the R Factor is calculated in respect of Petroleum produced under any and all Production Licences according to the following formula:

$$R = \frac{e X}{e Y}$$

where:

(a) e X means the cumulative sum of all Contract Revenues (which shall conventionally comprise cumulative revenues from the recovery of Interest Charges), earned by Contractor, either from Cost Recovery Petroleum or from Profit Petroleum, from inception of such earnings up to the end of the Calendar Year immediately preceding the Calendar Year in question; and

(b) e Y means the cumulative sum of all Contract Expenses incurred by Contractor, from inception thereof up to the end of the Calendar Year immediately preceding the Calendar Year in question.

13.14 (a) Sharing of Profit Petroleum between Competent Body and Contractor, as a function of the values of the R Factor, shall be:

R Factor Competent Body's share Contractor's share

$$0 < R \leq 1 \quad \text{--- \%} \quad \text{--- \%}$$

$$\text{---} < R \leq 1 \quad \text{--- \%} \quad \text{--- \%}$$

$$\text{---} < R \leq 1 \quad \text{--- \%} \quad \text{--- \%}$$

$$\text{---} < R \leq 1 \quad \text{--- \%} \quad \text{--- \%}$$

$$R > 1 \quad \text{--- \%} \quad \text{--- \%}$$

13.15 The value of the R Factor applicable to any Calendar Quarter of the Calendar Year in which the Date of Commencement of Commercial Production occurs shall be deemed to be comprised between zero (0) and ___ (___).

13.16 By analogy with the provisions of paragraph 13.9 and 13.10 concerning Cost Recovery Petroleum, sharing of Profit Petroleum shall be provisionally determined on a Calendar Quarter basis, with the relevant quarterly adjustments and final Calendar

Year adjustment being made as required.

13.17 Any discrepancy arising in the Management Committee concerning the determination of the R Factor, which can not be resolved amicably, shall be referred to and resolved pursuant to the provision of paragraph 29.3.

ARTICLE 14

VALUATION AND MEASUREMENT OF PETROLEUM

14.1 Crude Oil shall for all purposes of this Agreement be valued at the Delivery Point at the end of each Calendar Quarter as follows:

14.1.1 The market price ("Market Price") used to value Crude Oil shall, where arm's-length sales of Crude Oil to third parties have been made during the preceding Calendar Quarter, be:

(a) the weighted average of the per Barrel net realised price obtained FOB the land or seaboard terminal point of export (whether at or beyond Turkmenistan's borders) for such arm's-length third-party sales, less

(b) the average tariff charge per Barrel for such Calendar Quarter associated with transporting Crude Oil from the Delivery Point to the terminal point of export.

If less than fifty percent (50%), by volume, of Crude Oil sales during such period are made to third parties on an arm's-length basis, the Market Price shall be determined in accordance with paragraph 14.1.2.

14.1.2 If no arm's-length third-party sales have been made in such Calendar Quarter, the Market Price shall be:

(a) the weighted average of the prevailing per Barrel arm's-length selling prices in such Calendar Quarter of a basket of the three most similar internationally traded crude oils, as published in "Platt's Oilgram", adjusted to take into account differences in quality, grade or gravity, transportation and any special terms and conditions relating to the sale of such crude oils, less

(b) the average tariff charge per Barrel for that Calendar Quarter associated with the transportation of Crude Oil hereunder from the Delivery Point to the FOB terminal point of export.

14.1.3 For the purpose of determining the Market Price as described above, no account shall be taken of Crude Oil sales to Affiliated Companies or restricted or distress transactions or any transactions not at arm's-length including government to government, barter or discount deals.

14.1.4 The Market Price shall be determined at the end of each Calendar Quarter in US dollars in accordance with this paragraph 14.1.

14.2 Any disagreement concerning the determination of Market Price shall be first

considered by a pricing committee composed of ____ () representatives from Competent Body and ____ () representatives from Contractor, it being understood that Competent Body's representatives and Contractor's representatives shall be equal in number. In the event the pricing committee can not reach a unanimous decision within thirty (30) days of the end of the relevant Calendar Quarter, either Party may refer the matter for determination by an expert in accordance with paragraph 29.3. During such referral, which shall in no event take longer than thirty (30) days, the Market Price for the preceding Calendar Quarter shall apply and adjustments, if any, shall be made in the following Calendar Quarter based on the decision of the expert.

14.3 Natural Gas shall be valued in accordance with the provisions of paragraph 19.6.

14.4 Contractor shall supply, operate and maintain equipment for measuring the volume and quality of the Petroleum produced and saved hereunder, including gravity, density, temperature and pressure measuring devices and any other devices that may be required. All measurement equipment and devices shall, prior to their installation or usage, be approved by Competent Body. Such equipment and devices shall at all reasonable times be available for inspection and testing by Competent Body or its authorised representatives. The equipment and devices used or installed pursuant to this paragraph shall not be replaced or altered without the prior approval of Competent Body.

14.5 Contractor shall undertake to measure the volume and quality of the Petroleum produced and saved hereunder, consistent with generally accepted practices in the international petroleum industry, with the frequency and according to procedures which shall be approved by Competent Body.

14.6 Contractor shall give Competent Body timely notice of its intention to conduct measuring operations and Competent Body shall have the right to be present at and supervise, either directly or through authorised representatives, such operations.

14.7 If it is determined, following an inspection or test carried out by Competent Body or its representatives, that the equipment, devices or procedures used for measurement are inaccurate and exceed the permissible tolerances which shall be established by agreement between Competent Body and Contractor, such inaccuracy shall be deemed to have existed for one-half (1/2) of the period since the last previous such inspection or test, unless it is proved that such inaccuracy has been in existence for a longer or shorter period. Appropriate adjusting payments or refunds covering such period shall be made within thirty (30) days from the date of such determination.

ARTICLE 15 PIPELINE TRANSPORTATION

15.1 Contractor shall have the right to take and transport its entitlement share of all Petroleum produced and saved hereunder to land or seaport terminal points of export, at or beyond Turkmenistan's borders. In the latter case, Contractor will

negotiate and eventually enter into agreements with the concerned third countries beyond Turkmenistan's borders.

15.2 Contractor shall periodically keep informed Competent Body on the details and the status of negotiations with the aforementioned third countries, regarding the transport, processing, sale or other disposition of its entitlement share of Petroleum. Contractor shall offer Competent Body the opportunity to participate to the aforesaid negotiations, in a joint effort to enter into a multilateral agreement for the transport, processing, sale or other disposition of each Party's Petroleum entitlement share.

15.3 Subject to transportation capacity being available, Contractor shall have the right to use, on a non discriminatory basis, for the transportation of its Petroleum entitlement share to a land or seaboard terminal point of export, an existing Main Pipeline in the territory of, and owned by, Turkmenistan or by any of its agencies. Contractor shall pay, on a non discriminatory basis, the relevant transportation tariff to the owner of such existing Main Pipeline.

15.4 Should a new Main Pipeline for Petroleum export be considered for construction as technically appropriate and economically viable, it is envisaged by the Parties hereto that the construction, financing, operation and maintenance of the new Main Pipeline (the "New Main Pipeline"), pumping stations and related terminal facilities shall be carried out through a separate pipeline company (the "Pipeline Company") and, as such, shall not be included within the meaning of Petroleum Operations under this Agreement and any related Licences. The operations of the Pipeline Company shall include the construction, financing, operation and maintenance of the New Main Pipeline and related facilities from the Delivery Point in Turkmenistan to the export loading terminal(s).

15.5 Notwithstanding the foregoing, the Government undertakes in respect of the Pipeline Company:

(a) to extend the same rights and benefits afforded to Contractor under Articles 16, 23, 24 and 25 in respect of Profit Tax, customs duties, taxation of subcontractors and employees and foreign exchange control in Turkmenistan;

(b) to render all assistance on matters involving rights of way, licences or other authorisations under the laws of Turkmenistan required in connection with its operations; and

(c) to assist the shareholders of the Pipeline Company in their negotiations with neighbouring countries regarding rights of way and other conditions relating to the construction, operation and maintenance of the New Main Pipeline and related facilities in such countries.

15.6 At the time of submission for approval of a Development Plan to the Management Committee pursuant to paragraph 12.4 and by reference to paragraph 15.4 above, Contractor shall submit, for examination and approval by a committee to be created and organised to that effect by the concerned Parties hereunder (the "New Main Pipeline Committee"), its proposals with regard to the transportation by the Pipeline Company to the land or seaboard terminal point of export of each of the

Parties' production entitlements hereunder. Such proposals shall, unless otherwise agreed, be consistent with the following principles:

(a) each Party shall assume and pay the transportation tariffs charged by the Pipeline Company related to their respective shares of Petroleum transported from the Delivery Point to the FOB land or seaboard terminal point of export; unit transportation tariffs will be denominated in US dollars per Barrel of Crude Oil or Cubic Meter of Natural Gas transported;

(b) the transportation tariff charged, to the extent that the Parties hereto are able to determine the same as shareholders of the Pipeline Company, shall be set at a level at which the Pipeline Company will cover the costs of constructing, financing, operating and maintaining the New Main Pipeline and related facilities, together with a reasonable return thereon; such return will be determined having regard to the risks assumed by the shareholders of the Pipeline Company in outlaying the funds for the construction, operation and maintenance of the New Main Pipeline and to the cost of borrowing such funds as are required; and

(c) Under the proposals of Contractor, it will be ensured that the New Main Pipeline and related facilities are of a sufficient design capacity to handle and transport to the land or seaboard terminal at least the estimated production entitlements of all the Parties hereto, taking into account also the medium to long term forecast of the Petroleum production potential in the area. If at any time the throughput capacity of such facilities should be insufficient to handle and transport the respective production entitlements of such Parties, available capacity shall be shared between the Parties in the proportion which each Party's production entitlement bears to the total quantity of production which would otherwise be available for transportation hereunder. Conversely, if the New Main Pipeline has excess capacity after satisfying each Party's transportation requirements, third parties involved in other petroleum operations will be offered the opportunity to use such excess capacity by paying the relevant transportation tariff.

15.7 Transportation tariff charges of the Pipeline Company, and the costs of construction, financing, operation and maintenance of the New Pipeline and related facilities shall not be allowable Contract Expenses for Cost Recovery purposes hereunder.

ARTICLE 16 TAXATION

16.1 Pursuant to Turkmenistan's tax on profits legislation applicable to Contractor at the Effective Date hereof, Contractor shall pay, throughout the term of this Agreement, a Profit Tax in each Calendar Year at the rate of _____ percent (___%) per annum upon "Taxable Profit" from Petroleum Operations.

16.2 For the purposes of paragraph 16.1 above, Contractor's Taxable Profit shall be obtained, in each Calendar Year, by deducting from Contractor's Contract Revenues Contractor's Contract Expenses, as the latter are schematically listed hereunder with the relevant depreciation schedule, and described in detail in the Accounting

Procedure.

(a) Operating Expenses: fully expensed (deducted) when incurred;

(b) Exploration Expenditures: depreciated at a maximum depreciation rate of fifty percent (50%) per annum, straight line.

(c) Development and Production Expenditures: depreciated at a maximum depreciation rate of twenty-five percent (25%) per annum, straight line;

(d) all other expenditures which, under the Accounting Procedure, are categorised as Operating Expenses, Exploration Expenditures, Development and Production Expenditures: expensed or depreciated as provided for under sub-paragraphs (a) through (c) above.

Any balance Contract Expenses still to be depreciated will be carried forward for depreciation until the seventh (7th) Calendar Year following the Year in which they are incurred or in which the Date of Commencement of Commercial Production occurs, whichever is the later.

16.3 Filing with the relevant tax authorities of Profit Tax returns and payment of the relevant Profit Tax by Contractor shall be made within sixty (60) and respectively ninety (90) days from the end of each Calendar Year.

16.4 The central tax authority or the tax authority of district in which Contractor's legal entity is registered (whichever is be the competent tax authority) will issue to Contractor a statement showing the amount of profits subject to the Profit Tax for the relevant Calendar Year and provide original documentary evidence of the payment by Contractor of the Profit Tax within ten (10) days of payment.

16.5 Save as aforesaid, no other tax, duty, fee or other impost shall be levied on Contractor or its shareholders in respect of profit derived from Petroleum Operations hereunder or in respect of any property held.

16.6 Where present or future laws or regulations of Turkmenistan or any requirements imposed on Contractor or its subcontractors by any Turkmen authorities contain any provisions not expressly provided for under this Agreement and the implementation of which adversely affects Contractor's net economic benefits hereunder, the Parties shall introduce the necessary amendments to this Agreement to ensure that Contractor obtains the economic results anticipated under the terms and conditions of this Agreement.

ARTICLE 17 MARKETING AND LIFTING

17.1 Competent Body may at any time by notice in writing to Contractor require it to use its best efforts to arrange the sale of all or part of Competent Body's share of Petroleum attributable to it pursuant to Article 13 and Article 34. The terms and conditions on which Contractor will act in relation to any such disposal will be agreed

between Competent Body and Contractor. It is understood, however, that Contractor in each case will be entitled to recover all reasonable costs associated with the marketing and disposal of Competent Body's Petroleum entitlement.

17.2 Not less than twelve (12) Calendar Months prior to the Date of Commencement of Commercial Production from any Development Area, Contractor shall submit to the Management Committee for approval proposed procedures and related operating regulations and financial terms covering the scheduling, storage and lifting of Crude Oil from each such Development Area. The procedures, regulations and terms shall comprehend the subjects necessary to efficient and equitable operations including, but not limited to, rights of Parties, notification time, maximum and minimum quantities, duration of storage, scheduling, conservation, spillage, liabilities of the Parties and penalties for over and under lifting, safety and emergency procedures.

ARTICLE 18 DOMESTIC REQUIREMENTS

18.1 In the event of a national emergency in Turkmenistan, Competent Body shall have the right, on notice to Contractor, to purchase, up to the required amount, Contractor's share of Crude Oil. Competent Body will exercise such right only after fully utilising Turkmenistan's share of the total production of Crude Oil in Turkmenistan and will exercise such right pro rata among all producers in Turkmenistan based on the ratio that each such producer's share of production bears to the sum of all such producers' shares of production. Competent Body will promptly pay for all Crude Oil so purchased in US dollars at prices as calculated pursuant to paragraph 14.1 hereof.

18.2 In the event of a domestic requirement short-fall, Competent Body shall have the right, on notice to Contractor, to purchase up to fifty percent (50%) of Contractor's share of Crude Oil to satisfy such short-fall. Competent Body will only exercise such right after fully utilising Turkmenistan's share of the total production of Crude Oil in Turkmenistan and will exercise such right pro rata among all producers in Turkmenistan based on the ratio that each producer's share of production bears to the sum of all such producers' shares of production. Competent Body will promptly pay for all Crude Oil so purchased in US dollars at prices as calculated pursuant to paragraph 14.1 hereof.

18.3 In the event that Competent Body's exercise of the right under paragraph 18.1 and/or 18.2 results in a breach by Contractor of any contractual sale and purchase transaction with a third party, in consequence of which Contractor suffers a loss, Competent Body, upon review and control of the amount of the loss, shall promptly compensate Contractor in full for such loss, either with an amount of Crude Oil the value of which is equal to the amount of such loss, or with an amount in US dollars as is equal to the amount of such loss.

18.4 If Competent Body elects to exercise its rights under paragraph 18.3, it shall notify Contractor in writing not less than ninety (90) days prior to commencement of each Calendar Year specifying the quantity, and designating the grade and quality, that it elects to take in kind based upon the production forecasts and annual and

quarterly estimates, furnished by Contractor to the Management Committee pursuant to paragraphs 12.7 and 13.10 above. Any adjusting payments or refunds shall be made within ninety (90) days of the end of each Calendar Year on the basis of actual quantities.

ARTICLE 19 NATURAL GAS

19.1 Contractor shall have the right to use Associated Gas for Petroleum Operations, including, but not limited to, re-injection for pressure maintenance, power generation and recycling operations. Associated Gas which is not used in Petroleum Operations, and the processing and utilisation of which, in the opinion of both Contractor and Competent Body, is not economical, shall be re-injected to the subsurface Reservoir, provided, however, that if such re-injection is not technically and economically feasible, Associated Gas shall be offered for delivery to Competent Body which may elect to offtake it at the outlet flange of the gas-oil separator and use such Associated Gas not being required for Petroleum Operations. There shall be no charge to Competent Body for such Associated Gas, provided that the costs to gather such Associated Gas at the gas-oil separator and to transport, process and utilise it shall be for the sole account of Competent Body. Associated Gas which is neither used for Petroleum Operations nor processed and utilised, and is not offtaken and disposed of by Competent Body as aforesaid, will be flared. In the event that Contractor chooses to process and sell Associated Gas, Contractor shall notify Competent Body of the same and upon such notification, Competent Body and Contractor shall, as soon as practicable thereafter, meet together with a view to reaching an agreement on the processing and sale of such Associated Gas.

19.2 Where a Discovery of Non-Associated Gas is made by Contractor, the latter shall forthwith inform Competent Body in respect thereto and the provisions of paragraphs 12.1 and 12.2 shall apply, mutatis mutandis, provided, however, that in the case envisaged in paragraph 12.1(iv) and in respect of the provisions in paragraph 12.2(c), the scopes relevant thereto will be widened to contemplate the event, to be notified by Contractor to the Management Committee, that a Discovery of Non-Associated Gas may be a Commercial Discovery but for the time being is not, for reasons such as technical constraints, lack of available outlet markets, a shortage of consuming or other necessary facilities or a need to aggregate the Discovery with other existing or potential Gas discoveries within or without the Contract Area.

19.3 Under the aforesaid circumstances, as reviewed by the Management Committee, and in order to allow Contractor to investigate and attempt to resolve the impediments causing the Discovery not to be for the time being a Commercial Discovery, Contractor shall be allowed to retain the part of the Contract Area which encompasses such Discovery for a period of five (5) Calendar Years beyond the expiry the Initial Exploration Period (or any renewal thereof, as the case may be) for Contractor to be able to conduct the forgoing investigations and attempts. Within the aforesaid extension and subject to having priorly carried out an approved Appraisal Programme and submitted the relevant results, Contractor shall forward to the Management Committee, for review and approval, a detailed report (together with elements, data, information on market outlet availability and such other information of

a technical and commercial nature as may be required), indicating whether in Contractor's opinion the Non-Associated Gas Discovery in question is a Commercial Discovery. Upon expiration of the aforesaid extension or earlier, as the case may be, the area covering the Non-Associated Gas Discovery shall be relinquished if it is determined that it is not a Commercial Discovery.

19.4 Except for delays in the preparation, approval and implementation of the Appraisal Programme, the Development Plan and the start up of Commercial Production occurring under the circumstances and the terms of paragraphs 19.2 and 19.3, the provisions contained in paragraphs from 12.3 to 12.7, as amended or supplemented pursuant to the terms and conditions to be agreed to under paragraph 19.5, shall apply, mutatis mutandis.

19.5 In the event that a Discovery of Non-Associated Gas may become a Commercial Discovery under terms and conditions more favourable, to that effect, than the ones stipulated herein (including such terms as the Cost Recovery Petroleum and the Production Sharing provisions under Article 13 above), at the initiative of either Party, Competent Body and Contractor shall meet in order to discuss and agree on revised terms, such as would allow Contractor to develop commercially such Non-Associated Gas Discovery and to achieve a net economic return thereon equivalent to the one which would have derived from a comparable Crude Oil accumulation. If agreement is reached on such revised terms and conditions within six (6) months from start up of discussions, then such terms will be incorporated into a supplemental agreement which shall be an integral part hereof. Failing agreement within the aforesaid time limit, the Non-Associated Gas Discovery in question shall be treated as a non Commercial Discovery for all purposes herein.

19.6 The value to attributed to Natural Gas shall:

(a) for arm's-length sales to third parties, be equal to the net realised price obtained for such Natural Gas at the Delivery Point, which net realised price shall reflect the international prices;

(b) for sales other than at arm's-length to third parties, be determined by agreement between Competent Body and Contractor, provided, however, that such price or value shall reflect the following:

(i) the quantity and quality of the Natural Gas;

(ii) the price at which sales of Natural Gas from other sources in Turkmenistan are then being made on the international markets;

(iii) the purpose for which the Natural Gas is to be used; and

(iv) the international market price of competing or alternative fuels or feedstocks.

19.7 Any disagreement concerning the determination of the value to be attributed to Natural Gas pursuant to paragraph 19.6 shall be resolved by applying, mutatis mutandis, the provisions of paragraph 14.2.

19.8 Arm's-length third-party sales shall not include sales to Affiliates of Contractor or to Competent Body.

ARTICLE 20
LOCAL PROCUREMENT
SOCIAL AND INFRASTRUCTURE PROJECT

20.1 In procurement, Contractor shall give preference to goods which are produced or available in Turkmenistan and services which are rendered by Turkmenistan's citizens and companies, provided such goods and services are offered on terms equal to or better than imported goods and services with regard to quality, price and availability at the time and in the quantities required.

20.2 Locally produced or available equipment, materials and supplies shall be deemed equal in price to imported items if the local cost of such locally produced or available items at Contractor's operating base in Turkmenistan is not higher than the cost of such imported items, after transportation and insurance costs thereof have been added.

20.3 Contractor shall fund social or infrastructure project(s) as may be agreed to between Competent Body and Contractor.

ARTICLE 21
TRAINING AND EMPLOYMENT

21.1 Contractor undertakes to train and employ qualified Turkmenian citizens in its Petroleum Operation and, following the Date of Commencement of Commercial Production, Contractor shall undertake the schooling and training of Turkmenian citizens for staff positions, including administrative and executive management positions. Contractor will also require its subcontractors to do the same. Contractor undertakes to gradually replace its expatriate staff with qualified Turkmenian citizens as they become available. An annual program for training and phasing in of Turkmenian citizens shall be established by Operator and shall be submitted for approval to the Management Committee along with the annual Work Programmes and Budgets referred to in Article 11. Within thirty (30) days of the end of each Calendar Year, Operator shall submit a written report to Competent Body describing the number of personnel employed, their nationality, their positions and the status of training programs for Turkmenian citizens.

21.2 Contractor shall expend a minimum of ____ (____) US dollars during each twelve (12) Calendar Month period during the Exploration Licence term for training pursuant to paragraph 21.1. Following the Date of Commencement of Commercial Production, the minimum expenditure for training pursuant to paragraph 21.1 in each twelve (12) Calendar Month period during the term hereof shall be _____ (____) US dollars.

21.3 Contractor shall be free to employ foreign nationals to the extent that qualified Turkmenian nationals cannot be found to fill a position. Subject to the requirement of

any law relating to immigration, Competent Body shall provide the necessary work permits and other approvals required for the employment of expatriate personnel in Turkmenistan by Contractor for purposes of this Agreement.

ARTICLE 22 TITLE TO ASSETS

22.1 All land within Turkmenistan acquired in connection with Petroleum Operations shall become the property of Competent Body as soon as it is purchased by Contractor, subject to its continued use rent-free by Contractor until the date upon which this Agreement is terminated.

22.2 All Assets, whether fixed or movable, acquired and owned by Contractor for use in Petroleum Operations hereunder, shall become the property of Competent Body free from all mortgages and other encumbrances, upon the earlier of the date upon which:

(i) such Assets have been fully depreciated for Turkmenistan's Profit Tax purposes;
or

(ii) this Agreement is terminated.

22.3 Contractor shall have unlimited use of Assets where ownership thereof is transferred pursuant to paragraph 22.2(i) and shall not be obligated to make any payment for the use of the same during the term of this Agreement. Contractor, so long as such Assets are used exclusively for Petroleum Operations, shall be liable to keep the same in good repair and working order, normal wear and tear excepted.

22.4 The provisions of this Article shall not apply to assets and equipment used in the Petroleum Operations and owned by subcontractors and/or third parties, which assets may be freely exported from Turkmenistan.

ARTICLE 23 EXEMPTIONS FROM CUSTOMS DUTIES AND TAXES

23.1 Contractor and its non-Turkmenian subcontractors engaged in Petroleum Operations hereunder shall, subject to paragraph 20.1, be permitted to import and shall be exempt from customs duties in respect of the importation of machinery, equipment, vehicles, materials, supplies, consumable items, movable property and any other items or articles connected with Petroleum Operations, in accordance with the current legislation of Turkmenistan.

23.2 Each expatriate employee of Contractor and its subcontractors shall be permitted to import, and shall be exempt from all customs duties with respect to the reasonable importation of household goods and personal effects (including one -1- automobile) imported into Turkmenistan within six (6) Calendar Months of first arrival, provided however that such property is imported for the sole use of the employee and his family. "Expatriate Employee" in this paragraph shall have the meaning

assigned to those words in paragraph 25.3.

23.3 The exemptions provided in paragraph 23.1 shall not apply to any imported item when, pursuant to a factually supported opinion of Competent Body, items of the same, or substantially the same, kind and quality are manufactured locally and are available for purchase and timely delivery at Contractor's operating base in Turkmenistan at a price equal to the cost of the imported item as defined in paragraph 20.2.

23.4 The items exempt from customs duties hereunder may be sold to foreign third party investors or to Turkmenistan third party national for use or consumption in Turkmenistan provided that, in the latter case, customs duties shall be paid on the assessed residual value of such item or items at the time of sale.

23.5 Subject to the provisions of paragraph 22.2, items imported into Turkmenistan whether exempt or non-exempt from customs duties, may be exported by the importing Party at any time without the payment of any export duties, taxes or imposts.

23.6 "Customs duties" as used herein shall include all duties, taxes or imposts which are payable as a result of the importation of the items under consideration.

23.7 There shall be no licence, other than a Production Licence, required for the export of Petroleum to which Contractor is entitled hereunder, and Contractor shall be exempt from any duty, fee or other impost on the export of such Petroleum.

ARTICLE 24

TAXATION OF SUBCONTRACTORS AND EMPLOYEES

24.1 Subcontractors who are registered and established in Turkmenistan to do business therein in accordance with Turkmenistan's legislation, and who have been contracted by Contractor to perform services in connection with Petroleum Operations, shall only be liable to pay Profit Tax on taxable profit, pursuant to Turkmenistan's tax legislation and in conformity with the provisions of Article 16 above, as applicable, mutatis mutandis, to subcontractors.

24.2 Employees of Contractor or of any subcontractor of Contractor shall be subject to personal income tax in accordance with the personal income tax law of Turkmenistan, provided however that, if such employees reside in Turkmenistan for less than six (6) months over a twelve (12) month period, they shall not be subject to payment of personal income tax. Contractor shall, within thirty (30) days of the end of each six (6) Calendar Month period of each Calendar Year, furnish to the Government a list of all its Turkmenian and expatriate personnel, along with the remuneration received by each of such personnel and the amount of Turkmenistan's personal income tax withheld in respect thereof during such six (6) Calendar Month period. Contractor shall also require its subcontractors to do the same.

ARTICLE 25

FOREIGN EXCHANGE CONTROL AND PAYMENTS

25.1 Contractor and its subcontractors shall comply with the procedures and formalities required by the laws and the regulations relating to foreign exchange in force from time to time in Turkmenistan, provided these procedures and formalities do not affect the rights hereunder set forth.

25.2 Contractor and its subcontractors shall, during the term and for the purposes of this Agreement, have the right:

(a) to import foreign exchange, and purchase Turkmenistan currency therewith from the Central Bank of Turkmenistan or other authorised banks and foreign exchange dealers, at the best rate of exchange generally available, without discrimination, provided that they will be exempt from all mandatory foreign exchange conversion in Turkmenistan;

(b) to open, keep and operate bank accounts in Turkmenistan, in foreign or local currency, and freely dispose of the sums deposited therein without any restriction, provided the said accounts are credited only with sums deposited in foreign currency, or converted therefrom in local currency, or with the proceeds of the sale of foreign currency being credits relating to or derived from Petroleum Operations hereunder;

(c) to open, keep and operate bank accounts in any foreign currency outside Turkmenistan which may be credited without restriction, and to freely dispose of any sums deposited therein, including the proceeds of sale of Petroleum to which Contractor is entitled hereunder, provided however that such proceeds deposited in foreign bank accounts shall be subject to the submission by Contractor of the relevant foreign bank statements of account to the Turkmenistan competent bodies, for control in accordance with the Law and the current national legislation; and

(d) to purchase foreign convertible currency available in the open market with local currency previously purchased with foreign convertible currency and not required for Petroleum Operations, at rates of exchange no less favourable than those offered by Turkmenistan's Central Bank to other foreign investors, along with the right to re-export such foreign currency not being required for Petroleum Operations or in connection therewith.

(e) For the purpose herein, exchange of the US dollars and other foreign convertible hard currencies into Turkmen currency and vice-versa shall, at any time, be effected: (i) at the then applicable official rate of exchange of the Central Bank of Turkmenistan in respect of Contractor's costs to pay wages and salaries of its Turkmen personnel, and (ii) at the then applicable commercial rate of exchange in respect of Contractor's costs to cover payments for the purchase of services, goods and commodities on the local market.

25.3 Where Contractor, or any subcontractors of Contractor, has guaranteed the full and proper discharge by any Expatriate Employee engaged in Petroleum Operations of his liability to the personal income tax under the laws of Turkmenistan and Article 24.2 hereof, that employee shall be entitled to receive freely the whole or any part of his remuneration in the country in which he is normally resident. For the purpose of

this paragraph, "Expatriate Employee" means any employee not normally resident in Turkmenistan who is engaged on terms which provide for the payment of passages to and from Turkmenistan.

25.4 The US dollar shall be the unit of currency for all payments (whether revenue or cost), bookkeeping and reporting hereunder.

25.5 Payments in currencies other than US dollars shall, for all purposes of this Agreement, be translated into US dollars at the average daily selling and buying rates of exchange of the Calendar Month preceding the Calendar Month in which the due date for payments falls, as such average rate can be calculated from the aforesaid daily rates of exchange published by the Central Bank of Turkmenistan. In respect of the foregoing, it is the intention of the Parties that they shall not experience a currency exchange gain or loss, any such gain or loss, should the case occur, being credited or charged to the appropriate accounts pursuant to the Accounting Procedure.

25.6 Any payment of money which is required to be made under this Agreement by any Party to any other Party and is not made when due shall bear interest at two percent (2.00%) per annum over the LIBOR from the due date until payment is made in full in accordance with the Accounting Procedure.

Model Production Sharing Agreement for Petroleum Exploration and Production in Turkmenistan (Part 3)

ARTICLE 25

FOREIGN EXCHANGE CONTROL AND PAYMENTS

25.1 Contractor and its subcontractors shall comply with the procedures and formalities required by the laws and the regulations relating to foreign exchange in force from time to time in Turkmenistan, provided these procedures and formalities do not affect the rights hereunder set forth.

25.2 Contractor and its subcontractors shall, during the term and for the purposes of this Agreement, have the right:

(a) to import foreign exchange, and purchase Turkmenistan currency therewith from the Central Bank of Turkmenistan or other authorised banks and foreign exchange dealers, at the best rate of exchange generally available, without discrimination, provided that they will be exempt from all mandatory foreign exchange conversion in Turkmenistan;

(b) to open, keep and operate bank accounts in Turkmenistan, in foreign or local currency, and freely dispose of the sums deposited therein without any restriction, provided the said accounts are credited only with sums deposited in foreign currency, or converted therefrom in local currency, or with the proceeds of the sale of foreign

currency being credits relating to or derived from Petroleum Operations hereunder;

(c) to open, keep and operate bank accounts in any foreign currency outside Turkmenistan which may be credited without restriction, and to freely dispose of any sums deposited therein, including the proceeds of sale of Petroleum to which Contractor is entitled hereunder, provided however that such proceeds deposited in foreign bank accounts shall be subject to the submission by Contractor of the relevant foreign bank statements of account to the Turkmenistan competent bodies, for control in accordance with the Law and the current national legislation; and

(d) to purchase foreign convertible currency available in the open market with local currency previously purchased with foreign convertible currency and not required for Petroleum Operations, at rates of exchange no less favourable than those offered by Turkmenistan's Central Bank to other foreign investors, along with the right to re-export such foreign currency not being required for Petroleum Operations or in connection therewith.

(e) For the purpose herein, exchange of the US dollars and other foreign convertible hard currencies into Turkmen currency and vice-versa shall, at any time, be effected: (i) at then applicable official rate of exchange of the Central Bank of Turkmenistan in respect of Contractor's costs to pay wages and salaries of its Turkmen personnel, and (ii) at the then applicable commercial rate of exchange in respect of Contractor's costs to cover payments for the purchase of services, goods and commodities on the local market.

25.3 Where Contractor, or any subcontractors of Contractor, has guaranteed the full and proper discharge by any Expatriate Employee engaged in Petroleum Operations of his liability to the personal income tax under the laws of Turkmenistan and Article 24.2 hereof, that employee shall be entitled to receive freely the whole or any part of his remuneration in the country in which he is normally resident. For the purpose of this paragraph, "Expatriate Employee" means any employee not normally resident in Turkmenistan who is engaged on terms which provide for the payment of passages to and from Turkmenistan.

25.4 The US dollar shall be the unit of currency for all payments (whether revenue or cost), bookkeeping and reporting hereunder.

25.5 Payments in currencies other than US dollars shall, for all purposes of this Agreement, be translated into US dollars at the average daily selling and buying rates of exchange of the Calendar Month preceding the Calendar Month in which the due date for payments falls, as such average rate can be calculated from the aforesaid daily rates of exchange published by the Central Bank of Turkmenistan. In respect of the foregoing, it is the intention of the Parties that they shall not experience a currency exchange gain or loss, any such gain or loss, should the case occur, being credited or charged to the appropriate accounts pursuant to the Accounting Procedure.

25.6 Any payment of money which is required to be made under this Agreement by any Party to any other Party and is not made when due shall bear interest at two percent (2.00%) per annum over the LIBOR from the due date until payment is made

in full in accordance with the Accounting Procedure.

ARTICLE 26 UNITISATION

26.1 Competent Body may require that the Development and Production of any field within the Contract Area be carried out jointly by Contractor with another entity designated by Competent Body if:

- (a) such field extends into an area which is subject to a separate petroleum exploration and production agreement with such other entity;
- (b) such field is not a Commercial Discovery unless the Development and Production of such field is combined with the Development and Production of another field lying within an area which is subject to a separate petroleum exploration and production agreement with such other entity;
- (c) another field lying within an area which is subject to a separate petroleum exploration and production agreement with such other entity is not a Commercial Discovery unless Development and Production of such other field is combined with the Development and Production of a field within the Contract Area.

26.2 If Competent Body requires the joint Development and Production of a field pursuant to paragraph 26.1, Contractor shall collaborate with the other entities identified by Competent Body in preparing a joint operating program for the Development and Production of the field(s) involved, and promptly submit such program to Competent Body. Lack of acting by Contractor and the other entities in this respect may cause Competent Body to prepare or cause to be prepared a joint operating program to achieve the efficient development of the field(s) involved.

26.3 Within ninety (90) days after Competent Body's notice to Contractor that a joint operating program under this Article has been approved or adopted by Competent Body, Contractor shall proceed with the Development and Production of the field(s) involved in accordance with such program, under the non-discriminatory condition that the same obligation be imposed on the other entities in their petroleum exploration and production agreements. Should Contractor so elect, it may relinquish the area(s) encompassing the field(s) subject to such program if it does not wish to proceed in accordance with said program for the joint Development and Production thereof.

ARTICLE 27 ASSIGNMENT

27.1 No Contracting Company may assign to any Person, in whole or in part, any of its rights, privileges, duties or obligations under this Agreement without the prior written consent of Competent Body. Notwithstanding the foregoing, a Contracting Company shall have the right to assign its rights, privileges, duties and obligations under this Agreement to an Affiliate or to another Contracting Company hereto

without the prior written consent of Competent Body, provided the assignor is not in default and the assignee undertakes to be bound by the terms and conditions of this Agreement.

27.2 In the event that a Contracting Company wishes to assign, in whole or in part, any of its rights, privileges, duties and obligations hereunder to a Person not being its Affiliate or a Contracting Company hereto, the prescribed written consent thereto of Competent Body shall not be unreasonably withheld, provided the assignor is not in default and the assignee undertakes to be bound by the terms and conditions of this Agreement.

27.3 In case a Contracting Company assigns part of its Participating Interest to an Affiliate, the assignor, shall remain jointly and severally liable with the assignee for the performance by the latter of all obligations, duties and liabilities pertaining to the acquired Participating Interest.

ARTICLE 28 HEALTH AND SAFETY OF PERSONS ENVIRONMENTAL PROTECTION

28.1 Contractor shall at all times protect the health and safety of its personnel, comply with all health and safety laws of Turkmenistan now or hereafter in effect and take active steps to co-operate with the agencies and other representatives of Turkmenistan in the implementation of codes of practice relating to health and safety which may be promulgated by Turkmenistan from time to time. In the conduct of Petroleum Operations, Contractor will apply and act in accordance with standards of health and safety which accord with international good oil-field practice.

28.2 In order to protect and preserve the natural environment, including flora, fauna and marine life of the Contract Area, including in particular the special ecological conditions of the Caspian Sea, Contractor shall implement the environmental protection actions as are dictated by good oil-field practice. In so doing, Contractor shall comply with:

(a) the establishment and application of procedures to ensure the highest reasonable international standards of environmental protection, with specific reference to the preservation of the Caspian Sea ecological conditions;

(b) before commencing any works, the submission to Competent Body of a report on the possible environmental impact of the envisaged Petroleum Operations on the aforesaid ecological system in the part of the Caspian Sea comprising the Contract Area;

(c) the obtainment of Competent Body's consent to proceed with the envisaged Petroleum Operations, insofar as such Petroleum Operations do not affect the ecological conditions of the Caspian Sea comprising the Contract Area to a greater extent than would derive from the application of the aforementioned international standards of environmental protection, such consent not to be unreasonably withheld.

ARTICLE 29 GOVERNING LAW AND ARBITRATION

29.1 This Agreement shall be governed by, interpreted and construed in accordance with the laws of Turkmenistan and, as applicable, the principles of international law and the decisions of international tribunals and international treaties to which Turkmenistan is a Party.

29.2 Except as otherwise provided in paragraph 29.3, if, during the term of this Agreement or thereafter, any difference or dispute arises out of or in relation to this Agreement between the Parties, which difference or dispute can not be amicably resolved by the Parties through negotiations, either Party shall have the right, within ninety (90) days of the delivery date of written notice by a Party to the other that such difference or dispute exists, to notify the other Party in writing of its intention to submit the difference or dispute to a formal settlement process under this paragraph 29.2.

29.2.1 Any dispute arising between the Parties shall be finally settled by arbitration in accordance with the UNCITRAL Arbitration Rules as at present in force by three (3) arbitrators who shall be appointed in accordance with Article 7 of the UNCITRAL Arbitration Rules. For the purposes of the UNCITRAL Arbitration Rules, the appointing authority shall be the President of the International Court of Justice at The Hague.

29.2.2 The place of arbitration shall be agreed by the Parties to the arbitration and, failing agreement within thirty (30) days of the notice invoking arbitration hereunder, shall be Stockholm, Sweden. The arbitrators may appoint a secretary with offices and facilities in the place of the arbitration to provide administrative services in support of the proceedings.

29.2.3 The Parties to the arbitration proceedings shall negotiate in good faith to agree on a single language for the arbitration proceedings, in order to save time and reduce costs. In the event no such agreement is reached:

(a) the Parties to the arbitration shall present their respective statements of claim, defences or otherwise in both English and Russian;

(b) any other documents shall be translated if the arbitrators or any Party so determines;

(c) there shall be interpretation into both Russian and English at all hearings and conferences; and

(d) the award, and the reasons supporting it, shall be translated into Russian and English.

29.2.4 The award of the arbitrators shall be final and binding upon the Parties to the arbitration and may if necessary be enforced by any court of competent jurisdiction or

other competent authority. Save as aforesaid, all rights of appeal and of application to any court of law whatsoever in any country are hereby excluded in relation to any arbitration hereunder and any award made therein.

29.2.5 The law governing any arbitration proceedings under this Agreement shall, subject to the UNCITRAL Arbitration Rules, be the Governing Law set out in paragraph 29.1 and not the principle ex aequo et bono or otherwise.

29.3 Any matter in dispute between Competent Body and Contractor arising under paragraphs 9.4(b), 13.9, 13.17, 14.2 and 19.7 may, at the election of either of such Parties by written notice to the other, be referred for determination by a sole expert to be appointed by agreement between Competent Body and Contractor. The Expert shall be as nearly as possible a person with an established reputation in international petroleum industry as an expert in production, pricing and marketing of hydrocarbons. If Competent Body and Contractor fail to appoint the expert within sixty (60) days after receipt of such written notice, either of such Parties may have such expert appointed by the President of the Stockholm Chamber of Commerce, Sweden. The decision of the expert shall be final and binding on both Contractor and Competent Body. The expert's fees and expenses, and the costs associated with an appointment, if any, made by the President of the Stockholm Chamber of Commerce, shall be borne equally by Competent Body and Contractor.

ARTICLE 30 INSURANCE AND INDEMNIFICATION

30.1 Contractor will obtain and maintain insurance as follows:

- (a) all-risks insurance covering all plant, buildings, equipment and goods of whatever nature (other than hydrocarbons prior to extraction) used or intended for use in connection with activities under this Agreement while in Turkmenistan or in transit therefrom or thereto;
- (b) insurance covering loss of Petroleum and its by-products up to the point in time and location at which title and risk of loss has been transferred in full from Competent Body or Contractor to a third party;
- (c) insurance covering clean-up costs for damage to the natural environment, including pollution of the air and water and surface and subsurface soils and waters contained within, under or over the Contract Area and other areas used in connection with activities conducted under or pursuant to this Agreement;
- (d) comprehensive general liability insurance covering property damage and bodily injury from all insurable risks arising from or with respect to the Contract Area and other areas used in connection with Petroleum Operations and Contractor's activities under this Agreement;
- (e) control-of-well insurance covering control of well and re-drill costs following accidents to wells located in the Contract Area;

(f) health, life and accident insurance for employees and other individuals engaged by Contractor in connection with activities under this Agreement; and

(g) such other insurance in respect of the Contract Area and the activities of Contractor under this Agreement as would, in accordance with international good oil-field practice, be maintained by a reasonable and prudent Operator.

30.2 Promptly following the Effective Date and in any event prior to the commencing of any activity under this Agreement, Contractor will propose to the Management Committee for its approval a program of insurance satisfying the requirements of section 30.1. All insurance required to be maintained hereunder shall have such terms, conditions and limitations (including policy amounts and deductibles) as may from time to time be approved by the Management Committee in accordance with international good oil field practice.

30.3 Contractor shall require subcontractors performing work in respect of Petroleum Operations to obtain and maintain all insurance in the types and amounts required by any decision of the Management Committee.

30.4 Contractor shall be entitled to designate insurers that are Affiliates of one or more Contracting Companies as re-insurers for up to one hundred percent (100%) of all policies of insurance required under this Article, provided that:

(a) such re-insurance shall result in no loss of coverage and shall be on terms (including costs and other expenses) that are reasonable and customary in the international insurance market and in any event not less favourable than those available to the primary insurer from third parties; and

(b) Competent Body shall be satisfied as to the financial soundness and liquidity of such re-insurers.

ARTICLE 31 FORCE MAJEURE

31.1 Except as otherwise provided in this Article, each Party shall be excused for not complying with the terms of this Agreement, except for the payment of moneys due, for so long as such compliance is prevented by strikes, wars (declared or undeclared), acts of God or by any act or cause that is reasonably beyond the control of such Party, such causes being herein called "Force Majeure". In the event that any Party hereto is rendered unable, wholly or in part, by any of these causes to carry out its obligations under this Agreement, such Party shall give notice and details of Force Majeure in writing to the other Party(ies) within seven (7) days after its occurrence. In such cases, the obligations of the Party giving the notice shall be suspended during the continuance of any inability so caused. Such Party shall do all reasonably within its power to remove such cause. If through Force Majeure, the fulfilment by the Parties of any of the obligations under this Agreement shall be delayed, the period of such delay, together with such reasonable period as may be necessary for the restoration of operations, shall be added to the time allowed under this Agreement for the fulfilment of such obligations or the exercise of any right dependent thereon.

31.2 Should the Force Majeure circumstances endure for more than twelve (12) months, any Party may request that the other Party(ies) meet to consider the desirability of amending or terminating this Agreement, either to accommodate the effects of the Force Majeure or to relieve the Parties from any and all rights and obligations under this Agreement; provided, however, that this paragraph 31.2 shall not be interpreted to impose any obligation upon any Party to agree to any such amendment or termination.

31.3 Should the Force Majeure circumstances endure for more than two (2) years, either of Competent Body or Contractor may unilaterally terminate this Agreement, upon giving thirty (30) days prior written notice thereof to the other Party. However, under circumstances of "Hardship", Contractor shall have the option to accept or refuse the aforesaid termination. For the purpose of foregoing, "Hardship" means Contractor's inability to recover its financial exposure related to the conduct of Petroleum Operations owing to persisting Force Majeure.

ARTICLE 32
SIGNATURE BONUS AND PRODUCTION BONUSES

32.1 Contractor shall pay to Competent Body, acting on behalf of the Government, a Signature Bonus in the amount of _____ (____) US dollars, into a bank account designated by Competent Body. The Signature Bonus shall be paid within thirty (30) days from the Effective Date, as the latter is defined in Article 33 below.

32.2 Production Bonuses, in the amount indicated hereunder, shall be due and paid by Contractor to Competent Body, acting on behalf of the Government when the cumulative production in the Contract Area, as from the Date of Commencement of Commercial Production, first reaches the following volumes expressed in Barrels of Oil Equivalent ("BOE"):

Cumulative Production (BOE) Production Bonus (US\$)

_____,000,000	_____ 000,000
_____ 000,000	_____ 000,000
_____ 000,000	_____ 000,000

The above mentioned Production Bonuses shall be paid within thirty (30) days following the date on which each of the aforesaid cumulative productions are first achieved.

32.3 For the purposes of paragraph 32.2, a BOE shall mean:

- (a) as to Crude Oil: one (1) Barrel of Crude Oil;
- (b) as to Natural Gas: one (1) Barrel of Crude Oil equivalent of Natural Gas measured in Cubic Meters, at atmospheric pressure and a temperature of 60° Fahrenheit, such equivalence being set at 163.934426 Cubic Meters of Natural Gas

per one (1) Barrel of Crude Oil.

ARTICLE 33
EFFECTIVENESS

33.1 This Agreement shall be effective as of the date on which all of the following conditions precedent are satisfied:

- (a) the signing of this Agreement by each of the President of Turkmenistan, Competent Body, Concern and Contractor (or each of the Contracting Companies, if any);
- (b) the registration of this Agreement pursuant to the Law;
- (c) the issuance by Competent Body to Contractor of an Exploration License associated with this Agreement, substantially in the form of Annex "C";

33.2 When all the foregoing conditions precedent are satisfied and on the date on which any of them is last satisfied, Competent Body shall promptly notify Contractor that this Agreement is in full force and effect as of the aforesaid date (the "Effective Date").

ARTICLE 34
ROYALTY

34.1 Contractor shall pay to Government a Royalty on Petroleum produced and saved under all Production Licences, according to the following schedule:

(a) Crude Oil

Production tranche (Barrels/day) Royalty(%)

_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

(b) Natural Gas

Production tranche (Cubic Meters/day) Royalty (%)

34.2 Title to Royalty shall pass to the Government at the Delivery Point, where such Royalty shall be lifted by Concern, on behalf of the Government, or otherwise disposed of by agreement of Contractor and the Government.

34.3 Royalty shall be due for payment within fifteen (15) days following the end of each Calendar Quarter. To the extent required, annual adjustments shall be made by applying, mutatis mutandis, the provisions of paragraphs 13.9 and 13.10.

ARTICLE 35 TERMINATION

35.1 This Agreement shall be deemed to have been terminated if the Exploration Licence and/or any Production Licence granted to Contractor pursuant to Article 3 have either expired, or have under and in accordance with the Law, or any relevant provisions of this Agreement, been surrendered by the Contractor or been lawfully cancelled or terminated by Competent Body, but save as aforesaid shall continue in full force and effect so long as Contractor continues to hold any of the said Licences.

35.2 Competent Body shall have the right to terminate this Agreement and the Exploration Licence and any Production Licences granted hereunder, upon giving ninety (90) days advance written notice of its intention to do so, if Contractor:

(a) fails to make any monetary payment required under this Agreement for a period of thirty (30) days after the due date for such payment;

(b) is otherwise in material breach of the terms and conditions of this Agreement or any Licence granted pursuant to Article 3;

(d) becomes bankrupt, or goes into liquidation because of insolvency or makes a composition with its creditors.

35.3 If the circumstance or circumstances that result in an advance notice of termination under paragraphs 35.2(a), 35.2(b) and 35.2(c) are remedied by Contractor within the ninety (90) day period following the date of the notice of termination as aforesaid or, where the breach cannot be remedied, adequate compensation has been offered to and accepted by Competent Body in respect thereof within such ninety (90) day period, such termination shall not enter into effect.

35.4 If the circumstance or circumstances that would otherwise result in termination

under paragraphs 35.2(b) or 35.2(c) are the result of Force Majeure, then termination shall not take place so long as such Force Majeure continues and for such period thereafter as provided in Article 31.

35.5 Where two or more Contracting Companies constitute Contractor, this Agreement may not be terminated:

(a) pursuant to paragraphs 35.2(a), 35.2(b) or 35.2(c) above where, in respect of a liability which is a several liability, one or some only of the Contracting Companies constituting Contractor is in breach of the provisions hereof or has so failed in compliance; or

(b) pursuant to paragraph 35.2(d) above where the bankruptcy, liquidation or composition relates to one or some only of the Contracting Companies constituting Contractor.

35.6 In any case falling under paragraph 35.5 above, Competent Body, subject to paragraphs 35.3 and 35.4, may, upon giving ninety (90) days written notice of its intention to do so, terminate the Participating Interest herein, and in any related Licences, of the Contracting Company(ies) in breach, or which have failed in compliance, or, as the case may be, have become bankrupt, gone into liquidation or made a composition as aforesaid (the "Defaulting Party"), but nothing in this paragraph shall affect the rights and obligations of any other Contracting Company, which rights and obligations shall remain in full force and effect in their respect. In such event, the Defaulting Party shall forthwith assign, unconditionally and without consideration, to the other Contracting Companies its entire Participating Interest under this Agreement and any related Licences. Such assignment will be made in undivided proportionate shares corresponding to the undivided proportionate shares in which such other Contracting Companies hold Participating Interests in this Agreement and the relevant Licence(s).

35.7 On termination of this Agreement and any related Licences or of a Participating Interest therein, the rights and obligations thereunder of Contractor or the Defaulting Party, as the case may be, shall cease, it being understood, however, that such termination shall not affect any liability incurred prior to the date thereof, and any legal proceedings that might have been commenced or continued against Contractor or such Defaulting Party may be commenced or continued against it.

ARTICLE 36 ACCOUNTING AND AUDITS

36.1 Contractor shall be responsible for maintaining complete accounts, books and records reflecting all revenues, costs and expenses associated with Petroleum Operations under this Agreement in accordance with the Accounting Procedure set out in Annex "D" of this Agreement and accepted international petroleum industry accounting standards and procedures. The said accounting records shall be kept in Turkmenistan in US dollars for official use under this Agreement. Accounting records in Turkmen Manats may also be maintained, but not used for the purposes of this Agreement .

36.2 Within ninety (90) days after the expiration of each Calendar Year, Contractor shall submit to the Management Committee detailed accounts showing all Contract Expenses and Contract Revenues during the past Calendar Year. Before submission to the Management Committee, the accounts shall be audited and certified by an independent chartered accountant or certified public accountant acceptable to both Competent Body and Contractor, at the expense of Contractor. It is understood that Competent Body retains the right to review and audit Contractor's books and records with respect to Petroleum Operations conducted hereunder either directly or through an independent accountant designated by Competent Body. Such right of audit will terminate twenty-four (24) Calendar Months after the closure of the subject Calendar Year's accounts. Any claims or exceptions to Contractor's accounts must be officially communicated to Contractor within thirty-six (36) Calendar Months of the closure of the subject Calendar Year's accounts.

ARTICLE 37 CONFIDENTIALITY

37.1 This Agreement and any Confidential Information of any Party hereto which becomes known to the other Party(ies) in connection with the performance of this Agreement shall not be published or disclosed to third parties without the former Party's prior written consent, except as otherwise provided herein, and provided however that such other Party(ies) may communicate Confidential Information to legal counsel, accountants, other professional consultants, underwriters, lenders, agents, contractors or shipping companies to the extent necessary in connection with this Agreement, subject to a prior undertaking from the parties receiving such information to maintain confidentiality, or to an agency of the government of the country of Contractor having authority to require such disclosure.

37.2 The term "Confidential Information" as used herein shall mean information identified as "confidential" by the Party originally in possession of it and disclosed to the other Party(ies), excluding information previously known to the other Party(ies), or information which is known to the public (except through disclosure of the other Party(ies) in violation of this Article), or information that comes into the possession of such other Party(ies) from a third party who has an independent right to such information.

37.3 Without prejudice to the provisions of paragraphs 8.8 and 37.1, the confidentiality obligations of this Article shall survive, in respect of Contractor, for a period of five (5) Calendar Years after the expiration of this Agreement, but shall expire, in respect of Competent Body, upon relinquishment of the area to which the information relates or upon expiration (or prior termination) of this Agreement, as the case may be.

ARTICLE 38 NOTICES

All notices and other communications required or permitted hereunder or any notices

that one Party may desire to give to the other Party(ies) shall be in writing in both English and Russian languages and deemed to have been properly delivered if personally handed to an authorised representative of the Party for whom intended or sent by registered airmail, cable, facsimile or telex, except as otherwise provided herein, at or to the address of such Party for whom intended as indicated below, or such other addresses as any Party may from time to time designate by notice in writing to the other Party(ies):

(a) Competent Body:

Attention: _____
Fax: _____
Telex: _____

(b) Contractor:

Attention: _____
Fax: _____
Telex: _____

Attention: _____
Fax: _____
Telex: _____

**ARTICLE 39
MISCELLANEOUS**

39.1 This Agreement embodies the entire agreement and understanding between Contractor and Competent Body relative to the subject matter hereof, and supersedes and replaces any provisions on the same subject in any other agreement between the Parties, whether written or oral, prior to the Effective Date of this Agreement. This Agreement may not be amended, modified, varied or supplemented except by an instrument in writing signed by Contractor (or each of the Contracting Companies, if any) and Competent Body.

39.2 Performance of any condition or obligation to be performed hereunder shall not be deemed to have been waived or postponed except by an instrument in writing

signed by the Party which is claimed to have granted such waiver or postponement. No waiver by any Party of any one or more obligations or defaults by any other Party in the performance of this Agreement shall operate or be construed as a waiver of any other obligations or defaults whether of a like or of a different character.

39.3 This Agreement may be executed in any number of counterparts and by different Parties in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement. This Agreement will be executed in the English and Russian languages, and both will have equal force and effect.

IN WITNESS HEREOF, the Parties hereto have caused this Agreement to be executed in _____ (____) originals by their respective duly authorised representatives as of the day and year first above written.

Signed for
the President of Turkmenistan

By: _____

Title: _____

Signed for and on behalf of
Competent Body

By: _____

Title: _____

Signed for and on behalf of
Concern

By: _____

Title: _____

Signed for and on behalf of
Contractor

By: _____

Title _____

ANNEX "A"

DESCRIPTION OF CONTRACT AREA

ANNEX "B"

MAP OF CONTRACT AREA

(standart format)

ANNEX "C"

(To the Production Sharing Agreement)

EXPLORATION LICENSE

I, the undersigned, President of Turkmenistan, upon recommendation of the Competent Body and pursuant to the powers conferred upon me by the Constitution and the Petroleum Law dated December 30, 1996, hereby validate the grant to (name of the company), a company duly organised and existing under the laws of ("Contractor"), this exploration License to conduct Exploration Operations within and with respect to the Contract Area as described in Annex "B" of the Production Sharing Agreement entered into between Competent Body, Concern and Contractor, on (date of PSA).

This exploration License confers upon Contractor the exclusive right to explore for Petroleum in the said Contract Area and to carry put such exploration Operations as are necessary for that purpose.

Under this Exploration License, Contractor is obliged to carry out such Minimum Exploration Work Programs and to expend such Minimum expenditures as are specified in Article of the Production Sharing Agreement.

This exploration License is granted for an Initial Exploration Period of six years from the effective date hereof and for two successive Renewal Periods of two years each in accordance with the provisions of the Law and the terms and conditions off said Production Sharing Agreement.

In witness whereof, I have validated the grant of the Exploration License aforesaid, with effect from (date), and set out by my hand and seal this day of

ANNEX "D"

ACCOUNTING PROCEDURE

SECTION 1.

GENERAL PROVISIONS

1.1 Definitions

For the purpose of this Accounting Procedure the terms used herein which are defined in the Agreement shall have the same meaning when used in this Accounting Procedure.

1.2 Statements required to be submitted by Contractor

(a) Within ninety (90) days of the Effective Date, Contractor shall submit to and discuss with Competent Body a proposed outline of charts of accounts, operating records and reports, which outline shall be in accordance with generally accepted and recognised accounting systems and consistent with normal practice of the international petroleum industry and the requirements of this Agreement. Within ninety (90) days of receiving the above submission Competent Body shall either indicate its approval of the proposal or request revision of the proposal. Within one hundred and eighty days after the Effective Date of the Agreement, Contractor and Competent Body shall agree on the outline charts of accounts, operating records and reports which shall describe the basis of the accounting system and procedures to be developed and used under the Agreement.

Following such agreement, Contractor shall expeditiously prepare and provide Competent Body with formal copies of the comprehensive charts of accounts related to the accounting, recording and reporting functions and allowing the Government to examine Contractor’s manuals and to review procedures which are, and shall be,

observed under the Agreement.

(b) All reports, books, accounts and records will be prepared and maintained in accordance with this Agreement, the laws of Turkmenistan and, where there are no relevant provisions in either of these, in accordance with normal practices in the international petroleum industry.

(c) All accounts, books, records and reports requires hereunder shall be maintained at Contractor's business office in Turkmenistan and will be available for the inspection and use of Competent Body and its representatives in carrying out their supervisory function under this Agreement.

1.3 Language and Units of Accounts

(a) Accounts shall be maintained in Turkmenistan Manats and in United States Dollars; however, the United States Dollar shall prevail for the purpose of this Agreement. Metric units and Barrels shall be employees for measurements requires under this Annex D. The language employees shall be _____ . Where necessary for clarification, Contractor may also maintain accounts and records in other languages, units of measurements and currencies.

(b) It is the intent of this Accounting Procedure that neither Competent Body nor Contractor should experience an exchange gain or loss at the expense of, or to the benefit of, the other. However, should there be any gain or loss from exchange of currency, it will be credited or charged to the accounts under this Agreement.

(i) Amounts received and costs and expenditures made in Turkmenistan Manats, United States Dollars or any other currency shall be converted into Turkmenistan Manats or Unites states Dollars, as the case may be, on the basis of the average of the buying and selling exchange rates between the currencies in question as published by the Central Bank of Turkmenistan, prevailing on the last Business Day of the Calendar Month preceding the Calendar Month in which such amounts are received and costs and expenditures are paid.

(ii) In the event of an increase or decrease, one time or accumulative, of five per cent (5%) or more in the rates of exchange between the Turkmenistan Manat, the United States Dollar or the currency in question, during any given Calendar Month, the following rates will be use:

(1) For the period from the first of the Calendar Month to the day when such increase or decrease is first reached, the average of the official buying and selling exchange rates between the United States Dollar, Turkmenistan Manat or the currency in question as issued on the last day of the previous Calendar Month.

(2) For the period from the day on which such increase or decrease is first reached to the end of the calendar Month, the average of the official buying and selling exchange rates between the United States Dollar, the Turkmenistan Manat or the currency in question as issued on the day on which such increase or decrease is reached.

(3) A record of the exchange rates used in converting Turkmenistan Manats, United States Dollars or any other Currency hereunder shall be maintained by Contractor.

1.4 Payments

(a) All payments between the parties shall, unless otherwise agreed, be in United States Dollars and through a bank designated by each receiving party.

(b) Payments of Income Tax by Contractor shall be made in accordance with the appropriate procedures contained in the laws of Turkmenistan.

(c) All sums due by one party to the other under the Agreement during any Calendar Month shall, for each day such sums are overdue during such month, bear interest compounded daily at an annual rate equal to the average London Interbank Offered Rate (Libor) for six (6) months as quoted at 11.00 a.m. London time on the first business day of such month by the London office of _____ plus two (2) percentage points.

1.5 Audit and Inspection Rights of Competent Body

(a) Competent Body shall have the right to audit directly or through an independent accountant, at its own cost, Contractor's accounts and records maintained hereunder with respect to each Calendar Year within twenty four (24) Calendar Months after the closure of the subject year's accounts. Notice of any exception to Contractor's accounts of any Calendar year must be notified to Contractor within thirty six (36) Calendar Months of the closure of the subject year's accounts. For purposes of auditing, Competent Body may examine and verify at reasonable times all charges and credits relating to the Petroleum Operations such as books of account, accounting entries, material records and inventories, vouchers, payrolls, invoices and any other documents, correspondence and records necessary to audit and verify the charges and credits. Furthermore, the auditors shall have the right in connection with such audit to visit and inspect at reasonable times all sites, plants, facilities, warehouses and offices of Contractor directly or indirectly serving the Petroleum Operations including visiting personnel associated with those operations.

(b) Without prejudice to the finality of matters as described in subsection 1.5 (a) all documents referred to in that subsection shall be maintained and made available for inspection by Competent Body for five (5) Calendar Years following their date of issue.

1.6 Accrual Basis

All book, accounts and records shall be prepared on an accrual basis. Contract revenues shall be attributed to the accounting period in which they are earned, and costs and expenses to the accounting period in which they are incurred, without the need to distinguish whether cash is received or disbursed in connection with a particular transaction. Costs and expenses shall be deemed to have been incurred, in the case of physical items, in the accounting period when Contractor acquires title thereto, and in the case of services, in the accounting period when such services are

performed.

1.7 Arms Length Transactions

Except as may be otherwise agreed in writing between the Competent Body and Contractor, all transactions giving rise to revenues, costs or expenses which will be credited or charged to the books, accounts, records and reports prepared, maintained or submitted hereunder shall be conducted at arm's length or on such a basis as will assure that all such revenues, costs or expenses will not be higher or lower, as the case may be, than would result from a transaction conducted at arms length on a competitive basis with third parties.

SECTION 2.

CLASSIFICATION, DEFINITION AND ALLOCATION OF COSTS AND EXPENDITURES

Contract Expenses incurred in connection with Petroleum Operations carried out hereunder shall be classified, defined and allocated as follows:

2.1 Exploration Expenditures are all direct and allocated indirect costs incurred in the search for Petroleum in the Contract Area, including:

- (a) Aerial, geophysical, geochemical, paleontological, geological, topographical and seismic surveys and studies and their interpretations;
- (b) Core hole drilling and water well drilling;
- (c) Labour, materials and services used in drilling Wells with the object of finding new Petroleum Reservoirs or for the purpose of appraising the extent of Petroleum Reservoirs already discovered provided that such wells are not completed as producing wells;
- (d) Facilities used solely in support of these purposes including access roads and purchased geological and geophysical information;
- (e) A portion of all Service Costs (as hereinafter defined) allocated to exploration Operations on an equitable basis agreed to between the Competent Body and Contractor;
- (f) A portion of all General and Administrative Expenses (as hereinafter defined) allocated to exploration Operations based on projected budget expenditures subject to adjustment on the basis of actual expenditure at the end of the Calendar Year concerned; and
- (g) Any other Contract Expenses incurred prior to the commencement of Commercial Production in a Development Area and not otherwise covered by paragraph 2.2 below.

2.2 Development and Production Expenditures shall consist of all expenditures incurred in Development Operations in relation to a Development Area including:

- (a) Drilling Wells which are completed as producing Wells and drilling Wells for purposes of producing a Petroleum Reservoir already discovered whether these wells are dry or producing;
- (b) Completing wells by way of installation of casing or equipment or otherwise after a Well has been drilled for the purpose of bringing the Well into use as a producing Well;
- (c) Intangible drilling costs such as labour, consumable materials and services having no salvage value which are incurred in drilling and deepening of Wells for production purposes;
- (d) The costs of field facilities including field gathering systems, field production and treatment units, wellhead equipment, subsurface equipment, enhances recovery systems, offshore platforms, Petroleum storage facilities in the field and related facilities, and filed access roads for production activities;
- (e) Engineering and design studies for field facilities;
- (f) A portion or all Service Costs allocated to the Development Operations on an equitable basis in a manner agreed by the Management Committee;
- (g) A portion or all General and Administrative Expenses allocated to the Development Operations based on projected budget expenditures which will be adjusted to actual at Calendar Year end; and
- (h) Any other expenditures incurred in Development Operations prior to the commencement of Commercial Production in a Development Area, other than those incurred in respect of operations carried out beyond the Delivery Point.

2.3 Operating Expenses are all expenditures incurred in the Petroleum Operations hereunder after the start of the Commercial Production which are other than exploration expenditures, Development and Production Expenditures and General and Administrative Expenses and Service Costs otherwise allocated to Exploration Expenditures or Development and Production expenditures pursuant to subparagraphs 2.1 (e) and 2.2 (f) above; Operating expenses shall not, however, include tariff charges associated with the transportation of Petroleum from the Delivery Point to the land or seaboard terminal point of export.

2.4 Service Costs are direct and indirect expenditures in support of the Petroleum Operations including warehouse, pier, marine vessels, vehicles, motorised rolling equipment, aircraft, fire and security stations, workshops, water and sewage plants, power plants, housing, community and recreational facilities and furniture, tools and equipment used in these activities. Service Costs in any Calendar Year shall include the total costs incurred in such year to purchase and/or construct said facilities as well as the annual costs to maintain and operate the same.

All Service Costs will be regularly allocated as specified in subparagraphs 2.1 (e), 2.2 (f) and 2.3 to Exploration Expenditures, Development and Production Expenditures and Operating Expenses.

2.5 General and Administrative Expenses

(a) All main office, field office and general administrative costs incurred in relation to Petroleum Operations in Turkmenistan including but not limited to supervisory, accounting and employee relations services.

(b) An overhead charge for services rendered outside Turkmenistan in support of the Petroleum Operations and for staff advice and assistance including financial, legal, accounting, procurement and employee relations services. This charge shall be four per cent (4%) of the Contract Expenses, excluding those covered in subsection 2.5 (a), incurred in any Calendar Year during the period from the Effective Date until the date on which the first Production License under the Agreement is granted by Competent Body.

Thereafter, in respect of Development Operations, the overhead shall be charged at the following rates:

(i) three per cent (3%) of the first five million Dollars (\$ 5, 000, 000) of Contract Expenses incurred in any Calendar Year;

(ii) two per cent (2%) of the next million Dollars (\$ 5, 000, 000) of Contract Expenses incurred in any Calendar Year;

(iii) one per cent (1%) of Contract Expenses in excess of ten million Dollars (\$ 10, 000, 000) incurred in any Calendar Year.

The Management Committee shall annually audit Contractor's real overhead costs to verify whether the aforesaid percentages reflect such real costs. Should the need arise, adjustments shall be made thereto, it being the intention of the Parties that overhead charges should result neither in a gain nor in a loss for Contractor.

(c) All General and Administrative Expenses will be regularly allocated as specified in subsection 2.1 (f), 2.2 (g) and 2.3 to Exploration Expenditures, Development and Production Expenditures and Operating Expenses.

SECTION 3

COSTS, EXPENSES, EXPENDITURES AND CREDITS OF THE CONTRACTOR

3.1 Costs Recoverable Without Further Approval of Competent Body

Subject to the provisions of the Agreement, Contractor shall bear and pay the following costs and pay the following costs and expenses in respect of the Petroleum Operations. These costs and expenses will be classified under the headings referred to in paragraph 2 of this Annex. They are recoverable Contract Expenses by Contractor under the Agreement.

(a) Surface Rights

This covers all direct costs attributable to the acquisition, renewal or relinquishment of surface rights acquired and maintained in force for the Contract Area;

(b) Labour and Associated Labour Costs

(i) Gross salaries and wages including bonuses of Contractor's employees directly engaged in the Petroleum Operations, irrespective of the location of such employees;

(ii) Contractor's costs regarding holiday, vacation, sickness and disability payments applicable to the salaries and wages chargeable under subparagraph (i) above.

(iii) Expenses or contributions made pursuant to assessments or obligations imposed under the laws of Turkmenistan which are applicable to Contractor's cost of salaries and wages chargeable under (i) above;

(iv) Contractor's cost of established plans for employees' life insurance, hospitalisation, pensions and other benefits of a like nature customarily granted to contractor's employees; and

(v) Reasonable travel and personnel expenses of employees of Contractor including those made for travel and relocation of the expatriate employees assigned to Turkmenistan all of which shall be in accordance with Contractor's normal practice, provided such is consistent with generally accepted practices in the international petroleum industry.

(c) Transportation

The cost of transportation of employees, equipment, materials and supplies necessary for the conduct of the Petroleum Operations.

(d) Charges for Services

(i) Third Party Contracts

the actual costs of contracts for technical and other services entered into by Contractor for the Petroleum Operations, made with third parties other than Affiliate of Contractor are recoverable, provided that the prices paid by Contractor are no higher than those generally charged by other international or domestic suppliers for comparable work and services;

(ii) Affiliated Companies of Contractor

Without prejudice to the charges to be made in accordance with paragraph 2.5 of this Annex, in the case of services rendered to the Petroleum Operations by an Affiliate of Contractor the charges will be based on actual costs without profits and will be competitive. The charges will be no higher than the most favourable prices charged by the Affiliate to third parties for comparable services under similar terms and

conditions elsewhere. The Contractor will, if requested by Competent Body specify the amount of the charges which contributes an allocated proportion of the general material, management, technical and other costs of the Affiliate Company, and the amount which is the direct cost of providing the services concerned. If necessary, certified evidence regarding the basis of prices charged may be obtained from the auditors of the Affiliate Company.

(e) Material

(i) General

So far as it is practicable and consistent with efficient and economical operation only such material shall be purchased or furnished by Contractor for use in the reasonably foreseeable future and the accumulation of surplus stocks will be avoided;

(ii) Warranty of Material

Contractor doesn't warrant material beyond the supplier's or manufacturer's guarantee and, in case of defective material or equipment, any adjustment received by Contractor from the supplier/manufacturer or their agents will be credited to the accounts under the Agreement;

(iii) Value of Material Charged to the Accounts Under the Agreement

(a) Except as otherwise provided in subparagraph (b) below material purchased by Contractor for use in the Petroleum Operations shall be valued to include the invoice price less trade and cash discount (if any), purchase and procurement fees plus freight and forwarding charges between point of supply and point of shipment, freight to port of destination, insurance, taxes, customs duties, consular fees, other items chargeable against imported material and where practicable handling and transportation expenses from point of importation to warehouse or operating site, and its costs should not exceed those currently prevailing in normal arms-length transactions on the open market;

(b) Material purchase from Affiliated Companies of Contractor shall be charged at price no higher than the following:

(1) New Material (Condition "A")

Shall be valued at the current international price which should not exceed the price prevailing in normal arms-length transactions on the open market.

(2) Used Material (Condition "B" and "C")

(i) Material which is in sound and serviceable condition and is suitable for reuse without reconditioning shall be classified as Condition "B" and priced at seventy-five per cent (75%) of the current price of new material defined in subparagraph (1) above;

(ii) Material which cannot be classified as Condition "B" but which:

(a) after reconditioning will be further serviceable for original function as good second hand material (Condition "B"); or

(b) is serviceable for original function but substantially not suitable for reconditioning;

Shall be classified as Condition "C" and priced at fifty per cent (50%) of the current price of new material as defined in subparagraph (1) above. The cost of reconditioning shall be charged to the reconditioned material provided that the condition "C" material value plus the cost of reconditioning does not exceed the value of Condition "B" material.

(iii) Material which cannot be classified as Condition "B" or Condition "C" shall be priced at a value commensurate with its use;

(iv) Material involving erection costs shall be charged at the applicable condition percentage of the current knocked-down price of new materials as defined in subparagraph (1) above;

(v) When the use of material is temporarily and its service to the Petroleum Operations does not justify the reduction in price as provided for in subparagraph (2) (ii) hereof, such material shall be priced on a basis that will result in a net charge to the accounts under the Agreement consistent with the value of the services rendered.

(f) Rental, Duties and Other Assessments

All levies, charges, fees, contributions and any other assessments and charges levied by Competent Body in connection with the Petroleum Operations, and paid directly or indirectly by Contractor, other than Income Tax imposed on Contractor and its employees and Competent Body's Share attributable pursuant to Article 13 of the Agreement.

(g) Insurance and Losses

Insurance premia and costs incurred for insurance, provided that if such insurance is wholly or partially placed with an Affiliate Company of Contractor, such premia and costs shall be recoverable only to the extent generally charged by competitive insurance companies other than an Affiliate Company of Contractor. Costs and losses incurred as a consequence of events which are, and in so far as, not made good by insurance obtained under the Agreement are recoverable under the Agreement unless such costs have resulted solely from an act of wilful misconduct or negligence of Contractor.

(h) Legal Expenses

All costs and expenses of litigation and legal or related services necessary or expedient for the procuring, perfecting, retention and protection of the Contract Area, and in defending or prosecuting lawsuits involving the Area or any third party claim arising out of activities under the Agreement, or sums paid in respect of legal services necessary or expedient for the protection of Contractor's interests are recoverable.

Where legal services are rendered in such matters by salaried or regularly retained

lawyers of Contractor or an Affiliate Company of Contractor, such compensation will be included instead under the subparagraph 3.1 (b) or 3.1 (d) above, as applicable;

(i) Training Costs

Except where otherwise provided herein, all costs and expenses incurred by Contractor in training of its employees engaged in the Petroleum Operations and such other training as required under Article 18 of the Agreement.

(j) General and Administrative Expenses

The costs described in subparagraph 2.5 (a) and the charge described in subsection 2.5 (b).

3.2 Costs recoverable only with the Approval of the Management Committee

- (a) Commission paid to intermediaries by Contractor;
- (b) Donations and contributions;
- (c) Interest incurred on loans raised by Contractor, to finance Development Operations;
- (d) Expenditure on research into and development of new equipment, material and techniques for use in searching for, developing and producing Petroleum.

3.3 Costs not recoverable under the Agreement

- (a) Costs incurred before the Effective Date;
- (b) Petroleum marketing or transportation charges incurred beyond the Delivery Point;
- (c) The costs of the bank guarantee furnished pursuant to paragraph 4.6 of the Agreement and any payments made thereunder in respect of failure by Contractor to comply with its contractual obligations under the Agreement (and any other amounts spent on indemnities with regard to non-fulfilment of contractual obligations by Contractor);
- (d) Legal and other costs of arbitration and the independent expert in respect of any dispute referred for determination pursuant to Article 29 of the Agreement;
- (e) Income Tax imposed on Contractor pursuant to the Income Tax Decree;
- (f) Competent Body Production Share determined pursuant to Article 13 of the Agreement;
- (g) Fines and penalties imposed by courts of Law of Turkmenistan;
- (h) Costs incurred as a result of wilful misconduct or negligence of Contractor; and
- (i) Interests incurred on loans raised by Contractor to finance Exploration Operations.

3.4 Other Costs and Expenses

Other costs and expenses not covered or dealt with in the provisions of this paragraph 3 and which are incurred by Contractor for the necessary and proper conduct of Petroleum Operations are recoverable.

3.5 Credit under the Agreement

The net proceeds of the following transactions will be credited to the accounts under the Agreement:

(a) The net proceeds of any insurance or claim in connection with the Petroleum Operations or any assets charged to the accounts under the Agreement when such operations or assets were insured and the premia charged to the accounts under the Agreement;

(b) Revenue received from outside for the use of property or assets charged to the accounts under the Agreement;

(c) Any adjustment received by Contractor from the suppliers/manufacturers or their agents in connection with a defective material the cost of which was previously changed by Contractor to the accounts under the Agreement;

(d) Rentals, refunds or other credits received by Contractor which apply to any charge which has been made to the accounts under the Agreement, but excluding any awards granted to Contractor under the arbitration or independent expert proceedings referred to in subsection 3.3 (d) above; and

(e) The prices originally charged to the accounts under the Agreement for inventory materials subsequently exported from Turkmenistan without being used in the Petroleum Operations.

3.6 Duplication of Charges and Credits

Notwithstanding any provision to the contrary in this Accounting procedure, it is the intention that there shall be no duplication of charges or credits in the accounts under the Agreement.

SECTION 4.

RECORDS AND VALUATION OF ASSETS

Contractor shall maintain detailed records of property in use for the Petroleum Operations in accordance with the normal practice in exploration and production activities in the international petroleum industry. At reasonable intervals but at least once a year with respect to movable assets and once every five (5) years with respect to immovable assets, inventories of the property under the Agreement shall be taken by Contractor.

Contractor shall give Competent Body at least thirty (30) days written notice of its intention to take such inventory and Competent Body shall have the right to be represented when such inventory is taken. Contractor shall clearly state the principles upon which valuation of the inventory has been based when an assignment of rights under the Agreement takes place a special inventory may be taken by Contractor at the request of the assignee provided that the costs of such inventory are borne by the assignee and not charged to Contract Expenses hereunder.

SECTION 5.

REVISION OF ACCOUNTING PROCEDURE AND CONFLICTS

12.1 The provisions of this Accounting Procedure may be amended by Agreement between Contractor and Competent Body. The amendments shall be made in writing and shall state the date upon which the amendments shall become effective.

12.2 In the event of any conflict between the provisions of this Accounting Procedure and the Agreement, the provisions of the Agreement shall prevail.

ANNEX "E"

BANK GUARANTEE

To the Competent Body

The Government of Turkmenistan
Ashgabat
TURKMENISTAN

Gentlemen:

Re: Our Irrevocable Letter of Guarantee No.

In compliance with the request of ("Contractor") we, (Name of bank), issue this unconditional irrevocable letter of guarantee in favour of the Government in Turkmenistan ("the Government") for a sum not exceeding United States Dollars (US\$), which represents the total minimum Exploration expenditures set forth in paragraph 4.1 of the Production Sharing Agreement ("Agreement") dated 199, by and between Contractor and the Competent Body, relating to Petroleum exploration, development and production in Turkmenistan , to guarantee Contractor's faithful performance of its minimum

exploration expenditure obligations as provided for in the Agreement, the said sum of United States Dollars (US\$) to be reduced on, 199, and on each anniversary of such date thereafter, by the amount qualifying Exploration Expenditures incurred by Contractor in the preceding twelve (12) month period, as evidenced by a signed certificate from the Government.

The terms and conditions of this letter of Guarantee are as follows:

- 1. The said amount, as it may have been reduced from time to time as herein provided, or any part thereof, shall be paid to you upon our receipt of your written statement that the amount claimed is duly payable under the Agreement.
- 2. We hereby waive diligence, presentment, demand for payment, protest any requirement that the Government exhaust any right or power to take any action against Contractor, all notices (whether of non-payment by Contractor, dishonour, protest or otherwise) and all demands whatsoever. Our obligations hereunder are continuing, absolute and unconditional, and will not be in any way affected by giving of time or any forbearance by the Government with respect to any provision of the Agreement, or by any other circumstances which might otherwise constitute a legal or equitable discharge or defence of a surety or guarantor, all of which are hereby expressly waived.
- 3. Our obligations hereunder shall be paid in United States Dollars to the bank account designated to you, free and clear of and without reduction by reason of any and all present and future taxes, levies, imposts, deductions, assessments, charges or withholdings whatsoever levied, assessed, imposed or collected with respect thereto, by the government of or any political sub-division or taxing authority thereof or therein. We shall bear and pay any and all fees and expenses in relation to or in compliance with this Letter of Guarantee.
- 4. In order to give effect to this Letter of Guarantee, we hereby declare that the Government shall be at liberty to act as though we were the principal debtor, and we hereby waive all and any of the rights as surety which may at any time be inconsistent with any of the above provisions.
- 5. Any claim or demand under this Letter of Guarantee shall be presented to us on or before the expiration of the date of the validity of this Letter of Guarantee.
- 6. This Letter of Guarantee shall be effective immediately and expire on, 199, [being the date ninety (90) days after the end of the Initial Exploration Period as defined in the Agreement], and thereafter automatically without any formality become null and void for all its effects and this Letter of Guarantee shall be returned to us immediately.

Yours very truly,

(Name of Bank)

ANNEX "F"

SOCIAL AND INFRASTRUCTURE PROJECT