

FEDERAL LAW
NO. 225-FZ OF DECEMBER 30, 1995
ON PRODUCTION SHARING AGREEMENTS

(with the Amendments and Additions of January 7, 1999, June 18, 2001, June 6, 2003,
June 29, December 29, 2004, December 30, 2008, May 19, 2010, July 19, 2011)

Approved by the State Duma on December 6, 1995

Approved by the Federation Council on December 19, 1995

This Federal Law passed in elaboration of the legislation of the Russian Federation governing the use of subsoil and investment activities, establishes the legal basis for relationships arising with respect to Russian and foreign investment in exploration, development and production of mineral raw materials within the territory of the Russian Federation, as well as on the continental shelf and/or within the boundaries of the exclusive economic zone of the Russian Federation under the terms and conditions of production sharing agreements.

Chapter I. General Provisions

Article 1. Relationships Governed by This Federal Law

1. This Federal Law shall govern relationships arising with respect to conclusion, implementation and termination of production sharing agreements and provide a basic legal framework for such agreements.

2. The relationships not governed by this Federal Law, including the relationship arising with respect to the use of land and other natural resources, as well as specifics of the application of this Federal Law with regard to restrictions and bans on ownership of produced precious metals, natural precious stones, radioactive raw materials and other metals and products, shall be governed by the law of the Russian Federation on subsoil, other laws and other statutory acts of the Russian Federation.

3. The relationship arising with respect to exploration, development and production of mineral raw materials, sharing production as well as transportation, treatment, storage, processing, utilization, sale or disposal thereof in any other manner shall be governed by a production sharing agreement concluded in compliance with this Federal Law.

The rights and obligations of the parties to the production sharing agreement which by nature pertain to civil law shall be established pursuant to this Federal Law and the **civil legislation** of the Russian Federation.

4. If statutory acts of the Russian Federation contain provisions other than those made by this Federal Law, the provisions contained in this Federal Law shall apply to the relationships indicated in Paragraph 1 of this Article.

Article 2. Production Sharing Agreement

1. A production sharing agreement (hereinafter referred to as an Agreement) shall be an agreement under which the Russian Federation shall grant the participant of business activities (hereinafter referred to as the Investor) an exclusive right for exploration, development and production of mineral raw materials on the subsoil area

provided for in the Agreement and conducting operations related thereto on a chargeable basis and for a certain period, while the Investor shall undertake to perform the said operations at his own expense and at his own risk. The agreement shall provide for all necessary terms and conditions related to the use of subsoil, including terms, conditions and procedure for sharing produced production between the parties to the Agreement in compliance with the provisions of this Federal Law.

2. The terms and conditions for the use of the subsoil provided for by the Agreement shall be consistent with the legislation of the Russian Federation.

The right to use the subsoil may be restricted, suspended or terminated under the terms of an agreement concluded in accordance with the legislation of the Russian Federation.

3. Lists of subsoil areas subject to potential use under production sharing terms in compliance with the provisions of this Federal Law shall be established by federal laws.

The said draft federal laws as well as draft federal laws on the introduction of amendments and addenda into the said federal laws shall be submitted to the State Duma of the Federal Assembly of the Russian Federation by subjects with the right of legislative initiative and they shall be examined by the State Duma of the Russian Federation Federal Assembly, provided there are conclusions issued by the Government of the Russian Federation and decisions of the legislative (representative) bodies of the subjects of the Russian Federation on territories of which the subsoil plots in question are located.

Lists of the subsoil plots shall include those subsoil plots for which the Government of the Russian Federation has drafted its feasibility study as regards the possible inclusion of such subsoil plots into the above lists. As regards subsoil plots located on the territory of traditional habitation and economic activity of indigenous exiguous ethnic communities a corresponding decision shall be taken by a legislative (representative) body of the subject of the Russian Federation on the territory of which the subsoil plot in question is located which is to be taken with due consideration of interests of the indigenous exiguous ethnic communities and also another taken by a local self-government body.

It is permitted to allocate under production sharing terms not more than 30 per cent of mineral reserves, prospected and registered in the State register.

4. The grounds for including into the lists of subsoil tracts, for which the right of use may be granted under the production sharing conditions, shall be the impossibility of geological survey, exploration and extraction of minerals under other conditions of subsoil use, provided for by laws of the Russian Federation, which differ from the conditions of production sharing.

Proof of the absence of such possibility shall be the conduct of auction sales of the right to use a subsoil tract under conditions, other than production sharing, in compliance with the **Law** of the Russian Federation on Subsoil (in the wording of Federal Law No. 27-FZ of March 3, 1995) and declaring the auction sales as frustrated in view of the absence of participants.

If a subsoil user to whom a subsoil tract has been granted for use under conditions, other than production sharing, wishes to make a production sharing agreement in respect of a subsoil tract, the auction sales provided for by **Paragraph Two** of this Item, may only be held after deciding on the preschedule termination of the right to use the subsoil tract on the basis of the subsoil user's application. Here, the conditions of the auction sales

provided for by Paragraph Two of this Item, and the conditions of the auction sales of the right to make the agreement provided for by **Item 1 of Article 6** of this Federal Law, shall provide, by approbation of the subsoil user, the reimbursement of expenses incurred by the previous subsoil user.

A subsoil user, prior to the date of conducting an auction sale, shall be obliged to submit to the bodies that issued the license for subsoil use, a report on assessment of the property complex, which is inseparably linked with the exercise of the right of subsoil use, made by an independent appraiser exercising his activities in compliance with laws of the Russian Federation, and a draft agreement of selling the property complex in whole or in part.

Where the person, filing an application for participation in an auction sales, disagrees with the assessment of the property complex inseparably linked with the exercise of the right of subsoil use, contained in the report, and (or) with other conditions of an agreement of the property sale in whole or in part, the final terms of said contract shall be established judicially.

In the event of proving the impossibility of geological survey, exploration and extraction of minerals under the conditions of subsoil use, which do not provide for making an Agreement, a subsoil tract may be included into the list of subsoil tracts, for which the right of use may be granted under the conditions of production sharing, in the presence of the following conditions determinable by the Government of the Russian Federation:

if the development of a given subsoil tract may ensure the preservation of working places for a town-forming organisation, while the termination of developing this subsoil tract causes negative social effects;

if the development of a given subsoil tract is necessary for involving into economic use minerals which are situated on the continental shelf of the Russian Federation, in the Arctic regions and on the territories, equaled to them, where there are no settlements, as well as transport and other infrastructure;

if the development of a given deposit requires the application of special highly-expensive technologies for mining hard-to-extract, large-scale deposits of minerals situated under complex mining and geological conditions.

5. Removed

6. Within the limits of their power established by the **Constitution** of the Russian Federation and federal laws, the Russian Federation subdivisions shall perform legislative regulation of their involvement in production sharing agreements for the use of subsoil areas within their respective territories.

7. Agreements concluded prior to the entry into force of the present Federal Law shall be implemented in accordance with their terms and conditions. In so doing provisions of the present Federal Law will be applicable to the above Agreements in as far as its application is not at variance with terms and conditions of such Agreements and does not restrict the rights acquired and enjoyed by investors under such Agreements.

Federal Law No. 199-FZ of December 29, 2004 amended Article 3 of this Federal Law

Article 3. Parties to the Agreement

1. The Parties to the Agreement (hereinafter referred to as Parties) shall be: the Russian Federation (hereinafter referred to as State), represented in the

Agreement by the Government of the Russian Federation or the bodies authorized thereby;

Investors - legal entities and associations of legal entities established under joint venture contracts without the status of a legal entity who contribute their own, borrowed or attracted funds (property and (or) property rights) to exploration, development and production of mineral raw materials and are the users of subsoil areas under the Agreement.

2. If an association of legal entities without the status of a legal entity acts as Investor under the Agreement, the members of such association shall have joint and several rights and joint and several liability under the Agreement.

Article 4. Use of Subsoil Areas under Production Sharing Terms

1. The right for the use of subsoil areas under production sharing terms and conditions shall be granted to Investor on the basis of an Agreement concluded in compliance with this Federal Law.

Federal Law No. 199-FZ of December 29, 2004 amended Item 2 of Article 4 of this Federal Law

2. A subsoil area shall be granted for use to an Investor under the terms and conditions of the Agreement. In this respect, the license for the use of the subsoil area, which certifies the right to use the subsoil area provided for in the Agreement, shall be granted to the Investor in the procedure established by the **legislation** of the Russian Federation on subsoil within 30 days of the Agreement signing date. The said license shall be granted for the entire life of the Agreement and shall be subject to extension or re-issuance or shall lose force as provided for in the Agreement.

3. If an association of legal entities without the status of a legal entity acts as Investor, the license referenced in Item 2 of the present Article shall be issued to one of the members of such association and indicate that such member acts on behalf of the association in question and shall indicate all other members of the association as well.

Article 5. Term of the Agreement

1. The term of the Agreement shall be defined by the parties in compliance with the legislation of the Russian Federation applicable as of the date of Agreement conclusion.

2. The term of the agreement shall be subject to extension at the Investor's initiative and provided that he fulfills his obligations for a period sufficient to complete commercial production of mineral raw materials and ensure rational use and protection of subsoil. In this respect, the terms of, and procedure, for such extension shall be set forth in the Agreement. In the case of extension of the Agreement, the license for the use of subsoil as referenced in Item 2 of Article 4 of the present Federal Law shall be subject to re-issuance for the lifetime of the Agreement by the bodies who issued the license.

Chapter II. Conclusion and Implementation of Agreements

Federal Law No. 199-FZ of December 29, 2004 amended Article 6 of this Federal Law

Article 6. Procedure for Conclusion of Agreements

1. An agreement may be concluded with the winner of an auction held in the procedure established by laws of the Russian Federation within the time frame agreed upon by the parties, but no later than in one year, as of the date of forming the commission indicated in **Item 3** of this Article. The winner of an auction shall be the auction participant offering the highest price for the right to make an agreement.

Terms and conditions of auctions shall provide for the participation of Russian legal entities in the realization of the Agreement in the proportion laid down by the Government of the Russian Federation

Terms and conditions of auctions shall contain a provision for appropriate compensations for the violation of the traditional use of nature as regards those subsoil plots located on the territory of traditional habitation and economic activity of indigenous exiguous ethnic communities.

The initial terms and conditions of auctions shall be drafted on the basis of technical and economic estimates performed at the instruction of State bodies in charge of holding such tenders or auctions.

Agreements shall be concluded on the basis of provisions established by the legislation of the Russian Federation. Agreements involving the use of plots of subsoil located on the continental shelf of Russian Federation and (or) within the exclusive economic zone of Russian Federation, as well as amendments and addenda to be introduced into said Agreements, shall be endorsed by separate federal laws.

2. Removed.

3. Terms and conditions for the use of the subsoil and an agreement shall be drafted, and talks with an investor shall be held, for each object of subsoil use by a commission to be set up in the order established for setting up coordination and advisory bodies formed by federal executive bodies with the participation of the executive government body of an appropriate subject of the Russian Federation. Said commission shall be established at the latest in six months as of the date of announcing the results of the auction sales.

The said commission shall include representatives of the federal executive government bodies, including representatives of the federal subsoil fund management body and (or) its local branch, representatives of the executive government body of an appropriate subject of the Russian Federation. If the allocated subsoil plots are situated on the territory of traditional habitation and economic activity of indigenous exiguous ethnic communities the above commission shall also include members of the federal body in charge of social and economic development of Northern Territories of the Russian Federation as well as representatives of corresponding bodies of local self-government. If need be, production and scientific research organisations as well as experts and consultants shall be invited to work on the said commission.

Activities involved in the drafting of terms and conditions of auctions, of technical and economic feasibility studies, and of the Agreement shall be partially financed at the expense of funds generated through the implementation of the Agreement.

4. On behalf of the State, the Agreement shall be signed by the Government of the Russian Federation.

5. An agreement shall be signed within the time period agreed by the parties upon

completion of talks between authorized representatives of the parties which have resulted in coordination of all necessary terms and conditions of the agreement which were not obligatory conditions of auction sales. For this said conditions of the agreement must not be at variance with obligatory conditions of auction sales.

6. A decision to sign the Agreement on behalf of the State shall be made by the Government of the Russian Federation.

Federal Law No. 65-FZ of June 6, 2003 amended Article 7 of this Federal Law

Article 7. Terms and Conditions for Conducting Operations

1. Operations and types of activities under the Agreement (hereinafter referred to as agreement operations) shall be conducted in compliance with programs, designs, plans and budgets subject to approval under the procedures defined in the Agreement.

Federal Law No. 309-FZ of December 30, 2008 amended Item 2 of Article 7 of this Federal Law

2. Agreement operations shall be conducted in compliance with the legislation of the Russian Federation, as well as in compliance with standards (norms, rules) for operational safety, protection of subsoil, the environment and health of the population approved under the established procedures. In this respect, the Agreement shall provide for the Investor's obligations for the following:

to grant Russian legal entities the priority right to take part in the conduct of the agreement operations as contractors, suppliers, carriers or in any other capacity under agreements (contracts) with Investors;

to employ citizens of the Russian Federation, their portion being no less than 80 per cent of all employed personnel, to employ foreign workers and specialists only at initial stages of the agreement operations, or if there are no Russian workers and specialists with corresponding qualifications;

to acquire production machinery, engineering equipment and materials of Russian origin in the amount of at least 70 per cent of the total cost of acquired production machinery, engineering equipment and materials in each calendar year for carrying out works under an agreement (likewise under rent and lease contracts and for other reasons) whose acquisition costs are to be reimbursed to an investor by compensation products. With this, for the purposes of this Law, production machinery, engineering equipment and materials shall be deemed to be of Russian origin on condition that they are manufactured by Russian legal entities and (or) citizens of the Russian Federation on the territory of the Russian Federation using units, elements, structures and componentry, 50 per cent of which in value terms are made on the territory of the Russian Federation by Russian legal entities and (or) citizens of the Russian Federation;

paragraph 5 is **removed**;

to take measures aimed at preventing harmful impact of the said operations upon the environment, as well as to remedy the consequences of such impact;

to buy insurance against liability for damage caused in the event of accidents entailing harmful impact upon the environment;

to remove all facilities, installations and other assets upon completion of the agreement operations as well as clean the territory on which the agreement operations were conducted.

The parties have to include into an agreement the condition that at least 70 per cent of engineering equipment in value terms to be used for extraction of minerals, their carriage and processing (where it is provided for by the agreement), acquired and (or) used by an investor for carrying out works under the agreement, have to be of the Russian origin. This provision shall not extend to the use of trunk pipeline objects whose construction and acquisition is not provided for by the agreement.

The parties shall provide a clause in the contract to the effect that at least a specified part of mineral recovery and processing technological equipment (if any if mentioned in the contract) purchased by the investor shall be manufactured on the territory of the Russian Federation.

The provisions of this Article which will be at variance with the principles of the World Trade Organisation, in the event of the Russian Federation's joining the World Trade Organisation, shall lose their force or have to be brought into accord with these principles within the time period and in the procedure that are provided for by the documents of the World Trade Organisation and an **agreement** on the Russian Federation's entry into the World Trade Organisation.

3. If works under an agreement are performed at sites located on territories of traditional habitation and economic activity of indigenous exiguous ethnic communities the Investor shall be obliged to implement measures prescribed by the legislation of the Russian Federation to protect the **territories of traditional habitation** and **economic activity** of indigenous exiguous ethnic communities and also ensure that relevant compensation is paid in cases and in the manner established by the Government of the Russian Federation.

4. Organisation of agreement operations, including accounting and reporting pursuant to Article 14 of the present Federal Law shall be performed by the investor or by the operator of the Agreement at the Investor's instruction. Acting as such operator whose scope of activities is to be limited to the management of the said operations may be affiliates or legal entities established by the investor in the Russian Federation for these purposes, or legal entities attracted by the investor for these purposes, as well as foreign legal entities operating on the territory of the Russian Federation. In so doing, the investor shall be liable with its assets to the State for actions of the operator of the Agreement as if they were the investor's own actions.

5. Upon completion of certain stages of exploration of mineral raw materials fields, the Investor shall relinquish the areas granted to him for use under the Agreement. The size of the areas to be relinquished as well as the relinquishment procedure, terms and conditions shall be defined in the Agreement.

6. Geological, technical and economic information on areas of agreement operations and anticipated mineral production shall be submitted for State expert evaluation under the procedure and in the amount provided for by legislation of the Russian Federation.

7. In order to coordinate activities related to agreement operations the parties shall be obliged to make provisions to set up a management committee with equal representation of each party. The membership, rights and obligations of the management committee as well as its working procedure shall be set forth in the Agreement. The **procedure** for appointing representatives of the state to the governing committee, their powers, and also the procedure for these persons' preparation and adoption of decisions in the name of the state shall be established by the Government of the Russian Federation.

Federal Law No. 65-FZ of June 6, 2003 amended Article 8 of this Federal Law

Article 8. Production Sharing

*Federal Law No. 248-FZ of July 19, 2011 amended Item 1 of Article 8 of this Federal Law. The amendments shall **enter into force** upon the expiry of 90 days from the date of the official publication of the said Federal Law*

1. Products made shall be shared by the State and the investor in compliance with an agreement which shall provide (except for the instances established by **Item 2** of this Article) terms and procedure for:

determining the total amount of the products made and the value thereof. For this, as products made there shall be deemed the quantity of mining products and quarrying products which is contained in the minerals (rock, fluid or another form) actually extracted from(drawn out of) subsoil (waste, loss), the quality of the former complying with an appropriate national standard, regional standard, international standard or, where there are no cited standards for an individual extracted mineral, to the standard of an organization, extracted by an investor in the course of works under an agreement and reduced by the amount of process loss within the limits of normative standards;

determining the part of the products made that is to be transferred under the investor' ownership for reimbursement of the investor's costs of performing works under the agreement (hereinafter referred to as compensation products). For this, the limit volume of compensation products must not exceed 75 per cent or, when mining on the continental shelf of the Russian Federation, 90 per cent of the total volume of products made. The composition of outlays to be reimbursed to an investor at the expense of compensation products shall be determined by an agreement in compliance with laws of the Russian Federation;

the sharing of profitable products by the State and the investor, the "profitable product" meaning the products made, when implementing an agreement, less the part of these products whose equivalent in value terms is used to pay the natural minerals extraction tax and to pay for compensation products for a report (tax) period;

transferring to the State by an investor of part of the products or their equivalent in value terms possessed by it under the conditions of the agreement;

the investor's receiving the products made which belong to the investor under the conditions of the agreement.

2. In some cases the sharing of a product by the state and an investor under a contract may be effected in accordance with another procedure rather than the one established in Item 1 of the present article. In such a case the contract shall provide terms and conditions for:

determining the total amount of the product produced and the value thereof;

the state and the investor sharing the products made or its value equivalent and determining the size of the state's and the investor's shares in the products made. The ratios underlying this sharing shall be determined by the agreement depending on the geological and economic, as well as value, appraisal of the subsoil tract, the technical project design and the indicators comprised in the feasibility study for the agreement. For this an investor's share in products made must not exceed 68 per cent;

transferring to the state its part of the product produced or its value equivalent in compliance with the terms of the contract;

the investor's receiving its part of the product produced, such a part belonging to the investor under the terms of the contract.

The terms and conditions of an auction have to provide for making an agreement in compliance with said conditions and procedure for production sharing.

3. An agreement may only provide for one method of production sharing stipulated by this Article. An agreement may not provide for the transfer from one method of production sharing, established by this Article, to another established by this Article, as well as replacement of one method of production sharing by another.

Article 9. Investor's Title to Produced Production

Federal Law No. 75-FZ of June 18, 2001 reworded Item 1 of Article 9 of this Federal Law

1. The part of a product produced considered under the contract to be the investor's share shall be owned by the investor.

2. Mineral raw materials the Investor is entitled to under the Agreement, may be exported from the customs territory of the Russian Federation under the terms and conditions and under the procedures specified in the agreement without quantitative restrictions on export subject to the provisions of the **Federal Law** on State Regulation of Foreign Trade.

Federal Law No. 199-FZ of December 29, 2004 amended Article 10 of this Federal Law

Article 10. Distribution and Sale of the State's Share of Produced Production

1. The sale of the state share of products produced shall be effected in accordance with federal laws.

The distribution of the value equivalent of products produced, and also of other incomes received by the state as a result of production sharing, between the Russian Federation and the subject of the Russian Federation in whose territory the subsoil tract granted for use is located shall be effected in the procedure established by federal laws. Incomes from the implementation of the contract received from subsoil tracts in the inland sea waters, territorial sea, continental shelf of the Russian Federation shall be entered into

the federal budget.

2. **Abolished**

3. **Abolished**

*Federal Law No. 205-FZ of June 29, 2015 amended the title of Article 11 of this Federal Law. The amendments shall **come into force** on January 1, 2016*

Federal Law No. 199-FZ of December 29, 2004 amended Article 11 of this Federal Law

Article 11. Title to Assets and Information

1. Assets newly created or acquired by the Investor and used by him to conduct agreement operations shall be the Investor's property unless otherwise provided for by the Agreement.

Title to the aforesaid property may be transferred from the Investor to the State as of the date the cost of the said property has been fully recovered, or as of the date of Agreement termination, or any other date as may be agreed by the parties, under the terms, conditions and procedures provided for by the Agreement. In this respect, during the lifetime of the Agreement, the Investor shall be granted an exclusive right to use such property on a gratuitous basis to conduct agreement operations, and the Investor shall bear responsibility for maintenance of the property used by him and the risk of its accidental loss or accidental damage.

When the right of ownership to said property is transferred to the state this property shall be deemed to be under federal ownership. The procedure for further use of said property shall be defined by the Government of the Russian Federation.

If title to the aforesaid property is assigned to the State, the procedures for assigning it to federal ownership and (or) to the ownership of a Russian Federation subdivision, as well as the procedures for further use of such property, shall be defined on the basis of an agreement to be concluded between the Russian Federation Government and the executive government body of an appropriate Russian Federation subdivision.

*According to **Federal Law** No. 205-FZ of June 29, 2015 Item 2 of Article 11 of this Federal Law shall be abrogated from January 1, 2016*

2. All raw geological, geophysical, geochemical and other data, data on its interpretation and derived data as well as rock samples, including core and reservoir fluids obtained by the Investor as a result of Agreement Operations shall be the property of the State as a matter of property right. The Investor shall have the right to freely and gratuitously use the said information, data, and samples for the purposes of Agreement Operations yet subject to confidentiality provisions of the Agreement. The procedure for use of the said information, data and samples as well as the procedure for their export outside the Russian Federation shall be provided for by the Agreement in compliance with legislation of the Russian Federation.

*Federal Law No. 205-FZ of June 29, 2015 supplemented this Federal Law with Article 11.1. The amendments shall **come into force** on January 1, 2016*

Article 12. Transportation, Storage and Processing of Mineral Raw Materials

1. The Investor shall have the right of free access, on a contractual basis, to pipeline transportation facilities as well as the right to unrestricted use, on a contractual basis, of pipeline and other types of transportation facilities, facilities for storage and processing of mineral raw materials under non-discriminatory terms.

2. The Investor shall have the right to build storage, processing and transportation facilities for mineral raw materials as part of Agreement Operations, title to which shall be as provided for by the Agreement subject to provisions of **Article 11** of the present Federal Law.

Federal Law No. 65-FZ of June 6, 2003 reworded Article 13 of this Federal Law

Article 13. Taxes and Payments, When Implementing Agreement

1. When implementing an agreement, the special procedure for calculating and paying taxes and fees established by the **Tax Code** of the Russian Federation and other legislative acts of the Russian Federation on taxes and fees shall be used.

*Federal Law No. 89-FZ of May 19, 2010 amended Item 2 of Article 13 of this Federal Law. The amendments shall **enter into force** on January 1, 2011*

2. When implementing an agreement, an investor shall make one-time payments for subsoil use in the instances determined by the agreement and license (bonuses), shall make yearly payments for the water area and seabed section stipulated by the agreement which shall be payable in the procedure established by the agreement in compliance with laws of the Russian Federation, as on the date of signing the agreement, the dues for participation in a tender (auction), the dues for the licence issuance, regular payments for subsoil use (rentals) reimbursement of the State outlays for survey and exploration of minerals, compensation for the damage caused as a result of carrying out works to aboriginal smaller peoples of the Russian Federation at the places of their traditional residence and economic activities. The amount of said payment, as well as the time period for making them, shall be determined by the conditions of the agreement.

For this the procedure for determining the amount of reimbursement of the State outlays on survey and exploration of minerals, as well as compensation of damages, resulting from implementation of works under the agreement, to aboriginal smaller peoples of the Russian Federation at the place of their traditional residence and economic activities shall be established by the Government of the Russian Federation.

The procedure for entering the payments indicated in this Item to budgets of different levels of the budget system of the Russian Federation shall be determined by the budget laws of the Russian Federation.

Federal Law No. 65-FZ of June 6, 2003 amended Article 14 of this Federal Law

Article 14. Accounting and Reporting

*See the **Instructions** on Posting in Accounting Documents and Reports on Operations Conducted under Production Sharing Agreements approved by **Order** of the Ministry of Finance of the Russian Federation No. 53n of August 11, 1999*

1. When works are being performed under a contract account of the investor's financial and economic activities shall be kept for each specific contract and also separately for the investor's pursuing other activities not related to the contract. The accounting procedure shall be in compliance with the legislation of the Russian Federation.

2. Accounting and reporting in the process of conducting Agreement Operations

shall be performed in the currency of the Russian Federation (rubles) or foreign currency. If the accounting is performed in a foreign currency, reports to be submitted to the State government bodies shall contain data both in the accepted foreign currency and in rubles. In this respect, all the data presented in the foreign currency shall be converted into rubles at the rate established by the Bank of Russia as of the date of drawing up the report.

Federal Law No. 65-FZ of June 6, 2003 amended Article 15 of this Federal Law

Article 15. Bank Accounts and Currency Regulation

For the purpose of Agreement Operations, the Investor shall have specific bank accounts in rubles and (or) foreign currency in banks located on the territory of the Russian Federation and (or) on the territory of foreign states which shall be used solely for the purpose of said operations.

Article 16. Assignment of Rights and Obligations under the Agreement

1. The Investor shall have the right to full or partial assignment of his rights and obligations under the Agreement to any legal entity or any individual (physical person) only with the State's consent, provided these entities have sufficient financial and technical resources and management expertise to conduct Agreement Operations.

2. The assignment of rights and obligations under the Agreement shall be performed in writing by preparing a specific act which shall be an inseparable part of the Agreement under the procedure and within the time frame established by the Agreement, and shall be followed by appropriate re-issuance of the license for the use of subsoil within 30 days of the date of signing the said act.

3. With the consent of the State, the Investor may use assets and property rights owned by him under the Agreement as collateral to ensure fulfillment of his obligations under contracts concluded in connection with the implementation of the Agreement, in compliance with civil legislation of the Russian Federation.

Federal Law No. 65-FZ of June 6, 2003 amended Article 17 of this Federal Law

Article 17. Stability of Terms and Conditions of the Agreement

1. The terms and conditions of the Agreement shall retain validity for the entire lifetime. Amendments to the Agreement may be made only by consent of the parties, as well as by demand of one of the parties in case of a significant change in circumstances in accordance with **Civil Code** of the Russian Federation.

Amendments to the terms and conditions of Agreements made by agreement between the parties shall become effective under the same procedure as the initial Agreements.

Federal Law No. 309-FZ of December 30, 2008 amended Item 2 of Article 17 of this Federal Law

2. If, during the lifetime of the Agreement, the legislation of the Russian Federation, the legislation of the Russian Federation subdivisions and statutory acts of local self-government bodies establish regulations adversely affecting the Investor's commercial results under the Agreement, the Agreement shall be subject to amendments

in order to ensure that the Investor obtains the commercial results which he would have obtained if the legislation of the Russian Federation, the legislation of the Russian Federation subdivisions and statutory acts of local self-government bodies effective as of the date of the Agreement conclusion, had applied. The procedures for making such amendments shall be defined in the Agreement.

The said provision for changes in the terms and conditions of the Agreement shall not apply in the event the legislation of the Russian Federation introduces amendments to the standards (norms, rules) for operation safety, protection of subsoil, environment and health of the population, including those made for the purpose of bringing them into conformity with similar standards (norms, rules) of accepted and generally recognized international practice.

Article 18. State Guarantees of the Investor's Rights

1. The Investor shall be guaranteed protection of property and other rights acquired and exercised by him under the Agreement.

Federal Law No. 309-FZ of December 30, 2008 amended Item 2 of Article 18 of this Federal Law

2. The statutory acts of federal executive government bodies as well as laws and other statutory acts of the Russian Federation subdivisions and statutory acts of self-government bodies shall not apply to the Investor if the said acts impose restrictions on the Investor's rights acquired and exercised by him under the Agreement with the exception of the instructions by supervisory government bodies issued in compliance with the Russian Federation Law for the purposes of ensuring operational safety, protection of subsoil, environment and health of the population, as well as for the purposes of ensuring social and State security.

Article 19. Control over Implementation of the Agreement

1. The State control over the implementation of the Agreement shall be exercised by federal government bodies within their respective authority jointly with the government bodies of an appropriate Russian Federation subdivision.

2. Authorized representatives of the government bodies specified in Paragraph 1 of this Article exercising control over the implementation of the Agreement shall have the right of unrestricted access to the sites of Agreement Operations, as well as to the documentation related to the conduct of said operations exclusively for the purposes of performing control over the Agreement implementation.

Federal Law No. 19-FZ of January 7, 1999 supplemented Article 19 of this Federal Law with Item 3

3. The Government of the Russian Federation shall submit to the State Duma of the Federal Assembly of the Russian Federation simultaneously with draft federal law on the federal budget for a corresponding year also its report on the results of activities for the implementation of production sharing agreements.

The above report shall be forwarded to the Audit Chamber of the Russian Federation and is to be considered by the State Duma of the Federal Assembly of the

Russian Federation only after the Audit Chamber of the Russian Federation has submitted its conclusion.

Article 20. Liability of the Parties under the Agreement

1. The parties shall be liable for non-fulfillment or improper fulfillment of their obligations under the Agreement as provided for by the Agreement in compliance with the **civil legislation** of the Russian Federation.

2. The terms, conditions and procedures for sharing costs by the Russian Federation and an appropriate Russian Federation subdivision for the purpose of settling Investor's claim for damages in the event of failure to fulfill or improper fulfillment by the State of its obligations under the Agreement, as well as the regulations governing relationship between the federal executive government bodies and executive government bodies of an appropriate Russian Federation subdivision in considering the Investor's claims against the State related to the State's fulfillment of its obligations under the Agreement shall be established by the agreements as provided in **Paragraph 1 of Article 10** of this Federal Law.

Federal Law No. 65-FZ of June 6, 2003 reworded Article 21 of this Federal Law

Article 21. Termination of Agreement

1. An Agreement shall be terminated upon expiration of its term or earlier by consent of the parties, as well as for other reasons and in the procedure provided for by the Agreement in compliance with legislation of the Russian Federation applicable as of the date of the Agreement signing. Termination of an Agreement by consent of the parties shall be put into effect in the same procedure, as the initial agreement, save for the auction procedure.

2. An Agreement whose provisions on the methods of taxing an investor in compliance with **Articles 8** and **13** of this Federal Law do not enter into force within one year, as of the date of signing the Agreement, shall be terminated on the expiry of one year, as of the date of its signing, with no respect to the terms provided for by **Item 1** of this Article.

3. The land tract, in whose respect the agreement is terminated for the reason provided for by **Item 2** of this Article, may be only provided for use under the conditions of production sharing after holding an auction sale of the right to the subsoil use under conditions, other than production sharing, and declaring the auction sale frustrated in connection with the absence of participants, as well as on condition of observing the provisions of **Articles 2** and **6** of this Federal Law.

Article 22. Resolution of Disputes

Disputes between the State and the Investor relating to implementation, termination and invalidity of Agreements shall be settled in court, by arbitration (including in international arbitration institutions) or by mediation under the terms and conditions of the Agreement.

Article 23. Immunity of the State

The Agreements concluded with foreign nationals and foreign legal entities may provide for the waiver by the State of its sovereign immunity in court, immunity in connection with preliminary security of the claim and execution of judicial and (or) arbitration judgment in compliance with legislation of the Russian Federation.

Chapter III. Final Provisions

Article 24. International Treaties of the Russian Federation

If an international treaty of the Russian Federation contains provisions differing from those made by this Federal Law, the provisions of the international treaty shall apply.

Article 25. Effective Date of This Federal Law

This Federal Law shall come into force from the **day of its official publication.**

Article 26. Bringing Statutory Acts into Compliance with This Federal Law

1. The President of the Russian Federation, the representative and executive government bodies of the Russian Federation subdivisions shall be requested to bring their statutory acts into compliance with this Federal Law within a period of three months.

2. The Russian Federation Government and the Bank of Russia shall, within a period of three months, bring their statutory acts into compliance with this Federal Law as well as submit proposals under the established procedure to the Russian Federation State Duma of the Federal Assembly for amendments and additions to the statutory acts of the Russian Federation following from this Federal Law.

3. In the first quarter of 1996, the Government of the Russian Federation shall submit a draft federal law on approval of the list of fields to be covered by this Federal Law to the Russian Federation State Duma of the Federal Assembly.

President of the Russian Federation
Moscow, the Kremlin

Boris Yeltsin