

LAW OF GEORGIA ON OIL AND GAS

Chapter I – General Provisions

Article 1 – Definition of terms used in the Law

1. For purposes of this Law, the terms used herein shall have the following meanings:

a) oil and gas – a complex of natural hydrocarbon compounds which, under normal atmospheric pressure and temperature, may be in a gaseous (associated with oil or natural gas), liquid (oil and condensate) or solid state (paraffin, bitumen, gas hydrates);

b) oil and gas operations – oil and gas prospecting and exploration and extraction activities in the subsoil of an area determined under a contract and licence, as well as activities directly related to these operations (collection, preparation, measurement and storage of the extracted oil and gas);

c) oil and gas operations unrelated to the use of subsoils – operations not related to oil and gas prospecting and exploration and extraction, oil and gas import, transit, transporting through a trunk pipeline and mobile facilities, refining, shipping and export and import of oil products;

d) investor – citizens, legal persons or a combination -(consortium) of legal persons of Georgia or foreign states that are involved in oil and gas prospecting and exploration and extraction and are using private, borrowed or raised funds for this purpose;

e) entity – natural and legal entities of public law and private law;

f) area – territory under a contract on which an investor is granted exclusive rights to perform oil and gas prospecting and exploration and extraction works;

g) affiliate company shall be:

g.a) another legal person ('the Person') as a representative of a legal person in which the legal person directly or indirectly holds 50 per cent or more of the shares, the majority of votes, or can otherwise determine the management policies of the Person;

g.b) a legal person that directly or indirectly holds 50 per cent or more of the shares, the majority of votes, or can otherwise determine the management policies of the Person;

h) oil and gas deposit – natural accumulation of significant quantities of oil and gas in the subsoil;

i) oil and gas field – a combination of oil and gas deposits;

j) oil and gas resources – amounts of oil, gas and condensates in the subsoil;

k) search for oil and gas fields – geological, geophysical, drilling and other ancillary works used to perform a pre-assessment of the economic importance of a field;

l) search for oil and gas deposits – geological, geophysical, engineering and other works used to determine the structure of a deposit, the oil and gas reserves, the quality and conditions for their production;

m) oil and gas deposit exploration – technological and organisational works performed to produce oil and gas, extraction of hydrocarbons from the subsoil, their collection, transportation to the preparation facilities, and oil and gas preparation;

n) preparation – cleaning of extracted oil and gas from contaminants;

o) bonus – an amount given, on a contractual basis, to a state at the time of signing a contract between the investor and the state, or when discovering oil and gas reserves of economic importance, and/or achieving a certain level in oil and gas extraction, or in other cases;

p) natural resources fee – a fee under the tax legislation of Georgia and/or the Law of Georgia on Fees for the Use of Natural Resources defined for volumes (quantities) of oil and gas resources extracted within Georgia, the amounts of which are entered in GEL for 1 ton of oil and 1 000 cubic meters of gas in the General Licence and in oil and gas contracts;

q) cost recovery oil and gas of the investor – a part of the extracted oil and gas used to reimburse costs and expenses spent by the investor on oil and gas prospecting and exploration and extraction works performed in the area, including financing costs. Amounts of cost recovery oil and gas and the compensation rules and procedures for which shall be determined under a contract;

r) cost recovery oil and gas for the state – a part of the extracted oil and gas used to reimburse costs and expenses spent by the state on oil and gas prospecting and exploration and extraction works performed in the area before granting the right to perform oil and gas prospecting and exploration and extraction works in this area to the investor if these costs and expenses are recognised by the investor under a contract;

s) baseline oil and gas – extracted oil and gas to be transferred to the state, the amounts of which are calculated according to rules to be determined under a contract with the investor and that includes:

s.a) amounts of oil and gas that were extracted in the area transferred to the investor before the right to perform oil and gas operations in this area was granted to the investor;

s.b) field (fields) depletion profile;



s.c) any other factor agreed upon between the state and the investor;

t) incremental oil and gas – oil and gas extracted in addition to baseline oil and gas;

u) profit oil and gas – a portion of the oil and gas left from a full amount of the extracted oil and gas after deduction of the baseline and cost recovery oil and gas;

v) force majeure – natural disasters, strikes, sabotage or other industrial disturbance, civil unrest, war, blockade, riot, earthquake, landslides, epidemics, floods and other similar events that are beyond the control of the parties and that they are unable to prevent. Deterioration of an investor's financial situation, unless associated with the listed events shall not be deemed to be force majeure. In this case, the benefits on the amount payable under the contract between the parties shall not apply in a force majeure situation;

w) operating company – a legal person established in Georgia that performs oil and gas operations for an investor and on an investor's behalf in accordance with a contract between the state and the investor;

x) territorial sea of Georgia – territorial waters (territorial sea) of Georgia as defined in Article 4 of the Law on the State Border of Georgia;

y) Exclusive Economic Zone of Georgia – a marine area the width of which is 200 nautical miles, and is calculated from the straight lines from where the territorial sea is defined;

z) continental shelf of Georgia – the seabed and submarine depth, including the natural extension of the land area of the continent edge extending from the outer boundary of the territorial sea of Georgia to the demarcation boundary of the continental shelf of other Black Sea countries;

z¹) resources of the continental shelf of Georgia – minerals and other non-living resources existing in the seabed and submarine depth;

z²) depth – a portion of the crust existing at the bottom of a land surface or basins (including internal waters, territorial sea, Exclusive Economic Zone) and the continental shelf or exposed on the surface of the earth that can be explored by using the modern scientific and technical means;

z³) mining allotment – a depth area defined by a blanket licence under which the users are authorised to use the depths; a mining allotment permit for the use of oil and gas resources is an integral part of the blanket licence and is automatically issued together with this licence;

z⁴) geological allotment – a depth portion defined under a contract concluded in accordance with this Law and a blanket licence for the use of oil and gas resources and which is used for geological exploration. A geological allotment permit for the use of oil and gas resources is an integral part of the blanket licence and is automatically issued together with this licence;

z⁵) land allotment – an area allocated for the use of depths under a contract concluded in accordance with this Law and a blanket licence for the use of oil and gas resources; a land allotment permit for the use of oil and gas resources is an integral part of the blanket licence and is automatically issued together with this licence;

z⁶) contract – a written agreement between a state and an investor concerning conditions for performing oil and gas operations on the area by the investor;

z⁷) production sharing contract – an agreement between a state and an investor, under which the investor is granted the exclusive right to perform oil and gas operations in the depths and/or continental shelf of Georgia in a specified area and within a specified period based on payable relations. An investor shall undertake, at its own risk and expense, to perform all prospecting and exploration and extraction works in accordance with the contract. If oil and gas are discovered and extracted, the state shall undertake to facilitate the reimbursement of costs and expenses incurred by the investor in accordance with this Law and the contract;

a.a) risk service contract – an agreement concluded between a state and an investor under which the investor is granted the right to perform oil and gas exploration works in the area within a specified period;

a.b) existing contract – a production sharing contract between a state and/or the National Oil Company acting on behalf of the state and an investor concluded before this law entered into force under a decree of the President of Georgia, and/or a blanket licence issued on behalf of the state for using oil and gas resources;

a.c) the State Agency for Oil and Gas – the Legal Entity under Public Law (LEPL) – the State Agency for Oil and Gas ('the Agency') within the Ministry of Energy of Georgia, which is responsible for the regulation of oil and gas operations, oil refining, gas processing, and/or transportation activities in Georgia according to this Law;

a.d) Blanket Licence for the use of oil and gas resources (licence for use) – a legal document issued by the Agency on behalf of the state to prove the right of an investor to perform oil and gas prospecting and exploration or extraction works on the area defined under the contract;

a.e) the National Oil Company – a company, more than 50 per cent of the shares of which are owned by the State of Georgia and/or a company with more than 50 per cent equity participation by the State of Georgia and which has been granted the status of a national oil company under a Decree of the Government of Georgia;

a.f) costs and expenses incurred in oil and gas operations – expenses and operating costs incurred in oil and gas operations determined according to the rules and procedures established under a contract;

a.g) work program and budget – an annual work programme and budget necessary to implement it;

a.h) development plan – oil and gas field development plan;

a.i) eminent domain – in case of public necessity, temporary alienation of land and private property attached to it by the state on the basis of a judicial decision and with an appropriate compensation. Eminent domain shall be implemented according to the Constitution of Georgia and this Law;



a.j) non-trunk pipeline – collecting and technological pipelines located in an area that is designated only to perform oil and gas operations;

a.k) trunk pipeline – an oil and gas transportation pipeline that does not belong to non-trunk pipelines;

a.l) the Ministry – the Ministry of Energy of Georgia;

a.m) the Minister – the Minister of Energy of Georgia;

2. In addition to the terms defined in paragraph one of this article, for purposes of this Law, the terms used therein in the field of oil refining, gas processing and transportation activities shall have the following meanings:

a) raw material – crude oil and natural gas in its natural state, including imported crude oil and natural gas used for oil refining, gas processing or transportation activities;

b) facilities – all terminals, reservoirs, pump and compressor stations, loading, including marine loading equipment, accounting stations, communication lines and equipment, as well as other stations or equipment located within Georgia and used for oil refining, gas processing or transportation activities;

c) oil refining – a combination of processes that includes crude oil refining to obtain oil products, as well as mixing (compounding) of oil products placed under a commodity transaction of internal processing in order to export the output product from the territory of Georgia;

d) gas processing – processing of natural gas to obtain oil and gas products;

e) transport activity (transportation) – shipment of raw material or oil and gas products by means of transport within Georgia: shipment of raw material within Georgia from the production or development point to a plant or a final point of shipment, and/or from a point of import into Georgia or a plant to a final point of shipment, as well as construction and operation of appropriate facilities. The transport activity shall not include a transit (import-export) activity under any contract and the relations regulated by the Law of Georgia on the Procedure for the State Control and Regulation of Transport and Communication Sector;

f) oil products – gasoline, diesel fuel, kerosene, fuel oil, liquid gas, lubricants and other products that comply with commodities defined under the following items of commodity nomenclature for foreign economic activities: 271000270, 271000290, 271000320, 271000510, 271000550, 271000590, 271000690, 271000740, 271000980;

g) gas products – methane, ethane, propane, butane and other products that are derived from natural gas processing, with or without addition of admixtures and additives and that comply with technical regulations and requirements of international standards;

h) oil and gas products – oil products and gas products;

i) reservoir – an artificial underground or above-ground storage facility, or a separate geological structure confined within lithological borders used for accumulation and storage of substances that are necessary for raw materials, liquid gas, petrochemical products, as well as for oil and gas operations;

j) marketplace – an outlet for raw material and oil and gas products;

k) plant – an oil refining or gas processing plant;

l) oil refinery – a plant for oil refining with all related facilities and equipment;

m) gas processing plant – a plant for natural gas processing with all related facilities and equipment;

n) laboratory – a facility operating within or outside of Georgia and authorised under the legislation of Georgia to test raw material or oil and gas products (including a laboratory established by a business licence holder or the Agency);

o) oil refining, natural gas processing, oil transportation or natural gas transportation licence (business licence) – a legal document issued by the Agency that proves the right of a person to carry out oil refining, natural gas processing, transportation of oil or natural gas;

p) current business licence – a document issued by the state before the entry of this Law into force to prove the right to operate in the field of oil refining, gas processing and transportation;

q) holder of business licence/licence for use – a person to whom a business licence/licence for use is issued;

r) applicant – a person who submits an application to the Agency to obtain a licence;

s) means of transportation – all pipelines located within Georgia (including collecting and non-trunk pipelines) and all other means that are necessary for transportation to a plant or a final point of shipment. Means of transportation shall not include any transit (import-export) pipeline, any other means included in an international agreement for this purpose, or the natural gas transportation system defined by the Law of Georgia on Power Industry and Natural Gas;

t) transportation company – a natural or legal person that holds a business licence (pipeline operation right), allocates funds and bears the economic risk in proportion to the amount it has invested in this business;

u) carrier – a natural or legal person that owns or manages raw material or oil and gas products and who is not a transportation company and/or who has entered into a contract with the transportation company to transport raw material or oil and gas products using the transport means under the possession or control of that person;

v) final point of shipment – a point located within Georgia where the right to possess raw materials or oil and gas products is transferred to a customer or a natural gas transportation or distribution licence holder under the Law of Georgia on Power Industry and Natural Gas, or where the raw material or oil and gas products cross the border of Georgia;



w) activity area – an area within Georgia defined under a business licence for oil refining, gas processing or transportation activities where the licence holder is granted the right to carry out licensed activities.

Law of Georgia No 757 of 2 March 2001 – LHGI, No 6, 20.3.2001, Art. 16

Law of Georgia No 1853 of 25 December 2002 – LHGI, No 3, 17.1.2003, Art. 9

Law of Georgia No 2888 of 14 April 2006 – LHGI, No 11, 1.5.2006, Art. 83

Law of Georgia No 3169 of 25 May 2006 – LHGI, No 19, 1.6.2006, Art. 158

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 3580 of 24 October 2006 – LHGI, No 42, 10.11.2006, Art. 284

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Law of Georgia No 4859 of 5 June 2007 – LHGI, No 22, 19.6.2007, Art. 188

Law of Georgia No 626 of 5 December 2008 – LHGI, No 35, 5.12.2008, Art. 232

Law of Georgia No 4408 of 11 March 2011 – website, 17.3.2011

Law of Georgia No 5091 of 11 October 2011 – website, 21.10.2011

Law of Georgia No 6330 of 25 May 2012 – website, 8.6.2012

Law of Georgia No 467 of 25 March 2013 – website, 5.4.2013

Law of Georgia No 678 of 31 May 2013 – website, 18.6.2013

Law of Georgia No 1039 of 6 September 2013 – website, 23.9.2013

Article 2 – Legal regulation of oil and gas resources

1. Oil and gas operations and oil refining, gas processing or transportation activities shall be performed in Georgia according to the Constitution of Georgia, international agreements of Georgia, this Law and the legislation of Georgia.
2. All conditions and requirements proposed for participation in tenders or auctions must be based on this Law and the Law of Georgia on Subsoil.
3. Contracts shall be prepared, signed and terminated according to the requirements of this Law.

Law of Georgia No 1853 of 25 December 2002 – LHGI, No 3, 17.1.2003, Art. 9

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Article 3 – The aim of this Law

This Law aims to:

- a) create a unified legal framework for the development of oil and gas resources and oil refining, gas processing or transportation activities and to pursue a unified national policy in the field of development of oil and gas resources and oil refining, gas processing or transportation activities in Georgia;
- b) promote the attraction of investments in the field of oil and gas and protect legitimate interests of the entities involved in oil and gas operations in Georgia;
- c) create an effective legal framework for state regulation, supervision and control of oil and gas operations, oil refining, gas processing and/or transportation activities in Georgia;
- d) establish basic principles of oil and gas prospecting and exploration and extraction contracts between the state and an investor;
- e) determine functions of the National Oil Company.
- f) create a state regulatory body for oil and gas operations, oil refining, gas processing, and/or transportation activities in Georgia and determine its basic functions.

Law of Georgia No 1853 of 25 December 2002 – LHGI, No 3, 17.1.2003, Art. 9

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4859 of 5 June 2007 – LHGI, No 22, 19.6.2007, Art. 188



Article 4 – The right of ownership of oil and gas resources

1. The oil and gas resources existing in the subsoil within the territory of Georgia shall be owned by the State. Land ownership right shall not include the right of ownership or exploitation of oil and gas natural resources existing in the subsoil of the land.
2. Georgia shall have the exclusive and sovereign right of prospecting and exploration and exploitation of oil and gas resources existing on its land and on its continental shelf.
3. The right of ownership of extracted oil and gas shall be determined in accordance with a contract.
4. Extracted oil and gas stored in underground reservoirs shall be deemed to be extracted.
5. The oil and gas returned to reservoirs for an industrial purpose (well drilling, testing, underground repair works, development, etc.) shall be considered to be part of oil and gas reserves and shall not be deemed as extracted.

Article 5 – The right of ownership of the property related to oil and gas operations

1. A movable property and any immovable property related to oil and gas operations that may be disassembled without damage to core assets and which is created or purchased by an entity of oil and gas operations shall be the property of this entity unless the value of this property is reimbursed by cost recovery oil and gas. If the value of this property is reimbursed, it shall pass into the ownership of the State. In addition, the entity shall have the right to use the reimbursed property on the area defined under a contract when performing oil and gas operations and to undertake the risk and costs for the operation and maintenance of this property.
2. If the oil and gas contract is terminated, regardless of the reason for its termination, any structure or other real property located on the licensed area and its subsoil shall be owned by the State, regardless of whether the value of this property is reimbursed or not.

Article 6 – Performance of oil and gas operations

1. Oil and gas operations may be performed, in whole or in part, by the State and natural or legal persons on the basis of a contract concluded under this Law and a licence for the use of oil and gas resources.
2. Natural and legal persons shall have the right to perform oil refining, gas processing or transportation activities in accordance with this Law.

Law of Georgia No 1853 of 25 December 2002 – LHGI, No 3, 17.1.2003, Art. 9

Chapter II – The State Management and Regulation of Oil and Gas Operations, Oil Refining, Gas Processing and/or Transportation

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4859 of 5 June 2007 – LHGI, No 22, 19.6.2007, Art. 188

Article 7 – The State management of oil and gas resources

1. The basic functions of the Ministry in the field of oil and gas shall be defined under this law, the Statute of the Ministry and the legislation of Georgia.
2. The Ministry shall develop the principal directions of the state policy in the field of oil and gas. Performance of an owner's activity and economic activities in the field of oil and gas shall not belong to the functions of the Ministry.
3. The Agency shall manage the field of oil and gas in compliance with the principal directions of the State policy.

Law of Georgia No 757 of 2 March 2001 – LHGI, No 6, 20.3.2001, Art. 16

Law of Georgia No 1853 of 25 December 2002 – LHGI, No 3, 17.1.2003, Art. 9

Law of Georgia No 2499 of 18 July 2003 – LHGI, No 22, 8.8.2003, Art. 155

Law of Georgia No 879 of 29 December 2004 – LHGI, No 6, 19.1.2005, Art. 37

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 3580 of 24 October 2006 – LHGI, No 42, 10.11.2006, Art. 284

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Law of Georgia No 4859 of 5 June 2007 – LHGI, No 22, 19.6.2007, Art. 188

Law of Georgia No 4408 of 11 March 2011 – website, 17.3.2011



Article 8 – The state regulation of oil and gas resources

1. The Agency shall carry out state regulation of oil and gas operations, oil refining, gas processing, and/or transportation activities in Georgia.
2. The legal basis for the Agency's activity shall be the Constitution of Georgia, treaties and international agreements, this Law and other normative acts.
3. The head of the Agency shall administer the Agency. The Minister in agreement with the Prime Minister of Georgia shall appoint and dismiss the Head of the Agency.
4. Rules for the limitation of the actions of the Head of the Agency, conflict of duties and the economic declaration shall be defined by the Law of Georgia on Conflict of Interest and Corruption in Public Service.
5. Powers of the Head of the Agency shall be determined by the legislation of Georgia and the Statute of the Agency. The Minister shall approve the Statute, structure and the procedure for documentation management of the Agency.
6. The Head of the Agency shall issue a normative act – an order within his/her powers.
7. The Head of the Agency shall appoint and dismiss Deputy (Deputies) Head of the Agency in agreement with the Minister.
8. The Head of the Agency shall be entitled to appoint and dismiss employees of the Agency under the procedure established by the legislation of Georgia.
9. (Deleted).

Law of Georgia No 757 of 2 March 2001 – LHGI, No 6, 20.3.2001, Art. 16

Law of Georgia No 1853 of 25 December 2002 – LHGI, No 3, 17.1.2003, Art. 9

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Law of Georgia No 4859 of 5 June 2007 – LHGI, No 22, 19.6.2007, Art. 188

Law of Georgia No 4408 of 11 March 2011 – website, 17.3.2011

Law of Georgia No 467 of 25 March 2013 – website, 5.4.2013

Article 8¹ – The functions of the Agency

1. Basic functions of the Agency shall be to:
 - a) select areas to be offered to investors to carry out oil and gas operations, following consultations with appropriate state institutions; decide on the way of offering areas (tender or auction) and the form of contract;
 - b) establish tender conditions and auction rules under which the winner to use the area offered to investors to carry out oil and gas operations shall be selected;
 - c) arrange and conduct tenders and auctions, and select the winner to use the area offered to investors to carry out oil and gas operations;
 - d) prepare all contracts, have negotiation and sign contracts on behalf of the State. When preparing contracts or conducting negotiations, the Agency shall have the right to request assistance which it must receive from any government institution, state enterprise or organisation;
 - e) issue licences to investors to carry out oil and gas operations on behalf of the State; approve all necessary powers, allotment permits, certificates, and issue or guarantee to issue them. When requested by the Agency, all government institutions, state enterprises or organisations shall be obliged to prepare and submit the requested documents to the Agency;
 - f) supervise and control performance of the conditions and activities provided in a contract concluded under this Law and a blanket licence for the use of oil and gas resources; provide investors with conditions necessary for them to perform duties under a contract and a blanket licence;
 - g) establish and manage the central information base for all data and information related to the oil and gas resources and operations in Georgia (data and information collection, systematisation, analysis and storage);
 - h) taking into account market economy principles and the national interests, issue normative acts in order to create a non-discriminatory legal environment and effectively carry out oil and gas operations;
 - i) transfer all contractual operational and commercial duties (except for the regulatory functions) to the National Oil Company for as long as the State of Georgia and/or a company with more than 50 per cent equity participation of the State owns more than 50 per cent of its shares; control the performance of all contractual operational and commercial duties that were transferred to the National Oil Company;
 - j) (deleted);
 - k) issue oil refining, natural gas processing, oil or natural gas transportation licences (business licences) on behalf of the State; issue all necessary permits



and approve Funds;

l) supervise and control the performance of the conditions under a business licence and the oil refining, gas processing and transportation activities; provide business licence holders with the conditions necessary for them to perform duties under the business licence;

m) supervise the oil refining and gas processing to ensure environmental safety and quality of oil and gas products;

n) if necessary, create and manage a laboratory in compliance with the legislation of Georgia;

o) establish and manage the central information base for all data and information related to oil refining, gas processing and transportation activities (data and information collection, systematisation, analysis and storage);

p) taking into account the national interests, policies and market economy principles, issue normative acts in order to effectively carry out oil refining, gas processing and transportation activities;

q) contribute to the development, modification and approval of the standards for raw materials and oil and gas products;

r) establish tariffs for the transportation of raw materials and oil and gas products.

2. When performing functions under paragraph one of this article, the Agency shall observe the principle of publicity; In the course of developing conditions for tenders and auctions, the Agency shall arrange their public review and approve these conditions after public review.

Law of Georgia No 757 of 2 March 2001 – LHGI, No 6, 20.3.2001, Art. 16

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Law of Georgia No 4859 of 5 June 2007 – LHGI, No 22, 19.6.2007, Art. 188

Law of Georgia No 5091 of 11 October 2011 – website, 21.10.2011

Law of Georgia No 678 of 31 May 2013 – website, 18.6.2013

Article 8² – The budget of the Agency

The Agency shall be financed from the State budget of Georgia and other sources permitted by the legislation of Georgia.

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Law of Georgia No 4859 of 5 June 2007 – LHGI, No 22, 19.6.2007, Art. 188

Law of Georgia No 4408 of 11 March 2011 – website, 17.3.2011

Article 8³ – (Deleted)

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Law of Georgia No 4859 of 5 June 2007 – LHGI, No 22, 19.6.2007, Art. 188

Article 8⁴ – (Deleted)

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Law of Georgia No 4859 of 5 June 2007 – LHGI, No 22, 19.6.2007, Art. 188

Article 8⁵ – (Deleted)

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4



Article 8⁶ – (Deleted)

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Law of Georgia No 4859 of 5 June 2007 – LHGI, No 22, 19.6.2007, Art. 188

Article 8⁷ – (Deleted)

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Law of Georgia No 4859 of 5 June 2007 – LHGI, No 22, 19.6.2007, Art. 188

Article 8⁸ – The accountability and sanctions

1. The Agency shall solely supervise and control the compliance of activities in the field of oil and gas with the legislation of Georgia, except for the supervision and control exercised by the tax and law enforcement authorities within their powers.
2. Licence holders shall, not later than 1 April of each year, submit to the Agency a complete annual report and audit report in accordance with the legislation of Georgia.
3. The Agency shall determine the reporting forms.
4. The Agency shall have the right to request from licence holders the information on their performance of the requirements of the legislation of Georgia and the licence conditions. If the requirements are violated, the Agency shall be authorised to apply sanctions against the licence holders.
5. The licence holders must submit the requested information to the Agency within fifteen days after the request.
6. If a licence holder violates the legislation of Georgia, fails to execute a decision of the Agency or violates the licence conditions, the Agency shall be authorised to warn the licence holder in writing.
7. The Agency shall consider and decide on the issue of terminating or revoking a licence.

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Article 8⁹ – (Deleted)

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Article 8¹⁰ – (Deleted)

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Article 8¹¹ – The unified automatic management tools

1. The Agency shall be authorised to use the software and the unified automatic management tools for paperwork management and access to information.
2. The Agency shall be authorised to receive, publish or issue any information and/or document with the use of the unified automatic management tools.
3. The Agency shall be authorised to keep an electronic copy of and issue any document prepared by or deposited with it.



4. An electronic copy of a document referred to in paragraph three of this article and its printout shall have the same legal force as this document.

5. Data may be entered in a document published or issued by the Agency with mechanical and/or electronic means.

Law of Georgia No 5646 of 27 December 2011 – website, 9.1.2012

Article 9 – The National Oil Company of Georgia

1. The functions of the National Oil Company of Georgia shall be performed by an enterprise which has been granted the status of the National Oil Company under an ordinance of the Government of Georgia. On the basis of the purposes of this Law, the decision on the privatisation of the National Oil Company shall be made by the Government of Georgia.

2. Under Article 8¹(1)(i) of this Law, for as long as the State and/or an enterprise with more than 50 per cent equity participation of the State own more than 50 per cent of its shares, the functions of the National Oil Company shall be to:

a) participate in preparation of an oil and gas contract and in contract-related negotiations, initial the contract before it is officially signed by the Agency;

b) act as a commercial partner on behalf of Georgia when performing contracts;

c) dispose of a portion of the oil and gas extracted in Georgia that belongs to the State, pay the regulatory fee and transfer all the taxes imposed on it under a production sharing contract to the State budget;

d) carry out state expertise of the mining operations plans and the process flow diagrams for the development of oil- and gas-containing subsoil;

e) if there is a production sharing contract, jointly with the investor on a parity basis, set up the Coordinating Committee the functions of which shall be defined as, but not limited to, the approval of work programs, budgets and development plans and control over their implementation together with the Agency;

f) perform all other functions that may be entrusted to it under the legislation of Georgia.

3. The National Oil Company of Georgia shall have the right to:

a) conclude a contract with a third party in its own name or through an affiliated company;

b) establish an affiliated company and participate in contracts under the Civil Code of Georgia together with other companies and institutions; therefore, it shall be authorised to acquire, possess, sell or transfer its shares;

c) participate in cooperative and partnership agreements with third parties in Georgia and foreign states.

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 3580 of 24 October 2006 – LHGI, No 42, 10.11.2006, Art. 284

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Law of Georgia No 4682 of 17 May 2011 – website, 1.6.2011

Law of Georgia No 5091 of 11 October 2011 – website, 21.10.2011

Law of Georgia No 678 of 31 May 2013 – website, 18.6.2013

Law of Georgia No 1039 of 6 September 2013 – website, 23.9.2013

Article 10 – Procedure for granting the rights of oil and gas prospecting and exploration and extraction to investors

1. A contract under which an investor is granted the rights to exploit oil and gas resources and to use oil- and gas-containing subsoil in an area shall be made between the State and the investor – the winner of a tender or auction conducted solely by the Agency. Conditions of conducting tenders and auctions shall likewise be included in the contract and the blanket licence for the use of oil and gas resources issued in accordance with this Law.

2. The Agency shall determine the rules and procedures for conducting tenders and auctions and shall, one month before a tender or auction is announced, register it with the Ministry of Justice of Georgia.

3. If in the area selected for the announcement of a tender or auction other mineral deposits are also discovered, the agency shall make its final decision to announce the tender in agreement with other state agencies concerned, if necessary.

4. An investor applying for participation in a tender or an auction announced by the Agency must submit the following information to the Agency:

a) the forms and parameters for oil and gas prospecting and exploration and/or exploitation;

b) the address of an applicant and its business contacts with industrial and financial partners;

c) the data of the owners of the applicant and its managing staff;



- d) the financial condition of the applicant and potential sources of financing the oil and gas prospecting and exploration and/or exploitation operations;
- e) the technical and technological capacity of the applicant, as well as the technical and technological capacity of its potential partners, if possible;
- f) the experience (qualifications) of the applicant and the list of countries in which it has worked for the last five years;
- g) a proposal of the applicant to optimally carry out the oil and gas prospecting and exploration and/or exploitation operations in the area;
- h) the guarantee of the applicant to provide the Agency with complete information on the performance of oil and gas operations in the area;
- i) if necessary, a prior consent of the private landowner to the use of his/her land by the investor when it carries out oil and gas operations, and the lease terms. If the applicant fails to obtain the prior consent of the landowner, it must submit information on the location of this land, the parameters and the difficulties arising during preliminary negotiations, as well as the details of a contract offered to the landowner.

5. If a tender is conducted:

- a) the winner shall be the bidder that meets the tender requirements and submits economically and technically the most acceptable bid. Within one month after the investor wins the tender, according to the conditions of the tender, negotiations shall start between the Agency and the winning investor for conclusion of the contract;
- b) when only one bid is submitted, the Agency shall have the right to cancel the tender;
- c) when several bidders equally meet the tender requirements, the auction shall be held between the bidders;
- d) if, within six months after commencement of the negotiations, no contract is concluded between the Agency and the winning investor, the tender results shall be deemed cancelled;
- e) if no bidder can meet the tender requirements, the Agency shall declare the tender cancelled.

6. If an auction is held:

- a) the winner shall be the bidder that meets the conditions of the auction and offers the highest bid to the State. Within one month after the investor wins the auction, according to the conditions of the auction, negotiations shall start between the Agency and the winning investor for conclusion of a contract;
- b) if no price bids are made, the Agency shall declare the auction cancelled.

7. An applicant shall pay a non-refundable tender/auction fee established by the Agency.

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Law of Georgia No 4408 of 11 March 2011 – website, 17.3.2011

Chapter III – Oil and Gas Contracts, Specifics of Using Oil and Gas-containing Subsoil

Article 11 – Forms of contracts

1. Along with other types of oil and gas contracts, the main forms of contracts shall be:

- a) a Production Sharing Contract;
- b) a Risk Service Contract;
- c) a Service Contract.

2. The Agency shall be authorised to prepare and use model contract forms under paragraph one of this article.

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Article 12 – Oil and gas contract terms

1. Any contract concluded between the Agency and an investor must include:

- a) division of the contract term into exploration and production periods;
- b) minimal volume of the pre-agreed work (seismic surveys, well drilling, etc.) and the amount to be spent;



- c) conditions for reimbursement of expenses and product distribution;
- d) procedure for determining the market price for oil and gas and the value of cost recovery oil;
- e) the rights of ownership of the extracted oil and gas;
- f) the legal status, functions and duties of an operating company established to perform oil and gas operations;
- g) determination of bonuses, terms of payment of bonuses and other taxes;
- h) time limits and rules for the elaboration and financing of oil and gas prospecting and exploration and assessment projects, the general and annual work programmes;
- i) the obligation to perform the minimal volumes of oil and gas prospecting and exploration and assessment works and the procedure for revision;
- j) the obligation to reduce the area;
- k) time limits and rules for the elaboration and financing of the arrangement and processing projects and/or technological schemes of oil and gas deposits, the general and annual work programmes;
- l) the agreed amount of oil and gas extraction to be further updated according to the approved technological scheme or project, as well as the obligations for minimal volumes of deposit arrangement works, the time limits for the commencement of extraction and operation of wells and for the performance of other work;
- m) the obligation to use the associated gas;
- n) conditions for raw material transportation;
- o) specifics of development of deposits;
- p) the right of ownership of the property constructed and used for the extraction of oil and gas;
- q) property rights to the geological information acquired (obtained) when using subsoil;
- r) ways and volumes of dumping industrial wastes, fossil and waste waters into the subsoil and the conditions of performance of appropriate work;
- s) the obligations for the protection of the environment and industrial safety of the facilities;
- t) the rules and conditions for the use of common infrastructure facilities;
- u) the controls for performing the contract conditions and the rights and duties granted under the licence;
- v) conditions for performing liquidation work;
- w) the insurance terms and conditions;
- x) duties to be performed under Force Majeure;
- y) procedures for dispute review;
- z) rules for drafting documents necessary for geological work;
- z¹) rules for calculation of oil and gas reserves in the subsoil, accounting for the quantity and quality of the extracted oil and gas, and those of left and lost in the subsoil;
- z²) specifics of bookkeeping under the legislation of Georgia;
- z³) the obligation of an investor to pay the regulatory fee.

¹. A contract may also include other provisions that provide the specifics of certain works to be performed and do not contradict the legislation of Georgia.

². A contract may not include a commitment to undertake financial and/or estate obligation on behalf of the State that is beyond the scope of this Law.

2. Amendments to a contract shall be made only by written agreement of the parties, if they do not violate the conditions of a contract and a respective licence.

3. If, after this Law takes effect, the conditions under the legislative acts are changed or established so that they lessen the economic status of an entity of oil and gas operations, appropriate amendments may be made to a contract that will enable the entity to receive proper compensation to avoid the deterioration of its contractual economic conditions. An exception shall be changes that are related to the environment and cultural heritage protection and industrial safety requirements.

4. In compliance with an Oil and Gas Contract and/or a blanket licence for the use of oil and gas resources issued on behalf of the State, the oil and gas extracted as a result of oil and gas operations (activities) shall be owned by the State and the investor.



Article 13 – The production sharing contract

1. Issues related to the conclusion, execution and termination of a production sharing Contract and other conditions, as well as the rights and obligations of the parties shall be regulated by this Law.

2. Relationships arising from the conclusion, execution and termination of a production sharing contract, as well as work that is not regulated by this Law or not determined under contract terms shall be conducted according to the legislation of Georgia.

3. If an investor is an association of legal persons (Consortium) that is not a legal person, each of its members shall bear joint (joint and several) liability, and the rights and duties shall be assigned according to the production sharing contract. A production sharing contract shall be concluded with one of the Consortium members appointed by the Consortium who is delegated with appropriate authority.

4. A blanket licence for the use of oil and gas resources in an area defined under a production sharing contract shall be issued automatically by the Agency within thirty days after the contract is concluded. A blanket licence for the use of oil and gas resources shall validate the transfer of the exclusive right to use oil and gas-containing subsoil and to perform oil and gas operations to the investor in order to implement the production sharing contract. Conditions of the blanket licence for the use of oil and gas resources must be identical to the conditions under the production sharing contract. A geological and/or mining allotment shall be granted together with a licence, if necessary. The license conditions must be identical to the conditions of the production sharing contract.

5. A production sharing contract shall include:

a) the principles, rules and procedures for the reimbursement of costs and expenses spent by an investor to perform oil and gas operations according to the work program and the budget, i.e. the determination of costs and expenses that are reimbursed from the extracted product in the form of cost recovery oil and gas for the investor;

b) the amount of cost recovery oil and gas for the State;

c) the amount of baseline oil and gas;

d) rules and the procedure for sharing profits between an oil and gas investor and the State;

e) rules and the procedure for payment of a fee for the use of natural resources (oil and gas) by the volume of oil and gas extracted in the area under the Law of Georgia on the Fees for the Use of Natural Resources. These rules must contain a mandatory condition to pay a fee for the use of natural resources to the State before the cost recovery and baseline oil and gas are returned or the profit oil and gas are distributed;

f) the right of an investor to export its portion of cost recovery and profit oil and gas through the customs territory of Georgia without any restriction and without payment of the value added tax, unless otherwise provided in the contract;

g) the following taxes and fees under the legislation of Georgia to be paid by an investor or an operating company on behalf of and/or as assigned by the investor:

g.a) profit tax at the rate which was applicable when the contract was signed and remains valid until the contract term expires;

g.b) a fee established under the legislation of Georgia for the use of natural resources in the amount which was applicable when the contract was signed and remains valid until the contract term expires. A fee for the use of natural resources shall be subject to deduction when calculating the profit tax;

g.c) property (land) tax at the rate which was applicable when the contract was signed and remains valid until the contract term expires; the land tax shall be subject to deduction when calculating the profit tax;

g.d) relevant social taxes;

g.e) the licence and other fees, and the bonus under the legislation of Georgia, this Law and the contract;

g.f) any import tax and value added tax, if the machinery and equipment, transportation means, spare parts and materials that are brought into Georgia by an investor or an operating company to perform oil and gas operations under an agreed project and that are exempt from customs duties and VAT under the Tax Code of Georgia are sold or otherwise alienated or used for other purposes, except when they are supplied and/or otherwise transferred for the performance of oil and gas operations between the National Oil Company, investors and operating companies;

g.g) value added tax if an investor sells its portion of oil and gas on the customs territory of Georgia;

h) the following tax rights and obligations of the parties to the contract:

h.a) import into and export from the customs territory of Georgia of the machinery and equipment, transportation means, spare parts and materials that are designated for the performance of oil and gas operations under the contract and that are agreed upon under the project for the performance of oil and gas operations shall be exempt from import duties and value added tax;

h.b) foreign employees and their family members shall have the right to import into and re-export from Georgia personal items and household goods



without any tax payment. If this property is sold or otherwise disposed of within Georgia, import duty and other taxes shall be paid in accordance with the legislation of Georgia.

h.c) a contract may include a condition under which a party to the contract that receives the state's portion of profit oil and gas undertakes to completely or partially fulfil the obligations to pay profit tax and a fee for the use of natural resources imposed on the other party(s) (investor(s)). If this condition exists, the investor's tax obligations shall be deemed fulfilled and the State shall have no right to have any claim against the investor with respect to these obligations. Accordingly, tax authorities of Georgia shall annually issue tax receipts on behalf of the investor evidencing payments (taxes and a fee);

h.d) oil and gas operations performed by an investor and an operating company under a contract shall be exempt from taxes and all other payments;

i) the following rules for conducting financial and accounting procedures:

i.a) when performing oil and gas operations under a contract, an investor (or an operating company on the investor's instructions) shall keep a record of financial and economic activities and maintain accounts. Financial and accounting procedures shall be carried out in accordance with international standards;

i.b) book-keeping and accounting shall be conducted in national currency and U.S. Dollars;

i.c) a model contract and an annex to the contract shall specify details of the compensation expenses in relation to oil and gas operations; procedures for keeping a record of production, making calculations and reporting, as well as procedures for calculation of a fee for the use of mineral resources, compensation, distribution of profit oil and gas and profit tax shall be established;

i.d) a contract must include detailed provisions concerning the mandatory work programme, minimum costs of an investor by time and the maximum possible expenditure to be spent in foreign countries;

j) the following rules for maintaining bank accounts and converting foreign currencies:

j.i) to perform contractual activities, an investor, an affiliate company and an operating company shall have the right to open, maintain and use foreign currency bank accounts in Georgia and foreign countries, and local currency accounts – in Georgia;

j.b) an investor, an affiliate company and an operating company shall have the right to receive and maintain in their bank accounts proceeds from sales of their portion of production under the contract, to settle accounts in relation to the performance of contractual activities, as well as to use funds available in their accounts without limit;

k) stabilisation conditions, under which the State may include a provision in a production sharing contract that if, after the contract becomes effective, amendments are made to the legislation of Georgia (except for the amendments made to the environmental, cultural heritage and industrial protection requirements) that will increase the tax obligations of the investor, the State shall agree to make appropriate amendments to the current production sharing contract so that the investor maintains the same economic conditions that it had before the amendment to legislation;

l) the aims of an operating company and the following functions and obligations:

l.a) when oil and gas operations are performed, performance of an operator's functions (including the employment of personnel and remuneration issues) on behalf of the investor and on its instructions, which must comply with the Work Programme and the Budget and the Development Plan. The investor shall bear full responsibility for any activity carried out by the operating company to implement these Programmes and Plans;

l.b) performance of oil and gas operations on the principle of a non-commercial enterprise without ownership of any assets, in compliance with international standards of oil and gas industry;

l.c) according to the approved work programmes and budgets, as well as the investor's instructions, responsibility for purchasing machinery, equipment and supplementary materials; conclusion of subcontracts and service contracts on behalf of the investor with service providers and wholesale trade firms dealing in oil and gas operations;

l.d) drafting of a staff training programme and its annual budget and their submission to a coordination committee for approval, implementation of the approved programme and execution of the budget;

l.e) full and accurate accounting of costs and expenses related to oil and gas operations, according to this Law and the contract;

l.f) making arrangements for coordination committee meetings and submission of information on issues reviewed and approved by it to this committee;

l.g) rendering assistance to the investor, at its request, in submitting reports on oil and gas operations carried out under the contract to the coordination committee;

l.h) submission to all parties to the contract of information and reports related to oil and gas operations that the parties request.

Law of Georgia No 757 of 2 March 2001 – LHGI, No 6, 20.3.2001, Art. 16

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Law of Georgia No 3806 of 12 November 2010 – LHGI, No 66, 3.12.2010, Art. 414

Law of Georgia No 5968 of 27 March 2012 – website, 12.4.2012



Article 14 – The risk service contract

The main conditions of a risk service contract shall be:

- a) an investor shall bear all costs relating to oil and gas prospecting and exploration and geological survey and undertake the risk in the case of failure;
- b) in the case of successful exploration of oil and gas resources, the Agency shall make decision with respect to the extraction of oil and gas and performance of other oil and gas operations;
- c) the State shall reimburse the investor for the capital it spent in the form of loan interest, and an extra payment for undertaking the risk of oil and gas exploration, if it is provided in the contract;
- d) usually the investor shall be reimbursed for the expenses by way of cash resources. By decision of the Agency, an investor may be reimbursed for the expenses, wholly or partially, by the extracted oil and gas, or be allowed to purchase oil and gas at current world market prices.

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Article 15 – The service contract

1. A service contract may be concluded both for certain types of work and a combination of various works (oil and gas prospecting and exploration, exploitation of deposits, repair of wells, restoration of idle wells, arrangement of oil and gas deposits, supply of new technology and equipment, marketing services, etc.).
2. One party to a service contract shall be an entity holding a licence for the use of oil and gas resources.
3. The other party to a service contract shall not invest capital and shall not undertake the risk in case of failure.
4. Services rendered in accordance with the contract shall be reimbursed, usually, by way of cash resources at current world market prices for contract works and services. In individual cases, by decision of the Agency, the services rendered may be reimbursed, partially or wholly, by the extracted oil and gas. The other party to the contract may be allowed to purchase part of the production obtained as a result of its services at current world market prices.

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Article 15¹ – The authority issuing blanket licences for the use of oil and gas resources

The Agency shall issue blanket licences for the use of oil and gas resources.

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Article 16 – Effective period of contracts and blanket licences for the use of oil and gas resources

1. Maximum effective period of a contract and a respective licence for the use of oil and gas resources shall be 25 years. The parties shall determine the time limits for prospecting and exploration and extraction operations within the effective period of a concluded contract.
2. A contract may be extended on the initiative of an investor for a period necessary and sufficient to economically and rationally extract, use and protect oil and gas. If the extension is necessary before the 25-year period expires, the term may be extended temporarily, but for not more than five years.
3. The procedure and conditions for extension of the validity of the term of a contract shall be determined by agreement of the parties. If the contract is extended, the term of a licence for the use of oil and gas resources shall be automatically extended.
4. Terms of the contract and the licence shall not be effective in case of force majeure. If force majeure causes non-performance or delayed performance of contract terms, the period of force majeure together with a period necessary for compensation of damages inflicted by the delayed performance of the contract terms shall be added to the effective period of the contract.

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Article 17 – Termination of contracts and oil and gas operations

1. An investor and the Agency may terminate an oil and gas contract only under the procedure determined by the contract. If the contract is terminated, the parties shall not be released from obligations not performed at the time of making the decision to terminate the contract.



2. If the contract is terminated, an investor shall be obliged to leave the area in the state that complies with mining and sanitary supervision, subsoil and environmental protection requirements and established rules that are effective in Georgia.

3. In cases under the legislation of Georgia, an investor shall be obliged to immediately discontinue oil and gas operations.

4. To avoid potential damages caused by abandoning the work area and the equipment used, a contract must provide for the opening of a special reserve fund account. An investor shall be obliged to deposit a sum in this fund by the time that the contract is signed or transfer a sum to the account for the whole validity period of the contract, which must be defined under the contract. The sum in the account, by a relevant period of time, must exceed the estimated costs of damages caused by abandonment. The sum transferred to the special reserve fund shall be compensated to the investor. If the deposit actually exceeds the expenses that are necessary to compensate for damages caused by abandonment, the increment gained shall be considered to be profit oil. The sums accumulated in the special reserve fund shall be deducted when calculating profit tax.

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Article 18 – The use of extracted natural gas

1. Open-air burning of the extracted natural gas without the presence of particular conditions and a proper justification shall be considered as wasting of natural resources and shall be prohibited.

2. The Agency shall have the right to lift the prohibition of an investor determined under paragraph one of this article in case of:

a) drilling, testing or repairing a well;

b) damage to pipelines or other equipment;

c) force majeure.

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Article 19 – A blanket licence for the use of oil and gas resources

1. A blanket licence for the use of oil and gas resources shall be issued by the Agency on the basis of a contract within one month after it is signed. The licensed terms must be identical to the contract terms.

2. An investor shall pay a licence fee.

3. To participate in a tender or an auction, an applicant shall pay the costs of holding a tender or an auction under the procedure established by the Agency.

4. A licence fee shall not be paid by cost recovery oil and gas.

Law of Georgia No 757 of 2 March 2001 – LHGI, No 6, 20.3.2001, Art. 16

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Article 20 – The land allotment

1. According to a blanket licence for the use of oil and gas resources issued by the Agency and the relevant contract, the Agency shall at the same time pass to the investor a document prepared by the National Agency of Public Registry of the Ministry of Justice of Georgia certifying the right to use the land allotment.

2. If a plot of land required for the performance of oil and gas operations in the area belongs to a natural or legal person (which is not the State), an investor shall, before the contract is signed, sign an agreement with the landowner for transfer of an exclusive right to use the land to the investor for the effective period of the oil and gas contract. The investor must submit this agreement to the Agency in order to conclude a contract under the procedure determined by the Agency.

3. The Agency shall have the right to initiate an eminent domain proceeding by filing an application with the court. To exercise the right to initiate an eminent domain proceeding, the Agency shall develop and adopt appropriate rules and normative acts.

4. If an investor fails to reach an agreement with the landowner about the use of his/her plot of land to carry out oil and gas operations for a specified period of time, the investor shall may apply to the Agency for the initiation of an eminent domain proceeding. The Agency shall decide on the satisfaction of the investor's claim. If this claim is satisfied and the application is filed with the court, the investor shall be obliged to pay all expenses required for the eminent domain proceeding, including a compensation amount determined by the court that is to be passed to the landowner.

5. All parties involved may participate in public hearings of the eminent domain proceeding, present their arguments, witnesses and documentary evidence, challenge the arguments presented by other parties, demand the cross-examination of witnesses, cast doubts on the accuracy of the evidence



presented and demand that they be re-examined.

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Article 21 – Transportation of the extracted oil and gas

1. Construction, operation and use of the non-trunk pipelines and structures and buildings connected with oil and gas operations shall be carried out in compliance with the legislation of Georgia and the contract. An investor may hold negotiations about the commercial use of free volumes of the state-owned trunk pipelines.
2. An investor may, considering the requirements of the legislation of Georgia, build and use an oil and gas trunk pipeline to be connected to the existing trunk pipeline for exporting its contractual portion of oil and gas.

Article 22 – Transfer of the rights and obligations to other persons by the investors

1. An investor may transfer, in whole or in part, its rights and obligations under the contract and the blanket licence for the use of oil and gas resources to an affiliate company without the prior consent of the Agency. In this case, the investor shall remain liable for the performance of obligations transferred to the affiliate company. Within the period set by the contract, the investor shall inform the Agency in writing of transferring the contractual and licensed rights and obligations to the affiliate company.
2. After a written consent is received from the Agency, an investor may transfer, in whole or in part, its rights and obligations under the contract and the blanket licence for the use of oil and gas resources to a person (a third party) that is not an affiliate company, if this person possesses adequate financial and technical resources and has the experience in carrying out oil and gas operations necessary to perform the transferred rights and obligations. An investor shall notify the Agency in writing about the transfer of rights and obligations and submit all other required documents to the Agency. Within thirty days after the notification is received, the Agency shall notify the investor in writing whether it accepts or rejects the proposal, and in the case of rejection – the reasons for rejection. The response of the Agency must not be deferred without giving reasons. If rights and obligations are transferred, in whole or in part, to a third party, the investor shall not be liable for the performance of transferred obligations and shall not get a benefit.
3. If there is a risk service contract or a service contract and an appropriate licence, after receiving prior written consent from the Agency, an investor may, partially or fully, transfer its rights and obligations to any person (third party). A person to whom the rights and obligations were transferred shall notify the Agency in writing of the transfer. The investor shall notify the Agency in writing about the transfer of rights and obligations and submit all other required documents. Within thirty days after the notification is received, the Agency shall notify the investor in writing whether it accepts or rejects the proposal. If rights and obligations are transferred, in whole or in part, to a third party, the investor shall not be liable for the performance of the transferred obligations and shall not get a benefit.
4. The transfer of rights and obligations to another person by an investor shall be executed in writing. This document shall be an integral part of the contract and the blanket licence for the use of oil and gas resources and shall be automatically issued when reissuing the licence. The license shall be reissued within thirty days after this document is signed. The Agency shall determine the content and the form of the document.
5. With the written consent of the Agency, an investor may, for the performance of contractual rights and obligations, exercise the rights conferred under the contract and the blanket licence for the use of oil and gas resources, as a guarantee for ensuring performance of financial transactions.
6. The transfer of rights and obligations under the blanket licence for the use of oil and gas resources to an affiliate company shall not be taxable.
7. If the rights and obligations under the blanket licence for the use of oil and gas resources are transferred to a third party, an investor shall compensate the Agency for all transfer-related costs.

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Article 23 – Joint development of deposits

1. A joint deposit development shall mean the coordination of extraction operations between two or more investors within the boundaries of one deposit extending over the areas used by each investor.
2. If a joint deposit development is required, investors may conclude a contract on joint deposit development. A joint deposit development project (technological scheme) must be agreed upon with the Agency.
3. If investors fail to reach agreement on a joint deposit development, the issue shall be resolved by the Agency on the basis of an independent expert's report. The decision of the Agency may be appealed to court under the established procedure. Expenses for the expertise shall be borne by investors in proportion to the portion oil and gas that they presume to receive.

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4



Article 24 – Rights, obligations and liabilities of investors

The rights and obligations of an investor for the effective period of oil and gas contract shall be to:

- a) select the most efficient methods and technologies to carry out oil and gas operations according to international standards of the oil and gas industry;
- b) use the area only as determined under the contract and the licence for the use of oil and gas resources;
- c) meet requirements of the legislation of Georgia and the industrial safety, environmental and subsoil protection requirements when performing oil and gas operations;
- d) not to prevent other persons from moving freely on the area, using the equipment and means of communication as intended, or from performing any other work (including prospecting and exploration, development and extraction of natural resources other than oil and gas) if these activities do not require the establishment of special safety conditions and do not hinder the performance of oil and gas operations;
- e) follow technological plans and projects for performance of oil and gas operations under established procedures to ensure the safety of personnel and the society;
- f) give preference to equipment, materials and finished products that are made in Georgia, if their ecological and technological properties, prices, operating parameters and conditions of supply are competitive;
- g) give preference to services provided by enterprises and organisations of Georgia, when performing oil and gas operations, including the air, railway, marine and other types of transportation, if the price, efficiency and quality of the services are competitive;
- h) give preference to citizens of Georgia on an equal footing when performing oil and gas operations, prevent persons without appropriate qualifications from the performance of work;
- i) submit full information on the implementation of programmes and projects of planned works to the Agency;
- j) pass, if necessary, information on oil and gas operations to a third party only after consent of the contracting parties, unless otherwise provided in an oil and gas contract;
- k) submit to the Agency geological and geophysical information together with the results of work carried out on the area; pass written information to the Agency within thirty days if other minerals are discovered in the area;
- l) timely pay taxes and mandatory fees, as well as regulatory payments;
- m) participate in developing the social infrastructure according to the contract;
- n) protect historical and cultural sites of Georgia;
- o) restore, at its own expense, the land and other facilities that were damaged during performance of oil and gas operations, their premature termination or completion, to a state acceptable for their further use under the legislation of Georgia;
- p) export to foreign countries the income gained from sales of its exported portion of oil and gas from Georgia after payment of obligatory state taxes;
- q) have the right, if the investor sells its portion of oil and gas in Georgia, to convert the Georgian currency into a freely convertible foreign currency at a free market exchange rate, and dispose of these funds, including, after payment of obligatory state taxes, transfer them to foreign countries without restriction or payment of other taxes.

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Law of Georgia No 4408 of 11 March 2011 – website, 17.3.2011

Law of Georgia No 4682 of 17 May 2011 – website, 1.6.2011

Article 25 – Confidentiality of information

1. Initial geological, geophysical, geochemical information, data about the interpretation of this information, production data, samples of rocks, including core-shell and intra-rock fluid obtained by an investor when performing work under the contract, shall be State property. An investor may, freely and without charge, use this information, data and samples in Georgia and foreign countries only to perform oil and gas operations and on the condition that the information is kept confidential.
2. An investor may disclose confidential information related to the contract implementation to an affiliated company, any professional advisor, and bank or financial institution from which the investor tries to attract funds on the condition that this information is kept confidential.
3. The State may disclose confidential information to a third party after a certain period of time.



Article 25¹ – Availability of transportation

Transportation must be available to all carriers on a non-discriminatory basis in accordance with normative acts established by the Agency.

Law of Georgia No 1853 of 25 December 2002 – LHGI, No 3, 17.1.2003, Art. 9

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Article 25² – Specialised transportation

1. A blanket licence holder for oil and gas resources, its affiliated company or any other person may submit an application to the Agency for a transportation licence only to transport products that are produced by it, or its raw materials or oil and gas products.

2. Under normative acts of the Agency, a licence holder must make the excess (unused) pipeline capacity available to other carriers on a non-discriminatory basis if:

a) taking account of the appropriate operational factors, which include only, but not limited to, the demand and production expansion potential, the full pipeline capacity is not regularly used to transport raw materials or oil and gas products of a licence holder;

b) a licence holder concludes or offers to conclude a contract with a third party that is not its affiliate company to transport raw materials or oil and gas products.

Law of Georgia No 1853 of 25 December 2002 – LHGI, No 3, 17.1.2003, Art. 9

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Article 25³ – Establishment of transportation tariffs

1. The Agency shall review a tariff application submitted by a transportation company, establish a tariff and approve conditions for transportation services.

2. To protect interests of a transportation company and a carrier, the Agency shall be authorised to make changes to the current tariff on its own initiative.

3. The tariff established by the Agency shall:

a) protect a carrier from monopolistic prices;

b) allow a transportation company to be compensated for costs that include: the value of fuel purchased at an economically justified price, operating, current and capital repair expenses, taxes on the principal amount and interest on loans obtained as working capital. In addition, the tariff shall provide for a reasonable and fair rate of return on investments which must be sufficient to attract investments for rehabilitation and development of this sector;

c) facilitate the growth of a transportation company's financial earnings through increasing operational and management efficiency by reducing service costs, given that the transportation company meets the conditions for service quality under an appropriate business licence;

d) facilitate the growth of economic efficiency in the transportation sector through reflecting short- and long-term marginal costs and prices, as well as through regulating redundancy and insufficiency of transportation services;

e) allow a transportation company to reimburse itself for all economically justified expenditures, including expenses to obtain an appropriate business licence.

Law of Georgia No 1853 of 25 December 2002 – LHGI, No 3, 17.1.2003, Art. 9

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Law of Georgia No 4859 of 5 June 2007 – LHGI, No 22, 19.6.2007, Art. 188

Article 25⁴ – The rule and procedures for tariff establishment and enforcement

1. To review a tariff application and establish a tariff, the Agency shall, under its normative acts, establish the following rules and procedures:



- a) the rule for acceptance of a tariff application;
- b) procedures for public review of a tariff application and adoption of an appropriate decision;
- c) procedures for substantiation of a tariff by a carrier and other interested party;
- d) procedures for retrieval and obtaining of additional information for evaluation of a tariff application;
- e) methods and procedures for calculation of costs incurred for establishing a tariff.

2. A tariff shall enter into force 120 days after the Agency receives a tariff application, if the tariff meets the requirement of the Agency for a tariff application.

Law of Georgia No 1853 of 25 December 2002 – LHGI, No 3, 17.1.2003, Art. 9

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Law of Georgia No 4859 of 5 June 2007 – LHGI, No 22, 19.6.2007, Art. 188

Article 25⁵ –The business licence issuing body

A business licence shall be issued by the Agency.

Law of Georgia No 1853 of 25 December 2002 – LHGI, No 3, 17.1.2003, Art. 9

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Article 25⁶ – Procedures for issuing business licences

1. The Agency shall, under normative acts, approve a business licence application form, content of the licence and general conditions for a respective activity.

2. An application shall include:

a) an applicant's name, surname and address, and in case of a legal person – his/her legal address, personal details of the managerial staff, a tax payer's identification code registered with the Tax Inspection, and if necessary, place of registration of a legal person's representation office in Georgia and a registration authority;

b) the names and addresses of all persons that hold 5 or more per cent of shares or percentage of an applicant's profit.

3. The following must be attached to an application:

a) a detailed description of an activity under a business licence to be carried out by an applicant;

b) a detailed description of technologies and methodologies to be used by an applicant in a plant or a means of transportation;

c) a detailed description of raw materials or oil and gas products to be used by an applicant in a plant or a means of transportation;

d) information on applicant's financial status and source of funding to be used by the applicant for performance of an activity under the business licence;

e) a document on the applicant's experience (qualifications) and the list of countries he/she has worked in for the last five years;

f) an applicant's guarantee that he/she will submit the full information to the Agency about the performance of an activity under the business licence;

g) if necessary, a landowner's prior consent to use his/her land by a business licence holder for oil refining, gas processing or transportation activity, and the lease terms. If an applicant fails to obtain a prior consent from a landowner, he/she must submit information on the location of this land, parameters and difficulties arising during preliminary negotiations, as well as the details of an agreement offered to the landowner. Failure of an applicant to make an agreement with a landowner shall be a basis for the Agency to refuse to issue a business licence.

4. If applicants are two or more persons jointly holding an indivisible interest in a plant or a means of transportation:

a) each of them must submit a separate application for a business licence and present appropriate documentation;

b) they must present a document defining the rights and obligations between one another, and a written consent to the appointment of one of the persons as a representative, to whom the business licence will be issued and who will be authorised to act on behalf of other applicants;

c) each of them will bear joint (joint and several) liability for performance of the duties that are related to the operation of the plant or means of transportation;



d) each of them, who holds a legitimate interest in a plant or a means of transportation, will submit information about the interest when purchasing the interest and annually thereafter, in accordance with normative acts of the Agency. As a result of violating this rule, the Agency may suspend an activity carried out in the plant or by the means of transportation.

5. If an applicant is an affiliate company, then a parent company must provide financial and performance guarantees.

6. Based on the documentation submitted by an applicant, the Agency shall decide whether to issue a business licence. A business licence must specify conditions under which the licence holder is allowed to perform an appropriate activity, namely:

a) a business licence holder shall be obliged to design, build, equip, repair, possess and operate a plant or a means of transportation and carry out an activity in accordance with the business licence;

b) a business licence holder shall be obliged to obtain the prior written consent of the Agency to the alteration or modification of methods, means or a type of performing activities; to notify the Agency in advance of changing raw materials that are used for the activity or produced, or oil and gas products;

c) the effective period of a business licence shall not exceed 25 years. The Agency may, based on the resubmission of an application by the business licence holder, and by making further conditions, extend the effective period of the business licence by a maximum of 10 years;

d) to obtain a business licence, an applicant shall pay the licence fee.

Law of Georgia No 1853 of 25 December 2002 – LHGI, No 3, 17.1.2003, Art. 9

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Article 25⁷ – Inspection activities

To determine compliance of the performed activities with the business licence conditions, the Agency shall be authorised to inspect a plant or a means of transportation during work and to impose an administrative penalty on the business licence holder under the legislation of Georgia.

Law of Georgia No 1853 of 25 December 2002 – LHGI, No 3, 17.1.2003, Art. 9

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Article 25⁸ – Suspension and termination of activities or business licences

1. A business licence holder may suspend or terminate activities at any time according to this Law, except as provided in paragraph two of this article. A business licence holder shall be obliged to notify the Agency in writing six months before suspension or termination of activities.

2. In the event of an accident, a business licence holder must immediately stop working, correct consequences of the accident, timely and effectively eliminate damage caused by the accident, promptly notify the Agency of the event in compliance with the business licence and normative acts of the Agency, and submit a detailed report.

3. The Agency shall be authorised to terminate a business licence in accordance with the legislation of Georgia, including, with this Law, only based on a prior written notification sent to the business licence holder and a review of the case-related facts.

4. The Agency may terminate a business licence if a business licence holder:

a) fails to fulfil any of the business licence conditions;

b) fails to comply with the quality standards of raw materials or oil and gas products;

c) fails to follow legal acts of the Agency;

d) fails to comply with the requirements of this Law or the legislation of Georgia.

5. A written notification shall be sent to a business licence holder thirty days before considering the issue. The notification must specify:

a) the reason for suspending or terminating a business licence;

b) the detailed description of an activity or inactivity of a business licence holder that are the bases for suspending or terminating a business licence;

c) further actions of a business licence holder that are necessary to correct or eliminate the reason for suspending or terminating the business licence.

6. A business licence holder may attend the consideration of the question of termination of the business licence by the Agency and defend its rights.

7. Within ten days after the issue of terminating a business licence is considered, the Agency shall make an appropriate decision. A business licence holder shall have the right to appeal the decision of the Agency to court.



8. In the course of suspension or termination of activity or a business licence, a business licence holder shall ensure an effective, safe and prompt closing of a plant or a means of transportation at its own expense. A business licence holder shall be responsible for closing and abandoning a plant or a means of transportation, which includes removal of any movable property, restoration and treatment of the work area at its own expense.

9. At any time, including during termination of the activity or a business licence, a business licence holder shall retain obligations imposed on it under the business licence, the legislation of Georgia, including the normative acts of the Agency (including obligations for environmental safety and the restoration of damaged ground), be financially liable for harm (bodily injury, illness, death, property damage, adverse environmental impacts, etc.) that is caused by an activity or inactivity defined under the business licence.

10. In compliance with financial obligations under paragraph eight of this article, a business licence holder shall be obliged to transfer to the liquidation fund established together with the Agency upfront sum sufficient to cover the cost of restoration works or present to the Agency a letter of credit for payment of this sum.

Law of Georgia No 1853 of 25 December 2002 – LHGI, No 3, 17.1.2003, Art. 9

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Article 25⁹ – Transfer of business licences to other persons

1. A business licence holder may, thirty days after a written notification is sent to the Agency, transfer the rights and obligations under the business licence, in part or in whole, to an affiliate company. In this case, a business licence holder shall be responsible for the performance of duties transferred to an affiliate company.

2. Based on an agreement concluded between a business licence holder and a third person, the business licence holder may, in whole or in part, refuse the business licence in favour of this person.

3. To refuse a business licence, a business licence holder shall submit an application to the Agency. The application must be accompanied by a third person's request and other documentation as determined by this Law and normative acts of the Agency for obtaining a business licence. From the moment when a business licence is transferred to a third person, the previous licence shall be deemed wholly or partially invalid.

4. The Agency shall review the documentation under paragraph three of this article and make a decision to issue a licence, refuse to issue or issue it with a change that complies with this Law and normative acts of the Agency. The Agency shall issue a business licence if it concludes that:

a) an applicant has sufficient financial and technical resources and relevant experience (qualifications) to carry out the activity under a business licence and perform duties delegated to it;

b) an investment programme presented by an applicant is sufficient to conduct activities under the previous licence, taking account of the changed conditions, including prices, market demand, supply capacity for raw materials or oil and gas products or other relevant economic factors.

5. A business licence that has been transferred to a third person shall be effective for the remaining validity term of the previous licence.

6. With the advance written consent of the Agency, a business licence holder may exercise the licensed rights as a guarantee to obtain financing required for performance of duties under the licence.

Law of Georgia No 1853 of 25 December 2002 – LHGI, No 3, 17.1.2003, Art. 9

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Article 25¹⁰ – Rights and obligations of business licence holders

1. A business licence holder shall have the right to:

a) design, build, repair, own and operate a plant and a means of transportation;

b) comply with transportation tariffs and legal acts of the Commission;

c) in an emergency, suspend activities without delay, carry out rehabilitation works to eliminate the damage and timely notify the Commission in accordance with legal acts of the Commission;

d) in case of mandatory notification to the Agency, change the technology and means related to oil refining, gas processing and transportation, types and composition of raw materials and oil and gas products;

e) make electricity, water, sewerage and other public facilities available on a non-discriminatory basis;

f) make roads, bridges, seaports, airspace, airplanes, other means of transportation, telecommunications and other public property available on a non-discriminatory basis;

g) to carry out activities under a business licence, open and use bank accounts in foreign currencies in Georgia and foreign countries, and in national currency – in Georgia;



h) obtain a permit of the Commission to change or modify raw materials that are used for the activity or produced, or oil and gas products;

2. A business licence holder shall be obliged to:

a) carry out oil refining, gas processing and transportation activities only in compliance with the conditions of the business licence and time limits defined therein;

b) comply with transportation tariffs and legal acts of the Agency;

c) in an emergency, suspend activities without delay, carry out rehabilitation work to eliminate the damage and timely notify the Agency in accordance with the legal acts;

d) in the established form, timely provide the Agency with the information on oil refining, gas processing and transportation activities, as well as financial data related to taxation, environmental protection and emergency situations, the quality of raw materials and oil and gas products, the status and activities of a business licence holder;

e) be responsible for actions of the management, personnel, agents and subcontractors;

f) use the work area only for activities defined under the business licence;

g) prohibit free movement of unauthorised people over the work area, as well as the use by them of the plant, equipment, communications, and other means of the business licence holder, unless otherwise provided in the legislation of Georgia and the business licence;

h) obtain a permit of the Agency to change or modify raw materials that are used for the activity or produced, or oil and gas products;

i) pay all taxes and penalties, carry out other tax obligations under the legislation of Georgia;

j) ensure public safety and environmental protection when performing activities defined under a business licence;

k) develop a plan for unforeseen circumstances, train the staff and install necessary equipment to take prompt and effective measures in case of an accident;

l) not inflict damage on historical and cultural heritage sites of Georgia when performing activities defined under a business licence;

m) be financially liable for harm (bodily injury, illness, death, property damage, adverse environmental impacts, etc.) that is caused by an activity or inactivity defined under the business licence;

n) give preference to equipment, materials and finished products that are made in Georgia, if their ecological and technological properties, prices, operating parameters and conditions of supply are competitive;

o) give preference to services provided by the enterprises and organisations of Georgia, when performing activities defined under a business licence, if the price, efficiency and quality of the services are competitive;

p) give preference to citizens of Georgia on an equal footing, when performing activities defined under a business licence, prevent persons without appropriate qualification from performing work;

q) if a business licence is suspended or terminated, ensure efficient, safe and prompt closing of a plant or a means of transportation at its own expense;

r) restore a damaged work area;

s) in compliance with this Law, present to the Agency a financial guarantee with respect to the termination of activities or a business licence, the closing of a plant or a means of transportation.

Law of Georgia No 1853 of 25 December 2002 – LHGI, No 3, 17.1.2003, Art. 9

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Article 25¹¹ – Certification of raw materials and oil and gas products

1. After this Law enters into force, the Agency together with the Legal Entity under Public Law (LEPL) – The National Agency for Standards, Technical Regulations and Metrology shall review the new quality standards of raw materials or oil and gas products and participate in their approval.

2. A business licence holder shall, periodically, at least once a year, submit to the laboratory samples of raw materials or oil and gas products for testing. Based on the laboratory test results, a certificate issued by a certification body determined by the legislation of Georgia shall be sent to the Agency.

3. Experts of the Agency may periodically enter oil refining, gas processing and transportation activity areas, take samples of raw materials or oil and gas products and submit them to the laboratory for testing. Based on the laboratory test results, a certificate issued by a certification body determined by the legislation of Georgia shall be sent to the Agency.

4. If the quality of raw material or oil and gas product fails to comply with the established standards, the Agency may issue an administrative-legal act to



terminate a business licence. The Agency shall ensure enforcement of its administrative-legal act in compliance with the legislation of Georgia.

Law of Georgia No 1853 of 25 December 2002 – LHGI, No 3, 17.1.2003, Art. 9

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Chapter IV – Transitional and Final Provisions

Article 26 – Existing oil and gas contracts

1. This Law shall recognise the legitimacy of the existing contracts in relation to the provisions of this Law.
2. Every responsibility, rights and obligations of a state regulatory nature (except for operational and commercial rights and obligations) defined under current contracts shall be transferred to the Agency.

Law of Georgia No 1853 of 25 December 2002 – LHGI, No 3, 17.1.2003, Art. 9

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Article 27 – Stability of relations regulated by Law and state guarantees of the rights of investors

1. The State shall ensure protection of investors' rights under the legislation of Georgia. Within 25 years after this Law enters into force, amendments made to the legislation of Georgia, if they worsen investment conditions, shall not apply to oil and gas contracts, as well as to existing contracts.
2. Paragraph one of this article shall also apply to normative acts issued by the executive authority of Georgia, if these acts abridge an investor's property rights acquired and exercised in accordance with this Law.
3. State bodies and officials may not create any obstacles for an investor in the course of exercise of rights granted to it under an oil and gas contract, except when the investor violates the legislation of Georgia or terms of the contract.

Law of Georgia No 2392 of 9 September 1999 – LHGI, No 43(50), 21.9.1999, Art. 225

Article 28 – Business relationships

Conditions for remuneration of labour, work and rest time, safety and social insurance of citizens of Georgia that are employed by an investor shall be determined by the legislation of Georgia.

Article 29 – State immunity

Contracts concluded with investors under the legislation of Georgia may, in case of a dispute, provide a waiver of judicial immunity by the State.

Article 30 – Consideration of disputed matters

1. Disputes that arise between contracting parties, especially, if a dispute refers to land or other immovable property, shall be considered solely by a court of Georgia according to the location of the property.
2. Disputes that refer to translation, legal status, fulfilment of terms, termination or suspension of a contract shall be considered by a court of Georgia. If an investor is not a citizen of Georgia or a legal person registered in Georgia, a dispute having arisen with the investor may be considered also by international arbitration institutes according to contractual conditions.

Article 30¹ – (Deleted)

Law of Georgia No 757 of 2 March 2001 – LHGI, No 6, 20.3.2001, Art. 16

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Article 30² – Current business licences



A current business licence holder shall, within six months after this Law enters into force, submit an application for a business licence to the Agency. Based on a current business licence, the Agency shall issue a business licence under this Law and the legislation of Georgia.

Law of Georgia No 1853 of 25 December 2002 – LHGI, No 3, 17.1.2003, Art. 9

Article 30³ – Transitional provisions

1. Before 1 September 2007, an independent regulatory body, the Legal Entity under Public Law (LEPL) – the State Agency for Regulation of Oil and Gas Resources shall be reorganised into a state sub-agency within the Ministry of Energy of Georgia – the National Agency for Oil and Gas.
2. Paragraph one of this article shall be enforced by the Government of Georgia under the procedure determined by the legislation of Georgia.
3. In relation to the establishment of a state sub-agency within the Ministry of Energy of Georgia – the National Agency of Oil and Gas, the Government of Georgia shall ensure that draft amendments to the Law of Georgia on the State Budget of Georgia for 2007 are prepared and submitted to the Parliament of Georgia.
4. Before the statute of a state sub-agency within the Ministry of Energy of Georgia – the National Agency of Oil and Gas is approved and its head appointed, powers granted to this Agency under the legislation of Georgia shall be exercised by an independent regulatory body, the LEPL the State Agency for Regulation of Oil and Gas Resources.
5. Normative acts (except for the acts issued with regard to cost of regulation) issued by an independent regulatory body, the LEPL State Agency for Regulation of Oil and Gas Resources, shall remain valid. The right to make amendments to the acts or to cancel them shall be granted to a state sub-agency within the Ministry of Energy of Georgia – the National Agency of Oil and Gas.
6. A state sub-agency within the Ministry of Energy of Georgia – the National Agency of Oil and Gas shall, within three months after the date it was established, ensure compliance of subordinate normative acts - necessary to carry out the functions assigned to it with the legislation of Georgia.
7. The legal Entity under Public Law (LEPL) – the National Agency of Oil and Gas shall be established within the Ministry of Energy of Georgia.

Law of Georgia No 3172 of 25 May 2006 – LHGI, No 17, 30.5.2006, Art. 116

Law of Georgia No 4292 of 29 December 2006 – LHGI, No 1, 3.1.2007, Art. 4

Law of Georgia No 4859 of 5 June 2007 – LHGI, No 22, 19.6.2007, Art. 188

Law of Georgia No 467 of 25 March 2013 – website, 5.4.2013

Article 31 – Entry of the Law into force

This Law shall enter into force upon promulgation.

President of Georgia

Eduard Shevardnadze

Tbilisi

16 April 1999

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