

DECISION
OF THE GOVERNMENT OF THE RUSSIAN FEDERATION
NO. 740 OF JULY 3, 1999
ON APPROVAL OF THE REGULATION ON THE COMPOSITION AND PROCEDURE
FOR REFUNDING THE EXPENSES BORNE IN THE PERFORMANCE
OF PRODUCTION SHARING AGREEMENTS

Pursuant to the Federal Law on Production Sharing Agreements and in order to exercise control over the composition and the procedure for compensating the expenses borne in the performance of production sharing agreements the Government of the Russian Federation hereby decides to:

Approve the enclosed Regulation on the Composition and the Procedure for Refunding the Expenses Borne in the Performance of Production Sharing Agreements.

Chairman of the Government
of the Russian Federation

S.Stepashin

Regulation
on the Composition and Procedure for Refunding the Expenses
Borne in the Performance of Production Sharing Agreements
(approved by the Decision of the Government of the Russian Federation
No. 740 of July 3, 1999)

1. General Provisions

1.1. This Regulation has been drafted in keeping with the Federal Law on Production Sharing Agreements.

1.2. The Regulation shall be used when drafting, entering into and performing production sharing agreements (hereafter referred to as Agreements) which entered into force after the approval of this Regulation.

1.3. The Regulation is designed to determine the following when making and performing agreements:

composition of refundable expenses;

composition of nonrefundable expenses;

the procedure for compensating expenses of an investor and/or operator of the agreement.

1.4. Refundable expenses mean justified expenses of an investor and/or operator of the agreement borne in the course of execution of the program of works. Refundable expenses are approved by the managing committee in keeping with the program of works and the estimate of cost in the manner stipulated by the agreement. Refundable expenses shall include expenses of an investor and/or operator under the agreement, apart from expenses listed in Section 3 of this Regulation.

1.5. The expenses shall be compensated to the charge of compensation products obtained by the investor under terms of the agreement and in the manner stipulated by the Regulation.

1.6. Terms of agreements may not contradict this Regulation which was in effect at the date of signing such an agreement apart from agreements listed in Item 1.7 of this Regulation. In the

course of performance of an agreement shall be applied a Regulation that was in effect at the date the agreement was signed. In case of any discrepancy between the text of an agreement and this Regulation that was in effect at the date the agreement was signed, the Regulation will prevail that was in effect at the time the agreement was signed. In case of any discrepancy between this Regulation that was in effect at the time the agreement was signed and a Regulation or other legal normative acts that govern similar issues and that are current at the present date, the Regulation will prevail that has been in effect at the date the agreement was signed.

1.7. Terms for determining refundable expenses and expenses subtractable when calculating the taxable base for profit tax, both established by the above agreements shall be applied in the course of performance of agreements concluded prior to the entry into force of the Federal Law on Production Sharing Agreements.

1.8. Terms used in this Regulation are used in the manner defined by the Federal Law on Production Sharing Agreements.

2. Refundable Expenses

2.1. The composition of Refundable expenses shall include the following expenses:

2.1.1. Expenses borne by the investor before the agreement enters into force.

2.1.2. Expenses borne by the investor and/or operator starting from the effective date of the agreement and during its entire effective period.

2.2. Expenses borne by the investor before the agreement entered into force shall be compensated in the manner and in the amount stipulated by the agreement. In so doing such expenses are to be reflected in the estimate of costs for works in the first year of works under the agreement. The aforesaid expenses shall include:

2.2.1. Expenses borne to prepare, conduct negotiations, coordination and expert examination of the agreement, including the expenses to draft the feasibility study at the stage prior the entry into the agreement.

2.2.2. Expenses in prospecting, assessment and exploration works.

2.2.3. Other expenses borne by the investor before the agreement entered into force.

2.3. Expenses borne by the investor and/or operator starting from the effective date of the agreement and during its entire effective period shall be compensated to the investor in the amount stipulated by the program of works and estimate of costs approved by the managing committee and shall include the following types of expenses:

2.3.1. Actual justified expenses under the agreement borne by the investor and/or operator.

2.3.2. Deductions to the liquidation fund whose resources are intended to finance liquidation works.

2.4. Refundable expenses actually performed by the investor and/or operator when executing works under the agreement shall include the following groups of expenses:

2.4.1. Expenses of the investor to compensate the state expenses to perform prospecting works, geological and economic assessment and other research required to prepare the transfer of a subsoil section to the investor for use.

2.4.2. Expenses in the search, assessment and prospecting of a mineral deposit, including the expenses to compensate to legal entities their expenses for the above section of subsoil that they incurred to their own charge.

2.4.3. Expenses to work and develop a mineral deposit.

2.4.4. Capital expenses and operating expenses borne in the extraction, storage and

transportation of minerals up to a delivery point or a division point specified by the agreement.

2.4.5. Other groups of expenses borne by the investor and/or operator when performing works under the agreement.

2.5. Groups of expenses set forth in Item 2.4 provide for the following expenses:

2.5.1. Expenses borne in labor remuneration of the investor and/or operator personnel in accordance with accepted forms and system of labor remuneration.

2.5.2. Expenses associated with deductions to the Social Development Fund of the Russian Federation, to the Pension Fund of the Russian Federation, to the Federal Fund of Mandatory Medical Insurance and to the State Employment Fund of the Russian Federation for personnel of the investor and/or operator who are citizens of the Russian Federation in the amounts and in the manner laid down by the current legislation of the Russian Federation.

2.5.3. Expenses associated with deductions to social needs of the investor and/or operator personnel who are not citizens of the Russian Federation in the amounts used in countries of their permanent abode.

2.5.4. Annual payments for prospecting and search works (rentals).

2.5.5. Payments for the use of land, and other natural resources, apart from nonrecurrent payments (bonuses) and regular payments (royalty) for the use of subsoil.

2.5.6. Expenses borne by the investor and/or operator to set up and acquire production infrastructure, including supporting facilities, jetties, terminals, etc.

2.5.7. Expenses for leasing by the investor of certain facilities of main assets associated with the performance of the agreement.

2.5.8. Expenses for payment of services rendered by outside organizations, research and development directly associated with the performance of the agreement.

2.5.9. Expenses to purchase information on adjacent subsoil sections if terms of the agreement or program of works provide for acquisition of such information.

2.5.10. Expenses to train and retrain personnel of the investor.

2.5.11. Expenses to build and operate the shift team settlement.

2.5.12. Expenses to pay for mandatory audit conducted on the basis of works carried out by the investor over the reporting year, as well as expenses associated with an audit of financial and economic activity of the investor performed at the request of the state.

2.5.13. Expenses to fund scientific research and development works directly associated with the works under the agreement.

2.5.14. Expenses to procure materials required under the program and estimate budget of works.

2.5.15. Management expenses of the investor which are compensated in the amount not exceeding the level of management expenses fixed by the agreement in per cent to total expenses Refundable to the investor in the current period. Management expenses of the investor

2.5.16. Expenses associated with payment of regular (annual) and additional leaves of personnel.

2.5.17. Expenses for relocation of personnel and relocation allowances.

2.5.18. Expenses for insurance of commercial and ecological risks.

2.5.19. Payments for maximum limits of discharge of pollutants, payable under the legislation of the Russian Federation on environmental protection.

2.6. The managing committee may approve changes under certain articles of expenses. In such case, the report on execution of the estimate budget shall be approved with regard to the above changes.

2.7. Deductions to the liquidation fund and/or expenses for liquidation works shall be performed in the manner fixed by the Government of the Russian Federation.

2.8. Other expenses not listed in this Section, if they are provided for by the agreement less the expenses specified in Section 3 of this Regulation

3. Expenses Not Refundable Through the Compensation Products

3.1. The composition of nonrefundable expenses shall include the following expenses:

3.1.1. Nonrefundable expenses borne by the investor before the agreement enters into force.

3.1.2. Nonrefundable expenses borne by the investor and/or operator when performing the agreement.

3.1.3. Nonrefundable expenses of the investor and/or operator which are not associated with the agreement.

3.2. Nonrefundable expenses borne by the investor prior to the entry into force of the agreement:

3.2.1. Expenses to purchase a set of geological and geophysical information in order to participate in the tender (auction).

3.2.2. Expenses in payment of fee to participate in the tender (auction) to the right to use a subsoil section on terms of product sharing as well as other expenses borne by the investor prior to announcement of winner to the tender (auction).

3.3. Nonrefundable expenses borne by the investor and/or operator when performing the agreement.

3.3.1. Non-recurrent payments (bonuses).

3.3.2. Regular payments (royalty)

3.3.3. Profit tax.

3.3.4. Taxes, charges and other mandatory payments that were actually paid to budgets of the subjects of the Russian Federation and local budgets.

3.3.5. Payments (interest) and payments of fees under loans (borrowed resources).

3.3.6. Expenses under articles exceeding the limits fixed by the agreement.

3.3.7. Expenses which arose through gross negligence or willful mistake of the investor which are determined by terms of the agreement.

3.3.8. Expenses associated with payments for excursions and vacation trips.

3.4. Nonrefundable expenses of the investor and/or operator which are not associated with the agreement.

3.4.1. Expenses associated with the sale of compensation products owned by the investor and a stake of the profit bearing product, including expenses for the delivery of such products from a delivery point stipulated by the agreement or a division point up to realization point, losses at transportation, expenses for insurance during transportation up to destination point and other fees and other outlays.

3.4.2. Expenses associated with an audit of financial and economic activity of the investor performed at the request of stockholders (founders) of the investor, excluding the mandatory annual audit conducted per Item 2.5.12.

3.4.3. Expenses to fund scientific research and development works of general nature.

3.5. No other expenses may be added to the aforementioned list of nonrefundable expenses.

4. Procedure for the Refunding of Expenses

4.1. Expenses shall be refunded in the following procedure with due regard to special requirements existing under an agreement in question. Expenses are refunded to the charge of compensation products which amounts shall be specified in the procedure laid down by the Government of the Russian Federation and terms of the agreement.

4.2. Terms of the agreement as regards the refunding of expenses may provide for:

4.2.1. Calculation of the compensation products amount during calendar year based on the planned amount of recoverable expenses laid down in the estimated expenses for the current year the latter is to be recalculated to take into account results of the year on the basis of actual amount of recoverable expenses and actual product prices available in the product division point over the past year.

4.2.2. Use during calendar year an estimated price of mineral raw materials existing in the product division point over the past quarter to estimate the required amount of compensation products which is to be equivalent to the sum of recoverable expenses of the investor which is to involve adjustment of overall annual results at the end of the reporting year. Results of such adjustment shall be taken into account when determining amount of compensation products of the year following the reporting one.

4.2.3. Order of priority in refunding the investor's expenses for prospecting and assessing reserves of the mineral raw materials, exploration and working of deposits, extraction and other stages of works under the agreement both in general and as regards individual production facilities and/or plots of territory under the agreement, such expenses being singled out from overall refundable expenses.

4.2.4. Sequence of working of various deposits or sections thereof. In so doing expenses borne on each site of the working shall be refunded to the charge of the entire amount of compensation products produced through the realization of the agreement.

4.3. Balance of the investor's refundable expenses as at the end of the reporting year shall be determined as the sum of balance of refundable expenses which were not reimbursed to the investor at the beginning of such period and refundable expenses borne during that period less the expenses reimbursed in the reporting period.

4.4. Expenses of the investor and/or operator shall be refunded within the limit of the report on the execution of the estimate of expenses approved by the managing committee.

4.5. Estimate of amount of compensation products equivalent to the balance of recoverable expenses at a certain date that were not reimbursed to the investor shall be calculated by dividing the aforesaid amount of the balance of recoverable expenses of the investor by the projected price of mineral resources in the product division point such price being calculated in the manner specified by the agreement. Should the amount of compensation products equivalent to the balance of recoverable expenses of the investor at the end of a corresponding period exceed the limit fixed for compensation products in that period such limit being determined in keeping with the agreement, then expenses in that period shall be refunded within the limit of the aforesaid level of compensation products. Should the amount of compensation products equivalent to the balance of recoverable expenses of the investor in a corresponding period be below the limit fixed for compensation products in that period, then the investor shall be reimbursed the entire amount of unrecovered refundable expenses.

4.6. Refundable expenses shall be marked down by the amount of:

4.6.1. Other operational expenses associated with the investor and/or operator receiving rent for renting out the property created or acquired under the agreement less the outlays connected

with the receipt thereof.

4.6.2. Insurance indemnities received by the investor and/or operator from insurance organizations if expenses for insurance and outlays incurred by the investor in eliminating consequences of an insured accident were refunded to the investor to the charge of the compensation products. In cases when the above expenses are not reimbursed to the investor, amounts received by the investor from insurance organizations shall not be subtracted from refundable expenses.

4.7. Taxes to the subjects of the Russian Federation, local taxes, charges, other mandatory payments, from which the investor and/or operator are not exempted by law or other normative legal acts of the subjects of the Russian Federation and the local self-government bodies shall be refunded to the investor and/or operator to the charge of share of profit bearing products owned by the state, through the reduction of such share. In so doing the investor's share of profit bearing products shall be marked up to the amount equivalent to the sum of paid taxes and charges both being adjusted on the basis of the Bank of Russia refinancing rates in effect during the period between the date of actual payment of the taxes and charges and the date used as a basis in determining shares held by the investor and the state in profit bearing products. The above procedure does not apply to the manner the investor and/or operator is reimbursed for payments made for the use of land, other natural resources and for discharges of pollutants, the former being refunded in the general manner to the charge of compensation products.

4.8. Expenses of the investor shall be compensated in the amount not exceeding the limits laid down by the agreement.