

DECISION
OF THE GOVERNMENT OF THE RUSSIAN FEDERATION
NO. 741 OF JULY 8, 1999
ON APPROVAL OF THE REGULATIONS ON THE FORMATION AND UTILIZATION
OF THE LIQUIDATION FUND IN THE COURSE OF IMPLEMENTATION OF
PRODUCTION SHARING AGREEMENTS

Government of the Russian Federation hereby decides to:
Approve the enclosed Regulation on the Formation and Utilization of the Liquidation Fund
in the Course of the Implementation of Production Sharing Agreements

Chairman of the Government
of the Russian Federation

S.Stepashin

Regulation
on the Formation and Utilization of the Liquidation Fund in the
Course of Implementation of Production Sharing Agreements
(Approved by the Decision of the Government of
the Russian Federation No. 741 of July 8, 1999)

1. When implementing production sharing agreements, upon expiry of an agreement, in case of its early termination or if an investor waives a part of the territory granted by the agreement the investor shall create a liquidation fund in the form of an extra-budgetary fund at the Ministry of Fuel and Energy of the Russian Federation in case of production sharing agreements on deposits of hydrocarbon raw materials, or at the Ministry of Natural Resources of the Russian Federation in case of production sharing agreements on deposits of other minerals (hereafter called the Fund) with the aim of accumulating financial resources required to carry out the temporary closing down and liquidation of mining works (rigs, steel structures, supporting facilities, etc.) which are connected with the utilization of subsoil in keeping with production sharing agreements, as well as in order to reclaim territories utilized in the performance of works under the agreement (hereafter referred to as the liquidation works).

2. The Fund is to be set up for each production sharing agreement, and its resources are to be used solely for the purposes defined in Item 1 of the present Regulation. Expenses incurred by the investor and associated with the liquidation works are to be compensated to him partially by the produced goods in the manner specified by the agreement.

3. To evaluate the liquidation works and resources required to carry them out the investor shall draw a plan of liquidation works and budget for its implementation. Such plan is to provide that works are carried out in compliance with standards, norms and rules for the performance of such works effective in the Russian Federation with due account to plans for the working and extraction of mineral resources as provided for by the production sharing agreement.

The plan of the liquidation works and budget for its implementation is drafted by the investor as a part of its general programs of works and budget under production sharing agreements. The above budget is calculated as at the anticipated starting date of the liquidation works with regards to projected inflation.

The plan of liquidation works and budget for its implementation along with all amendments and addenda thereto is drafted by the investor and approved by the managing committee in the manner and within the time limits fixed by the production sharing agreement for general and annual programs of works and budgets.

4. The fund is set up by quarterly deductions made by the investor starting at the beginning of industrial extraction in proportion to volumes of extracted mineral raw materials. Deductions per unit of extracted minerals are established by the managing committee so as to ensure that by the scheduled starting date of the liquidation works the fund will have enough resources to finance the liquidation works in accordance with the plan of liquidation works and budget for its implementation approved by the managing committee.

5. If need be, the managing committee may adjust the plan of liquidation works and budget for its implementation. The procedure and time framework for such adjustments as well as for adjustment of amount of deductions shall be established by the production sharing agreement.

6. An authorized state agency shall act as the fund manager.

7. Prior to complete compensation of expenses incurred by the investor and associated with resources transferred quarterly by the investor to the fund for liquidation works, the investor shall have ownership right to the part of such resources within his uncompensated expenses. Upon completed compensation of the investor's expenses associated with the deductions to the fund the right to the fund's resources shall be transferred to the Russian Federation on whose behalf in the production sharing agreement shall act the Government of the Russian Federation and an executive authority of the subject of the Russian Federation on whose territory is situated the subsoil section handed over for the use, or agencies authorized by the former in the established manner (hereafter referred to as authorized bodies).

8. If a production sharing agreement is terminated or an investor waives a part of territory allocated thereto by the agreement such authorized bodies may take the following decisions as regards the entire territory or a part thereof:

a) to carry on the prospecting and search works and/or extraction of the minerals and operating the facilities and other property established in the performance of the agreement;

b) delegate the performance of liquidation works to other organizations;

c) to charge the investor with the performance of liquidation works. The production sharing agreement must provide for obligations of the investor to carry out liquidation works and the right of authorized bodies to approve actual expenses incurred by the investor in connection with the performance of liquidation works after the agreement expires.

9. If authorized bodies take a decisions per Subitems "a" or "b" of Item 8 of this Regulation the investor shall not be liable for the performance of the liquidation works in the territory specified by the production sharing agreement.

10. If authorized bodies take a decisions per Subitems "c" of Item 8 of this Regulation:

a) the investor shall be liable for the execution of the liquidation works in keeping with the plan of liquidation works and budget for its implementation as approved by the managing committee. In so doing the investor, in order to execute the liquidation works, may contract legal entities that possess proper qualifications, production potential and licenses to the right to perform such works;

b) within 30 days upon decision by the manager of the fund's resources such resources shall be handed over to the investor in keeping with the plan of the liquidation works and budget for its implementation on the basis of a separate agreement (contract) to perform the above works;

c) within the time framework laid down by the production sharing agreement for filing

reports on the performance of works under the agreement the investor shall inform the managing committee and the manager of the fund's resources about the progress of the liquidation works over a certain period and also submit for approval by authorized bodies documents confirming the use of funds on each stage of liquidation works;

d) if upon termination of the production sharing agreement resources of the fund or a part thereof earmarked to perform the liquidation works in a corresponding part of the territory turn out to be in excess of actual expenses on such works, the extra portion of such funds in accordance with Item 7 of this Regulation must be transferred to the revenue of the federal budget and the budget of the corresponding subject of the Russian Federation in proportion established by the agreement between the Russian Federation and the corresponding subject of the Russian Federation for the division of products owned by the state under terms of the agreement;

e) if upon termination of the production sharing agreement resources of the fund of a part thereof earmarked to perform the liquidation works in a corresponding part of territory turn out to be not sufficient to cover actual expenses on such works, the authorized bodies and the investor are to provide the lacking funds in corresponding proportions to the distribution of shares of products between the state and the investor actually existing at the agreement termination date;

f) the liquidation works are deemed completed upon signing by the state of the statement on the hand over and acceptance of the territory specified by the production sharing agreement or a part thereof.