

FEDERAL LAW
NO. 225-FZ OF DECEMBER 30, 1995
ON PRODUCTION SHARING AGREEMENTS
(with the Amendments and Additions of January 7, 1999, June 18, 2001)

Approved by the State Duma

on December 6, 1995

Approved by the Federation Council

on December 19, 1995

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

Chapter I. General Provisions

Article 1. Relationship Governed by this Federal Law

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

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

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

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

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

Federal Law No. 19-FZ of January 7, 1999 amended Article 2 of this Federal Law
See the previous text of the Article

Article 2. Production Sharing Agreement

1. Production sharing agreement (hereinafter referred to as Agreement) shall be an agreement under which the Russian Federation shall grant the participant of business activities (hereinafter referred to as Investor) an exclusive right for exploration, development and production of mineral raw materials on the subsoil area provided for in the Agreement and conducting operations related thereto on a chargeable basis and for a certain period, while the Investor shall undertake to perform the said operations for his own account and at his own risk. The agreement shall provide for all necessary terms and conditions related to the use of subsoil, including terms, conditions and

procedure for sharing produced production between the parties to the Agreement in compliance with the provisions of this Federal Law.

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

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

3. Lists of subsoil areas subject to potential use under production sharing terms in compliance with the provisions of this Federal Law shall be established by federal laws except for the cases established by [Item 5](#) of the present Article.

On the Plots of Subsoil the Right to Use Which May Be Granted on the Conditions of the Sharing of the Products see:

[Federal Law No. 199-FZ of November 20, 1999](#)

[Federal Law No. 198-FZ of November 20, 1999](#)

[Federal Law No. 106-FZ of May 31, 1999](#)

[Federal Law No. 87-FZ of May 1, 1999](#)

[Federal Law No. 112-FZ of July 21, 1997](#)

On the contracts (agreements) on the product division in carrying out the geological study, the prospecting and the extraction of precious metals and of precious stones with the participation of russian and of foreign investors see [Federal Law No. 41-FZ of March 26, 1998](#)

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

Lists of the subsoil plots shall include those subsoil plots for which the Government of the Russian Federation has drafted its feasibility study as regards the possible inclusion of such subsoil plots into the above lists.

As regards subsoil plots located on the territory of traditional habitation and economic activity of indigenous exiguous ethnic communities a corresponding decision shall be taken by a legislative (representative) body of the subject of the Russian Federation on which territory the subsoil plot in question is located which is to be taken with due consideration of interests of the indigenous exiguous ethnic communities and also another one taken by a local self- government body.

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

4. The following shall constitute the grounds for including into the lists those subsoil plots for which may be granted the right of use under the production sharing conditions:

when due to existing objective conditions, deposits of mineral resources serving as the basis for urban development can be exploited by a subsoil user and the State only at a loss, if the exploitation of such deposits can significantly increase the amount of extracted mineral resources, while terminating the exploitation can result in negative social consequences;

if no financial and technical means are available to develop new large-scale mineral deposits, which development can sustain such overall national level of extraction of the mineral resources as required for the social development and economic security of the Russian Federation, as well as can ensure the construction of industrial infrastructure facilities (including the facilities involved in the transportation of the minerals), first of all on the continental shelf of the Russian Federation, in remote and poorly developed areas;

the need to attract special capital-intensive and highly effective technologies to develop large scale and difficult-to-extract mineral deposit which are located in complicated mining-and-geological

conditions and which are residual in relation to deposits being developed, and also the need to prevent potential losses of fuel and mineral raw materials in the subsoil;

the need to attract additional financial and technical resources to ensure the environmental safety and protection of the subsoil in the case of development of large mineral deposits located in wildlife territories under special protection;

the need to provide local supply of fuel resources for the regions, to create new jobs and favorable social and economic conditions in subsidized regions and areas with low employment rates;

existing commitments of the Russian Federation to conduct talks on the terms of Agreements and also available results of tenders or auctions to allocate subsoil sections for the use under terms of production sharing.

5. In certain cases Lists of the subsoil plots which may be granted the right of use under production sharing in keeping with the present Federal Law will be established on the basis of a decision of the Government of the Russian Federation and a decision of the executive government body of a corresponding subject of the Russian Federation without the need for approval by federal laws, provided the above subsoil plots contain the following mineral deposits:

oil deposits with extractable reserves of up to 25 million tons;

gas deposits with reserves of up to 250 thousand million cubic meters;

primary deposits of gold with reserves of up to 50 tons;

placer deposits of gold with reserves of up to 1 ton;

deposits of other minerals which are not deemed as strategic type minerals and have no currency value.

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

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

Article 3. Parties to the Agreement

1. The Parties to the Agreement (hereinafter referred to as Parties) shall be:

the Russian Federation (hereinafter referred to as State), represented in the Agreement by the Russian Federation Government and the executive body of the Russian Federation subdivision on whose territory the subsoil area granted for use is located, or the bodies authorized thereby;

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

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

Article 4. Use of Subsoil Areas under Production Sharing Terms

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

2. A subsoil area shall be granted for use to Investor under the terms and conditions of the Agreement. In this respect, the license for the use of the subsoil area, which certifies the right to use the subsoil area provided for in the Agreement, shall be granted to Investor by the executive government body of an appropriate Russian Federation subdivision and the federal subsoil fund management body or its territorial subdivision within 30 days of the Agreement signing date. The

said license shall be granted for the entire life of the Agreement and shall be subject to extension or re-issuance or shall lose force as provided for in the Agreement.

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

Article 5. Term of the Agreement

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

The term of the licenses on the use of subsoil, see the [Regulations](#), approved by the [Resolution of the Supreme Soviet of the Russian Federation No. 3314-1 of July 15, 1992](#)

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

Chapter II. Conclusion and Implementation of Agreements

[Federal Law No. 19-FZ of January 7, 1999 amended Article 6 of this Federal Law](#)
[See the previous text of the Article](#)

Article 6. Procedure for Conclusion of Agreements

1. Subject to Paragraph 2 of this Article, Agreements shall be concluded by the State with the winner of a tender or auction held in compliance with the procedure established by the Russian Federation law, and within the time frame agreed upon by the parties, but no later than one year of the date on which the results of the tender or auction were announced.

Terms and conditions of tenders or auctions shall provide for the participation of Russian legal entities in the realization of the Agreement in the proportion laid down by the Government of the Russian Federation and corresponding bodies of the executive power of the subjects of the Russian Federation.

Terms and conditions of tenders, auctions or of an allocation of subsoil sections on noncompetitive basis shall contain a provision for appropriate compensations for the violation of traditional way of use of nature as regards those subsoil plots located on the territory of traditional habitation and economic activity of indigenous exiguous ethnic communities.

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

Agreements shall be concluded on the basis of provisions established by the legislation of the Russian Federation. Agreements involving the use of plots of subsoil located on the continental shelf of Russian Federation and (or) within the exclusive economic zone of Russian Federation as well as Agreements concluded in accordance with Paragraph two of Item 2, Article 6 of the present Federal Law are to be approved by special federal laws.

2. In individual cases Agreements may be concluded without a tender or auction by joint decision of the Russian Federation Government and the executive body of an appropriate Russian Federation subdivision, provided that:

interests of State defense and security call for entering into an Agreement with a specific investor, if an appropriate provision is made by the federal law establishing lists of subsoil areas pursuant to [Item 2 of Article 2](#) of the present Federal Law;

the announced tender or auction was deemed as not having been held because of only one

bid made. In that case an Agreement may be concluded with the Investor who sent his bid to the tender or auction under the tender or auction terms and conditions;

[Federal Law No. 75-FZ of June 18, 2001 amended paragraph 4 of Item 2 of Article 6 of this Federal Law](#)

[See the previous text of the paragraph](#)

the investor shall be deemed a user of sub-soil for the purposes of mineral prospecting and recovery on other terms and conditions stipulated by Russian law that differ from the contractual terms and conditions. In this case the contract may be concluded with the said user of sub-soil or with another legal entity or association of legal entities formed with the participation of this user. The said legal entity or association of legal entities which talks may be held for the purpose of preparation of a draft contract and with which a contract may be concluded shall be designated in the decision of the Government of the Russian Federation on the formation of the commission as stipulated in [Item 3 Article 6](#) of the present Federal Law;

by agreement with the Russian Federation Government and the executive government body of an appropriate Russian Federation subdivision, negotiations with the Investor for drafting Agreements began prior to the effective date of this Federal Law.

In the above cases, Agreements shall be concluded within the time frame agreed upon by the parties, but no later than one year of the date on which joint decision was made by the Russian Federation Government and the executive body of an appropriate Russian Federation subdivision.

3. Terms and conditions for the use of the subsoil and preparation of a draft agreement for each object of the subsoil use shall be drafted by a commission to be set up by the Government of the Russian Federation by agreement with the executive government body of a correspondent subject of the Russian Federation.

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

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

4. On behalf of the State, the Agreement shall be signed by the Russian Federation Government and the executive government body of an appropriate Russian Federation subdivision.

The executive government body of an appropriate Russian Federation subdivision may delegate its authority to sign the Agreement to the Russian Federation Government, and the Russian Federation Government may delegate its authority to sign the Agreement to the executive government body of an appropriate Russian Federation subdivision.

If the subsoil area granted for use is located on the continental shelf of the Russian Federation and (or) within the boundaries of the exclusive economic zone of the Russian Federation, the Agreement on behalf of the State shall be signed by the Russian Federation Government by agreement with the executive government body of an appropriate Russian Federation subdivision, on whose territory operations under the Agreement shall be performed, insofar as it concerns the issues falling under the jurisdiction of this Russian Federation subdivision.

5. The Agreement shall be signed within the time frame agreed upon between the parties following the completion of negotiations between the authorized delegations of the parties which shall result in consent over all the necessary terms and conditions of the Agreement other than the obligatory terms and conditions of the tender or auction. In this respect, the terms and conditions of

the Agreement shall not be in conflict with the obligatory tender or auction terms.

6. A decision to sign the Agreement on behalf of the State shall be made by the Russian Federation Government and the executive government body of an appropriate Russian Federation subdivision or, in the cases provided for by this Federal Law, by the Russian Federation Government by agreement with the executive government body of an appropriate Russian Federation subdivision.

[Federal Law No. 19-FZ of January 7, 1999 amended Article 7 of this Federal Law](#)

[See the previous text of the Article](#)

Article 7. Terms and Conditions for Conducting Operations

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

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

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

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

to allocate no less than 70 per cent of the cost volume of orders to manufacture machinery, equipment and materials necessary for geological study, extraction and primary processing of mineral resources among Russian legal entities or foreign legal entities which perform the activities in question and are registered as tax payers on the territory of the Russian Federation;

to purchase on competitive basis new equipment and use advanced technologies to perform Agreement Operations. In so doing the Russian goods (machinery, equipment and materials) shall be competitive to similar foreign goods as regards their reliability, safety, quality and delivery times.

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

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

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

The parties may agree upon the use of standards (norms, rules) for operation safety, protection of subsoil, natural environment, and health of the population generally accepted in the world exploration and production practices subject to prior approval of the said standards (norms, rules) by appropriate Russian Federation government bodies under the existing procedure.

[Federal Law No. 75-FZ of June 18, 2001 amended the last paragraph of Item 2 of Article 7 of this Federal Law](#)

[See the previous text of the paragraph](#)

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

3. If works under an agreement are performed at sites located on territories of traditional habitation and economic activity of indigenous exiguous ethnic communities the Investor shall be obliged to implement measures prescribed by the legislation of the Russian Federation to protect the [territories of traditional habitation](#) and [economic activity](#) of indigenous exiguous ethnic

communities and also ensure that relevant compensations are paid in cases and in the manner established by the Government of the Russian Federation.

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

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

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

7. In order to coordinate activities related to Agreement Operations the parties shall be obliged to make provisions to set up a management committee with equal representation of each party. Its membership, rights and obligations of the management committee as well as its working procedure shall be set forth in the Agreement. The established management committee shall ensure for equal participation for the representatives of the federal bodies of executive power on behalf of the State and representatives of executive government bodies of a corresponding subject of the Russian Federation on which territory is situated a subsoil plot in question.

[Federal Law No. 75-FZ of June 18, 2001 reworded Article 8 of this Federal Law](#)
[See the previous text of the Article](#)

Article 8. Production Sharing

1. The product produced shall be shared by the state and the investor in compliance with the contract which shall provide (except in the cases stated by Item 2 of the present article) terms and procedure for:

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

determining the part of the product produced (including the maximum limit on it) which is transferred to the investor to become the investor's property so as to compensate the investor's costs of performing works under the contract (hereinafter referred to as "compensation product). In this case the composition of the costs reimbursable on the account of compensation products shall be determined by the contract in compliance with the legislation of the Russian Federation;

the sharing of profitable product by the state and the investor, with the "profitable product" meaning the product produced less the part of this product used to make payments for mineral rights under the provisions of the present Federal Law and compensation product;

transferring to the state its part of the product produced or its value equivalent;

the investor's receiving the product produced which belongs to the investor under the contract.

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

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

the state and the investor sharing the product produced or its value equivalent and for determining the size of the state's and the investor's shares in the product produced. The ratios underlying this sharing shall be determined by the contract depending on the geological and economic appraisal of the sub-soil tract, the technical project design and the indicators comprised in the feasibility study for the production sharing contract;

transferring to the state its part of the product produced or its value equivalent in compliance

with the terms of the contract;

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

The terms and conditions of the tender or auction shall envisage the conclusion of a contract in keeping with the said sharing terms and procedure, or if a contract is concluded without a tender or an auction a provision for it shall be made by a decision of the Government of the Russian Federation and the executive body of a relevant Russian region.

Article 9. Investor's Title to Produced Production

[Federal Law No. 75-FZ of June 18, 2001 reworded Item 1 of Article 9 of this Federal Law](#)

[See the previous text of the Item](#)

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

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

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

1. The produced production received by the State as a result of production sharing under the terms and conditions of the Agreement or its equivalent value, shall be distributed between the Russian Federation and the Russian Federation subdivision on whose territory the subsoil area granted for use is located or the Agreement Operations are conducted for the use of subsoil of the continental shelf of the Russian Federation, under agreements concluded by the appropriate executive government bodies of the Russian Federation and executive government bodies of the Russian Federation subdivision, as a rule, under each individual agreement no later than 30 days of the effective date of such agreement.

The said agreements shall provide for:

the proportions of the State's share of produced production to be distributed with regard to the location of the subsoil area granted for use; type of the produced mineral raw materials and the amount of its recoverable reserves; amount of taxes payable to the federal budget, the budget of an appropriate Russian Federation subdivision and local budgets included in the accounting of production sharing by the State and the Investor; a level of social and economic development of the territory in which the Agreement Operations are being conducted; degrees of ecological risks;

the terms, conditions and procedure for transfer of the said production or its equivalent value in the agreed proportions of distributing the State's share of produced production to federal ownership and the ownership of an appropriate Russian Federation subdivision.

2. The portion of produced production transferred to federal ownership may be used to meet federal needs under the procedure to be established by the Russian Federation Government, with the proceeds from the sale thereof paid to the federal budget.

3. The portion of produced production transferred to the ownership of an appropriate Russian Federation subdivision shall be used as provided for by the procedures defined by the legislation of the Russian Federation subdivisions.

Article 11. Title to Assets and Information

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

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

and the risk of its accidental loss or accidental damage.

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

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

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

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

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

[Federal Law No. 75-FZ of June 18, 2001 amended Article 13 of this Federal Law](#)
[See the previous text of the Article](#)

Article 13. Taxes and Payments in the Process of Agreement Implementation

1. Except the profit tax and mineral right payments the investor shall be relieved from the taxes and fees (except the single social tax (contribution) stipulated in Item 6 of the present article) established under Russian law, within the effective term of the contract with due regard to the provisions of Items 3 and 7 of the present article.

Furthermore, if a contract is concluded as envisaging the peculiarities of production sharing in compliance with Item 2 Article 8 of the present Federal Law the investor shall be relieved from all federal taxes and fees (except the single social tax (contribution) specified in Item 6 of the present article) and also the regional and local taxes and fees established under the Tax Code of the Russian Federation. The levying of the said taxes and fees shall be replaced by production sharing on the terms and conditions provided in the contract in keeping with the present Federal Law.

If the laws of Russian regions and the regulatory legal acts of local government representative bodies contain no provision for an investor's being relieved from his duty to pay regional and local taxes and fees the part of the product produced (of the part of the profitable product specified in Item 1 Article 8 of the present Federal Law) being the investor's share under the contract shall be increased on the account of a relevant decrease in the state's share in terms of a value equivalent to the amount of actually paid regional and local taxes and fees as adjusted by an amount calculated proceeding from the refinancing rates of the Bank of Russia effective in the past period. In such a case the distribution of the state's contractual share of the product produced between the Russian Federation and the relevant Russian region shall be subject to adjustment under the contracts specified in Item 1 Article 10 of the present Federal Law.";

2. The profits tax shall be paid by the Investor in accordance with the procedure provided for by the legislation of the Russian Federation with due regard to the following specifics:

subject to profit tax shall be the value of a portion of profit production defined as provided for in the Agreement and owned by the Investor under the Agreement. And such value shall be reduced by the amount of the Investor's payments for the use of borrowed funds, and one-time payments by

Investor during the use of subsoil, as well as other unrecoverable costs incurred by the Investor under the Agreement, whose items and accounting procedure for the purpose of profits tax shall be established by the Agreement in compliance with the Russian Federation [law](#). If the said costs exceed the value of the Investor's share of profit production, then the profits tax base in the future periods shall be reduced by the amount of the arising difference until it is fully recovered;

the Investor shall pay profits tax with respect to Agreement Operations separately from the his profits tax with respect to other types of activities. And the profits tax rate effective as of the date of Agreement signing shall apply;

profits tax exemptions provided for by the legislation of the Russian Federation as well as taxation of an excess of actually incurred wage cost over the established limit thereof, amounts of dividends paid or income from participation interest shall not apply when collecting the profits tax;

According to the Federal Law No. 64-FZ of April 25, 1995 from January 1, 1996 [Item 13](#) of the Law on the Tax on the Profit of the Enterprises and Organizations which introduced the tax of an excess of actually incurred wage cost, shall became invalid and be excluded from the Law

the profit tax to be collected at a rate of payment of this tax to the budgets of the Russian Federation subdivisions shall be paid to the budget of the Russian Federation subdivision on whose territory the subsoil area granted for use is located regardless of the place of registration of the payer;

3. As performance under contracts is being done the value added tax shall be paid in accordance with the procedure established by the Tax Code of the Russian Federation.

See [Regulations](#) on the Procedure and Time Terms for Submitting Documents Confirming the Grounds for Relief from the Value Added Tax of Commodities, Works and Services Intended for Carrying Out Works under a Product Division Agreement endorsed by [Order](#) of the Ministry of Taxes and Fees of the Russian Federation No. BG-3-01/36 of February 14, 2001

4. The Investor shall make the following payments to the State for the use of subsoil:

one-time payments (bonuses) established in accordance with the terms and conditions of the Agreement at the conclusion of the Agreement and (or) upon the achievement of a certain result;

annual payments for conducting exploration (rentals) which are established per unit of subsoil area used subject to economic and geographical conditions, the size of the subsoil area, the type of mineral resources, duration of the said works, a degree of geological study of the subsoil area and degree of risk involved;

regular payments (royalty) established as a percentage of mineral raw materials production volume or of the value of the produced production and payable by the Investor in cash or in the form of a portion of produced mineral raw materials.

The Investor shall be exempt from other payments for the use of the subsoil.

5. Payment for the use of land and other natural resources shall be made by the Investor on a contractual basis in compliance with the legislation of the Russian Federation.

6. The investor shall pay the single social tax (contribution) entered in the state non-budget funds: the Pension Fund of the Russian Federation, the Social Insurance Fund of the Russian Federation and the funds of obligatory medical insurance of the Russian Federation.

7. As contracts are being implemented excise taxes shall be paid with due regard to the peculiarities established by the Tax Code of the Russian Federation.

[Federal Law No. 75-FZ of June 18, 2001 amended \[Item 1\]\(#\) of Article 14 of this Federal Law](#)
[See the previous text of the \[Item\]\(#\)](#)

Article 14. Accounting and Reporting

See the [Instructions](#) on Posting in Accounting Documents and Reports on Operations

Conducted under Production Sharing Agreements approved by [Order](#) of the Ministry of Finance of the Russian Federation No. 53n of August 11, 1999

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

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

Article 15. Bank Accounts and Currency Regulation

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

2. The Investor shall have the right to receive and keep foreign currency proceeds from the sale of the share of production owned by him under the Agreement in the said bank accounts, pay any expenditures incurred with respect to Agreement Operations as well as the profits tax and payments for the use of subsoil from these accounts and freely dispose of the balance of funds in the accounts.

3. The Investors as well as legal entities (operators of the agreement, contractors, suppliers, carriers and other persons) involved in Agreement Operations under agreements (contracts) with the Investor shall not be subject to the requirement for mandatory sale of a portion of hard-currency revenues earned in conducting Agreement Operations on the hard-currency market of the Russian Federation.

Article 16. Assignment of Rights and Obligations under the Agreement

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

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

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

Article 17. Stability of Terms and Conditions of the Agreement

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

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

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

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

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

Article 18. State Guarantees of the Investor's Rights

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

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

Article 19. Control over Implementation of the Agreement

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

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

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

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

The above report shall be forwarded to the Audit Chamber of the Russian Federation and is to be considered by the State Duma of the Federal Assembly of the Russian Federation only after the Audit Chamber of the Russian Federation has submitted its conclusion.

Article 20. Liability of the Parties under the Agreement

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

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

Article 21. Termination of the Agreement

The Agreement shall be terminated upon expiration of its term or earlier by consent of the parties, as well as on other grounds and under the procedure provided for by the Agreement in compliance with the Russian Federation Law applicable as of the date of the Agreement signing.

See the [Regulations on the Formation and Utilization of the Liquidation Fund in the Course of Implementation of Production Sharing Agreements approved by \[Decision of the Government of the Russian Federation No. 741 of July 8, 1999\]\(#\)](#)

Termination of the Agreement by consent of the parties shall become effective under the same procedure as the initial Agreement, except for tender procedure.

Article 22. Resolution of Disputes

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

Article 23. Immunity of the State

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

Chapter III. Final Provisions

Article 24. International Treaties of the Russian Federation

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

Article 25. Effective Date of this Federal Law

This Federal Law shall come into force from the [day of its official publication](#).

Article 26. Bringing Statutory Acts in Compliance with this Federal Law

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

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

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

President of the Russian Federation
Moscow, the Kremlin

Boris Yeltsin