



HYDROCARBONS LAW OF THE REPUBLIC OF EQUATORIAL GUINEA

Translation

Hydrocarbons Law No. 8/2006, of 3 November
of the Republic of Equatorial Guinea---

PRELIMINARY RECITALS.

The fundamental Law of the Republic of Equatorial Guinea consecrates and designates as the property of the people of Equatorial Guinea all resources found in our national territory, including the subsoil, continental shelf, islands, and the Exclusive Economic Zone of our seas. It is by the mandate and delegation of the people, to whom these resources legitimately belong, that the Government undertakes to manage them.

As a result of its efforts to seek new heights of greater wellbeing for the Republic of Equatorial Guinea, it has become a constant endeavor of the Nation's Government to ensure that our legal framework adapts in a transparent, orderly and responsible manner to each moment in the history of our country's socioeconomic life.

With reference to the Hydrocarbon sector, the Government, in its role as the promoter of the Nation's economic growth, enthusiastically embraces the economic surge and development that the Nation is experiencing, while continuing to focus on new horizons that will foster a more advantageous use of our national subsoil resources.

It was in this line of discourse that, following the previous stage in the management, handling and administration of our subsoil resources, in which attracting foreign investment formed the principal focus of our attention and in turn determined the alignment of the Government's objectives, the sole vision of which was to create and lay the foundation for a nascent economic framework for the industry, with a view toward its subsequent growth and consolidation, as the current reality reflects.

Against this backdrop, the Government has confirmed that with the passage of time new horizons have emerged, along with new goals to be met and achievements to be realized. It therefore becomes necessary to redirect our legal framework in a way that adequately provides the necessary coverage for certain aspects or elements within the Hydrocarbon sector that were nonexistent or whose regulation did not adequately meet the needs of the Government.

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In consideration of the above, the Government has proposed to stimulate the economic framework for the management and use of Hydrocarbons by incorporating into the law several components that are of vital importance to the legal, technical and commercial aspects of the Hydrocarbon sector. These include the monetization of gaseous Hydrocarbons, an increase in State participation, development of the petrochemical sector and a focus on local content, which encompasses elements or factors to propel the national economy and to promote the improvement in technical capacity among Equatoguineans, thus optimizing the benefits that arise from developing activity within Equatorial Guinea's Hydrocarbon sector.

In light of the above, the Government, conscious of its responsibility as guardian of the public welfare and therefore mindful both of the finite and non-renewable nature of our subsoil resources as well as the need to bring about a greater equilibrium and profitability of resources in collaboration with foreign or domestic companies, and investors in general.

Therefore, acting on a proposal by the Government which was duly approved by the House of the People's Representatives in its ordinary session of September _____ through _____ of the current year, and by virtue of the authority conferred upon me by the Fundamental Law, I hereby sanction the following.

HYDROCARBONS LAW FOR THE REPUBLIC OF EQUATORIAL GUINEA

CHAPTER I

FUNDAMENTAL AND GENERAL PROVISIONS

Article 1. All Hydrocarbon reservoirs that exist in the surface and subsoil areas of Equatorial Guinea, including its inland waters, territorial waters, exclusive economic zone and Continental Shelf are the exclusive property of the State and therefore public domain goods.

Article 2. This Law sets forth the access rules for the execution of Petroleum Operations in the Republic of Equatorial Guinea.

Article 3. All activities related to Petroleum Operations in the Republic of Equatorial Guinea shall be governed by this Law.

Article 4. All Petroleum Operations are subject to the provisions set forth in this Law, as well as any Petroleum Regulations and any other applicable laws, regulations or decrees, issued or to be issued by the Government.

Article 5. All Petroleum Operations are to be conducted and executed in a manner compatible with the conservation and sanitation of the environment, Hydrocarbons and other resources of Equatorial Guinea. Contractors and their Associates are required to perform all Petroleum Operations in accordance with this Law, their respective Contracts, the Petroleum Regulations and any other applicable laws, decrees, resolutions, agreements and/or licenses to which they are bound. Petroleum Operations shall be conducted in a prudent manner using the best technical and scientific practices available in the petroleum industry and taking into account the safety of Persons and facilities, as well as the protection and sanitation of the environment and the conservation of nature.

Article 6. The State is the holder of all Hydrocarbon exploitation rights in Equatorial Guinea and has the right to perform Petroleum Operations in its own name, through its National Companies directly or through an association with a Contractor. Contractor's activities shall be authorized and regulated by the Ministry for and on behalf of the State.

Article 7. The extraction or production of substances other than Hydrocarbons is forbidden, except when such extraction or Production has been expressly authorized by the Ministry. The State reserves the right to authorize the prospecting and production of any substances other than Hydrocarbons. The execution of the activities arising from the rights referred to in this Article 7 shall not jeopardize or interfere with Petroleum Operations carried out in a Contract Area.

CHAPTER II

DEFINITIONS

Article 8. For the purposes of this Law, capitalized words and expressions used herein shall have the following meanings:

- a. **Contract Area** means the geographic area of the territory of Equatorial Guinea which is subject to a Contract, as further described and delineated in Exhibits A and B of such Contract.
- b. **Associate** means any subcontractor, affiliate, subsidiary or other Person associated with a Contractor in the conduct of Petroleum Operations.
- c. **Block** means an area designated as a block on a map with defined coordinates designated by the Ministry pursuant to this Law for the purposes of a Contract.
- d. **National Gas Company** means Sociedad Nacional de Gas de Guinea Ecuatorial (Sonagas), *Empresa Nacional de Gas*, which was established as the national gas company by Presidential Decree No. 45/2005 of January 24th and its amendments, or any other that may replace it.
- e. **National Oil Company** means Guinea Ecuatorial de Petroleos (GEPetrol), *Empresa Nacional de Petr6leos*, which was established as the national oil company by Presidential Decree No. 9/2001 of February 7th and its amendments, or any other that may replace it.
- f. **National Companies** means the National Gas Company and/or the National Oil Company, or any other State-owned company that operates in the Hydrocarbons industry, as the context may require, or any other that may replace them.
- g. **Contractor** means a Person with whom the State has entered into a Contract.
- h. **Contract** means any agreement between the State and a Contractor that authorizes the performance and regulates the conduct of Petroleum Operations.
- i. **Model Production Sharing Contract** means the model contract attached to the present law which shall be used as a basis for negotiations between the State and Persons who have expressed an interest in carrying out Petroleum Operations.
- j. **Development** means activities carried out pursuant to a Contract for a commercial discovery in order to achieve Production.

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- k. Appraisal** means the activities carried out, excluding tasks or operations in the hole of a discovery well, following the discovery of a Hydrocarbon deposit in accordance with a Contract and aimed at better defining the parameters of the reservoir in order to assess its commerciality, including without limitation:
1. drilling of appraisal wells;
 2. running supplementary analyses, and the acquisition, study and processing of geological and other data.
- l. Exploration** means the set of operations carried out onshore or offshore, through the use of geological, geochemical or geophysical methods, with a view to locating Hydrocarbon deposits, as well as the processing, analysis and interpretation of data so acquired as well as regional studies and mapping, in each case leading to an appraisal and better knowledge of the Hydrocarbon potential of a given area and the drilling and testing of wells that may lead to the discovery of Hydrocarbons.
- m. Natural Gas** means those Hydrocarbons that, at atmospheric conditions of temperature and pressure, are in a gaseous state including dry gas, wet gas and residual gas remaining after extraction, treatment, processing or separation of liquid Hydrocarbons from wet gas, as well as gas or gases produced in association with liquid or gaseous Hydrocarbons.
- n. Associated Natural Gas** means all Natural Gas produced from a reservoir the predominant content of which is Crude Oil and which is separated from Crude Oil in accordance with generally accepted international petroleum industry practice, including the free gas cap, but excluding any liquid Hydrocarbons extracted from such gas either by normal field separation, dehydration or in a gas processing plant.
- o. Unassociated Natural Gas** means all gaseous Hydrocarbons produced from gas reservoirs, including wet gas, dry gas and residual gas remaining after extraction of liquid Hydrocarbons from wet gas.
- p. Equatorial Guinea or State** means the country of this Law's jurisdiction and application.
- q. Hydrocarbons** means all natural organic substances composed of carbon and hydrogen.
- r. Environmental Law** means Law No. 7/2003 of November 27, 2003, that regulates the environment.
- s. Ministry** means the governmental department that is or may be responsible for Petroleum Operations in Equatorial Guinea.
- t. Petroleum Operations** means all operations related to the Exploration, Appraisal, Development, Production, transportation, distribution, storage,

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conservation, decommissioning, refining, commercialization, sale or other disposition of Hydrocarbons and all related activities in the area described in Article 1.

- u. **Operator** means the Person responsible for carrying out Petroleum Operations in a Contract Area.
- v. **Person** includes any individual or legal entity, consortium, joint venture, partnership, trust, heir, unincorporated organization or government or any agency or local entity.
- w. **Crude Oil** means Hydrocarbons which are produced at the wellhead in a liquid state at atmospheric pressure including asphalt and ozokerites (fossil waxes), and the liquid Hydrocarbons known as condensate and/or Natural Gas liquids obtained from Natural Gas by condensation or extraction through field separation units.
- x. **Continental Shelf** means the seabed and subsoil of the submarine zones adjacent to the national territory of Equatorial Guinea, up to the limits set forth in the laws of Equatorial Guinea and in international conventions to which Equatorial Guinea is a party.
- y. **Production** means the activities involved in the extraction of Hydrocarbons, including without limitation, planning, scheduling, controlling, measuring, testing, gathering, treatment, transportation, storing and dispatching of hydrocarbons from the underlying reservoir to the designated exporting or lifting locations and furthermore, the decommissioning of wells, facilities, pipelines and Hydrocarbon deposits and related activities.
- z. **Royalty** means the State's entitlement to Hydrocarbons produced and saved from a Contract Area and not utilized in Petroleum Operations, based on percentages calculated as a function of daily production rates as determined in accordance with Article 58 of this Law and the applicable Contract.
- aa. **Petroleum Regulations** means all regulations issued by the State pursuant to and in accordance with this Law.

CHAPTER III

COMPETENCIES AND MONITORING OF PETROLEUM OPERATIONS

Article 9. Notwithstanding the areas of responsibility assigned to the Ministry by the Law of the Legal Regime for the Central Administration of the State and its organic and functional regulations, the Ministry shall be the state entity responsible for the formulation, regulation and monitoring of Petroleum Operation policies, as well as the administration, planning, implementation, supervision, inspection, auditing and

*This translation has no legal force or effect in Equatorial Guinea and should not be relied upon to determine the content of the laws of Equatorial Guinea. Only the official Spanish version of the Hydrocarbons Law published by the Government has the force of law.

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enforcement of all Petroleum Operations and all activities relating thereto. The Ministry shall be the competent body in all areas relating to Hydrocarbon management and Petroleum Operations.

Likewise, the Ministry is also responsible for negotiating, signing and executing all Contracts entered into between the State and Contractors, as well as for amending the terms of any Contracts to ensure that Petroleum Operations are carried out for the benefit of the State.

Article 10. For the purposes of enabling the Ministry to fulfill its supervisory role, all Contractors and their Associates shall provide the Ministry with all data and information which the Ministry deems necessary for the effective technical, economic and administrative control of the Contractors and their Associates and of their activities. In addition, the Ministry and its representatives shall have free access to the locations and facilities where Petroleum Operations are carried out, in order for the Ministry to perform its duties of inspection, supervision and verification of Petroleum Operations.

Article 11. Contractors and their Associates shall cooperate with the Ministry in the exercise of its powers of supervision.

Article 12. If the Ministry determines that a given Petroleum Operation may cause injury to or death of persons, or damage to property, or harm to the environment, or whenever reasons of national interest so require, the Ministry, after consultation with the affected Contractor, may:

- a. order Petroleum Operations to be suspended;
- b. order the evacuation of Persons from locations deemed dangerous, in coordination with the jurisdiction's authorities;
- c. order the suspension of the use of any machine or equipment; and/or
- d. take any other action it deems necessary or appropriate.

CHAPTER IV

AWARD OF CONTRACTS

Article 13. For the award of Contracts, this Law hereby establishes a competitive international public tender system that ensures concurrence and competition between potential Contractors or in reserved areas of the State, Contracts shall be awarded directly.

Contracts entered into between Contractors and the State shall be based on the Model Production Sharing Contract attached to this Law and will be an integral part of the

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same. With respect to reserved areas of the State, a direct contracting system through the execution other types of Contracts is adopted.

Article 14. The Ministry shall only enter into Contracts with Persons having suitable technical and financial capability, as well as proven experience in the oil and gas industry.

Article 15. The Ministry may award Contracts to Persons by means of competitive international public tender in accordance with the rules to be established by the Ministry, or by means of direct negotiation, and shall obtain, to the extent possible, the most favorable terms possible for Equatorial Guinea.

Article 16. Each Contract shall come into force only after it has been ratified by the President of Equatorial Guinea and on the date of delivery to the Contractor of a written notice of said ratification.

Article 17. Applications for Contracts must be submitted to the Ministry, accompanied by documentation showing the technical and financial capability and experience of the applicant, and such other information as may be required by the Ministry.

Article 18. The State may assume any risk inherent in Exploration activities in a Contract Area only through direct participation or through the participation of a National Company in a Contract.

Article 19. The national territory which is suitable for being explored and developed shall be divided into Blocks by the Ministry. Contract Areas shall be limited to TWO THOUSAND SIX HUNDRED FIFTY (2650) square kilometers. Notwithstanding the foregoing, the Ministry has the right to increase or decrease any Contract Area to be awarded to a Contractor.

Article 20. Contractors and the Associates of Contractors designated by the Ministry, who are not Equatoguinean Persons must establish a representative branch in Equatorial Guinea within six (6) months of the entry into force of their Contract or, in the case of such Associates, such other applicable agreements or licenses to which they are bound, and must establish and maintain a bank account in Equatorial Guinea with a minimum balance sufficient for guaranteeing their obligations. Regarding the CONTRACTOR'S Associates, a bank guarantee approved by the Ministry which shall be submitted at the time of registering with the Ministry. Contractors producing Hydrocarbons from a Contract Area must construct their own building in which their Equatoguinean headquarters will be located.

Article 21. Contractors shall be responsible for the activities of their Associates.

Article 22. Where more than one Person makes up the Contractor, the joint operating agreement or other joint venture agreement between such Persons shall be submitted to the Ministry for its review and approval, and one of the Persons making up the Contractor shall be designated as the Operator pursuant to Chapter VIII (Operator).

CHAPTER V

OVERLAPPING AND CONFLICT OF RIGHTS

Article 23. The granting of rights for the exercise of Petroleum Operations is not, in principle, incompatible with the prior or subsequent granting of rights for the exercise of other activities relating to other natural resources for the same area.

Article 24. In the event that the exercise of the rights referred to in Article 23 is incompatible with the conduct of petroleum activities, the Ministry shall decide which of the rights shall prevail and under what terms, without prejudice to any compensation which may be due to the holders of the rights thereby overridden pursuant to Chapter XXI.

CHAPTER VI

PETROLEUM OPERATIONS

Article 25. Activities comprising Petroleum Operations are divided into two (2) phases:

- a. the exploration period, comprising the Exploration phase and the Appraisal phase; and
- b. the production period, comprising the Development phase and the Production phase.

Article 26. The exploration period is divided into:

- a. an initial exploration period divided into two (2) sub-periods, the first and second exploration sub-period. The duration of the initial exploration period shall be between four (4) and five (5) years, as specified in the relevant Contract; and
- b. a maximum of two (2) extension periods which shall be for a term of one (1) year each.

The Ministry may, if it deems appropriate, amend the duration of the aforementioned periods in the Contract.

Article 27. The Exploration, Appraisal, Development and Production phases shall be further defined in each Contract.

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Article 28. Contracts shall establish the obligation of the Contractor to relinquish part or parts of the Contract Area, in the manner, to the extent and at such time as is stipulated in the Contract.

Article 29. Contractors and their Associates authorized to carry out Petroleum Operations shall be entitled to request the temporary occupation or expropriation of land, as the case may be, as well as the establishment of rights of way in favor of the activity. Any temporary occupation or expropriation of land or rights of way shall be effectuated pursuant to all applicable laws and existing rights and shall be limited to the land or area necessary to carry out Petroleum Operations. Contractors shall pay compensation to those Persons who have had any property occupied or expropriated. The amount of compensation shall be determined in accordance with the Forceful Expropriation Law in force at the time of occupation or expropriation.

Article 30. Subject to Article 45, the Ministry may authorize the laying of pipelines, gas transmission lines, facilities and other equipment through another Contract Area, provided that this does not unreasonably hinder Petroleum Operations of the latter and after consulting with the relevant Contractor.

Article 31. The land and permanent works, including the facilities, accessories and equipment which are an integral part of them and any other assets acquired for the performance of Petroleum Operations under a Contract, whatever their nature or ownership, shall be maintained in good condition by the Contractor.

Article 32. All facilities, materials, equipment and all other assets used in Petroleum Operations shall be transferred to the ownership of the State after the Contractor has recovered all costs in respect of such asset or upon expiration of the applicable Contract, whichever occurs first, at no cost, in good operating condition and free of all liens and other encumbrances. If the Ministry so decides, the Ministry may require the Contractor to dispose of any such facilities, materials, equipment and assets and such disposal shall be carried out so as to protect and preserve the environment. The Ministry shall authorize the Contractor to continue using those permanent facilities and equipment that continue to prove useful in carrying out Petroleum Operations.

The Contractor shall maintain a detailed inventory of all such facilities, materials, equipment and assets and shall provide an updated copy of such inventory to the Ministry periodically at intervals to be established by the Ministry.

Article 33. Contractors shall meter and record all Hydrocarbons extracted and recovered on a daily basis, using for such purpose methods and instruments certified under the legal standards in force, in strict compliance with the rules of good technical standards and the practice in the international petroleum industry. Contractors shall inform the Ministry of the volumes produced in each Development area at the times and in the manner set forth in the Contract.

CHAPTER VII

WORK PROGRAM AND OPERATIONS BUDGET

Article 34. Each Contractor shall submit an annual work program and operations budget to the Ministry for its review and approval in accordance with the terms and conditions of its Contract. The deadline for submittal of such annual work program and operations budget shall be set by the Ministry in each Contract.

Article 35. In the event a Contractor should incur cost overruns in excess of five percent (5%) of the approved budget without prior authorization by the Ministry, such Contractor shall be sanctioned in accordance with the provisions set forth in Chapter XXV (Infractions and Penalties). Such cost overruns shall not be considered Petroleum Operation costs and shall consequently not be recoverable by the Contractor nor deductible for tax purposes. Prior to incurring cost overruns greater than five percent (5%) of the approved budget a Contractor must present a written report justifying the necessity of such cost overruns.

Article 36. If a Contract allows a Contractor to finance Petroleum Operations with loans from a third party or from one of its Associates and/or Affiliates, the interest rate for such loans shall not exceed the lowest market rates available for commercial loans, and such loans and the terms of those loans must be approved by the Ministry prior to being finalized. Regardless of any disposition to the contrary, the interests paid on loans from Associates and/or affiliates will be subject to Equatorial Guinea's tax laws irrespective of the location where the loan was finalized and the location where the interests will be paid.

CHAPTER VIII

OPERATOR

Article 37. Each Contract Area shall have a designated Operator of recognized experience, capacity, technical and financial capability and knowledge, and that shall be subject to the approval of the Ministry.

Article 38. The Operator shall be subject to all legislation in force and shall strictly comply with the provisions of this Law, all Petroleum Regulations and the applicable Contract.

Article 39. Any change of an Operator shall be subject to the prior approval of the Ministry on the proposal of the Contractor.

Article 40. The Operator is required to seek and receive the approval of the Ministry prior to entering into any contracts or subcontracts in connection with Petroleum Operations.

CHAPTER IX

**REFINING, STORAGE, COMMERCIALIZATION AND
TRANSPORTATION ACTIVITIES**

Article 41. All activities related to the distillation, purification and transformation of Hydrocarbons, performed for the purposes of adding value and the commercialization of the products obtained, constitute refining and commercialization activities, which may be performed by the State and other Persons, either jointly or individually, pursuant to the provisions set forth in this Chapter IX.

Article 42. All refineries shall adhere to a national plan for their installation and operation and shall be linked with specific projects approved in advance by the Ministry.

Article 43. All Persons wishing to perform Hydrocarbon refining and commercialization activities must obtain a license from the Ministry, which shall contain the following minimum requirements:

- a. identification of the Persons and their representatives;
- b. description of the project indicating the applicable technology and the destination of the products, as well as the economic resources to be employed in the project;
- c. duration of the applicable company or project, which shall not exceed twenty-five (25) years, renewable for a term to be agreed on, which shall not exceed ten (10) years, provided that the project requirements have been complied with; and
- d. an indication of the special advantages offered to the State.

Article 44. The right to store, transport and otherwise distribute all refined products is reserved for the State. Any activities related to the storage, transportation and other distribution of Hydrocarbons shall be regulated by Petroleum Regulations. An authorization shall be required from the Ministry in order to obtain the corresponding permit to perform such activities.

Article 45. The construction and operating of pipelines and transmissions through piping relating to Petroleum Operations may only be undertaken by the State or a National Company, unless otherwise stated by the Ministry.

Article 46. All Persons engaged in the refining and commercialization activities set forth in this Chapter IX must register with the Ministry and even if such Persons are not a Contractor or an Associate of a Contractor, they shall nonetheless be subject to the provisions of this Law, as if they were such a Contractor or an Associate.

Article 47. The distribution and sale of Natural Gas in the domestic market of Equatorial Guinea shall be the sole and exclusive responsibility of the National Gas

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Company, which may operate in partnership with other Persons, giving preference to the Contractor that discovered the Natural Gas to be distributed and sold.

Article 48. The selling price of Hydrocarbon products other than Natural Gas in the domestic market shall be established by the Government by taking into account the price of the Crude Oil from which said products originate, refining costs, storage and transportation costs, as well as the profit margins in force for each activity. This cost must also include the depreciation of any investment made.

Article 49. The selling price of Natural Gas in the domestic market shall be established by the Government taking into account the cost of gas production, the cost of facilities designated specifically to meet domestic demand and any operating costs related with the facilities and maintenance of the gas to be sold, as well as the profit margins in force for each activity. This cost must also include the depreciation of any investment made.

CHAPTER X

FACILITIES USE

Article 50. The Ministry may determine that in a given Contract Area the facilities and other equipment of another Contract Area may be used, if such use contributes to more efficient and economic management of existing resources and provided that this does not materially reduce production levels or disrupt the satisfactory progress of Petroleum Operations in the Contract Area to which such facilities and equipment were originally allocated.

Article 51. Any decision taken by the Ministry in accordance with Article 50 shall be taken after consultation with the Contractor in each of the Contract Areas involved.

Article 52. The amount to be paid for use of the facilities and equipment referred to in Article 50 shall be agreed by the Contractors, and shall be submitted to the Ministry for its approval. If no such agreement is reached within a period of time which the Ministry deems adequate, the Ministry shall set the price for such use.

Article 53. In the event of an emergency as stated in Chapter XXI the Persons engaged in the storage, transportation or distribution of Hydrocarbons shall cooperate with the Ministry in order to allow the use of their facilities by the State.

CHAPTER XI

UNITIZATION

Article 54. When a Hydrocarbon reservoir lies under one or more Contract Areas, the Contractors of the affected Contract Areas must enter into a unitization agreement for

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the exploitation of such reservoir, which unitization agreement shall be subject to the approval of the Ministry. If no agreement is reached within a period of time which the Ministry deems adequate, the Ministry shall establish the conditions governing the production of such Hydrocarbon reservoir.

Article 55. In the event that a reservoir shall extend from areas covered by a Contract into areas not authorized for Production, the Ministry shall adopt measures necessary to protect the rights and interests of the State in the exploitation of such reservoir.

Article 56. In the event that a Hydrocarbon reservoir lies across national boundaries into Areas that are part of the domain of neighboring countries, any agreements leading to the exploitation of such reservoir shall require the prior approval of the Government and ratification by the President of Equatorial Guinea. The Government may adopt measures necessary to protect the interests of Equatorial Guinea, including without limitation, revoking the right to produce the Hydrocarbon reservoir in question.

CHAPTER XII

TAX AND ROYALTY

Article 57. Notwithstanding the other taxation laws of Equatorial Guinea, Contractors and their Associates shall be liable for the following taxes, without limitation:

- a. royalties, to be paid in the manner stipulated in Articles 58, 59 and 60 and the terms of the applicable Contract;
- b. surface rentals, to be paid annually and in the amounts stipulated in the applicable Contract;
- c. personal income tax in the amount stipulated under the applicable tax law;
- d. corporate tax in the amount established in the applicable tax law;
- e. customs duties and any other similar taxes stipulated under the applicable tax law and subject to Chapter XIII; and
- f. any windfall tax that may be imposed by the State.

Article 58. Contractors shall pay a Royalty to the State in the amount set forth in their Contract. Contracts shall provide for increasing levels of Royalty based on daily production rates with a minimum Royalty of 13%. The volume of Hydrocarbons constituting the Royalty shall be calculated directly by applying the percentage specified in the Contract for a given level of daily production to the total amount of Hydrocarbons produced and saved as from the date the relevant level of daily production is reached.

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Article 59. The Royalty may be requested by the State, through the Ministry, in kind or in cash, fully or partially. Unless otherwise requested, it shall be understood that the Ministry has chosen to receive Royalties in full and in cash. The Royalty shall be paid monthly or more frequently as provided for in the applicable Contract.

Article 60. When the State, through the Ministry, elects to receive the Royalty in cash, the Contractor shall pay the market price as determined under the applicable Contract.

Article 61. Contractors and their Associates shall pay income taxes as provided by the applicable laws of Equatorial Guinea and any other tax, levy or charge not expressly included in its Contract or this Law.

Article 62. Contractors shall pay all bonuses and surface rental fees payable to the State under the terms of its respective Contracts.

CHAPTER XIII

CUSTOMS, IMPORTATION AND EXPORTATION

Article 63. Regarding the importation and exportation of materials and equipment directly related to Petroleum Operations, the Contractor shall be subject to the customs regulations of the Republic of Equatorial Guinea and of the CEMAC area.

During the term of the Contract, if stipulated therein, Contractors and its Associates may import, free of import duties, the materials and equipment to be used directly and necessarily in Petroleum Operations, and which are not available in Equatorial Guinea, after having submitted to the Ministry a master list of such materials and equipment to be imported, in accordance with the Foreign Capital Investment Law.

Article 64. The materials and equipment denoted in Article 63 above and imported under the temporary import regime may be exported from Equatorial Guinea free of all export duties, provided that the ownership of such materials and equipment has not been transferred to the State pursuant to Article 32.

CHAPTER XIV

ENVIRONMENTAL PROTECTION AND SANITATION, HEALTH AND SAFETY

Article 65. In carrying out their activities, Contractors and their Associates shall take all precautions necessary to protect the environment, in order to preserve the same, namely in respect of health, water, soil and subsoil, air, the preservation of

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biodiversity, flora and fauna, ecosystems, landscape, atmosphere and cultural, archeological and artistic heritage.

Article 66. For the purposes of Article 65, Contractors and their Associates shall submit to the Ministry, within the time frames established by the Ministry, the plans required by the Environmental law and the terms of their Contract, specifying the practical measures which should be taken in order to prevent harm to the environment, including environmental impact assessment studies and audits, plans for ecosystem and structural rehabilitation and permanent management and environmental auditing plans. Such documentation shall later be submitted to the relevant Department for its examination and approval.

Article 67. Contractors and their Associates shall indemnify the State and/or other Persons which are harmed as a result of noncompliance with environmental regulations in carrying out Petroleum Operations.

Article 68. The Ministry, after consultation with other relevant bodies, shall establish the limits and the regime of the safety zone adjacent to the site of the equipment and facilities, whether permanent or temporary, used in the Petroleum Operations.

Article 69. Petroleum Operations shall be carried out in accordance with applicable laws and regulations and the generally accepted environmental, safety, hygiene, and health practices in the international oil industry.

Article 70. For purposes of Article 69, Contractors and their Associates shall submit to the Ministry all plans required by applicable law and the terms of their Contract.

CHAPTER XV

LIABILITY

Article 71. The Contractor shall hold the State harmless from and indemnify the State for, any losses and damages of any type, including without limitation, losses and damage to property or compensation payable to Persons for death or accident caused by a Contractor or its Associates or by any entity or Person representing them or acting under their responsibility.

CHAPTER XVI

NATURAL GAS

Article 72. All Associated Natural Gas that is produced and not utilized in Petroleum Operations is the property of the State. The Development and Production of all Natural Gas must be carried out in partnership with the National Gas Company.

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Article 73. If a Contractor discovers any Unassociated Natural Gas in a Contract Area and elects not to develop such discovery in accordance with the terms of its Contract, the right to develop such discovery shall automatically transfer to the State, without compensation. The National Gas Company shall have the right to undertake the Development and Production of such reservoir. The Contractor shall have no further rights to the Natural Gas produced from such discovery, excepting the Natural Gas utilized for Petroleum Operations within the Contract Area, and for which the Contractor shall construct the facilities necessary for the exploitation of the Natural Gas reservoir by the National Gas Company, including, among others, facilities for the separation of Associated Natural Gas from liquid Hydrocarbons. If the Contractor does elect to develop any Natural Gas discovery, it must do so in partnership with the National Gas Company on the terms as shall be agreed between the Ministry and the Contractor.

Article 74. Any expense incurred by a Contractor for the purpose of facilitating the Development and Production of a Natural Gas discovery in accordance with Article 73, shall be considered a Petroleum Operation cost and shall be recoverable by the Contractor in accordance with the accounting principles set forth in its Contract.

Article 75. The National Gas Company shall have the first right of refusal to buy all Natural Gas produced from a Contract Area and the Natural Gas processed in Equatorial Guinea by a Contractor or its Associate for prices established as follows: 1) for the gas sold for domestic consumption pursuant to Article 86; 2) for the gas sold for consumption outside the domestic market, pursuant to the applicable Contract.

Article 76. The Contractor and/or its Associates are strictly prohibited from flaring any quantity of Natural Gas in carrying out Petroleum Operations. Notwithstanding the foregoing, the Ministry may authorize the flaring of minimum quantities of Natural Gas, as requested by the Contractor in a written report that includes the technical, economic, financial and/or environmental reasons, etc. that, in the opinion of the Contractor, unavoidably result in such flaring. In this case, the Ministry shall have sole discretion to authorize flaring, with or without compensation by the Contractor and/or its Associates.

CHAPTER XVII

NATIONAL COMPANIES

Article 77. The National Companies are wholly-owned by the State and supervised by the Ministry.

Article 78. The National Companies created pursuant to previous regulations, as well as those that may be created in the future, shall from now on be governed by this Law, the Petroleum Regulations and other applicable laws, regulations or decrees issued by competent organs.

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Article 79. The Ministry of Mines, Industry and Energy shall exercise control over the National Companies and their subsidiaries, carry out technical, financial and economic oversight and inspection, and establish the policies which must be complied with regarding the matters referred to in this Law. The National Companies must submit to the Ministry quarterly reports on their technical and economic activities, including details on their short, mid and long term plans.

Article 80. The State, through the Ministry, may transfer to the National Companies any rights required by them to carry out their assigned activities and duties in accordance with their corporate purpose.

CHAPTER XVIII

STATE ENTITLEMENT AND PARTICIPATION

Article 81. In addition to Royalties, the State is entitled to a percentage of all Hydrocarbons won and saved from a Contract Area based on the terms agreed in each Contract and after deduction of Royalties and investment recovery oil.

Article 82. Subject to Article 18, the State is entitled to invest or participate in any Contract Area, the terms of which shall be negotiated between the Ministry and each Contractor and clearly set forth in all contracts. When the State invests or participates in a Contract Area its right to a share of Hydrocarbons in respect of such investment or participation is in addition to its right to receive Royalties and a percentage of Hydrocarbons as provided for under Article 81.

Article 83. The investment or participation of the State in any Contract Area shall be effectuated directly or through the National Oil Company or the National Gas Company, as appropriate, and shall be by way of a carried or paid interest, as determined by the Ministry, of not less than twenty percent (20%) as set forth in the relevant Contract, unless otherwise agreed by the Government.

Article 84. At the sole option of the State, the carried interests of the State, the National Gas Company or the National Oil Company may be converted to a paid interest at any time.

Article 85. In respect of any carried interest of the State or a National Company, no exploration costs whatsoever shall be payable by the State or such National Company, which shall only be liable for the payment of Petroleum Operation costs generated from the date on which the State notifies the Contractor in writing of its intention to convert its carried interest to a paid interest pursuant to Article 84. All interest paid or payable by a Contractor in respect of a carried interest of the State or a National Company shall not be cost recoverable by such Contractor.

CHAPTER XIX

DOMESTIC CONSUMPTION REQUIREMENTS

Article 86. All Contractors are obliged to sell and transfer to the State, upon written request of the Ministry, any amounts of Hydrocarbons of a Contract Area and any amounts of Natural Gas processed in Equatorial Guinea by a Contractor or its Associate that the State shall deem necessary to meet domestic consumption requirements. The sales price of Crude Oil shall be established pursuant to the applicable Contract. The sales price of Natural Gas shall be established pursuant to the guidelines established in Article 49.

Article 87. The amount of Hydrocarbons to be supplied by a Contractor for the purpose of meeting domestic consumption requirements shall be calculated by multiplying the amount of Hydrocarbons available to a Contractor after subtracting Royalties and Hydrocarbons designated for cost recovery over any applicable period of time by a fraction, the numerator of which shall be the domestic consumption for such period of time, less the amount of Hydrocarbons delivered to the State by all Contractors, and the denominator of which shall be the amount of Hydrocarbons available to all Contractors after subtracting Royalties and Hydrocarbons designated for cost recovery during such period of time.

CHAPTER XX

LOCAL CONTENT

Article 88. The State, and the Contractors shall contribute to the study, design, construction, equipment, operation and maintenance of the Hydrocarbon Technological Institute of Equatorial Guinea and the creation of training centers for Persons from Equatorial Guinea working in Petroleum Operations or operations related thereto, regardless of their promotion, support and development of other training centers with similar purposes in existence in Equatorial Guinea.

Article 89. The Ministry shall adopt measures to guarantee, promote and encourage investment in the Hydrocarbon sector by Equatoguinean companies and shall create the conditions necessary for such purpose. As such, Contractors and their Associates will comply with the measures adopted by the Ministry regarding the involvement of the National Companies in Hydrocarbons sector projects.

Article 90. Contractors and their Associates shall cooperate with the Ministry to carry out public benefit activities in order to promote the socio-economic development of Equatorial Guinea.

Article 91. The Government shall adopt measures aimed at the creation of national capital to encourage the participation of Persons of Equatoguinean origin to take part

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in Petroleum Operations. For that purpose, Contractors and their Associates must give preference to the use of goods, services, human resources and capital of Equatoguinean origin.

Article 92. Contractors shall train and integrate national personnel into all levels of their organizations in accordance with this Law and the terms of their Contracts. In addition to the above, each Contractor will likewise contribute to the training of Ministry personnel. To that end, the Contractor shall annually provide the Ministry with a sum in United States Dollars during the Exploration and Production periods. This amount shall be determined by the Ministry in accordance with its prudent judgment, by means of a resolution stating the grounds for such decision, and taking into account factors such as the phase, whether Exploration or Production, in which the Contractor is involved, as well as the level of activity being developed by the Contractor within the country. These amounts shall be considered Petroleum Operations costs.

Article 93. Contractors shall cooperate with the Government to identify projects which promote the realization of public benefit activities of the broadest possible impact on the public welfare. Contractors shall carry out all projects designated by the Government and shall submit a proposal for approval by the Ministry prior to undertaking any project not designated by the Government. To that end, during both the Exploration and Production periods, the Contractor shall annually provide the Ministry with an amount in United States Dollars. This amount shall be determined by the Ministry in accordance with its prudent judgment, by means of a resolution stating the grounds for such decision, and taking into account factors such as the phase, whether Exploration or Production, in which the Contractor is involved, as well as the level of activity being developed by the Contractor within the country. These amounts shall not be considered Petroleum Operations costs.

CHAPTER XXI

EMERGENCY SITUATIONS

Article 94. In the event of a national emergency, such as armed conflict, natural disaster or the imminent expectation of the same, the State may requisition, for so long as the state of emergency lasts, all or part of the Hydrocarbon production from any Contract Area, with the exception of the portion necessary for operational consumption, and require the Contractor and its Associates to increase production to the technically viable maximum limit. Under such circumstances, the State may also requisition the facilities of any Petroleum Operations.

Article 95. Any requisition shall be effected by order of the State by means of a Presidential Decree.

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Article 96. In the event of a requisition pursuant to Article 94, the State shall compensate the Contractor for the following for the period during which the requisition is maintained:

- a. the losses and damages directly caused by the requisition; and
- b. the requisitioned Hydrocarbon production to which the Contractor was entitled during the requisition period.

Article 97. The value of losses and damages caused by acts of war carried out by enemy forces or other force majeure acts shall not be included in the compensation referred to in Article 96.

Article 98. The value of Hydrocarbons requisitioned by the State shall be calculated in accordance with the rules for determining market value under the applicable Contract and shall be paid by the State within a time period to be agreed upon by the State and each affected Contractor following the conclusion of the requisition period.

CHAPTER XXII

TERMINATION OF CONTRACTS

Article 99. The State may terminate any Contract, in whole or in part, for public interest reasons, against payment of fair compensation, which shall be negotiated between the State and the Contractor. Should no agreement be reached, the amount of compensation shall be determined by arbitration conducted in accordance with the principles established in the relevant Contract.

Article 100. Contracts may be revoked by the Ministry, on behalf of the State, without any compensation for the Contractor:

- a. if the causes of termination or revocation set forth in the Contract occur;
- b. in the event of material noncompliance with the provisions set forth in this Law, the Petroleum Regulations or other applicable laws or regulations pertaining to Petroleum Operations;
- c. if the Contractor also engages in illegal activities or those that are not authorized by the laws of Equatorial Guinea; or
- d. if the Contractor declares bankruptcy, is liquidated or proves to be insolvent.

CHAPTER XXIII

DATA OWNERSHIP

Article 101. All data and information acquired in the course of Petroleum Operations are the sole property of the State, notwithstanding the rights of the Contractor to use such data and information for the duration of their Contract. Any unauthorized or improper transfer or disclosure of the same shall be subject to sanctions.

CHAPTER XXIV

ASSIGNMENT

Article 102. The assignment, transfer, or other disposition of the rights granted by any Contract shall require prior written authorization from the Ministry. Requests for such authorization shall be accompanied by all information related to the assignment, transfer, or other disposition including without limitation all legal instruments, the final draft, used to carry out the proposed transaction, the identity of all parties to the transaction, the form of the transaction, the estimated value of the transaction and whether payable in kind, securities, cash or otherwise. Such assignment, transfer, or other disposition shall be subject to the payment of a non-recoverable, non-deductible fee and other requirements that shall be established in the authorization issued by the Ministry. The Contractor and any third party assignee or beneficiary shall be jointly and severally liable for the payment of such fee and the fulfillment of any other requirements. Notwithstanding the foregoing, the Ministry, at its sole discretion, may exempt an affected party from the payment of such fee and other requirements.

Article 103. For the purposes of this Law, the transfer of ownership of more than fifty percent (50%) of the shares in the capital of any Person making up a Contractor, that affects the ownership of the rights under the relevant Contract, shall be deemed to be an assignment of contractual rights under a Contract and consequently subject to the terms and conditions set forth in articles 102, 104 and 105. However, the acquisition of the parent company of a Contractor by another Person, or the merger of the parent company with another Person shall not be subject to the conditions set out in the above-mentioned Articles.

Article 104. When any assignment, transfer or other disposition of rights under a Contract is anticipated, the assigning Contractor must notify the National Petroleum Company or the National Gas Company, as appropriate, in writing as soon as practicable. The notified National Company shall then have the preferential right to purchase the assigning Contractor's interest under the Contract and that was proposed to be assigned, transferred or otherwise disposed of on the same terms and conditions as those offered to a bona-fide third-party assignee. This right shall exist in addition to any rights of preemption granted to a National Company under the terms of a joint venture or other agreement.

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Article 105. Any purported assignment, transfer or other disposition for which the fee and other requirements referred to in Article 102 has not been paid, unless exempted by the Ministry, or that has not been effected in accordance with this Chapter XXIV shall be null and void.

Article 106. When a Contractor or its Associates resort to third party funding which involves the assignment of rights over its entitlement to Hydrocarbons under the terms of a Contract or other agreement with the State, it shall notify the Ministry immediately of any and all terms of such financing. The rights of the State to any Hydrocarbons in accordance with this Law and/or a Contract, including national consumption requirements, shall prevail over the rights of any Person who provides funding to a Contractor or their Associates and must be satisfied prior to any claim made by such Person.

Article 107. All profits resulting from any assignment, transfer or other disposition of rights under a Contract, regardless of the beneficiary, type or location of the transaction, shall be subject to taxes in accordance with the laws of Equatorial Guinea.

CHAPTER XXV

INFRACTIONS AND PENALTIES

Article 108. Noncompliance by a Contractor or their Associates of the provisions of this Law, the Petroleum Regulations, their Contract or other applicable laws or regulations pertaining to Petroleum Operations which is not a consequence of force majeure pursuant to the corresponding Contract, may be sanctioned with the imposition of a fine. Infractions subject to penalties shall include, without limitation:

- a. carrying out Petroleum Operations without having submitted and obtained approval of the respective work plans and budgets;
- b. incurring costs overruns in excess of five percent (5%) of a budget which have not been previously approved by the Ministry;
- c. failure to deliver information gathered in the course of Petroleum Operations and/or other data available when requested by the relevant state body or as required under the applicable Contract;
- d. breach of any duty of confidentiality;
- e. failure to provide a bank guarantee or a guarantee from the parent company within the specified time frame, if applicable;
- f. failure to deliver within the specified timeframe, annual work programs and budgets, development plans and decommissioning plans

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for a production or injection well, as well as plans for the permanent abandonment of any field;

- g. failure to commence Production within the specified time-frame;
- h. exceeding the maximum production level as agreed to and approved by the Ministry;
- i. failure to comply with environmental or health and safety legislation;
- j. flaring without the prior authorization of the Ministry.
- k. the unauthorized or improper transfer or disclosure of the information referenced in Article 101.

Article 109. The infractions provided for in the previous Article, shall be sanctioned with the following fines:

- 1. The infraction defined in paragraph a) shall be sanctioned with a fine equivalent to 50% of the cost of the plan carried out.
- 2. The infraction defined in paragraph b) shall be sanctioned with a fine equivalent to 50% of the amount of the cost overrun.
- 3. The infraction defined in paragraph c) shall be sanctioned with a fine ranging from FIFTY (50) to ONE HUNDRED (100) MILLION CFA Francs.
- 4. The infraction defined in paragraph d) shall be sanctioned with a fine ranging from THREE HUNDRED (300) to FIVE HUNDRED (500) MILLION CFA Francs.
- 5. The infraction defined in paragraph e) shall be sanctioned by the termination of the relevant Contract.
- 6. The infraction defined in paragraph f) shall be sanctioned with a fine ranging from FIFTY (50) to ONE HUNDRED (100) MILLION CFA Francs.
- 7. The infraction defined in paragraph g) shall be sanctioned with a fine ranging from FIFTY (50) to ONE HUNDRED (100) MILLION CFA Francs.
- 8. The infraction defined in paragraph h) shall be sanctioned with a fine ranging from TWO HUNDRED (200) to FIVE HUNDRED (500) MILLION CFA Francs, as well as a refund to the State, in cash or in kind, of the volume of crude equal to the amount in excess of the

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maximum efficiency level during the period in which the infraction occurred.

9. The infraction defined in paragraph i) shall be sanctioned according to the regulations in effect regarding the Environmental Law, at the time the infraction is committed.
10. The infraction defined in paragraph j) shall be sanctioned with a fine ranging from TWO HUNDRED (200) to FIVE HUNDRED (500) MILLION CFA Francs.
11. The infraction defined in paragraph k) shall be sanctioned with a fine of THREE HUNDRED (300) MILLION CFA Francs.

The sanctions contained in this article shall be applied in addition to and notwithstanding other provisions of the laws of the Republic of Equatorial Guinea and/or applicable Contracts.

Article 110. The application and payment of fines shall not relieve the offender from its liability to perform the duties and obligations which gave rise to such fines. All penalties shall be applied notwithstanding the rights of the State under Chapter XXII (Termination of Contracts) or any civil, administrative or criminal proceedings that may be filed against the offender, as well as any measures which may be imposed by the Ministry in order to reinstate conditions to their original status prior to such infraction.

Article 111. The resolutions of the Ministry or other organs of equal or lower rank are subject to the administrative appeals procedures and challenges provided for in the law in force.

CHAPTER XXVI

ABANDONMENT PLAN

Article 112. The Contractor must prepare and deliver to the Ministry a plan for the abandonment of all wells, facilities and equipment, the rehabilitation of the landscape and the continuation of Petroleum Operations, if applicable, upon the earlier of (i) six (6) years prior to the estimated commencement of abandonment operations, (ii) the date on which fifty percent (50%) or more of the recoverable Hydrocarbons from a Development and Production area have been produced and (iii) one (1) year prior to the termination of the applicable Contract or the proposed date of the abandonment of any production area included therein. Such plan shall be subject to the prior approval of the Ministry. Said plan may be amended by the Contractor and the State from time to time to take account of further Petroleum Operations.

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Article 113. The abandonment plan referred to in Article 112 shall provide the Ministry with sufficient information in order for it to properly assess the future of the applicable Contract Area or part thereof from a technical, financial, safety and environmental standpoint and include details of the reserve fund to be established in accordance with Article 114.

Article 114. The Contractor must establish and contribute to a reserve fund to provide for all future abandonment costs. Such reserve fund must take the form of an escrow account to be opened in the name of the Contractor and the State with an international financial institution acceptable to each of them. The amount to be deposited by the Contractor, as well as the timing of such deposits, shall be established in the abandonment plan approved by the Ministry. After the completion of all abandonment operations in accordance with the approved abandonment plan, in the event that the reserve fund established is greater than the actual cost of abandonment liabilities, the account balance shall be distributed between the Contractor and the State, in the same proportion as the allocation of profit oil at the time of abandonment operations. In the event that such reserve fund shall be insufficient to cover such costs, the Contractor shall be liable for the remainder.

Article 115. Upon the abandonment of any Contract Area or part thereof, the Contractor shall proceed to properly decommission the well or wells in question and shall also take other measures to decommission facilities and other equipment and rehabilitate the landscape all in accordance with the approved abandonment plan, the applicable Contract, this Law and good oil field practice.

Article 116. Should the Contractor fail to deliver the abandonment plan referred to in Article 112 within the prescribed period or if such abandonment plan is not carried out within the timeframe provided for therein, the Ministry may take all measures it deems necessary to ensure that all abandonment operations are prepared and executed at the expense and risk of the Contractor.

Article 117. In accordance with the terms of the applicable Contract, the Ministry has the right to take over any Petroleum Operations proposed to be abandoned by a Contractor whereupon the reserve fund shall be transferred to the sole name of the State and the Contractor shall have no further liability in respect of abandonment operations in the applicable Contract Area. The Ministry is entitled to require the Contractor provide all services and facilities to the Ministry in respect of any Petroleum Operations taken over by the Ministry pursuant to this Article for a fee to be agreed.

CHAPTER XXVII

INTERPRETATION

Article 118. Notwithstanding to the jurisdiction of the courts of Equatorial Guinea the Ministry shall have authority to resolve all questions related to the interpretation of this Law and the Petroleum Regulations.

ADDITIONAL PROVISION

The Ministry is hereby authorized to issue any regulation and take any measure necessary for the strict enforcement of this Hydrocarbons Law.

TRANSITIONAL PROVISION

All Contractors shall be subject to this Hydrocarbons Law and the terms of any Contract to which they are a party. The Ministry may, at its discretion, require that any Contract that is valid on the date this Hydrocarbons Law comes into effect, be renegotiated for the purpose of adapting any terms and conditions of such Contract that are inconsistent with the Hydrocarbons Law and any Petroleum Regulation.

REVOCATORY PROVISION

Any legislation of equal or lesser rank to this Law which is inconsistent with the provisions set forth in this Hydrocarbons Law is hereby revoked, in particular, Law No. 7/1981 of 16 June pertaining to Hydrocarbons and Law No. 6/2000 of 20 March which modifies the former.

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FINAL PROVISION

This Law shall become effective on the date of its publication in the Official Government Gazette (*Boletín Oficial del Estado*).

Given in Malabo on this third day of November in the year two thousand and six.

FOR A BETTER GUINEA

OBIANG NGUEMA MBASOGO,
PRESIDENT OF THE REPUBLIC

RICARDO MANGUÉ OBAMA NFUBE
PRIME MINISTER, CHIEF OF STAFF

His Excellency, Minister of Mines Industry and Energy.-.-