



# **HYDROCARBON LAW OF THE REPUBLIC OF EQUATORIAL GUINEA**

**Law No. 8/2006, dated November 3, on Hydrocarbons of  
the Republic of Equatorial Guinea.**

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**STATEMENT OF REASONS.**

The Fundamental Law of the Republic of Equatorial Guinea establishes and defines the assets located in our national territory, including the subsoil, the continental shelf, islands, and the Exclusive Economic Zone of our seas, as the property of the people of the Republic of Equatorial Guinea, as their legitimate owner, by whose mandate and delegation the Government administers them.

It is a constant concern of the Government of the Nation, as a result of its management aimed at achieving ever greater levels of well-being for the benefit of the Republic of Equatorial Guinea, to ensure that in an orderly, transparent and responsible manner the legal system of the nation is adapted to each historical moment of the socioeconomic life of our Country.

As regards the hydrocarbon sector, as a driving force of the country's economic growth, the Government enthusiastically views the boom and development that the nation is experiencing, without prejudice to aiming for new horizons that result in greater use of the national resources of our subsoil.

It is in this line of discourse that, having overcome the previous stage in the management, handling and administration of said subsoil resources, in which the attraction of foreign investment was the main focus of attention and therefore marked the priority in the order or objective of the Government, with the sole vision of creating and cementing an incipient economic framework in the sector, with a view to its subsequent growth and consolidation, as confirmed by the current reality.

In light of the fact that, installed in the previous context, the Government has noted that new horizons or goals to achieve and achievements to attain have emerged over time, it is necessary to reorient the legal framework that provides the necessary coverage to certain factors or elements whose regulation was non-existent or did not provide until now the adequate response to the needs of the government in the Hydrocarbon Sector.

In light of the above, the Government has proposed to promote the economic framework for the management and use of Hydrocarbons,

through the inclusion in the law of several elements of vital importance, in the legal, technical-commercial context, such as gaseous hydrocarbons and their monetization, the increase in the State's participation in hydrocarbons, the articulation of the petrochemical sector, the national content that includes elements or factors that drive the national economy, the promotion of the technical capacities of the Equatorial Guineans themselves, and ultimately an optimal use and benefit, as a consequence of the activity that is developed in the hydrocarbon sector in Equatorial Guinea.

For all the above, the Government, aware of its responsibility as the manager of public affairs, and therefore convinced of the perishable and non-renewable nature of our subsoil resources, as well as the need to achieve greater balance and profitability in benefits, in conjunction with foreign or national companies, and investors in general.

Therefore, at the proposal of the Government and duly approved by the House of Representatives of the People, during its ordinary session in September of this year, and making use of the powers hereby sanction the \_\_\_\_\_ and prerogatives granted to me by the Fundamental Law, I following.

# **HYDROCARBON LAW OF THE REPUBLIC OF EQUATORIAL GUINEA**

## **CHAPTER I**

### **FUNDAMENTAL AND GENERAL PROVISIONS**

**Article 1.** All hydrocarbon deposits that exist in the surface and subsoil areas of Equatorial Guinea, including its internal waters, territorial waters, exclusive economic zone and continental shelf are the property of the State, and consequently are public domain assets.

**Article 2.** This Law establishes the rules of access to the exercise 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 established in this Law, the Petroleum Regulations and other laws, decrees or resolutions issued by the Government.

**Article 5.** All Petroleum Operations shall be directed and executed in a manner compatible with the protection and sanitation of the environment, and the conservation of Hydrocarbons and other resources of Equatorial Guinea. Contractors and their Associates shall carry out all Petroleum Operations in accordance with this Law, their respective Contracts, Petroleum Regulations, other applicable laws, decrees, resolutions, agreements and/or licenses. Petroleum Operations shall be carried out in a prudent manner using the best technical and scientific practices of the petroleum industry, 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 owner of all hydrocarbon exploitation rights in Equatorial Guinea and reserves the right to carry out Petroleum Operations directly through its National Companies or through association with a Contractor. The Contractor's activities will be authorized and regulated by the Ministry on behalf of the State.

**Article 7.** The extraction or production of substances other than hydrocarbons is prohibited, 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 substance other than Hydrocarbons. The execution of the activities

resulting from the rights mentioned in this Article will not compromise or interfere with Petroleum Operations carried out in a Contract Area.

## **CHAPTER II**

### **DEFINITIONS**

**Article 8.** For the purposes of this Act, the words and expressions defined in this Article shall have the following meanings whenever capitalized:

- a. Contract Area** means the geographical area of the territory of Equatorial Guinea that is the subject of a contract, as described and delimited in Annexes A and B to 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 the area determined as a block on a map according to the coordinates established by the Ministry under this Act for the purposes of a Contract.
- d. National Gas Company** means the National Gas Company of Equatorial Guinea (Sonagas), National Gas Company, which was created by Presidential Decree No. 45/2005 dated January 24, and its amendments, or another company that replaces it.
- e. Compañía Nacional de Petróleos** means Equatorial Guinea de Petróleos (GEPetrol), the National Petroleum Company, which was created by Presidential Decree No. 9/2001 dated February 7, and its amendments, or another company that replaces it.
- f. National Companies** means the National Gas Company and/or the National Oil Company, or any other State-owned company operating in the Hydrocarbons sector, as the context requires, or any other company replacing 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 authorizing and regulating the execution of Petroleum Operations.
- i. Model Production Participation Contract** means the model contract attached to this law that will be used as

basis for negotiations between the State and Persons who have expressed interest in carrying out Petroleum Operations.

j. Development means activities performed under a Contract for a commercial discovery to achieve Production thereof.

k. Evaluation means activities, other than tasks or operations in the hole of a discovery well, carried out after the discovery of a Hydrocarbon deposit under a Contract and aimed at determining the volume, parameters and commerciality of the reservoir, including but not limited to:

1. drilling of evaluation wells;

2. the conduct of supplementary analysis and the acquisition, study and processing of geological and other relevant data

l. Exploration means the set of operations carried out offshore or onshore, using geological, geochemical or geophysical methods, with the purpose of finding Hydrocarbon deposits, as well as the processing, analysis and interpretation of the information, studies and regional maps resulting from such activities. Exploration concludes in each case with the evaluation and better understanding 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 which, under atmospheric conditions of pressure and temperature, are in a gaseous state, including dry gas, wet gas and residual gas remaining after the extraction, treatment, processing or separation of liquid Hydrocarbons from wet gas, as well as the gas or gases produced in association with liquid or gaseous Hydrocarbons.

n. Associated Natural Gas means all Natural Gas extracted from a reservoir whose principal content is Crude Oil and which has been separated therefrom in accordance with generally accepted practices in the international petroleum industry, including the free gas layer, but excluding any liquid Hydrocarbon extracted from such gas either by normal field separation, dehydration or in a gas processing plant.

o. Non-Associated Natural Gas means all gaseous Hydrocarbons extracted from gas fields, and includes wet gas,

dry gas and residual gas left over after the extraction of liquid hydrocarbons from wet gas.

- p. Equatorial Guinea or State is the Nation where it has jurisdiction and applicability of this Law.
- q. Hydrocarbons means all organic natural substances composed of carbon and hydrogen.
- r. Environmental Law, means Law number 7/2003 dated November 27 environmental regulator.
- s. Ministry means the government department that is or may be responsible for Petroleum Operations in Equatorial Guinea.
- t. Petroleum Operations means all work related to the Exploration, Evaluation, Development, Production, transportation, distribution, storage, conservation, dismantling, refining, marketing, sale or other disposal of Hydrocarbons and all related activities in the area described in Article 1.
- u. Operator means the Person responsible for carrying out Operations Oil Companies in a Contract Area.
- v. Person means any natural or legal person, partnership, joint venture, association, trust, heir, organization or autonomous government or any local agency or entity.
- w. Crude Oil means Hydrocarbons produced at the wellhead in a liquid state at atmospheric pressure including asphalt and ozokerites (fossil waxes), and liquid Hydrocarbons known as condensates and/or Natural Gas liquids obtained from Natural Gas by condensation or extraction through separation units in the field.
- x. Continental Shelf means the seabed and subsoil of the submarine areas adjacent to the national territory of Equatorial Guinea, up to the limits established by the laws of Equatorial Guinea and the international conventions to which Equatorial Guinea is a party.
- y. Production means the activities involved in the extraction of Hydrocarbons, including, but not limited to, planning, scheduling, controlling, measuring, testing, gathering, treating, transporting, storing and dispatching hydrocarbons from the underlying reservoir to designated shipping or extraction locations, and also, the decommissioning of wells, facilities,

**Hydrocarbon pipelines and deposits and related activities.**

**z. Royalties Means the right of the State over Hydrocarbons produced and conserved in a Contract Area and not used in Petroleum Operations, based on percentages calculated based on daily production rates in accordance with Article 58 of this Law and the relevant Contract.**

**aa. Petroleum Regulations means all regulations issued by the State in accordance with and in compliance with this Law.**

### **CHAPTER III**

#### **COMPETENCES AND MONITORING OF OPERATIONS OIL COMPANIES**

**Article 9. Without prejudice to the powers granted to this Ministry by virtue of the Law on the Legal Regime of the Central Administration of the State and its organic and functional regulations, the Ministry is the State body responsible for the formulation, regulation and monitoring of policies on Petroleum Operations, as well as the administration, planning, execution, supervision, inspection, auditing and application of all Petroleum Operations and activities related to them. The Ministry shall be the competent entity in all areas relating to Hydrocarbon Management and Petroleum Operations.**

**Likewise, the Ministry is responsible for negotiating, signing, and executing all Contracts entered into between the State and the Contractors, as well as modifying the terms of any Contract in order to ensure that Petroleum Operations are executed for the benefit of the State.**

**Article 10. In order to fulfill their supervisory function, all Contractors and their Associates shall provide the Ministry with all data and information that the Ministry deems necessary for the effective technical, economic and administrative control of the Contractors and their Associates and their activities. Likewise, the Ministry and its representatives shall have free access to the places and facilities where Petroleum Operations are carried out, so that they may fulfill their 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 supervisory functions.**

**Article 12. If the Ministry determines that a specific Petroleum Operation may cause injury or death to persons, damage to property or the environment,**

environment, or if the national interest so requires, after consulting with the affected Contractor the Ministry may:

- a. order the suspension of Petroleum Operations;
- b. order the evacuation of persons from places considered dangerous in coordination with the authorities of the jurisdiction;
- c. order the suspension of the use of any machine or equipment;  
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- d. take any other action it deems necessary or appropriate.

## **CHAPTER IV**

### **CELEBRATION OF CONTRACTS**

**Article 13.** For the execution of Contracts, through this Law, the international public bidding system is adopted that guarantees concurrence and competition between potential Contractors or the direct award system in areas reserved for the State.

The Contract to be signed between the State and the Contractors will be based on the "Model Contract" for Participation in Production attached to this Law and will be an integral part of it. In the case of areas reserved for the State, the direct contracting system is adopted through the signing of other types of Contracts.

**Article 14.** The Ministry will only enter into Contracts with Persons who have adequate technical and financial capacity, as well as proven experience in the oil and gas industry.

**Article 15.** The Ministry may award Contracts to Persons through international public bidding in accordance with the rules to be established by the Ministry, or through direct negotiation, and will obtain to the extent possible the most advantageous terms for the Republic of Equatorial Guinea.

**Article 16.** Each Contract shall enter into force only after it has been ratified by the President of the Republic and on the date on which written notification of said ratification is delivered to the Contractor.

**Article 17.** Applications for Contracts shall be submitted to the Ministry, together with documentation demonstrating the technical and financial capacity, the experience of the applicant and any other information requested by the Ministry.

**Article 18.** The State may only assume risks inherent to Exploration activities in a Contract Area directly or through the participation of a National Company in the Contract.

**Article 19.** The part of the national territory that is suitable for exploration and development will be divided into Blocks by the Ministry. The Contract Areas will be limited to TWO THOUSAND SIX HUNDRED FIFTY (2650) square kilometers. Without prejudice to the foregoing, the Ministry has the right to increase or decrease the Contract Area that will be granted to a Contractor.

**Article 20.** Contractors, and Contractor Associates designated by the Ministry, who are not Equatorial Guinean Persons, must establish a branch domiciled in Equatorial Guinea within six (6) months following the entry into force of their Contract or, in the case of such Associates, the applicable agreements or licenses to which they are subject and must establish and maintain a bank account in Equatorial Guinea with sufficient funds to guarantee their obligations.

In the case of CONTRACTORS' Associates, a bank guarantee accepted by the Ministry, which must be presented at the time of registration with the Ministry. Contractors who produce Hydrocarbons from a Contract Area must build their own building for the

establishment of its headquarters in Equatorial Guinea.

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

**Article 22.** When the Contractor is constituted by more than one Person, the joint operations agreement or other risk-sharing agreement between such Persons shall be submitted to the Ministry for review and approval, and one of the Persons shall be appointed as Operator in accordance with 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 with respect to other natural resources in the same area.

**Article 24.** If the exercise of the rights mentioned in Article 23 is incompatible with the exercise of petroleum activities, the Ministry shall decide which of the rights shall prevail and under what terms, without prejudice to any compensation owed to the holders of the rights thus invalidated in accordance with the provisions of Chapter XXI.

## **CHAPTER VI**

### **OIL OPERATIONS**

**Article 25.** The activities that constitute Petroleum Operations are divided into two (2) phases:

- a.** The exploration period, which includes the Exploration and Development phase. the Evaluation phase; and
- b.** the production period, which includes 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-periods. The duration of the initial exploration period will be between four (4) and five (5) years, as established in each Contract; and
- b.** a maximum of two (2) extension periods of one (1) year each one.

The Ministry may, if it deems appropriate, modify the duration of the periods mentioned above in the Contract.

**Article 27.** The Exploration, Evaluation, Development and Production phases will be defined more precisely in each Contract.

**Article 28.** Each Contract shall establish the obligation of the Contractor to waive one or more parts of the Contract Area, in the manner, scope and opportunity stipulated in the Contract.

**Article 29.** Contractors and their Associates who are authorized to carry out such Petroleum Operations shall have the right to request the temporary occupation or compulsory expropriation of lands, as well as the establishment of rights of way in favor of the activity. Any temporary occupation, compulsory expropriation of lands or rights of way shall be made in accordance with 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 whose property has been occupied or expropriated.

The amount of compensation will be established in accordance with the Law on Forced Expropriation in force at the time of occupation or expropriation.

**Article 30.** Subject to Article 45, the Ministry may authorize the construction of pipelines, gas lines, installations and other equipment from one Contract Area through another Contract Area, provided that this does not unreasonably impede Petroleum Operations in the latter and after consultation with the affected Contractor.

**Article 31.** The lands and permanent works, including the installations, accessories and equipment that form an integral part thereof, and any other asset acquired for the execution of Petroleum Operations under a Contract, whatever their nature or ownership, shall be maintained in good condition by the Contractor.

**Article 32.** Ownership of all facilities, materials, equipment and other assets used in Petroleum Operations shall be transferred to the State, free of charge, on the earlier of the following dates: when the Contractor has recovered all costs of the asset in question, or upon termination of the applicable Contract. Such facilities, materials, equipment and assets shall be in good working order and free of liens and other encumbrances. If the Ministry so decides, it may order the Contractor to dispose of any such facilities, materials, equipment and assets, and such disposal shall be carried out in a manner that protects and preserves the environment. The Ministry shall authorize the Contractor to use such fixed facilities and equipment as are still useful for Petroleum Operations.

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

**Article 33.** Contractors shall measure and record all Hydrocarbons extracted and recovered on a daily basis, using methods and instruments certified under the legal regulations in force, and in strict compliance with the technical standards established by the practice of the international oil industry. Contractors shall report to the Ministry the volume of Hydrocarbons produced in each Development Area in the manner and within the time periods established in the Contract.

## **CHAPTER VII**

### **WORK PROGRAM AND OPERATIONS BUDGET**

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

**Article 35.** If a Contractor incurs over-costs exceeding five percent (5%) of the approved budget without prior authorization from the Ministry, said Contractor will be sanctioned in accordance with the provisions established in Chapter XXV (Infractions and Sanctions).

Such overruns shall not be considered as Petroleum Operations costs and, consequently, shall not be recoverable by the Contractor nor deductible for tax purposes. Before incurring overruns greater than five percent (5%) of the approved budget, the Contractor shall submit to the Ministry a written report justifying the need for such 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 on such loans shall not exceed the lowest rates available in the market for commercial loans, and such loans and their terms shall be approved by the Ministry before being entered into. Notwithstanding anything to the contrary, interest paid on loans from Associates and/or Affiliates shall be subject to the tax laws of Equatorial Guinea regardless of the place of the arrangement of the loan and the place of payment of the interest.

## **CHAPTER VIII**

### **OPERATOR**

**Article 37.** In each Contract Area, an Operator with recognized experience, capacity and technical and financial knowledge will be designated, and will be subject to the approval of the Ministry.

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

**Article 39.** Any change of Operator must be proposed by the Contractor and will be subject to prior approval by the Ministry.

**Article 40.** The Operator must request and receive approval from the Ministry before entering into any contract or subcontract related to Petroleum Operations.

## **CHAPTER IX**

### **REFINING AND STORAGE ACTIVITIES MARKETING AND TRANSPORTATION**

**Article 41.** All activities related to the distillation, purification and transformation of Hydrocarbons, carried out with the purpose of adding value and marketing the products obtained, constitute refining and marketing activities, which may be carried out by the State and other Persons, jointly or separately, in accordance with the provisions of this Chapter IX.

**Article 42.** All refineries will be subject to a national plan for their installation and operation and will be linked to specific projects previously approved by the Ministry.

**Article 43.** All persons wishing to carry out hydrocarbon refining and marketing activities must obtain a license from the Ministry that will meet 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 that will be used in the project;
- c.** duration of the applicable company or project, which shall not exceed twenty-five (25) years, renewable for a period to be agreed upon and which shall not exceed ten (10) years, provided that the project requirements have been met; and
- d.** an indication of the special privileges offered to the State.

**Article 44.** The State reserves the right to store, transport and distribute refined products. All activities related to the storage, transportation and any other distribution of Hydrocarbons shall be determined by the Petroleum Regulations. An authorization from the Ministry shall be required to obtain the corresponding permit to carry out such activities.

**Article 45.** The construction and operation of gas pipelines, oil pipelines, and pipelines related to Petroleum Operations will be carried out exclusively by the State or a National Company, unless the Ministry provides otherwise.

**Article 46.** All Persons involved in the refining and marketing activities referred to in this Chapter IX shall:

register with the Ministry, and even if they are not a Contractor or Associate of a Contractor, they will be subject to this Law as if they were a Contractor or Associate.

**Article 47.** The distribution and sale of Natural Gas in the national market of Equatorial Guinea will be the sole and exclusive responsibility of the National Gas Company, which may operate in partnership with other Persons, giving preference to the Contractor who discovered the Natural Gas to be distributed and sold.

**Article 48.** The sale price of hydrocarbon products other than natural gas in the national market shall be established by the Government taking into account the price of crude oil from which the aforementioned products originate, refining costs, storage and transportation costs, as well as the profit margins in force for each activity. This cost shall also include the depreciation of any investment.

**Article 49.** The sale price of Natural Gas in the domestic market shall be established by the Government taking into consideration the cost of gas production, the cost of the facilities specifically designated to meet domestic demand and any operating costs related to 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**

### **USE OF FACILITIES**

**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 a more efficient and more economic management of existing resources and provided that this does not materially reduce production levels or interrupt the satisfactory progress of Petroleum Operations in the Contract Area to which such resources and equipment were originally assigned.

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

**Article 52.** The amount to be paid for the use of the facilities and equipment mentioned in Article 50 shall be agreed upon by the Contractors and shall be submitted to the Ministry for approval. If they fail to reach an agreement within a period deemed appropriate by the Ministry, the Ministry shall fix the price for such use.

**Article 53.** In cases of emergency referred to in Chapter XXI, the Persons involved in the storage, transportation or distribution of Hydrocarbons will collaborate with the Ministry in order to allow the use of their facilities by the State.

## **CHAPTER XI**

### **UNIFICATION**

**Article 54.** When a single hydrocarbon deposit extends over more than one Contract Area, the Contractors of all the affected Contract Areas must reach a unification agreement for the exploitation of such deposit; the unification agreement shall be subject to the approval of the Ministry. If an agreement is not reached within a period that the Ministry considers appropriate, the Ministry shall establish the conditions that will govern the production of said hydrocarbon deposit.

**Article 55.** When the deposit extends beyond the Contract Area to Areas where Production is not authorized, the Ministry will adopt the necessary measures to guarantee the interests of the State in the exploitation of the deposit.

**Article 56.** In the event that a hydrocarbon deposit extends beyond national borders to areas under the jurisdiction of neighbouring countries, any agreement leading to the exploitation of such deposit shall require prior approval by the Government and ratification by the President of the Republic. The Government may adopt the necessary measures to protect the interests of Equatorial Guinea, including, among others, the revocation of the right to produce the deposit in question.

## **CHAPTER XII**

### **TAXES AND ROYALTIES**

**Article 57.** Without prejudice to other tax laws of Equatorial Guinea, Contractors and their Associates shall be obliged to pay the following concepts, among others:

- a. royalties, in the manner stipulated in Articles 58, 59 and 60 and according to the terms of the applicable Contract;
- b. surface lease fee, to be paid annually and in the amounts stipulated in the applicable Contract;

- c. personal income tax in the amount stipulated in 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 in accordance with Chapter XIII, and**
- f. any tax on extraordinary income that the State can establish.**

**Article 58. Contractors shall pay Royalties to the State in the amount set forth in their Contract. The Contracts shall establish the increase in the levels of Royalties based on the daily production rates, with a minimum Royalty of 13%. The volume of Hydrocarbons that constitutes the Royalty shall be calculated directly by applying the percentage specified in the Contract for a certain level of daily production to the total quantity of Hydrocarbons extracted and stored as of the date on which the corresponding daily production rate is reached.**

**Article 59. The State, through the Ministry, may require payment of Royalties in kind or in cash, in whole or in part. Unless otherwise required, the Ministry shall be deemed to have chosen to receive the Royalties in full and in cash. The Royalties shall be paid monthly or more frequently in accordance with the provisions of the applicable Contract.**

**Article 60. When the State, through the Ministry, chooses to receive the Royalties in cash, the Contractor will pay the market price established in accordance with the applicable Contract.**

**Article 61. Contractors and their Associates shall be required to pay income tax in accordance with the applicable laws in Equatorial Guinea and, additionally, shall pay any other tax, levy or charge that is not expressly included in the Contract or in this Law.**

**Article 62. Contractors shall pay all premiums and surface rental fees payable to the State in accordance with their respective Contracts.**

## **CHAPTER XIII**

### **CUSTOMS, IMPORT AND EXPORT**

**Article 63.** For the import and export of materials and equipment directly related to Petroleum Operations, the Contractor shall be subject to the customs legislation of the Republic of Equatorial Guinea and that of the CEMAC area.

During the term of the Contract, if so requested by the Contractor, the Contractor and its Associates may import, free of import duties, the materials and equipment that will be used directly and necessarily in the Petroleum Operations and that are not available in Equatorial Guinea, after having submitted to the Ministry a list of all the materials and equipment to be imported, in accordance with the provisions of the Foreign Capital Investment Law.

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

## **CHAPTER XIV**

### **ENVIRONMENTAL PROTECTION AND SANITATION, HEALTH AND SECURITY**

**Article 65.** When carrying out their activities, Contractors and their Associates shall take all necessary precautions to protect the environment, in order to preserve it with regard to health, water, soil and subsoil, air, the preservation of biodiversity, flora and fauna, ecosystems, landscape, atmosphere and cultural, archaeological and artistic heritage.

**Article 66.** In order to comply with Article 65, Contractors and their Associates shall submit to the Ministry, within the time limits established by the latter, the plans required by the Environmental Law and their Contract, specifying the practical measures to be adopted to prevent damage to the environment, including environmental impact studies and audits, plans for the rehabilitation of the ecosystem and structures, and plans for permanent management and environmental audits.

This documentation will subsequently be sent to the competent Department for examination and approval.

**Article 67.** Contractors and their Associates shall indemnify the State and/or other Persons who are harmed as a result of the

failure to comply with environmental regulations in the conduct of oil operations.

**Article 68.** The Ministry, after consulting with other relevant entities, shall establish the limits and regime of the security zone adjacent to the equipment and facilities, temporary and permanent, used in Petroleum Operations.

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

**Article 70.** In order to comply with Article 69, Contractors and their Associates shall submit to the Ministry all plans required by applicable law and their Contracts.

## **CHAPTER XV**

### **RESPONSIBILITY**

**Article 71.** The Contractor shall indemnify and hold the State harmless for damages of any kind, including, but not limited to, damages to property or compensation to Persons for death or injury caused by Contractors or their Associates or by any entity or Person representing them, or acting under their responsibility.

## **CHAPTER XVI**

### **NATURAL GAS**

**Article 72.** The State is the owner of all Associated Natural Gas produced and not used in Petroleum Operations. The Development and Production of all Natural Gas will be done in association with the National Gas Company.

**Article 73.** If a Contractor discovers Non-Associated Natural Gas in a Contract Area and chooses not to develop such discovery in accordance with its Contract, the right to develop such discovery will automatically transfer to the State free of charge.

The National Gas Company shall have the right to undertake the Development and Production of that field. The Contractor shall no longer have the right to the Natural Gas produced in that field, except for the Natural Gas used in the Petroleum Operations within the Contract Area, and for which, it shall be obliged to build the necessary facilities for the National Gas Company to exploit the Natural Gas field, including, among others, facilities for the separation of the Natural Gas from the field.

of Natural Gas Associated with Liquid Hydrocarbons. If the Contractor chooses to develop any Natural Gas discovery, it shall do so in association with the National Gas Company and on such terms as the Ministry and the Contractor agree upon.

Article 74. Any cost 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 a right of preference to purchase all Natural Gas produced in a Contract Area, and Natural Gas processed in Equatorial Guinea by a Contractor or its Associate, for the price established as follows: 1) for gas to be sold for national consumption, in accordance with Article 86; 2) for gas to be sold for consumption outside the national market, in accordance with the applicable Contract.

Article 76. The Contractor and/or its Associates are strictly prohibited from burning any amount of Natural Gas in the performance of Petroleum Operations. Notwithstanding the foregoing, the Ministry may authorize the burning of minimum quantities of Natural Gas, if so requested by the Contractor, through a written report indicating the technical, economic-financial and/or environmental reasons, etc., that in its judgment lead inexorably to such burning; in which case, the Ministry may, at its sole discretion, authorize the burning with or without compensation from the Contractor and/or its Associates.

## **CHAPTER XVII**

### **NATIONAL COMPANIES**

Article 77. National Companies are the exclusive property of the State and will be supervised by the Ministry.

Article 78. National Companies created under previous provisions, and those that may be created in the future, shall be governed henceforth by this Law, the oil regulations and other Laws, decrees or resolutions applicable by the competent bodies.

Article 79. The Ministry of Mines, Industry and Energy shall exercise oversight over the National Companies and all their subsidiaries; it shall perform the functions of technical, economic and financial inspection and oversight; and it shall dictate the policies to be followed on the matters referred to in this Law. The National Companies shall submit to the Ministry a quarterly report on their technical and economic activities; as well as short, medium and long term forecasts.

**Article 80.** The State, through the Ministry, may transfer to National Companies the rights they require for the full exercise of the activities and functions conferred upon them in accordance with their corporate purpose.

## **CHAPTER XVIII**

### **RIGHTS AND STATE PARTICIPATION**

**Article 81.** In addition to Royalties, the State has the right to a percentage of all Hydrocarbons extracted and conserved in a Contract Area based on the terms agreed in each Contract and after the deduction of Royalties and oil for recovery of the investment.

**Article 82.** Subject to the provisions of Article 18, the State has the right to invest or participate in any Contract Area, in accordance with the terms that will be agreed upon and clearly stipulated in all contracts by the Ministry and each Contractor. When the State invests or participates in a Contract Area, it will have the right to receive the share of the Hydrocarbons corresponding to its investment or participation, in addition to the Royalties and the percentage of the Hydrocarbons as established in Article 81.

**Article 83.** The State's investment or participation in any Contract Area shall be made directly or through one of the National Companies, as the case may be, and shall be constituted as a paid-in or carried-forward participation, at the Ministry's discretion, of no less than twenty percent (20%) in accordance with the provisions of the Contract, unless the Government has agreed otherwise.

**Article 84.** At the State's sole discretion, the share carried over by the State, the National Gas Company or the National Petroleum Company may be transformed into a share with payment obligations at any time.

**Article 85.** The State and the National Companies shall not pay exploration or other costs in respect of their carried interest. The State and the National Companies shall only be liable for the payment of the costs of Petroleum Operations incurred from the date on which the State notifies the Contractor in writing of its intention to transform its carried interest into a participation with payment obligations in accordance with the provisions of Article 84. Interest paid or payable in connection with a carried interest of the State or the National Companies shall not be recoverable costs of the Contractor.

## **CHAPTER XIX**

### **REQUIREMENTS FOR NATIONAL CONSUMPTION**

**Article 86.** All Contractors are obliged to sell and transfer to the State, upon written request by the Ministry, any quantity of Hydrocarbons from a Contract Area, and any quantity of Natural Gas processed in Equatorial Guinea by a Contractor or its Associate, that the State deems necessary to satisfy national consumption requirements. The sales price for Crude Oil shall be established in accordance with the applicable Contract. The sales price for Natural Gas shall be determined in accordance with the parameters established in Article 49.

**Article 87.** The quantity of Hydrocarbons that a Contractor must provide for national consumption shall be calculated by multiplying the quantity of Hydrocarbons available to a Contractor after subtracting the Royalties and Hydrocarbons designated for cost recovery during the relevant period, by a fraction whose numerator is the national consumption for such period less the quantity of Hydrocarbons delivered to the State by all Contractors, and whose denominator is the quantity of Hydrocarbons available to all Contractors after subtracting the Royalties and Hydrocarbons designated for cost recovery during such period.

## **CHAPTER XX**

### **NATIONAL CONTENT**

**Article 88.** The State and the Contractors will contribute to the study, design, construction, equipment, operation and maintenance of the Hydrocarbons Technological Institute of Equatorial Guinea, and to the creation of training centers for Equatorial Guinean Persons who work in Petroleum Operations or related operations, without prejudice to the promotion, support and development of other training centers with similar purposes that exist in Equatorial Guinea.

**Article 89.** The Ministry shall adopt measures to guarantee, promote and stimulate investment in the Hydrocarbons sector by Equatorial Guinean companies, and shall create the necessary conditions for the achievement of this goal; therefore, all Contractors and their Associates shall comply with the measures adopted by the Ministry regarding the participation of National Companies in projects in the sector.

**Article 90. Contractors and their Associates shall cooperate with the Ministry to carry out social works in order to promote the socioeconomic development of Equatorial Guinea.**

**Article 91. The Government shall adopt measures aimed at the creation of national capital in order to encourage the participation of Persons of Equatorial Guinean origin in taking part in Petroleum Operations. To this end, Contractors and their Associates shall be obliged to give preference to the use of goods, services, human resources and capital of Equatorial Guinean origin.**

**Article 92. Contractors shall train and integrate national personnel at all levels of their organizations in accordance with this Law and in accordance with the provisions of their Contracts. In addition to the above, Contractors shall contribute equally to the training of Ministry personnel. To this end, during the Exploration period as well as the Production period, the Contractor shall annually provide the Ministry with an amount of US Dollars. This amount shall be established according to the prudent judgment of the Ministry, through a reasoned resolution, taking into account, among other factors, the Exploration or Production phase in which the Contractor is located, as well as the level of activity that it develops in the country. These amounts shall be considered costs of Petroleum Operations.**

**Article 93. Contractors shall cooperate with the Government to identify projects that promote the implementation of social works with the broadest possible impact on the public good. Contractors shall execute all projects designated by the Government and shall submit a proposal for approval by the Ministry before undertaking any project that has not been designated by the Government. To this end, during the Exploration period as well as the Production period, the Contractor shall annually provide the Ministry with an amount of US Dollars. This amount shall be established according to the prudent judgment of the Ministry, through a reasoned resolution, taking into account, among other factors, the phase of either Exploration or Production in which the Contractor is located, as well as the level of activity that it develops in the country.**

**These amounts will not be considered costs of Petroleum Operations.**

## **CHAPTER XXI**

### **EMERGENCY SITUATIONS**

**Article 94. In the event that a national emergency occurs or is imminent, such as an armed conflict or natural disaster, the State may seize, for the duration of the emergency, all or part of the Hydrocarbon production of any Contract Area, except for the part of the production necessary for the operation, and require the Contractor and its Associates to increase production to the maximum technically possible capacity.**

**viable. Under such circumstances, the State may also requisition the facilities of any Petroleum Operations.**

**Article 95. Any search will be carried out by order of the State through Presidential Decree.**

**Article 96. If a requisition occurs in the manner provided for in Article 94, the State shall indemnify the Contractor for the period during which the requisition continues, for:**

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

**Article 97. The value of damages and losses caused by acts of war committed by enemy forces and other acts of force majeure shall not be included in the compensation stipulated in Article 96.**

**Article 98. The value of the Hydrocarbons requisitioned by the State shall be calculated in accordance with the rules established in the Contract to determine the market value of the Hydrocarbons and shall be paid by the State in a period agreed upon between the State and each affected Contractor after the end of the requisition period.**

## **CHAPTER XXII**

### **TERMINATION OF CONTRACTS**

**Article 99. For reasons of public interest, the State may terminate any Contract in whole or in part, subject to payment of fair compensation, to be agreed between the State and the Contractor. If no agreement is reached, the amount of compensation shall be determined by arbitration conducted in accordance with the principles set out in the relevant Contract.**

**Article 100. The Ministry may revoke Contracts on behalf of the State without any compensation to the Contractor.**

- a. if any of the causes for termination or revocation set forth in the Contract occur; or**
- b. in the event of a material breach of the provisions of this Act, the Petroleum Regulations or other laws and regulations concerning Petroleum Operations.**
- c. if the Contractor is engaged in parallel activities that are illegal or not authorized by the laws of Equatorial Guinea**

**d. If the Contractor goes bankrupt, is liquidated or becomes insolvent**

## **CHAPTER XXIII**

### **DATA OWNERSHIP TITLE**

**Article 101. All data and information acquired in the course of Petroleum Operations are the exclusive property of the State, without prejudice to the Contractor's right to use such data and information during the term of its Contract. Any unauthorized or improper transfer or disclosure of the same shall be subject to sanction.**

## **CHAPTER XXIV**

### **ASSIGNMENT**

**Article 102. The assignment, transfer, or other disposition of the rights granted by any Contract shall require the prior written authorization of the Ministry. Requests for such authorization shall be accompanied by all information relating to the assignment, transfer, or other disposition, including, but not limited to, all legal instruments, the final draft, used to execute the proposed transaction, the identity of all parties to the transaction, the form of the transaction, the estimated value of the transaction, whether payable in kind, securities, cash, or otherwise. Such assignment, transfer, or other disposition shall be subject to the payment of an irrecoverable and non-deductible fee and other requirements to be set forth in the authorization granted 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 for compliance with 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 more than fifty percent (50%) of the shares of the capital stock of any Person that is part of a Contractor, and that affects the ownership of the rights under the corresponding Contract, shall be equivalent to an assignment of the contractual rights under a Contract and therefore 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 forth in said Articles.**

**Article 104. When any assignment, transfer or other disposition of rights under a Contract is anticipated, the assigning Contractor shall be obliged to notify the National Petroleum Company or the Company**

**The notified National Company shall then have the right of first refusal to purchase the interest under the Assignor Contractor's Contract that has been offered for assignment, transfer or otherwise disposition on the same terms and conditions as the offer to the bona fide third party transferee. This right shall exist in addition to any right of first refusal granted to a National Company under the terms of a joint venture or other arrangement.**

**Article 105. Any assignment, transfer, or other disposition for which the fee has not been paid, nor the other requirements referred to in Article 102 fulfilled, unless the Ministry has waived such payments and requirements, or which has not been made in accordance with this Chapter XXIV, shall be null and void.**

**Article 106. When a Contractor or its Associate resorts to third-party financing that involves the transfer of rights over its ownership of Hydrocarbons pursuant to a Contract or other agreement with the State, it shall immediately inform the Ministry of the terms of such financing. The rights of the State to Hydrocarbons pursuant to this Law and/or a Contract, including national consumption requirements, shall prevail over the rights of any Person providing financing to a Contractor or its Associates and shall be satisfied prior to any claim by such Person.**

**Article 107. Any gain resulting from any assignment, transfer or other disposition of rights under a Contract, regardless of the form, beneficiary or place of the transaction, shall be subject to taxes in accordance with the laws of Equatorial Guinea.**

## **CHAPTER XXV**

### **INFRINGEMENTS AND PENALTIES**

**Article 108. Failure by a Contractor or its Associates to comply with the provisions of this Law, the Petroleum Regulations, its Contract, as well as other applicable rules and regulations regarding Petroleum Operations that is not the result of a cause of force majeure in accordance with the corresponding Contract, may be sanctioned with the imposition of a fine. Sanctionable breaches include, among others:**

- a. execution of Petroleum Operations without having submitted and obtained approval of the corresponding work programs and budgets;**

- b. incurring over-costs exceeding five percent (5%) of a budget without these having been previously approved by the Ministry;**
- c. failure to provide information obtained during the course of Petroleum Operations and/or other available information when required by the relevant state agency or the applicable Contract;**
- d. breach of any confidentiality obligation;**
- e. failure to provide the relevant bank guarantees or parent company guarantees within the specified period;**
- f. failure to submit, within the specified term, annual work programs and budgets, development plans and decommissioning plans for a production or injection well, as well as plans for the definitive abandonment of a field**
- g. failure to commence Production within the specified term;**
- h. exceed the maximum efficient level of production agreed and approved by the Ministry;**
- i. failure to comply with environmental or health and safety legislation; and**
- j. flaring gas without prior authorization from the Ministry.**
- k. Unauthorized or improper transfer or disclosure of data referred to in Article 101**

**Article 109. The violations contemplated in the previous Article shall be sanctioned according to the following fines:**

- 1. The violation defined in paragraph a) shall be punished with a fine equivalent to 50% of the cost of the program executed.**
- 2. The infringement defined according to the provisions of section b) shall be sanctioned with a fine equivalent to 50% of the overspending incurred.**
- 3. The infringement defined according to the provisions of section c) will be sanctioned with a fine ranging from FIFTY (50) to ONE HUNDRED (100) MILLION FCFAS.**

4. The infringement defined according to the provisions of section d) will be sanctioned with a fine ranging between THREE HUNDRED (300) and FIVE HUNDRED (500) MILLION FCFAS.
5. The infringement defined according to the provisions of section e) shall be sanctioned with the cancellation of the corresponding Contract.
6. The infringement defined according to the provisions of section f) will be sanctioned with a fine ranging from FIFTY (50) to ONE HUNDRED (100) MILLION FCFAS.
7. The infringement defined according to the provisions of section g) will be sanctioned with a fine ranging from FIFTY (50) to ONE HUNDRED (100) MILLION FCFAS.
8. The infringement defined according to the provisions of section h) will be sanctioned with a fine ranging between TWO HUNDRED (200) and FIVE HUNDRED (500) MILLION FCFAS, as well as the return to the State, in kind or in cash, of the volume of crude oil in the quantity exceeding the maximum efficient level during the period corresponding to the infringement.
9. The infringement defined according to the provisions of section i) will be sanctioned in accordance with the regulations in force on the Environmental Law, at the time of committing the infringement.
10. The infringement defined according to the provisions of section j) will be sanctioned with a fine ranging between TWO HUNDRED (200) and FIVE HUNDRED (500) MILLION FCFAS.
11. The infringement defined according to the provisions of section k) will be sanctioned with a fine of THREE HUNDRED (300) MILLION FCFAS.

The sanctions set out in this article shall apply in addition to and without prejudice to other provisions of the laws of the Republic of Guinea. Equatorial and/or the applicable Contracts

**Article 110.** The imposition and payment of fines shall not exempt the offender from his responsibility to fully comply with the duties and obligations that gave rise to such fines. All sanctions shall be applied without prejudice to the rights of the State under Chapter XXII (Termination of Contracts), or to existing civil, administrative or criminal actions against the offender, as well as the measures that may be imposed by the Ministry to remedy the damages and losses caused by such infringement.

**Article 111.** The administrative and contentious-administrative appeals contemplated in current legislation shall be available against the resolutions of the Ministry.

## **CHAPTER XXVI**

### **ABANDONMENT PLAN**

**Article 112.** The Contractor shall 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, on the earliest of the following dates: (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, (iii) one (1) year prior to the termination of the applicable Contract or the proposed date for the abandonment of any production area included in said Contract. Such plan shall be subject to the prior approval of the Ministry. Such plan may be modified by the Contractor and the State from time to time to adjust it to additional Petroleum Operations.

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

**Article 114.** The Contractor shall establish and contribute to a reserve fund to provide for future abandonment expenses. Such reserve fund shall be established as an escrow account opened in the name of the Contractor and the State, in an international financial institution acceptable to both. The amount to be deposited by the Contractor as well as the coordination of the deposits shall be established in the abandonment plan approved by the Ministry. If after completion of all abandonment operations in accordance with the approved abandonment plan, the value of the reserve fund is greater than the cost of the abandonment obligations, the balance of the account shall be distributed between the Contractor and the State in the same proportion as the oil profit at the time of the abandonment operations. If such fund is insufficient to cover such costs, the Contractor shall be liable for the remaining amount.

**Article 115.** When a Conservation Area is partially or totally abandoned, Contract, the Contractor shall appropriately dismantle the well or wells in question and shall also take other measures to dismantle the facilities and other equipment and rehabilitate the landscape in accordance with the

approved abandonment plan, the applicable Contract, this Law and good oil field practices.

**Article 116.** In the event that the Contractor fails to submit the abandonment plan referred to in Article 112 within the prescribed time limits, or if the said abandonment plan has not been implemented within the agreed time limit, the Ministry may take all measures it deems necessary to ensure that all abandonment operations are prepared and executed at the cost and risk of the Contractor.

**Article 117.** Pursuant to the Contract, the Ministry shall have the right to assume control of any Petroleum Operations which the Contractor has proposed to be abandoned, whereupon the reserve fund shall be transferred to the exclusive name of the State and the Contractor's responsibilities with respect to abandonment operations in the relevant Contract Area shall cease. The Ministry shall have the right to require the Contractor to provide all services and facilities with respect to any Petroleum Operations undertaken by the Ministry in accordance with this Article and for a fee to be agreed.

## **CHAPTER XXVII INTERPRETATION**

**Article 118.** The Ministry shall have the authority to resolve all issues related to the interpretation of this Law and the Petroleum Regulations, without prejudice to the jurisdiction and competence of the courts of Equatorial Guinea.

## **ADDITIONAL PROVISION**

The Ministry is empowered to issue any regulations and take any measures necessary for the exact compliance of this Hydrocarbons Law.

### **TRANSITIONAL PROVISION**

Every Contractor is subject to this Hydrocarbons Law and the terms of any Contract to which it is a party. The Ministry may, at its discretion, require that any Contract in force on the date of entry into force of this Hydrocarbons Law be renegotiated in order to adapt the terms and conditions of that Contract in force that are incompatible with this Hydrocarbons Law and any Petroleum Regulations.

### **REPEALING PROVISION**

Any provisions of equal or lower rank that are contrary to this Hydrocarbons Law are hereby repealed, and in particular Law No. 7/1981 of June 16, relating to Hydrocarbons, and Law No. 6/2000 of March 20, which modifies the previous Law.

### **FINAL PROVISION**

This Law shall enter into force on the date of its publication in the Official State Gazette. Given in Malabo on the third day of November of the year 2006.

**FOR A BETTER GUINEA**

**OBIANG NGUEMA MBASOGO,  
PRESIDENT OF THE REPUBLIC**

**RICARDO MANGUÉ OBAMA NFUBE  
PRIME MINISTER, HEAD OF GOVERNMENT**