

THE SECRETARY OF PETROLEUM'S DECISION NO. 75
FOR THE YEAR 1973
ISSUING
PETROLEUM REGULATION NO. 9¹

Article 1

The provisions of the attached Petroleum Regulation shall be applicable with regard to the financial, administrative and technical control for the preservation of oil wealth, which regulation shall be called Petroleum Regulation No. 9.

Article 2

Petroleum Regulations No. 2, 3, 4, 5, 6 and 7 shall be cancelled as well as any other provisions set forth in Petroleum Regulation No. 1 or in any Circular letters of the Secretariat or in any Agreements which are contradictory to the provisions of this Regulation.

Article 3

Any one who violates the provisions of this Regulation shall be penalized by the penalties provided for in Petroleum Law No. 25 for the year 1955 hereinabove referred to.

Article 4

The Undersecretary of the Secretariat of Petroleum shall execute this Decision which shall be effective as of the date of its issuance and shall be published in the Official Gazette.

(Signed)
Secretary of Petroleum

Issued on 1 Jumad Thani 1393
Corresponding to 1 July 1973

¹ Published in the Official Gazette No. 38/1973

PETROLEUM REGULATION NO. 9

**Re: The Financial, Administrative And Technical Control For The
Preservation Of The Oil Wealth**

GENERAL

Article 1

In the application of this Regulation:

“Law” shall mean Petroleum Law No. 25 for the year 1955 and the Laws amending same;

“Secretariat” shall mean the Secretariat of Petroleum.

“Concession Holder” shall mean any person possessing a Concession Contract in accordance with the law No. (25) of the year 1955; or an investment Contract as per Law No. 24 for the year 1970 whether his possession of such Contract was prior to the application of such Regulation or thereafter;

“Operation” shall mean any oil operation carried out by the Concession Holder.

“Secretary” shall mean the Secretary of Petroleum.

“Goods” shall mean the apparatus, engines, machinery, tools and supplies that are used in the prospecting and exploration for oil, extraction, transportation and processing thereof and the other activities pertaining thereto.

In regards to the other terminology set forth in this Regulation but not mentioned in this Article, the Law and the Second Schedule thereof shall be referred to.

Article 2

- (1) The Concession Holder shall take the actions necessary for the adherence to the requirements of the Commercial Law and the other

Friday, May 11, 2012

laws applicable in the Great Socialist People's Libyan Arab Jamahirya (Libya).

- (2) The Concession Holder shall be obligated to renew, replace or maintain at a constant figure the guarantee provided for in paragraph (3) of Article (9) of the Law. Such renewals, replacements or completion of the guarantee should take place within a maximum of seven days of the expiration thereof or deduction therefrom, as the case may be, as long as the contract is valid.

SURRENDER

Article 3

- (1) The area surrendered by the Concession Holder as per the provisions of Article (10) of the Law shall consist of one block, it may consist of two blocks if the contract area exceeds 12,000 square kilometers provided that the surrendered area shall be reasonably compact and bounded as much as possible by the lines of the official map of the Secretariat and bordering on one or more of the contract areas.
- (2) The notice of the Concession Holder to the Secretariat of surrendering the contract area submitted three months in advance shall be a condition to consider the application for surrender, such surrender shall not take place except after the issuance of a decision by the General People's Committee pursuant to Article (2) of the Law.
- (3) In case of the Concession Holder sees the existence of a special case justifying his non-adherence to the provisions of Paragraph (1) of this Article, he shall notify the Secretariat thereof provided that such notification shall give the details of such reasons and justifications, to which notification shall be attached all the documents and data pertaining to such reasons along with a map referring to the map of the Secretariat and a detailed written description indicating the precise area he proposes to surrender and the area he proposes to retain.
- (4) The Secretariat shall study the contract documents and in this regard it may ask the Concession Holder to provide the data, documents and exhibits it deems necessary. The Secretariat shall then notify the Concession Holder within a reasonable period, of its approval, or non-approval of the existence of such special case, and in case of the non-approval of the Secretariat, the Concession Holder should adhere to the provisions of Paragraph (1) of this Article.

USAGE OF SURPLUS CAPACITY

Article 4

- (1) If a pipeline has a capacity surplus to the needs of the Concession Holder or Concession Holders owning such pipeline, such surplus capacity shall be made available for the transport of the Petroleum of the other Concession Holders at the request of such Holders, as per the provisions of Article (12) of the Law, provided that the transport of such petroleum through the pipeline shall not prejudice the transport of the petroleum of the Concession Holder who has the surplus in the pipeline capacity. The Contact Holder with a surplus capacity shall not be obligated to extend additional facilities or invest additional funds or make any special arrangements for the transport of the petroleum of another Concession Holder. The usage of such surplus capacity shall not create any vested or permanent right in the use of such capacity.

- (2) The owner of such surplus capacity shall notify the Concession Holder desiring to use it, as well as the Secretariat, of the tariff rates and terms under which such usage may take place. In regard to any arrangements taken post the date of such Regulation, the rates to be charged in any year shall be pursuant to the following formula:

$$\frac{C + D + R}{BM} \times L \quad \text{where:}$$

C = Total annual pipeline operating cost including pro rata overhead expenses attributable to the whole of the pipeline during such year and all the taxes pertaining thereto.

D = An amount for the depreciation on the cost of the pipeline at the rate of 10% (ten percent) per annum.

R = An amount equal of 12% (twelve percent) per annum of the total funds invested in the pipeline including the working capital.

BM = The total of what is transported through the pipeline expressed in barrel/mile during such year, whether such petroleum was owned by the pipeline owner or otherwise.

L = Distance (length) in miles covered by the tariff rate.

Friday, May 11, 2012

If the pipeline owner performs loading services to the other Concession Holders, separate and additional rates will be determined for the loading and terminal services as per the following formula:

$$\text{Loading charge per barrel} = \frac{C + D + R}{B}$$

Where;

C = Total operating expenses, including the general overhead expenses pertaining to the oil terminal during such year.

D = An amount for the depreciation on the terminal facilities at the rate of 10% (ten percent) per annum; and at the end of the period such facilities may be revalued and the depreciation percentage may be amended in a manner consistent with the sound accounting principles.

R = An amount equal to 12% (twelve percent) per annum of the total funds invested in the terminal including the working capital.

B = Total crude oil barrels transported through the terminal of exportation during such year, whether such crude oil was produced by the pipeline owner or otherwise.

- (3) All operations pertaining to the usage of the surplus capacity for crude transport shall take place as per the provisions set forth in such Regulation. However, the Secretariat shall issue special rules for the individual cases as necessary, and in case of contradiction between such special rules and the general rules set forth in such Regulation, the special rules shall apply.
- (4) In the event that any Concession Holder does not agree to the tariff rates or the terms of usage proposed by the Secretariat, the Secretariat, within two months from the date of its being notified of such disagreement, shall refer the issue to the Committee mentioned in Article (12) of the Law.
- (5) If the need of the Concession Holder or Holders owning the pipeline increases and they desire to use the surplus transport capacity or any part thereof to meet their own needs, they shall notify the Concession Holder or Holders using the same in writing of their desire to do so. Their obligation to make such surplus capacity available to such Holder or Holders shall cease after the lapse, of one year from the date of such notification.

Friday, May 11, 2012

- (6) If more than one Concession Holder desires to use the surplus transport capacity owned by another Concession Holder, such surplus capacity shall be divided among such Concession Holders in the manner agreed to thereby; in the event of their disagreement, the surplus capacity shall be divided pro-rata the total quantities prepared for export to be determined by each Concession Holder.

COMMERCIAL DISCOVERY AND SEABOARD TERMINAL

Article 5

In application of the provisions of Paragraph (1) of Article (13) of the Law and Clause (6) of the Second Schedule thereof, petroleum shall be deemed to have been found in commercial quantities when the first well, in which petroleum was found after its production was tested in a manner consistent with the sound practices followed in oil production, produces the following quantities taking into consideration the depth of the producing formation and the control choke size diameter.

Depth (Feet)	Well Production (bbls per day)	Control Choke Size Diameter (inches)
4000	250	1/2
4000 - 6000	400	1/2
6000 - 8000	650	1/2
8000 - 10000	1000	7/16
10000 - and above	1500	7/16

In regard to the wells drilled in the offshore areas, their production should be triple the quantities set forth in the previous paragraph.

In the determination of commercial production pursuant to the provisions of the two previous paragraphs, the location of installations, the transport facilities and export terminal that should be constructed for the utilization of said petroleum shall be taken into consideration.

The Concession Holder shall provide the Secretariat with whatever data pertaining to such assessment in his possession. The Secretariat shall, after the above conditions have been met, issue a final decision.

Article 6

In application of the provisions of Paragraph (2) of Article (13) of the Law and Paragraph (4) of Clause (7) and Paragraph (10) of Clause (8) of the Second Schedule, the term “Seaboard Terminal in Libya” shall mean the Seaboard Terminal where the Concession Holder normally terminates and where he normally ships his petroleum, natural gasoline and natural gas.

If the Government contends to receive the royalty in kind from the produced petroleum and gas then the Concession Holder shall extend any facilities required by the Government free of charge.

RENTS, ROYALTIES AND USAGES

Article 7

The Concession Holder shall be obligated to pay the rents provided for in Article (13) of the Law and Clause (6) of the Second Schedule in the following manner:

- (1) Rents shall be paid from the date of the contract grant. Rentals shall be paid from that date and cover the period between the said date and the following 31st December. Any part of the month shall be considered as a complete month in the assessment of rent and in the increase thereof. Afterwards the rent shall be payable annually and in advance whether for the producing or non-producing contracts on the basis of the calendar year and not later than the 7th day of January of each year. On the same date, the training obligations provided for in Clause (18) of the Second Schedule shall be paid, and as well any other additional financial benefits.
- (2) If an increase in rent is imposed on the Concession Holder as per the provisions of Article (13) 1 (b) of the Law in the light of the discovery of petroleum in commercial quantities, the high rent shall be payable as from the first day of the month in which petroleum is found in commercial quantities.
- (3) In application of the provisions of Clause (3) of Article (13) of the Law and Clause (7) (5) of the Second Schedule regarding the reduction of Royalty by the amount of rents for the same period royalty is payable, the term “year” in regards to the said first period shall mean the period commencing from the date on which royalty shall become payable up to the following 31st December.
- (4) The Secretariat shall notify the Concession Holder, at least thirty days prior to the beginning of each year, with a statement in quadruplicate

Friday, May 11, 2012

in regard to each contract, of the form and status that the Secretariat determines for the assessment of rents. The Secretariat shall issue the Concession Holder with a decision of the payable rent which decision may not be objected to by the Concession Holder, of the date fixed for the discovery of oil in commercial quantities and payment shall be made as per such statement. Such decision shall be taken in regards to the area covered by the Contract on the date the rent becomes payable.

- (5) In the event that the Contract is cancelled or relinquished by the holder thereof, whether in whole or in part, no part of the rent shall be returned.
- (6) In the event that the period remaining from the life of the Contract, when rent is payable is less than one year, rent shall be paid for that period only.

Article 8

- (1) In the application of the provisions of Article (13) of the Law and the Clause (7) of the Second Schedule thereof, the Secretariat, when it takes royalties in kind, shall have the right to take same on crude oil, natural gasoline, natural gas and all other products exported by the Concession Holder from the Seaboard Terminal.
- (2) For the purpose of the application of Paragraph (1) (c) of article (14) of the Law and Clause (8) of the Second Schedule thereof, the calculation of royalty on exported quantities shall be on the basis of the gravity of the quantities exported from the fields, such basis shall be applied in the expensing of the royalty quantities taken in kind.
- (3) The Secretariat may ask the Concession Holders, each pro rata to his production, to make available to the National Oil Corporation, quantities of crud oil, gas or natural gasoline for the purposes of local consumption or industry at the cost prices determined by the Secretariat. No marketing expenses may be charged or deducted from the Supplemental Payments.

Article 9

In the determination of the quantities of crude oil, petroleum products, gas and natural gasoline to be used by the Contact Holder in the carrying out of his activities as per the Paragraph (1) (c) of Article (13) of the Law and Paragraph (1) of Clause (7) of the contract, the following procedures shall be followed:

Friday, May 11, 2012

- (1) In regards to the usages by the Concession Holder of the crude oil quantities, other petroleum products, gas and natural gasoline necessary for the generation of electrical power or for his use as fuel, it shall be sufficient to notify the Secretariat in due course of the quantities used; and the Secretariat shall have the right to request the Concession Holder to submit any data or documents to prove the soundness and suitability of such usage. In the event of his non-adherence to such data, it shall determine to charge him for the disapproved quantities, which shall be at the sole expense of the Concession Holder.
- (2) The Concession Holder, prior to the usage of any crude oil quantities, petroleum products, gas and natural gasoline for the spraying of roads or sand to make it stay in place or any other usages other than those provided for in the previous paragraph, shall submit an application to obtain a license therefore in writing and in advance accompanied with the data and documents supporting his application. The Secretariat shall grant the required license within a reasonable period if it is convinced of the soundness of such usage.

Article 10¹

In the application of the provisions of Paragraph (1) (a) and (b) of Article (14) of the Law and Clause (8) of the Second Schedule, the fees, rents and royalties, from which was exempted 16.67% of the value of the exported crude oil, shall mean the total fees payable by the Concession Holder in regards to such year without the deduction of any other amounts for any purpose whatsoever.

If the 16.67% of the value of the crude oil exported in a year shall exceed the total fees, rents and royalties, such excess shall be added to the share of the Government and the Concession Holder shall settle same in addition to the Income Tax and surtax payable by him for such year. The 16.67% of the value of the exported crude oil shall mean any quantities of crude oil as long as they are exported as crude oil even if they are lightened by quantities of natural gas.

OPERATING EXPENSES AND OVERHEADS

Article 11

All ships calling at any oil terminal shall pay anchorage, lights and port fees and any other fees imposed on all ships, provided that this is paid directly to

¹ *See Article 14 of the Petroleum Law

Friday, May 11, 2012

the General Corporation of Ports and Lights. Such fees may not be considered within the direct taxes or expenses deductible from the income of the Concession Holder as per the provisions of Article (14) of the Law and Clause (8) of the Second Schedule thereof. Such ships shall pay to the Concession Holder using an oil terminal, the service fees provided for in the said Ports Fees law, which shall be considered as an income for the Concession Holder subject to the Provisions of Article (14) of the Law and Clause (8) of the Second Schedule thereof.

Article 12

In application of the provisions of Paragraph (2) (a) of article (14) of the law and Paragraph (2) (a) of Clause (8) of the Second Schedule, “operating expenses and overheads” shall mean the items of expenditure following herein below insofar as such expenditure is not incidental to the procurement location and installation of assets of all types or the other capital expenditure which have been fairly and correctly expended as necessary for the activities of the Concession Holder in Libya whether prior to the effective date or thereafter. Such expenditure shall be made in Libya and by a prior written permission from the Secretary of Petroleum such expenditure may be made abroad. The Secretariat may request the Concession Holder to provide any documents it deems necessary to prove the soundness of such expenditure.

- (1) Salaries, wages, pensions and the other benefits granted to the employees provided that such benefits be granted to all employees in Libya National, Arab and foreign, without discrimination, which policy should be approved by the Secretariat of Petroleum.
- (2) Customs duties paid by the Concession Holder on his direct procurement of non-capital commodities and goods which do not enjoy the exemption provided for in Article (16) of the law.
- (3) The Stamp tax, the burden of which shall be directly on the Concession Holder.
- (4) The Banking Commission charged by the Commercial Banks operating in Libya or the Central Bank of Libya upon its sale of Libyan Currency to the Concession Holder for the purpose of fulfilling to the Secretariat of the tax obligations imposed thereon.
- (5) The cost of consumer goods purchased and consumed by the Concession Holder “Consumer Goods” shall mean the goods which can be consumed within a period of less than a year. The cost of tools, utensils and minor apparatus of small value may be included

Friday, May 11, 2012

within the operating expenses as per the sound accounting procedures.

- (6) The cost of services performed by any third party to the Contact Holder. Such services should be performed in Libya to a maximum extent possible.
- (7) The cost of services rendered by the parent companies or an affiliate of the Concession Holder. The cost of such services shall be determined as follows without the addition of any commissions or profits:
 - (a) The expenses incurred in the recruitment and administrative services pertinent to the employees of the Concession Holder.
 - (b) The actual expenses incurred in the purchase of equipment and supplies which, after the identification thereof, shall form a part of the cost of such materials and equipment whether on the account of the operating expenses or capital expenses.
 - (c) The specific services of technical nature requested by the Concession Holders in Libya and provided by the parent companies or affiliates thereof for a predetermined fee on the basis of the cost price including the overheads and without the calculation of profits. If the nature of such service shall be capital expenses, they should be added to the capital expenses.
 - (d) The actual cost of any other services of a consultancy nature, i.e. Financial and legal consultancy etc. The services mentioned in items (c) and (d) shall be performed in Libya to the maximum practical extent possible by the employees of the Concession Holder.

The services performed by the parent companies or affiliates shall be covered by service agreements to be approved by the Secretariat, and the entered expenditures shall be reasonable and appropriate to the type of services performed. No other expenses besides the above-mentioned expenses may be calculated, and in particular the expenses of the management of the Head Office that includes personnel who are not employees of the Concession Holder.

In regards to the Concession Holders who participate in joint operations performed by an operating company carrying out the work on behalf of two or more Concession Holders owning an undivided interest in the joint operations in one or

Friday, May 11, 2012

more of such contracts. All the services that fall within the above services inasmuch as they are related to the joint operations shall be credited to the account of said operating company and consequently they shall be allocated to the Concession Holders pro rata their interest in one or more of the contracts.

In regards to the services mentioned in Paragraph (d), only such services may be directly credited to the account of the Concession Holder and by his approval thereof, if such services are directly related to the activities of the Concession Holder alone without being related to the joint activities of the other Concession Holders.

- (8) The cost of repairing, servicing and normal maintenance of assets of all types in Libya, provided that such will not result in an increase in the productivity or the productive life of the asset. The performance of such services shall take place locally to the maximum extent possible.
- (9) Rents paid for plants, equipment, buildings and the other properties located in Libya, only.

As for the amounts paid for usufruct or rights of use in Libya, they shall be recovered for the period specified in the contract of usufruct, and as well any expenses incurred for the preparation of the asset subject to such usufruct.

- (10) Employees travel expenses if they are on official assignments.
- (11) Insurance premiums provided that insurance is procured locally.
- (12) The fair losses resulting from the damage, destruction or loss of properties in Libya which is not compensated for by insurance or otherwise including the loss resulting from bad debts after the Secretariat is convinced that the Concession Holder has exhausted all means to recover such amounts, or from the legal compensation claims excluding the fines payable to the Secretariat or the amounts forfeited thereby.

The casual or unusual losses should not be charged except after the approval of the Secretariat of Petroleum thereon.

- (13) The cost of the recreational and cultural activities undertaken by the Concession Holder in Libya with the prior approval of the Secretariat.

Friday, May 11, 2012

- (14) The cost of the medical establishments and services undertaken by the Concession Holder in Libya, provided that they shall be enjoyed by all the employees, Nationals, Arabs and foreigners.
- (15) The cost of education and training of Libyan Nationals undertaken by the Concession Holder with the prior approval of the Secretariat whether such was expended in Libya or abroad.
- (16) The cost of employees housing in Libya provided that such includes all employees, Libyans, Arabs and foreigners without discrimination, which policy should be approved by the Secretariat.
- (17) The cost of housing, residence and travel of any official appointed by the Government outside his official place of work to ensure that the Concession Holder conducts his operations in compliance with the provisions of the Law and Regulations.
- (18) The cost of guarding the oil installations provided that such guarding shall be obligatory and additional to the normal guarding.
- (19) Any other operating expenses or overhead acceptable to, or approved by the Secretariat prior to the expenditure thereof.
- (20) The above items of expenditure incurred by the operating company on behalf of the Concession Holders; such expenditure shall be entered in the books of the Concession Holder, each in his competence, provided that such shall take place in compliance with the conditions set forth in the previous paragraphs.

PHYSICAL ASSETS AND CAPITAL EXPENDITURES

Article 13

The Physical Assets and Capital Expenditures referred to in Paragraph (2) (b) of Article (14) of the Law and Paragraph (2) (b) of Clause (8) of the Second Schedule shall include the assets retained in Libya. In the determination of the value of such assets, the customs duties paid thereof shall be included in case they do not enjoy the exemption provided for in Article (16) of the Law; and the expenses incurred prior to the effective date or thereafter. The Physical Assets shall also include all the costs of drilling of wells productive of petroleum, gasoline and natural gas and the auxiliary wells. Depreciation of any capital expenditure or assets related to such assets shall not commence except after they have been acquired and put on production. In regards to the calculation of depreciation on the asset additions during the year, it should be calculated on a monthly basis as from the beginning of the month following such acquisition.

Friday, May 11, 2012

In regards to the assets and properties which are permanently put out of use as per the provisions of Paragraph (2) (b) of Article (14) of the Law, and Paragraph (2) (b) of Clause (8) of the Second Schedule thereof, they should be used and the Secretariat shall be notified thereof monthly to approve putting same out of use. The Concession Holder in this case shall be obligated to dispose by sale of said assets and properties provided that this takes place at the best available prices. The Concession Holder shall provide the Secretariat with all the supporting documents; otherwise he shall be obligated with the value thereof as if they have not been put out of use. The Concession Holder alone shall be charged with the value of all new goods, which have not been used in the activities thereof in Libya. In no case may such be deducted from the profits thereof or from the Government share in the profits thereof.

Article 14

The Concession Holder, prior to proceeding with the re-exportation of any goods used in the oil operations, shall submit to a committee, to be formed by the Secretary for this purpose, an application for a written license therefore, provided that it shall be accompanied with the following data:

- (a) A detailed statement of the goods to be re-exported.
- (b) Reasons for such re-exportation and the need for such goods in the oil operations thereof.
- (c) Country of re-exportation.

The Committee procedure shall be determined by a decision from the Secretary.

Article 15

The goods re-exportation license shall be limited to the goods that are permanently put out of use.

Article 16

Re-exportation of goods may be licensed for the purpose of repairing same abroad, provided that the Concession Holder shall submit a written statement that such repair could not be carried out locally and that the goods shall be returned after the repair thereof during the period to be fixed therefore by the Committee. The Committee, in case of the non-existence of assets or sufficient financial guarantees of the Concession Holder, may ask him to submit a Bank Guarantee for the value of the goods, the exportation of which is licensed. If the period fixed for returning such

Friday, May 11, 2012

goods to the country expired without returning same, the Bank Guarantee may be confiscated for the benefit of the Secretariat, and this shall take place by a decision from the Undersecretary of the Secretariat without prejudice to the right of the Secretariat in any other guarantees.

Article 17

Re-exportation of data, analyses and the results of the geological, seismic and magnetic surveys may be licensed for the purpose of arriving at the final interpretations thereof when they are of a special nature and cannot be done locally. The Committee shall grant the Concession Holder, in regards to such other cases of normal nature, a period during which re-exportation may be affected and the Concession Holder should, upon expiration of the above period, make the above interpretations locally.

Article 18

In the applications of the provisions of Paragraph (3) of Article (14) of the Law, and Paragraph (3) of Clause (8) of the Second Schedule.

- (1) “Exploration and Prospecting Expenses” shall mean the expenses (with the exception of what is expended on physical assets) that shall be expended on exploration, preliminary surveys, geological and geophysical activities prior to the drilling in any area.
- (2) “Intangible Drilling Costs” shall mean whatever shall be expended for labor, fuel, repair, maintenance, transportation, materials and supplies for the purpose of well drilling or cleaning.
- (3) The costs of drilling of wells not productive of commercial quantities and as well the assets used therein provided such assets cannot be economically transported to be utilized in another location.
- (4) The election granted to the Concession Holder pursuant to Paragraph (3) of Article (14) of the Law, and Paragraph (3) of Clause (8) of the Second Schedule shall be applicable to the above Paragraphs (1) and (3).

However, as for Paragraph (2), the election shall be applicable thereto in regards to the exploratory wells only.

- (5) The costs, the description of which follows, may not be deductible in the year in which they have been expended, but they shall be considered within the assets owned by the Concession Holder which should be depreciated as per Paragraph (2) (b) of Article (14) of the Law and Paragraph (2) (b) of Clause (8) of the Second Schedule.

- (a) The total cost of the drilling of wells productive of oil, gasoline and natural gas, whether tangible or intangible costs.
- (b) The cost of drilling supplies including drilling rigs, gathering lines, production lines, storage, tanks, engines, production pipes, boilers, machinery and similar properties.
- (c) The cost of wells drilled for water discharge, or the wells drilled for injections.
- (d) The cost of the departments specializing in the design and construction of new projects and the share of productive drilling operations in the cost of the drilling operations department, and a reasonable percentage of the costs of the other service departments, all of such costs shall be allocated to the completed projects or those under construction and shall be considered as a part of the cost of the assets owned by the company.

POSTED PRICES AND INCOME

Article 19

- (1) In the application of the provisions of Clause (5) of Article (14) of the Law and Paragraph (5) of Clause (8) of the Second Schedule, the posted prices shall be applicable to the full quantity contained in each cargo of exported crude oil by the posted price applicable on the day on which the loading of such cargo ends.
- (2) In the application of the provisions of Clause (5) (b) of Article (14) of the Law and Paragraph (5) (b) of Clause (8) of the Second Schedule, it shall be taken into consideration, in the calculation of the income of the Concession Holder from the other operations thereof, its inclusion in the income from the exported crude oil in the calculation of the supplemental payment or the non-inclusion of the expenses pertaining to such income within the expenses of income from the exported crude oil.
- (3) It is meant by Day in the application of this Article the Gregorian Day which starts at midnight, 0 hours to midnight of the following day¹.

¹ Secretariat of Petroleum Decision No. 207 for 1974 and published in the Official Gazette No. 6/1975.

EXCHANGE CONTROL

Article 20

In the application of the provisions of Clause (11) of the Second Schedule of the Law, the Concession Holder shall not retain abroad the funds necessary for the requirements of the operations thereof in the country.

The following items are examples;

- (1) Salaries, wages and the other benefits granted to the employees, expatriates, Arabs or Nationals.
- (2) The amounts due to the suppliers and contractors, and as well the cost of the services provided by any person to the Concession Holder.

** Secretary of Petroleum Decision No. 207 for 1974 and Published in the Official Gazette No. 6/1975.

- (3) Fees, taxes, rents and royalties.
- (4) All other funds necessary for the operating expenses and overheads provided for in this Regulation.
- (5) The value of all the assets of the Concession Holder in Libya, the depreciation premiums thereof and the other capital expenditures provided for in the Law, the Second Schedule thereof and the provisions of this Regulation. The Concession Holder should retain such funds in the country and pay same locally in Libyan currency. He may pay same abroad in Libyan currency transferable to another foreign currency subject to the General Control on Currency Transfer applicable in Libya.

RULES OF COLLECTION

Article 21

In the application of the provisions of Article (14) of the Law and Clause (9) of the Second Schedule thereof, the collection of the Contact Holder's tax obligations, i.e. fees, surface rents, royalties, income taxes, surtaxes and supplemental payments, shall be subject to the following procedures:

- (1) The Concession Holder shall submit to the Secretariat after the end of every month of the calendar year, and in any case within a

Friday, May 11, 2012

maximum of thirty days from the end of each month, a declaration showing his estimate of the tax obligations payable thereby on the basis of his anticipated profits for the period covered by such declaration. Such declaration shall be made in compliance with the form that shall be established by the Directorate General of Companies Accounting of the Secretariat for this purpose. In case of delay in the submission of such Financial Declaration or in case of dispute between the Concession Holder and the Secretariat in regards to the estimate of his payable profits, the Concession Holder shall settle the tax obligations agreed to pursuant to the estimate of the Secretariat provided that he shall submit a statement of his viewpoint to be considered by the Secretariat afterwards.

- (2) The Concession Holder, on the 30th day of the second month following the end of the month on which such obligations are payable, shall pay the amounts payable thereby for the previous month, which amounts shall be considered as a part of the tax obligations payable thereby and a payment on the account hereof, provided that payment shall be made by cheques approved and authenticated by one of the commercial banks operating in the country.
- (3) The Concession Holder shall submit to the Secretariat as soon as possible after the end of each complete year, and in any case within a maximum of four months from the end of each complete year, the accounts showing the profits of such year as defined in the Law. He should pay to the Secretariat, in the same time he submits such accounts, an amount if added to the fees, rents and royalties excluding 16.67% of the value of the crude oil exported and direct taxes previously paid for such year, shall equal 65% of the profits shown by such accounts or any other additional supplemental payments by which the Concession Holder is obligated as per the Agreements signed therewith in this regard. The amount paid in this manner shall be considered as a part of the income tax, surtax and the supplemental payments and a payment on their account.

If it shall be found, in the final determination of the actual calculations of the payable income tax, surtax and additional supplemental payments, that the amounts paid on the account are less than the total payable income tax, surtax and supplemental payments, the Concession Holder shall immediately settle the balance, however, if it shall be found, in the final determination of the actual calculations of the income tax, surtax and supplemental payments, that the amounts paid on the account exceed the total payable income tax, surtax and supplemental payments, the balance shall be carried forward and considered as an amount paid on the account of the

Friday, May 11, 2012

income tax, surtax and supplemental payments in the following year or years.

- (4) Without prejudice to any other penalties or rights of the Secretariat determined in the Law, or the applicable Financial Laws and Regulations, in the event that the Concession Holder delays the monthly payment beyond their fixed dates, a delay fine, amounting to 1% of the value of each such delayed amount, shall be imposed for each period of delay one month or part of the month not less than 15 days. Such fines shall be imposed regardless of the reasons or justifications of such delay. It shall as well be imposed in the event that the monthly payment statements contain clear accounting errors or omission of the sound accounting principles resulting in affecting the value of the payments due to the Secretariat.

Such fine shall be collected in the same time the following monthly payment is collected.

- (5) Without prejudice to any other penalties or rights of the Secretariat determined in the Law and Regulations, the Concession Holder, in case he delays the settlement of the balance referred to in Paragraph (c) of this Article, he shall be subject to a delay fine amounting to 1% of the value of each amount of the said balance that the Concession Holder delays the settlement thereof for each period of delay of one month or part of the month not less than 15 days. Such fines shall be collected in the same time the delayed amounts are paid. The imposing of the fines mentioned in this paragraph and the previous paragraph should take place by a decision from the Undersecretary of the Secretariat. The collection of the above amounts, in the cases not provided for in this Regulation, shall be subject to other procedures determined by the Financial Laws and Regulations in Libya.

Article 22

The Secretariat. For the collection of the tax obligations imposed on the Concession Holder or if it sees that the rights of the Secretariat are subject to loss or in imposing the delay fines provided for in Article 21 of this Regulation, shall have the right to take either of the following two actions:

- (a) Deductions of the delayed amounts and fines from the Letter of Guarantee referred to in Article (1). The Concession Holder should immediately return the Letter of Guarantee to its original value as specified upon its issuance.
- (b) Confiscation of the funds necessary for the fulfillment of the rights of the Secretariat under whatever authority such may be. Such funds

Friday, May 11, 2012

shall be considered as confiscated for the benefit of the Secretariat and may not be disposed of unless such confiscation is cancelled by a judgment from the Secretariat. The actions mentioned in this Article shall be taken by a decision from the Undersecretary of the Secretariat.

PRODUCTION

Article 23

The utilization projects of gas, natural gasoline and their derivatives for exportation, utilization in industry or, home usages shall be treated, for Accounting and Finance, as projects independent from the Concession Holder's normal activity for the utilization of crude oil. The costs and expenses of such projects may not be deducted from the Concession Holder's income resulting from the crude oil exported thereby said expenses and costs shall be deducted upon the realization of income from such projects.

Article 24

In the event that any producing company borrows crude oil, gasoline and natural gas from another company, the lending company (the original producer) should expense the royalty on the borrowed petroleum or gas in the same year during which such borrowing takes place. Upon the returning of such quantities to the lending company (the original producer), the company borrowing such quantities should expense the royalty in the year in which such borrowed quantities are returned.

Article 25

In the event that any producing company shall sell any quantity of crude oil, gasoline or natural gas to another oil company within Libya, the value of such sales shall be calculated within the revenues of the company producing same on the basis of the posted prices and the royalty pertaining thereto shall be expensed in the same year in which such sale takes place. In regards to the purchasing company, such purchase should not affect the financial declaration thereof.

Article 26

The balance of crude oil at the end of the year shall be taken into consideration in the preparation of the Annual Financial Declaration. The valuation of such balance shall take place on the basis of the cost of the

Friday, May 11, 2012

barrel produced within the year including all expenses charged to the Financial Declaration including depreciations.

Article 27

For the measurement of crude oil gravity, the following should be adhered to:

- (1) For the Reference Test the normal hydrometer (1H to 10 H) shall be used and the thermometer may be used for the Field Test.
- (2) The gravity of the crude oil sample in Terminals shall be measured under the following temperatures:

Brega Crude Oil at 65° F or less.

Zueitina Crude Oil at 65° F or less.

Sirtica Crude Oil at 65° F or less.

Sidra Crude Oil at 65° F or less.

Amal and Nafura Crude Oil in Ras Lanuf at 85° F or above.

Sarir Crude Oil in Brega at 95° F or above.

AGIP Crude Oil at 110 ° F or above.

In the Field Tests the gravity measurements may take place at temperatures other than those stated above.

- (3) Samples shall be cooled or warmed to the above temperatures in their closed container and the hydrometer cylinder (the container in which the sample is put to measure its gravity) shall approximately be at the same temperature of the sample the gravity of which is to be measured as above.
- (4) The temperature of the sample shall be observed to the nearest 0.25° F immediately prior and after the observation of gravity, provided that the liquid sample in the cylinder will have been carefully and totally stirred by the thermometer and all the mercury tube shall be immersed.
- (5) In case of a difference of more than 1° F between the two-temperature readings prior and after the gravity reading, the temperature and gravity reading shall be repeated after the

Friday, May 11, 2012

temperature of the sample would have been more stable. The average of the two-thermometer readings prior and the final hydrometer reading shall be recorded to the nearest degree F, which shall be the test temperature.

- (6) In cases not provided for in this Regulation respecting the measurement of oil gravity, the American Petroleum Institute publications shall be followed.