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Approved Single Revised Text of the Organic Hydrocarbon Law

SUPREME DECREE N° 042-2005-EM

(\*) NOTE SPIJ

CONCORDANCE: Law N° 27377  
S.D. N° 083-2002-EF  
S.D. N° 032-2002-EM  
Law N° 27909, Art. 1  
S.D. N° 031-2004-EM (Regulation Law of Promotion of the Investment in Natural Gas Processing Plants)  
S.D. N° 042-2005-EF, Art. 10  
R. N° 004-2006-SUNAT  
S.D. N° 015-2006-EM (Regulation for Environmental Protection in Hydrocarbon Activities)  
R. N° 456-2006-CONSUCODE-PRE (Regulation of Acquisitions and Contracting of Petroleos del Peru S.A. and other supporting documents)  
R. N° 235-2006-SUNAT  
M.R. N° 161-2007-MEM-DM, Art. 78  
S.D. N° 043-2007-EM (Approved the Regulation of Security for Hydrocarbon Activities and amending various provisions)  
S.D. N° 043-2007-EM, Art. 215, Art. 226  
S.D. N° 015-2006-EM (Regulation for Environmental Protection in Hydrocarbon Activities)  
S.D. N° 043-2007-EM, Art. 5, subsection 5.2, Art. 226 (Approved the Regulation of Security for Hydrocarbon Activities and amending various provisions)  
S.D. N° 081-2007-EM (Approved the Regulation for Hydrocarbon Transportation by Pipelines)  
Law N° 29163, Art. 2 (Law of Promotion for the Petrochemical Industry Development)  
R. N° 002-2008-SUNAT , Art. 12  
S.D. N° 012-2008-EM (Approved the Regulation of Citizen Participation for the implementation of Hydrocarbon Activities)  
R. N° 171-2008-CONSUCODE-PRE (Regulation of Acquisitions and Contracting of Petroleos del Peru PETROPERU S.A.)  
S.D. N° 038-2008-EM (Give deadlines for adjustment to provisions of Regulation of Security for Hydrocarbon Activities)  
R. N° 678-2008-OS-CD, Appendix I (Procedure for submission of information about easements for the construction and operation of Hydrocarbon Transport Pipeline)  
S.D. N° 066-2008-EM (Approved Regulation of the Law N° 29163, Law of promotion for Petrochemical Industry development and amended the Regulation approved by Supreme Decree N° 031-2004-EM)  
R. N° 172-2009-OS-CD ("Procedure for Report and Statistics on Emergency and Occupational Diseases in the Hydrocarbons Subsector Activities")  
M.R. N° 515-2009-MEM-DM (Establish quality specifications for Gasohol)

THE PRESIDENT OF THE REPUBLIC

THEREFORE:

That, by Law N° 26221, was approved the Organic Hydrocarbon Law;

That, by Law N° 26734, dated December 30, 1996, was promulgated the Law of the Supervisor Board for Investment in Energy (OSINERG);

That, by Law N° 26817, dated June 23, 1997, was promulgated the Law that amends the Law N° 26734;

That, by Law N° 27377, dated December 6, 2000, was promulgated the Updating in Hydrocarbons Law;

That, by Law N° 28176, dated February 23, 2004, was promulgated the Law of Promotion in the Investment of Natural Gas Processing Plants;

That, the rules referred to in the preceding recitals modified some articles of the Organic Hydrocarbon Law;

That, the Third Final Provision of the Organic Hydrocarbon Law provides that in case of modification of this Law, will be published all the terms of the same, highlighting the modified part;

That, the Single Transitional Provision of the Updating in Hydrocarbons Law, says that the Ministry of Energy and Mines within thirty (30) days from the publication of the said Law, the Single Revised Text of the the Organic Hydrocarbon Law;

In accordance with the Third Final Provision of Law N° 26221, with the Single Transitional Provision of Law N° 27377 and in exercise of the powers provided for in subsections 1), 8) and 24) of Article 118 of the Political Constitution of Peru;

#### DECREE:

##### Article 1.- Of the Approval of the Single Revised Text

Approve the Single Revised Text of the Law N° 26221, Organic Hydrocarbon Law, which has ninety (90) articles, four (4) Transitional Provisions and four (4) Final Dispositions, that is an integral part of this Supreme Decree.

##### Article 2.- Of the Endorsement

The present Supreme Decree shall be endorsed by the Minister of Energy and Mines.

Issued at the Government House, in Lima, on the seventh day, of the month of October, of the year two thousand and five.

ALEJANDRO TOLEDO  
Constitutional President of the Republic

GLODOMIRO SANCHEZ MEJIA  
Ministry of Energy and Mines

## SINGLE REVISED TEXT OF THE LAW N° 26221 – ORGANIC HYDROCARBON LAW

### TITLE I

#### GENERAL PRINCIPLES

Article 1.- The present Organic Hydrocarbon Law rules Hydrocarbon activities in the national territory

Article 2.- The State promotes the development of Hydrocarbons activities on the basis of free competition and free access to economic activity in order to ensure the welfare of the human being and national development.

CONCORDANCE: S.D. N° 016-2006-EM (Constitute Commission responsible for proposing measures for the modernization of the Oil Refineries of Petroleos del Peru-PETROPERU S.A.)

Article 3.- The Ministry of Energy and Mines is responsible for planning, approval, propose and implement the policy of the Sector as well as ensuring compliance of this Law and dictate other relevant rules.(\*)

(\*) Article modified by the Eleventh modified by the Eleventh Supplementary Provision of Law N° 26734, published on 12-31-96, which text is as follows:

“Article 3.- The Ministry of Energy and Mines is responsible for planning, approval, propose and implement the policy of the Sector, as well as dictate other relevant rules. The Ministry of Energy and Mines and the OSINERG are responsible for ensuring compliance with this Law.”

CONCORDANCE: S.D. N° 016-2006-EM (Constitute Commission responsible for proposing measures for the modernization of the Oil Refineries of Petroleos del Peru-PETROPERU S.A.)

Article 4.- The rules or regulatory devices that dictate other Sectors that are related to Hydrocarbons activities, must have a favorable opinion of the Ministry of Energy and Mines, except as provided in Rule XIV of Preliminary Title of the Tax Code.

Article 5.- The Hydrocarbon General Direction is the agency of the Ministry of Energy and Mines, responsible for overseeing the technical aspects of Hydrocarbon activities in the national territory. (\*)

(\*) Article modified by the Eleventh Supplementary Provision of the Law N° 26734, published on 12-31-96, which text is as follows:

“Article 5.- OSINERG is the agency responsible for overseeing the legal and technical aspects of hydrocarbon activities in the national territory.”

Article 6.- Hereby created under the corporate name of PERUPETRO S.A., the State Company of Private Right from the Energy and Mines Sector, organized as a Corporation under the General Corporation Law, which organization and functions will be approved by Law and its social object is as follows:

- a) Promotes investment in Hydrocarbon exploration and exploitation activities.
- b) Negotiates, concludes and supervises, as Contracting Party, by the power conferred upon the State under this Law, the Contracts that it sets, as well as technical evaluation agreements.
- c) Trains and manages, exclusively through third parties should not be affiliates, subsidiaries or other corporate organization that forms part of PERUPETRO S.A., the Database with information related to Hydrocarbon exploration and exploitation activities, may dispose of it in promoting with the private sector participation, as well as for dissemination with purposes to promote investment and research.
- d) Assumes the rights and obligations of the contractor, in existing contracts, concluded under the Law Decrees N° 22774, N° 22775 and its amendments, as well as technical evaluation agreements.
- e) Assumes the appropriate payment for fees, overfee and participation in the revenue.

f) Commercialize, exclusively through third parties which shall not be affiliates, subsidiaries or other corporate organization that forms part of PERUPETRO S.A., under free market principles, the Hydrocarbons from the areas under the Contract, which property it corresponds.

g) Give to the Treasury at the business day following the day on which are collected, the revenues resulting from the contracts, deducting:

1) The amounts to be paid to Contractors, as well as amounts to be paid by Contracts and by application of subsections d), e) and f) of this article

2) The amount of operating costs which corresponds accordance with the budget approved by the Ministry of Energy and Mines. This amount not is greater than one point fifty percent (1.50%) and calculated on the basis of the amount of royalties and its participation in Contracts.

3) The amount of taxes to be paid. (\*)

(\*)Subsection amended by the Eleventh Supplementary Provision of Law N° 26734, published on 12-31-96, which reads as follows:

“g. Give to the Treasury on the business day following the day on which are collected income as a result of the Contracts, deducting:

1) The amounts to be paid to the Contractors, as well as the amounts to be paid by Contracts and by the application of subsections d), e) and f) of this article.

2) The amount of operating costs which corresponds according to budget approved by the Ministry of Energy and Mines. This amount not is greater than one point fifty percent (1.50%) and calculated on the basis of the amount of royalties and its participation in contracts.

3) The amount of the contribution to the maintenance of OSINERG. This amount shall not exceed one point fifty percent (1.50%) and calculated on the basis of the amount of royalties and its participation in contracts.

4) The amount of taxes to be paid.” (\*)

(\*) Subsection amended by the Single Article of N° 26817, published on 06-24-97, which reads as follows:

“g. Give to the Treasury on the business day following the day on which are collected income as a result of the Contracts, deducting:

1. The amounts to be paid to the Contractors, as well as the amounts to be paid by Contracts and by the application of subsections d), e) and f) of this article.

2. The amount of operating costs which corresponds according to budget approved by the Ministry of Energy and Mines. This amount not is greater than one point fifty percent (1.50%) and calculated on the basis of the amount of royalties and its participation in contracts.

3. The amount of the contribution to the maintenance of OSINERG. This amount does not exceed zero point seventy-five percent (0.75%) and calculated on the basis of the amount of royalties and its participation in contracts.

4. The amount of the contribution to support the Ministry of Energy and Mines, in both policy-making bodies. This amount shall not exceed seventy-five point zero percent (0.75%) and calculated on the basis of the amount of royalties and its participation in contracts.

5. The amount of taxes to be paid.”

h) Propose the Ministry of Energy and Mines other policy options related to Hydrocarbons exploration and exploitation.

i) Participate in the development of sector plans.

j) Coordinate with appropriate entities, compliance with the provisions relating to the preservation of the environment.

## TITLE II

### EXPLORATION AND EXPLOITATION

#### FIRST CHAPTER

##### PRINCIPLES

Article 7.- The term "Hydrocarbons" includes any organic, gaseous, liquid or solid compound, consisting mainly of carbon and hydrogen.

Article 8.- Hydrocarbons "in situ" are property of State.

The State grants PERUPETRO SA property law on extracted Hydrocarbons to the effect that to conclude Contracts for exploration and exploitation or exploitation of these, in the terms established by this Law.

The right of ownership of PERUPETRO S.A. on extracted Hydrocarbons, as stated in the preceding paragraph, shall be transferred to the Licensee to enter into License Contracts.

Article 9.- the term "Contract", includes the License Contract, Services Contract and other contract modalities to be adopted pursuant to Article 10.

The term "Contractor" includes both the contractor of Service Contracts and the licensee of the License Contracts, unless otherwise required.

The term "Contracting party" refers to PERUPETRO S.A.

Understood as "Hydrocarbons Fiscalized Production" the Hydrocarbons from a specific area, produced and measured under terms and conditions agreed in each Contract.

The terms defined in this article are applicable to other modalities of contracts approved by the Ministry of Energy and Mines.

#### SECOND CHAPTER

##### GENERALITIES ABOUT CONTRACTS

###### CONTRACTING

Article 10.- Hydrocarbon exploration and exploitation activities may carried out under the following contractual forms:

a) License Contract is held by PERUPETRO S.A., with the Contractor and for which it obtains the permission to explore and exploit or exploit hydrocarbons in the Contract area; in which merit PERUPETRO S.A. transfer the property rights of Hydrocarbons to the Contractor, who must pay a royalty to the State.

b) Services Contract is held by PERUPETRO S.A. with the Contractor, so that it exercises the right to carry out exploration and exploitation or exploitation of Hydrocarbons in the area of Contract, the Contractor shall receive compensation according to the Hydrocarbons Fiscalized Production.

c) Other contracting modalities authorized by the Ministry of Energy and Mines

CONCORDANCE: S.D. N° 081-2007-EM, Arts. 79, 81, 82  
S.D. N° 012-2008-EM, Art. V  
S.D. N° 045-2008-EM, Art. 2, (Starting the procedure for the approval of Contracts)  
R.M. N° 571-2008-MEM-DM, Arts. 2 y 17 (Approve Guidelines for Citizen Participation in Hydrocarbons Activities)

Article 11.- The Contracts referred to in Article 10 may be held at the Contracting criteria, after direct negotiations or by calling.

The Contracts must be approved by Supreme Decree countersigned by the Ministers of Economy and Finance and Energy and Mines.(\*)

(\* ) Article amended by the Article 1of Law N° 27377, published on 12-07-2000, which reads as follow:

“Article 11.- The contracts referred to in Article 10 may be held, at the Contracting criteria, after direct negotiation or by calling.

The Contracts must be approved by Supreme Decree countersigned by the Ministers of Economy and Finance and of Energy and Mines, within a period not exceeding 60 (sixty) days of commencing process of approval with the Ministry Energy and Mines by the Contracting Entity, looking at the corresponding procedure regulations the procedure.”

CONCORDANCE: S.D. N° 045-2008-EM (Approving the Regulation of Article 11 of the Single Revised Text of the Organic Hydrocarbon Law)

Article 12.- The Contracts, once approved and signed, may be amended only by written agreement between the parties. The amendments will be approved by Supreme Decree countersigned by the Ministers of Economy and Finance and Energy and Mines.

License Contracts and Service Contracts are governed by private law be so applicable of the scope of Article 1357 of the Civil Code. (\*)

(\* ) Article amended by Article 1of Law N° 27377, published on 12-07-2000, which reads as follow:

“Article 12.- The Contracts, once approved and signed, may be amended only by written agreement between the parties. The amendments will be approved by Supreme Decree countersigned by the Ministers of Economy and Finance and Energy and Mines, within the same period specified in Article 11.

The License Contracts, as well as Service Contracts, are governed by private law, be so applicable of the scope of Article 1357 of the Civil Code.”

CONCORDANCE: S.D. N° 018-2006-EM (Approving the contractual amendment in the License Contract for Hydrocarbons Exploration and Exploitation in Block 31-E)

R.M. N° 305-2006-MEM-DM (Authorizes the Hydrocarbon General Director to sign Investment Contract held between the State through the Ministry of Energy and Mines and PROINVERSIÓN with various companies)

S.D. N° 045-2008-EM, First Final Provision

R. N° 003-2010-SUNAT, Art. 14

Article 13.- Natural persons or corporations, domestic or foreign, may enter into Contracts for throughout the national territory including the area within fifty (50) kilometers of border. For the purpose of carrying out exploration and exploitation or exploitation of hydrocarbons in the border zone indicated above, this Organic Law recognizes that these are cases of national and public necessity.

CONCORDANCE: R. N° 003-2010-SUNAT, Art. 14

QUALIFICATION - REQUIREMENTS

Article 14.- By Supreme Decree and on a proposal from the Ministry of Energy and Mines approved the qualification rules of natural persons or corporations, domestic or foreign, may sign Contracts for exploration and exploitation or exploitation of Hydrocarbons.

This regulation shall establish the technical, legal, economic and financial requirements, as well as experience, capacity and reliability minimum necessary to ensure the sustained development of the exploration and exploitation of Hydrocarbon, according to the characteristics of the Contract area, with investment required and the strict compliance with the rules of environmental protection.

Article 15.- Foreign companies to enter into Contracts under this Law, shall establish branch or incorporate a company under the General Corporation Law, fix home in the capital of the Republic of Peru and a Peruvian Attorney to appoint. Foreign individuals must be registered in the Public Records and appoint guardian of Peruvian nationality, residing in the capital of the Republic of Peru.

Article 16.- In each Contract, where two or more individuals or legal entities that make up the Contractor shall indicate the person responsible for conducting the operation. The responsibility for conducting the operations may alternate between the people who make up the Contractor, upon approval of the Contracting party. However, all of them shall be jointly responsible to the Contracting Party by the obligations established and derivated from the Contract.

The tax and accounting responsibility is individual against the Peruvian State.

CESSION

Article 17.- The Contractor or any natural or legal persons that compose it, may assign its contractual position or partner with third parties upon approval by Supreme Decree countersigned by the Ministers of Economy and Finance and Energy and Mines.

The cessions will involve the maintenance of the same responsibilities with regard to the guarantees and obligations given and assumed in the Contract by the Contractor.

SCOPE OF THE CONTRACT

Article 18.- The Contracts authorize the Contractor during the term of the the Contract to perform the necessary operations for the exploration and exploitation or exploitation of hydrocarbons, including secondary and enhanced recovery, forcing the Contractor to perform the work agreed in the Contract area and outside it , as necessary, prior approval of the Contracting Party in this last case.

Article 19.- The Contracts concluded under this Law does not authorize the Contractor to explore or to exploit any other natural resource, being obliged the Contractor to inform appropriate and timely manner about their findings, to PERUPETRO S.A. and the competent authority, including

those that are of archaeological or historical character. However, the Contractor may recover mineral resources obtained from Hydrocarbons by operation, according to what is agreed in each the Contract.

### THIRD CHAPTER

#### TECHNICAL ASPECTS CONTRACT AREA

Article 20.- The extent and definition of the initial area of the Contract will be determined according at each Contract according to the hydrocarbon potential, geographic area, guaranteed minimum work program and area that actually carry out the exploration or exploitation of Hydrocarbon, or both activities.

#### MINIMUM PROGRAMS AND GUARANTEES

Article 21.- In any Contract each period of the exploration phase should have a mandatory minimum work program. Each of these programs will be guaranteed with a bond which amount will be agreed with the Contracting Party, which is joint and several, unconditional, irrevocable, of automatic execution in Peru, without benefit of discussion and issued by an entity Financial System, duly qualified and domiciled in the country.

#### TERMS

Article 22.- The Contracts include two phases: exploration and exploitation, unless the Contract is one of exploitation in which case will have only one phase or other modalities of contracting authorized by the Ministry of Energy and Mines.

The maximum terms of the Contracts will be:

a) For the exploration phase up to seven (7) years, counted from the effective date established in each Contract, may divide this phase in several periods as agreed in the same. This phase may continue until the expiration of said term, although it has begun the production of discovered Hydrocarbons. (\*)

(\*)Section amended by Article 2 of Law N° 27377, published on 12-07-2000, which reads as follows:

“a) For the exploration phase up to seven (7) years, counted from the effective date established in each Contract, may divide this phase in several periods as agreed in the same. This phase may continue until the expiration of said term, although it has begun the production of discovered Hydrocarbons.

In exceptional cases, may authorize an extension of the term of the exploration phase through to 3 (three) years, provided that the Contractor has complied strictly with the minimum program guaranteed under the Contract and also committed to the implementation of an additional work program that justifies the extension of the term and is guaranteed with a bond satisfactory to the Contracting Party.”

b) For the exploitation phase:

1) In the case of crude oil up to complete thirty (30) years from the effective date of the Contracting Party.

In the case provided for in Article 23, the term of the Contract may be extended to include the retention period agreed.



2) In the case of non-associated natural gas and non-associated natural gas and condensates to complete forty (40) years, counted from the effective date of Contract. In the cases provided in Articles 23 and 24 the term of the Contract may be extended to include the retention periods agreed.

The sum of retention periods shall not exceed ten (10) years.

#### RETENTION PERIOD

Article 23.- In the case of the Contractor carries out a discovery of Hydrocarbons during any exploration phase, that not be commercial only for transport reasons, may ask for a retention period in order to make possible the production transport.

Said period may not exceed five (5) years.

The right of retention shall be subject at least to the following requirements:

a) That the Contractor can demonstrate to the satisfaction of the Contracting Party, the volumes of discovered Hydrocarbon in the Contract area are insufficient to guarantee the construction of the main pipeline;

b) That the collection of findings in the contiguous areas of the Contractor, are insufficient to guarantee the construction of the main pipeline; and,

c) That the Contractor demonstrates, on an economic basis, that the Hydrocarbons discovered can not be transported from the Contract area a place for marketing, by any means of transport.

The Contractor shall be subject to the conditions agreed in the Contract for the retention of surface area occupied by the field or discovered fields.

Article 24.- For the case in which at the (\*) EDITOR'S NOTE Contractor makes a finding of non-associated natural gas, or non-associated natural gas and condensates in any period of the exploration phase, in the Contract may agree to a retention period in order to develop the market, period not to exceed ten (10) years.

The Contractor shall be subject to the conditions agreed in the Contract for the retention of surface area occupied by the field or discovered fields.

#### AREA RELEASES

Article 25.- The Contract area will be reduced as the parties agree in the Contract up to the surface under which are the producers horizons plus a surrounding area of technical security.

The reversal by the Contractor of part or parts of the Contract area, will not represent any cost to the State and to PERUPETRO S.A.

#### TECHNICAL AND ECONOMIC-FINANCIAL RESPONSIBILITIES

Article 26.- For the exploitation phase, the Contractor shall submit to PERUPETRO S.A. an initial development plan, covering a five year period, it will be updated annually.

Article 27.- The Contractor shall provide at its own risk all the economic and technical resources required for financial execution of the Contracts remain their sole responsibility and responsible for all investments, costs and expenses incurred by those concepts.

Article 28.- The Contractor of a Services Contract is responsible of the transport of the Hydrocarbons produced from its Contract area to the place that the parties agree.

Article 29.- The Contractors shall provide the resources and means that agree with the Contracting Party, for an effective technology transfer and training of staff from the Hydrocarbon Subsector designated by the Ministry of Energy and Mines.

Article 30.- The Contractor will release and in its case will indemnify the Contracting Party and the State, as appropriate, from any claim, legal action or other charges or encumbrances of third parties which may result as a consequence of their activities and relationships conducted under the Contract, from any contractual or extracontractual relation, except those arising by actions from the own Contracting Party or the State.

#### TRAFFIC DUTIES

Article 31.- The Contractor has the right to free entry and exit of the Contract Area.

#### EXPLOITATION OF COMMON FIELDS

Article 32.- In the case that a field or fields extend to adjacent areas, the Contractors in these areas, held an exploitation agreement. Failure to reach an agreement, the Ministry of Energy and Mines has the submission of disputes to a Technical Committee of Conciliation and its resolution shall be binding.

#### TECHNICAL REGULATIONS

Article 33.- The Ministry of Energy and Mines will dictate the rules relating to the technical aspects of facilities and operations of exploration and exploitation of both surface and subsurface and safety; applying appropriate sanctions in case of default.(\*)  
(\* ) Amended by the Eleventh Supplementary Provision of Law N° 26734, published on 12-31-96, which reads as follows:

“Article 33.- The Ministry of Energy and Mines will dictate the rules relating to the technical aspects of facilities and operations of exploration and exploitation of both surface and subsurface and safety. OSINERG will apply appropriate sanctions in case of default.”

Article 34.- The exploitation and economic recovery of Hydrocarbon reserves will be conducted according to technical and economic principles generally accepted in use by the international hydrocarbons industry; without prejudice to compliance with the rules of the environment protection.

#### SECURITY

Article 35.- The Contractor is obliged to facilitate the work audit institutions, to safeguard the national interest and meet the safety and health of their workers.

Article 36.- The State, through the Ministry of Defence and Ministry of Interior, will provide to the Contractor in the operations and, as soon as possible, the necessary security measures.

#### INFORMATION

Article 37.- The Contractor is obliged to keep constantly informed PERUPETRO S.A. with respect to its operations. All the studies, information and data, processed and unprocessed obtained by the contractors and subcontractors, will be delivered to PERUPETRO S.A.

The Contractor has the right to use that information and data for the purpose of developing and producing reports that other authorities will request. Likewise, has the right to prepare, publish reports and studies using that information and data.

“The Contractor is obliged to submit the technical and economic information of its operations to OSINERG in the manner and terms set out in Regulation. This information will be publicly available.” (\*)

(\*)Paragraph inserted by the Eleventh Supplementary Provision of Law N ° 26734, published on 12-31-96.

Article 38.- PERUPETRO S.A. has the right to publish or otherwise disclose data and geological, scientific and technical reports, relating to the areas which the Contractor has been released.

In the case of operational areas, the right referred to in the preceding paragraph shall be exercised at expiration of the second year of receiving the information or earlier if the parties agree.

#### FOURTH CHAPTER

##### ECONOMIC AND FINANCIAL ASPECTS FREE AVAILABILITY OF HYDROCARBONS

Article 39.- The Contractor will have free availability of Hydrocarbons that are appropriate under the Contract and may be exported free of all taxes, including those requiring specific mention.

Article 40.- The Contractor has the right to use in its operations the Hydrocarbons produced in the Contract area, free of charge.

Article 41.- The Contractor which retribution be paid in cash will have the right, in case of failure in the payment by the Contracting Party, to sell in the domestic or foreign market volume production from the Contract area, up to an amount to cover the debt.

The parties agreed in the Contract the mechanisms in case sales exceeding the appropriate amount and return the excess to the debtor in a timely manner, well as the choice of timing of the sale and how it is done.

Article 42.- The Ministry of Energy and Mines, through PERUPETRO S.A., has the right to withhold automatically and without formality, the volume of production from the Contract area required to cover the royalties, in the event the licensee fails to pay in the opportunity agreed in the Contract.

##### NATIONAL EMERGENCY

Article 43.- In case of national emergency declared by Law, under which the state should acquire Hydrocarbons from local producers, this will be carried out according to international prices and recovery mechanisms of payment established in each Contract.

##### NATURAL GAS

Article 44.- The natural gas that is not used in operations can be commercialized, reinjected into the reservoir or both by the Contractor. To the extent that natural gas is not used, sold or reinjected, the Contractor upon approval of the Ministry of Energy and Mines, may burn the gas.

CONCORDANCES: S.D. N° 088-2009-EM, Art. 6

##### ROYALTY AND RETRIBUTION

Article 45.- The Contractors will pay the royalty for each License Contract according to the Hydrocarbons Fiscalized Production from the area of that Contract.

In this case, the Contractor shall pay the State the royalty in cash, at international prices according to valorization and payment mechanisms that will be established in each Contract.

The royalty will be considered as an expense. (\*)

(\*) Article amended by Article 3 of Law N° 27377, published on 12-7-2000, which reads as follow:

“Article 45.- The Contractors will pay the royalty for each License Contract based on the Hydrocarbons Fiscalized Production from the area of that Contract.

In this case the Contractor will pay to the State the royalty in cash, according to the valorization and payment mechanisms that will be established in each Contract, having into account that liquid hydrocarbons will be valued on the basis of international prices and natural gas prices based on sales in the domestic or export market, depending on the case.

The royalty will be considered as an expense.”

Article 46.- The retribution of each Services Contract shall be determined according to the Hydrocarbons Fiscalized Production from the area of the Contract and paid as agreed in each Contract. (\*)

(\*) Article amended by Article 3 of Law N° 27377, published on 12-7-2000, which reads as follow:

“Article 46.- The retribution of each Services Contract shall be determined according to the Hydrocarbons Fiscalized Production from the area of the Contract and will be paid as agreed in each Contract. The valorization mechanisms in this case will follow the same criteria established in Article 45.”

Article 47.- By Supreme Decree countersigned by the Ministers of Economy and Finance and Energy and Mines, will dictate the rules governing the application royalty and contribution, based on a variable scale which will depend on technical and economic factors that will determine the percentages of royalties and retribution throughout the national territory.

In each Contract, will apply the royalty and retribution percentage that correspond.

#### INCOME TAX

Article 48.- The Contractors will be subject to common taxation regime of the Income Tax, to specific rules established in this Law and shall be governed by the conditions in force at the time of conclusion of the Contract. The Contracts will be specified as reference or criterion expresses the parties, the current regime applicable.

When contractors are branches of companies incorporated abroad, the the Income Tax will fall only on their Peruvian source income taxed.

Understand that if the Contractors obtain additional income from activities carried out partly in the country and some abroad, only in respect of such income, apply the rules laid down in the second paragraph of subsection e) of Article 51 of the Law N ° 25751, Law on Income Tax.

Article 49.- The Contractors whatever form of organization or corporate structure, will be considered as legal persons for the purposes of the Income Tax.

The contractor companies which are associated directly and individually liable for payment of the Income Tax.

Article 50.- The Contractors that carry out Hydrocarbons exploration and exploitation activities in more than an Contract area and also develop other activities related to oil, natural gas and condensate and energy activities related to the Hydrocarbons, will determine the results of each exercise independently for each Contract area and for each activity for the purpose of calculating the Income Tax.

If one or more of the Contracts or activities are loss-making druggable, these should be compensated by the profit generated by one or more other Contracts or activities, at the option of Contractor.

The investments in an Contract area where had not been reached the commercial extraction stage, will be accumulated to the same type of investments made in another Contract area in which has reached this stage and the total will be amortized by the method chosen, as provided in Article 53 of this Law.

Article 51.- The Contractors will pay their taxes in cash, with the exception of contractors with Contracts in force at the date of this Law governing, that pay their the Income Tax in kind and not making use of the provisions of this Third Temporary Provision of this Law on taxation.

Notwithstanding the previous paragraph, may apply the provisions of Article 32 of the Tax Code.

Article 52.- The Contractors shall make their payments on account of the Income Tax according to the rules established by the common system in force at the date of signing of each the Contract, in accordance with the provisions of Article 63 of this Law.

Article 53.- The exploration and development expenditures as well as investments carry out by the Contractors to date of commencement of commercial extraction of Hydrocarbons, including the cost of wells, will be accumulated in an account whose amount, at the option of the Contractor and for each Contract, will be amortized in accordance with any of the methods or procedures as follow:

- a) Based on the production unit; or,
- b) By the linear amortization, deduction in equal portions over a period of not less than five (5) annual exercises.

Started the commercial extraction will be deducted as an expense, all items related to expenses that have no recovery value.

The wear suffered by depreciable assets is offset by the deduction of penalties that will be calculated annually as the common system of the Income Tax to the date of signature of each Contract.

The Ministry of Energy and Mines may determine the depreciation of the main pipeline, which may not be less than five (5) years. The depreciation that the Contractors carry out, shall be communicated to the National Superintendency of Tax Administration.

The expenses for services provided to the Contractor by non-domiciled shall be deductible from the Income Tax, subject to compliance with the requirements established by the respective regulations.

Article 54.- In the Contract shall specify the method of amortization that will use the Contractor, which may not be varied.

In the case of opt for the linear amortization method shall be agreed upon in the same contract the period in which the redemption will be.

#### IMPORT AND EXPORT

Article 55.- The Contractor may import the goods necessary for the execution of the Contract. May not reexport nor available for other purposes importing goods exempted from taxes under this Law without the authorization of the Contracting Party, after which may use them according to the provisions of Article 57, if applicable.

Article 56.- Imports of goods and supplies required in the exploration phase of each Contract, for exploration activities, is exempt from all taxes, including those requiring specific mention, for the duration of this phase term.

By Supreme Decree countersigned by the Ministers of Economy and Finance and Energy and Mines, will establish the list of goods subject to the benefit provided in this Article.

Article 57.- The taxes affecting imports of goods and supplies required by the Contractor, for operating activities and exploration activities in the exploitation phase, shall be borne and cost by the importer.

Article 58.- Hydrocarbons export is exempt from all taxes, including those requiring specific mention.

Article 59.- Except for the Contracts in force at the date of enactment of this Law, the Contractor shall pay with its own resources and directly import taxes that are applicable to its activities in Peru, according to Law .

#### TEMPORARY IMPORT

Article 60.- The Contractors shall import temporarily, for a period of two (2) years, goods for its activities with suspension of import taxes, including those requiring specific mention.

The procedure, requirements and guarantees necessary for the implementation of temporary import regime shall be subject to the rules contained in the General Customs Law and its amendments and regulations.

Article 61.- Temporary import may be extended for periods of one (1) year, for up to two (2) times. In the case of extension, the Contractor shall request in due time PERUPETRO S.A. who will manage with the Hydrocarbons General Directorate the corresponding Directorial Resolution. With the documents mentioned, the National Customs Superintendency authorizes the extension of temporary import regime.

Article 62.- The Contractors with Contracts in force at the date of this Law governing the provisions will continue to apply in their Contracts regarding the temporary custody.

#### TAX GUARANTEES AND EXCHANGE

Article 63.- The State guarantees the contractors that exchange and tax regimes in force at the date of the Contract, remain unchanged during the term hereof, for purposes of each Contract.

The Banco Central de Reserva del Peru, representing the State, will intervene in the Contracts referred to in the preceding paragraph, in order to guarantee the availability of foreign exchange as detailed in Article 66.

Corresponds to the Ministry of Economy and Finance, to comply with the guarantee of stability of the tax regime stipulated in this Article.

#### ACCOUNTING

Article 64.- The Contractor may keep its accounting records in foreign currency, in accordance with accepted accounting practices in Peru.

#### INVESTMENT INFORMATION

Article 65.- Contractor shall inform the Banco Central de Reserva del Peru and the Ministry of Energy and Mines, as documented, about the investments undertaken in the country each year, indicating in each case, if performed in other capital goods.

#### FREE GUARANTEES MANAGEMENT AND AVAILABILITY OF FOREIGN EXCHANGE

Article 66.- The Banco Central de Reserva del Peru on behalf of the State is obliged to guarantee the companies that make up the Contractor, domestic and abroad, the availability of foreign currency that applies according to this Law and the provisions in the Contracts, further comprising as follows:

a) The free availability of 100% (hundred percent) of foreign exchange generated by Hydrocarbons exports which will be available directly in their bank accounts at home or abroad;

b) The freely available and right to freely convert foreign currency to 100% (hundred percent) of the national currency resulting from its Hydrocarbons sales to the domestic market and the right to directly deposit into their bank accounts at home or abroad both currency as the national currency;

c) The right to freely convert foreign currency to 100% (hundred percent) of its retribution paid in cash, freely available to those currencies and the right to directly deposit into their bank accounts at home or abroad as both currencies currency;

d) The right to maintain, control and operate bank accounts in any currency, both domestically and abroad, have control and free use of such accounts and to maintain and freely dispose abroad of such funds in these accounts without any restrictions;

e) Notwithstanding the foregoing, the right to freely dispose, distribute, remit or retain abroad without any restriction, their annual net profits after tax.

The guarantee of availability of foreign currency granted by Banco Central de Reserva del Peru will apply if the foreign exchange required by the Contractor can not be met by the country's financial system.

#### TECHNICAL COMMITTEE OF CONCILIATION AND ARBITRATION

Article 67.- In the Contracts may provide that the technical differences that arise between the parties are subject to the Technical Conciliation Committee in the terms they deem appropriate. The Resolutions of the said Committees shall be binding, while the Judicial Power or an arbitration award did not resolve the dispute in final decision. The submission of the resolution to the Judicial Power or to national or international arbitration, the parties shall be determined explicitly.

Article 68.- International arbitration in License and Services Contracts and any other contracting modality shall in any ca.

#### FIFTH CHAPTER

## TERMINATION OF CONTRACT

Article 69.- The termination of the Contract is governed by the rules of the Civil Code in matters not provided for in this Law.

Article 70.- The Contract will terminate automatically and without any requirement, in the following cases:

- a) At the expiration of the contractual term I.
- b) By agreement among the parties.
- c) For unappealable mandate of the Judicial Power or the Arbitral Tribunal.
- d) On the grounds that the parties agreed in the Contract.

e) At the end of the exploration phase, without the Contractor has done Declaration of Commercial Discovery and is not force a retention period.

Article 71.- At the completion of the Contract, shall become the property of the State, free of charge, unless it does not require, the property, energy installations, camps, media, pipelines and other production assets that allow the continuation of operations.

Additionally, the Contractor is obliged to perform the actions that determine the rules of the Environment approved by the Ministry of Energy and Mines.

## TITLE III

### PIPELINES

Article 72.- Any natural or legal person, domestic or foreign, may construct, operate and maintain pipelines for the transport of Hydrocarbons and their derivatives, according to a concession contract for transportation, which will be granted subject to the provisions established by the regulations issued by the Ministry of Energy and Mines.

Transportation rates are set in accordance with the Regulations approved by the Ministry of Energy and Mines.

CONCORDANCE: S.D. N° 081-2007-EM (Approved the Regulation for Hydrocarbon Transportation by Pipelines)

## TITLE IV

### STORAGE

Article 73.- Any natural or legal person, national or foreign, may construct, operate and maintain facilities for the storage of Hydrocarbon and their derivatives, subject to the regulations issued by the Ministry of Energy and Mines.

## TITLE V

### REFINING AND PROCESSING



Article 74.- Any natural or legal person, national or foreign, may install, operate and maintain oil refineries, natural gas and condensates processing plants, natural asphalt, grease, lubricants and petrochemicals, subject to the rules established by the Ministry of Energy and Minas.

“By Contract-Law, the State may grant to the natural gas processing plants, the benefits of this Law and its regulations granted.”

(\*)Paragraph added by Article 1 of Law N° 28176, published on 02-24-2004.

CONCORDANCES: S.D. N° 005-2006-EM (Authorize signing of the Agreement for Installation, Operation and Maintenance of a Natural Gas Processing Plant among the State and PERÚ LNG S.R.L.)

R.M. N° 031-2006-MEM-DM (Approved signing of Investment contract for the Installation, Operation and Maintenance of a Natural Gas Processing Plant among the Peruvian State and Perú LNG S.R.L.)

S.D. N° 054-2007-EM (Enacted provisions to authorize operation of petrochemical plants)

Article 75.- Any natural or legal person, domestic or foreign, may import Hydrocarbons.

The taxes levied on the importation shall be borne by the importer.

Natural persons or corporations, domestic or foreign, imported Hydrocarbons to be processed and transformed into the country and destined for export, can make use of temporary admission, as established by the General Customs Law and its amendments and regulations.

## TITLE VI

### TRANSPORT, DISTRIBUTION AND COMMERCIALIZATION OF PRODUCTS

Article 76.- Transport, wholesale and retail distribution and commercialization of products derived from Hydrocarbons are governed by the rules adopted by the Ministry of Energy and Mines, they should contain mechanisms to satisfy the domestic market supply.

CONCORDANCES: S.D. N° 003-2007-EM

R.M. N° 152-2007-MEM-DM

S.D. N° 015-2008-EM (Provide enforceable of Peruvian technical rules of fuels and other hydrocarbon derivatives approved by INDECOPI)

S.D. N° 026-2008-EM (Establishes deadlines and procedures for registration in the Direct Consumers Temporary Record, Local Sales and Distribution Networks of GLP)

S.D. N° 057-2008-EM (Approved Rules of Commercialization of Compressed Natural Gas (CNG) and Liquefied Natural Gas (LNG))

S.D. N° 045-2009-EM (Prohibit the sale of Kerosene and Diesel N° 1 and establish a Replacement Program for domestic consumption of Kerosene for Liquefied Gas of Oil)

R.M. N° 380-2009-MEM-DM (Approved type and minimum characteristics of the Global Positioning System for Means of Transportation of Crude Oil, Liquefied Gas of Petroleum, Liquid fuel and other Derived Products from Hydrocarbons)

## TITLE VII

### FREE TRADE

Article 77.- The activities and the prices related to crude oil and derivated products, are governed by supply and demand.

Article 78.- Any subsidy that the State wishes to implement, must be made by direct transfer of the Treasury.

## TITLE VIII

### NATURAL GAS DISTRIBUTION

Article 79.- The natural gas distribution through pipelines network is a public service.

The Ministry of Energy and Mines granted concessions for the distribution of natural gas through pipeline network to domestic or foreign entities that demonstrate technical and financial capacity.

CONCORDANCES: S.D. N° 063-2005-EM (Promulgate regulations to promote mass consumption of natural gas)

Article 80.- The Ministry of Energy and Mines will determine which authority to regulate the service of natural gas distribution through pipeline network and issue regulations that provide, among other aspects, the following:

- a) Specific rules for granting concessions.
- b) Organization, functions, rights and obligations of the regulatory authority.
- c) Rules for determining the maximum prices to the consumer.
- d) Safety rules.
- e) Environmental Rules relating.

## TITLE IX

### GENERAL PROVISIONS

Article 81.- Natural persons or corporations, domestic or foreign that develop Hydrocarbon activities are subject to ordinary tax regime, with the exceptions provided for in this Law.

### RIGHTS OF USE, SERVITUDE AND EXPROPRIATION

Article 82.- Natural persons or corporations, domestic or foreign that develop Hydrocarbon activities included in Titles II, III and VIII, have the right to use water, gravel, lumber and other building materials necessary for their operations, respecting the rights of third parties and in accordance with relevant legislation.

Also be able to manage permits, easements, water use and surface rights, and any other rights and authorizations on public or private land, which are necessary to carry out their activities.

The economic damage caused by the exercise of such rights shall be indemnified by the people who cause such damage.

CONCORDANCE: S.D. N° 081-2007-EM, Art. 94

Article 83.- Is established legal easement for cases where it is needed for Hydrocarbon activities included in Titles II, III and VIII. The regulations of this Law shall establish the requirements and procedures for the exercise of this right.

CONCORDANCE: S.D. N° 081-2007-EM, Art. 94

Article 84.- Interested parties, duly qualified to carry out Hydrocarbon activities covered in Titles II, III and VIII, may request the Ministry of Energy and Mines for the expropriation of private

land. The Ministry of Energy and Mines will evaluate the request and, in the case of declare its procedence with the properly support, such expropriations are considered of national and public need starting the process of expropriation of the area required under Law.

CONCORDANCE: S.D. N° 081-2007-EM, Art. 94

#### APPLICABLE LAW AND JURISDICTION

Article 85.- Natural persons or corporations, domestic or foreign, that develop Hydrocarbons activities shall be expressly subject to the Laws of the Republic of Peru and shall waive all diplomatic claims.

Article 86.- The differences that may arise in the execution, performance and overall everything about Hydrocarbon activities referred to in this Law, may be referred to the Judicial Power or to national or international arbitration. Agreed jurisdiction, shall be binding.

The arbitration shall by mutual agreement and shall be in writing. The parties shall establish the conditions for their implementation, must necessarily point out the manner of designating the arbitrators and the rules under which they must issue the relevant award.

#### ENVIRONMENTAL PROTECTION

Article 87.- Natural persons or corporations, domestic or foreign, that develop Hydrocarbons activities must comply with the provisions on Environment Protection. In case of failure of those provisions the Ministry of Energy and Mines will issue appropriate sanctions and may go until the end of the respective contract. (\*)

(\*)Paragraph amended by the Eleventh Supplementary Provision of Law N° 26734, published on 12-31-96, which reads as follows:

“Article 87.- Natural persons or corporations, domestic or foreign, that develop Hydrocarbons activities must comply with the provisions on Environment. In case of failure of those provisions OSINERG will impose appropriate sanctions, being able the Ministry of Energy and Mines to reach the respective termination of the Contract after a report from OSINERG.”

The Ministry of Energy and Mines will dictate Regulations of the Environment for Hydrocarbon Activities.

#### LABOR REGIME

Article 88.- Workers in companies that develop Hydrocarbons activities within the scope of this Law, are subject to the labor regime of private activity.

#### GUARANTEES

Article 89.- The rights and guarantees established in Legislative Decree N° 662 and Legislative Decree N° 757, amendments and regulations, apply to the Hydrocarbons activities, as this Law does not contain does not oppose or restrict what it provides.

Article 90.- In accordance with the provisions of this Law, any legal entity, government institution, official agency, entity of public or private law is empowered to establish nor collect fees or compensation under any circumstances, has not been established or are establishing, in the form expressed by Law. This limitation includes Local and Regional Governments.

## TITLE X

### TRANSITORY PROVISIONS

First.- Within ninety (90) days following the publication of this Law, PETROPERU S.A. held with PERUPETRO S.A. License Contracts for Hydrocarbons exploration and exploitation or exploitation activities in Block 8 in the Jungle.

Likewise, in the Coast, PETROPERU S.A. held with PERUPETRO S.A. a License Contract for each direct operation area where the field or group of fields with commercial production are located.

Other areas assigned to PETROPERU S.A. for direct operations for its Hydrocarbons exploration and exploitation activities, which are not subject to a License Contract, revert to the State.

Second.- PETROPERU S.A. and the Hydrocarbons General Directorate will transfer to PERUPETRO S.A. within ninety (90) days following the publication of this Law, all the technical, economic, finance, contractual and legal information that they have, related with Hydrocarbons exploration and exploitation activity.

The transfer is carried out in an organized and planned.

Third.- Contracts in force at the date of coming into force of this Law remain subject to the laws referred to the First Final Provision, as applicable to them. However, the Contractor shall be entitled to its request made within sixty (60) days from the date of enactment of this Law, be included in their Contracts the following benefits:

- a) The free availability of Hydrocarbons.
- b) Cash payment of Taxes.
- c) International or national arbitration.
- d) To the guarantee of free management and availability of foreign exchange.

Likewise, and without prejudice as described in this Article, those Contractors may apply even after the time limit set, the adequacy of their Contracts to the rules established in this Law, for which it may negotiate and conclude the respect modifying agreements.

Amendments to Contracts in force, by applying the provisions of the preceding paragraphs of this Provision shall be approved by Supreme Decree countersigned by the Ministers of Economy and Finance and Energy and Mines.

Fourth.- The regulations set forth in this Law shall be approved by Supreme Decree, within ninety (90) days from the date of publication of this Law.

In matters not covered by the regulations, apply rules and technical principles generally accepted in use by the international hydrocarbons industry.

## TITLE XI

### FINAL PROVISIONS

First.- Be repealed all rules that conflict with this Law and expressly the following:

- Law N° 11780
- Law N° 17440
- Law Decree N° 18883

- Law Decree N° 18890
- Law Decree N° 18930
- Law Decree N° 21807
- Law Decree N° 22774
- Law Decree N° 22775
- Law Decree N° 22862
- Law N° 23231
- Law N° 24782
- Legislative Decree N° 364
- Legislative Decree N° 366
- Legislative Decree N° 367
- Legislative Decree N° 655
- Legislative Decree N° 730
- Supreme Decree N° 01, de 10-06-52
- Supreme Decree N° 017-72-TR
- Supreme Decree N° 029-76-EM/DGH
- Supreme Decree N° 005-81-EM/DGH
- Supreme Decree N° 033-81-EM/DGH
- Supreme Decree N° 008-84-EM/DGH
- Supreme Decree N° 172-86-EF
- Supreme Decree N° 020-88-EM/VME
- Supreme Decree N° 023-88-EF, only Article 1
- Supreme Decree N° 005-89-EM/VME
- Supreme Decree N° 010-89-EM/SG
- Supreme Decree N° 026-89-EM/VME
- Ministerial Resolution N° 155-86-EM/VME
- Ministerial Resolution N° 321-87-EM/DGH
- Ministerial Resolution N° 080-91-EM/DGH
- Directoral Resolution N° 012-86-EM/DGH
- Controller Resolution N° 182-86-CG

Second.- The provisions of this device may only be repealed, amended and interpreted by Law, in which behalf is expressly.

Third.- In case of amendments to this Law, will be published in full of the Law, highlighting the modified part, the same procedure be followed to its regulations, so they are always updated its Single Texts.

Fourth.- This Law shall enter into force ninety (90) days of its publication in the Official Gazette El Peruano.