



DELLA REPUBBLICA SOMALA

ANNO IX

Mogadiscio, 24 Aprile 1969

Suppl. n. 8 al n. 4

Direzione e Redazione presso la Presidenza del Consiglio dei Ministri
Pubblicazione Mensile

PREZZO: Sh. So. 5 per numero—Arretrati il doppio—**ABBONAMENTI:** Annuo per la Somalia Sh. So. 100. Estero Sh. So. 150—L'abbonamento in qualunque tempo richiesto, decorre dal 1° Gennaio e l'abbonato riceverà i numeri arretrati—**INSERZIONI:** per ogni riga o spazio di riga Sh. So. 2—Le inserzioni si ricevono presso la Direzione del Bollettino. L'importo degli abbonamenti e delle inserzioni deve essere versato all'Ufficio Imposte sugli Affari

SOMMARIO



NOV 21 1969

PARTE PRIMA

LEGGI E DECRETI

SD

DECREE OF THE PRESIDENT OF THE REPUBLIC
15th March 1969, No. 62 — *Approval of Agreement.*

Pag. 934

Convention between the
Government of the Somali Republic
and the Group of German Oil Companies in Somalia

Relating to research and exploration of Petroleum resources.

PARTE SECONDA

DISPOSIZIONI, COMUNICATI, AVVISI, VARIE

N. N.

PARTE PRIMA
LEGGI E DECRETI

DECREE OF THE PRESIDENT OF THE REPUBLIC
No. 62 of 15th March, 1969.
Approval of Agreement.

THE PRESIDENT OF THE REPUBLIC

HAVING SEEN Article 75 of the Constitution;
HAVING SEEN Agreement dated 19 February 1969, between the Somali Government and Deutsche Erdol-Aktiengesellschaft, Deutsche Schachtbau-und Bohrvewaltung and Scholven-Chemie Aktiengesellschaft, relating to research and exploration of Petroleum resources in certain areas of the Republic.

CONSIDERING Appropriate to proceed with the said Agreement;

ON THE PROPOSAL of the Minister of Animal Husbandry, Fisheries and Mineral Resources;

HAVING HEARD the Council of Ministers;

DECREES:

Article 1

Approval of Agreement

Agreement dated 19 February 1969 between the Somali Government represented by H. E. Mohamed Ali Nur Daar, Minister of Industry and Commerce and Deutsche Erdol-Aktiengesellschaft, Deutsche Schachtbau-und Tiefbohrergesellschaft mbH, Gelsenkirchener Bergwerks-Aktiengesellschaft, Preussag Aktiengesellschaft Erdol-und Bohrverwaltung, and Scholven-Chemie Aktiengesellschaft, collectively represented by their Special Representatives Dr. Heinrich Otto and Dr. Guido Schuermeyer, relating to the research and exploration of Petroleum resources in certain areas of the Republic is hereby approved.

The said Agreement is set out in the Annex herewith.

Mogadishu, 15th March, 1969.

ABDIRASCID ALI SCERMARKE

The Prime Minister
MOHAMED IBRAHIM EGAL
The Minister of Animal Husbandry, Fisheries and Mineral Resources
ISMAIL DUALEH UARSAME

VISTO e Registrato - Reg. n. 1, foglio n. 57.
Mogadiscio, li 16 Aprile 1969:
Il Magistrato ai Conti:
MOHAMUD ISSE SALWE

C O N V E N T I O N

BETWEEN

THE GOVERNMENT OF THE SOMALI REPUBLIC

AND

DEUTSCHE ERDOL-AKTIENGESELLSCHAFT
DEUTSCHE SCHACHTBAU-UND TIEFBOHRGESELLSCHAFT
MBH, GELSENKIRCHENER BERGWERKS-AKTIENGESELL-
SCHAFT, PREUSSAG AKTIENGESELLSCHAFT ERDOL-UND
BOHRVERWALTUNG SCHOLVEN-CHEMIE
AKTIENGESELLSCHAFT

On this 19th day of February, in the year One Thousand Nine Hundred and Sixty Nine, between:

The Government of the Somali Republic, hereinafter referred to as «the Government», represented by H. E. Mohamed Ali Nur «Daar», Minister of Industry and Commerce, and Deutsche Erdol-Aktiengesellschaft, Deutsche Schachtbau- und Tiefbohrgesellschaft mbH, Gelsenkirchener Bergwerks-Aktiengesellschaft, Preussag Aktiengesellschaft Erdol-und Bohrverwaltung,, and Scholven-Chemie Aktiengesellschaft, collectively represented by their Special Representatives Dr. Heinrich Otto and Dr. Guido Schuermeyer;

Taking account of the desire of the Government to exploit to the fullest the petroleum resources of the Somali Republic and to utilize the services of the companies for this purpose;

And also taking account of the desires of the Government and the companies to participate in equal shares (fifty-fifty) in the profits accruing from the exploitation of the petroleum resources in the area of this Convention with added benefits for the Government in case of low production in the early years of the Mining Concession;

Pursuant to Article 16 of the Somali Mining Ordinance No. 13 of August 15, 1951.

It is stipulated and agreed as follows:

Article 1

Participating Interests

All the rights, duties and obligations accruing by reason of this Convention shall belong in «undivided interests» as follows:

- (1) To Deutsche Erdol-Aktiengesellschaft an undivided interest equal to fifty percent (50%);
- (2) To Gelsenkirchener Bergwerks-Aktiengesellschaft an undivided interest equal to nineteen percent (19%);
- (3) To Scholven-Chemie Aktiengesellschaft an undivided interest equal to nineteen percent (19%);
- (4) To Deutsche Schachtbau-und Tiefbohrgesellschaft mbH an undivided interest equal to ten percent (10%);
- (5) To Preussag Aktiengesellschaft Erdol-und Bohrverwaltung an undivided interest equal to two percent (2%);

who shall be jointly and severally responsible for the performance of all duties and obligations under this Convention.

In this Convention the aforesaid participating Companies shall be collectively referred to as «the Companies».

Article 2

Grant of a Research and Exploration Permit

(A) By this Convention the Government hereby grants to the Companies a research and exploration permit, herein called, the «Permit», covering the area of 104,228 square kilometers outlined in red on the map attached hereto as Exhibit «1» and described in the attached Exhibit «2», together with a strip of territorial waters up to an isobath of 100 meters adjacent to the lands shown which abut the Indian Ocean, all which is herein called the «Permit Area».

(B) The term of the Permit shall, subject to fulfillment by the Companies of their obligations under this Convention, be seven years from the effective date of this Convention. However, at the end of the fourth year of the Permit, the Companies shall release from this Convention an area or areas, of their choice, equivalent to approximately twenty-five percent (25%) of the Permit Area, exclusive of territorial waters, provided, however, that the Companies shall also at the same time release all territorial waters which are contiguous to land areas released. At the end of the sixth year of the Permit, the Companies shall release an additional area or areas, of

their choice, also equivalent to approximately twenty-five percent (25%) of the Permit Area, exclusive of territorial waters, provided, however, that the Companies shall also at the same time release all territorial waters which are contiguous to land areas released. The Companies shall designate each such released area on a map which shall be delivered to the Government at the time of release. If at the end of the seventh year of the Permit the Companies shall not have converted the Permit to a Mining Concession under the provisions of article III of this Convention, they shall release the entire balance of the Permit Area held at that time. Upon the release of each such area by the Companies, all their rights with respect thereto shall terminate.

(C) Under the Permit, the Companies shall, for petroleum and natural gas, have the exclusive right to conduct studies and geological and geophysical surveys, and generally the exclusive right to explore and prospect for petroleum and natural gas by any and all appropriate means, including the drilling of wells, and to import all machinery, equipment and materials for use in connection therewith in exemption of all taxes, customs duties and other fiscal assessments of whatsoever nature as provided in Article VI, Section (O) (1). As used in this Convention, the word «petroleum» shall include oil, distillate, condensate, casinghead gasoline and all other liquid hydrocarbon substances and all other minerals in suspension in or in combination therewith; and the words «natural gas» shall include gas, casinghead gas, and all other gaseous hydrocarbon substances and all other minerals in suspension in or in combination therewith; and taken together, the words «petroleum and natural gas» shall include all liquid and gaseous hydrocarbon substances ordinarily produced from oil and gas wells, together with all other minerals in suspension in or in combination therewith.

(D) During the term of the Permit, the Companies obligate themselves to expend a total annual sum of \$ 500,000 in connection with or related to the Permit. If the Companies expend more than \$ 500,000 in any one year, the excess shall be credited against the required expenditure for the following year or years. For the purposes of this section (D), a «year» shall be from anniversary to anniversary of the effective date of the Permit.

Article 3

Grant of a Mining Concession

(A) Should an initial discovery of petroleum or natural gas be made by the Companies during the term of the Permit, they shall notify the Government in writing of such discovery. For the pur-

poses of this Convention, a «discovery of petroleum» shall occur when a deposit of petroleum or natural gas is found which the Companies deem economically commercial, and for the purpose of confirming such deposit the Companies may drill one or more proving wells before formal notification of such discovery to the Government, provided that, notification after such confirmation shall operate retroactively to the date the deposit was first found and all payments and dates shall be adjusted accordingly. Upon such notification, the Companies' rights under the Convention shall automatically be converted to a Mining Concession over the entire Permit Area, less such area or areas as may have theretofore been released under the provisions of Section (B) of Article II of this Convention. The area covered by the Mining Concession shall be referred to herein as the «Concession Area».

(B) Upon the conversion of the Companies' rights to a Mining Concession pursuant to Section (A) of this Article III the Companies:

- (1) shall remain obliged to release an area or areas of their choice at the end of the fourth and sixth years after the effective date of this Convention, as provided in Section (B) of Article II, if such releases have not theretofore been made.
- (2) shall be obliged to release a further area or areas of their choice at the end of the eighth year after the effective date of this Convention so that the Companies will retain not more than twenty-five per cent (25%) of the area outlined in red on the map attached hereto as Exhibit «1», together with a strip of territorial waters up to an isobath of 100 meters contiguous thereto.
- (3) shall, during the ten years following the end of the eighth year after the effective date of this Convention, further explore and prospect their Concession Area.
- (4) shall, at the end of the nineteenth year after the effective date of this Convention, have the right to select and retain as their Concession Area for the unexpired term of the Mining Concession and any extensions thereof, an area or areas of their choice, the total area of which shall not be greater than eighteen and seventy-five one hundredths per cent (18.75%) of the area outlined in red on the map attached hereto as Exhibit «1» together with a strip of territorial waters up to an isobath of 100 meters contiguous thereto, and the Companies shall release all the areas not so selected and retained.
- (5) shall have the right at their option at any time to release any area or areas from their Concession Area.

(C) The Mining Concession shall become effective on the date the Companies deliver or mail written notice to the Government of a discovery of petroleum, shall continue in effect for a period of forty (40) years, and may in the discretion of the Government be further extended under Section (C) of Article VII of this Convention.

(D) Under the Mining Concession, the Companies shall have the exclusive right to drill for, extract, produce, render suitable for trade, carry away, export, sell and otherwise dispose of the petroleum or natural gas within the Concession Area, and to import all machinery, equipment and materials for use in connection therewith in exemption of all taxes, customs duties and other fiscal assessments of whatsoever nature as provided in Article VI, Section (O) (1). The Companies shall exploit their oil and gas wells which are in production at the maximum rate which the Companies deem economically feasible and consistent with good engineering practices. Throughout the term of the Mining Concession and any extensions thereof, the Companies shall continue to have the exclusive right to explore and prospect for additional deposits of petroleum and natural gas within the Concession Area.

(E) Within sixty (60) days after the date of the notification of the initial discovery of petroleum, the Companies shall designate on a map the area which, in their judgment, includes the petroleum or natural gas deposit discovered and shall deliver such map to the Government. Such map shall also show the date of the discovery of the deposit, the depth of the deposit, the number of square kilometers contained in the designated area, and all other information required to locate and describe the discovery. The Companies shall prepare and submit a similar map to the Government within sixty (60) days of each additional discovery of petroleum or natural gas thereafter made within the Concession Area and not within a previously designated area. The term of the Mining Concession, however, shall be measured from the date on which the Companies notify the Government of its initial discovery and shall not be extended by additional discoveries but only under the provisions of Section (C) of Article VII of this Convention.

(F) The Government reserves the right to grant to others authority to explore for and exploit, and reserves the right itself to explore for and exploit, minerals other than petroleum and natural gas within the area covered either by the Permit or a later Mining Concession, provided always that any such reserved rights shall be exercised in a manner which does not endanger, obstruct or interfere with the rights and interests of the Companies.

Article 4

Facilities and Works

(A)

- (1) The Companies shall have the right to import, construct, own, operate and maintain in any and all parts of the territory of the Republic, all facilities and works necessary for the purpose of carrying out this Convention and of developing the petroleum industry.
- (2) Whenever the use or construction of these facilities or works shall disturb or cause damage to cemeteries or buildings used for religious worship or public buildings or public utility works, the Companies shall request the prior consent of the Government and pay the full indemnity for the damage caused by such disturbance. In such case the Companies shall submit to the Government, for prior approval, plans showing the location, size and character of such facilities or works.
- (3) The facilities and works to be constructed shall in each case be limited to the operations of the Companies under this Convention with due regard to the reasonable expansion of their enterprises.

(B) In particular, the Companies shall have the right to construct such pipelines, railways, roads, bridges, ferries, airdromes, landing fields, telephone, radio and telegraph systems as may be necessary in the execution of its operations, even if outside the Permit Area or Concession Area, but all plans relating to such works shall be subject to the prior approval and authorization of the Government.

All requests of the Companies which require the approval and the authorization of the Government shall not be denied without just cause.

All decisions of the Government shall be communicated to the Companies within ninety (90) days from the presentation of requests or plans, except that, where the delay is justified, such a decision may be deferred for a period not to exceed one hundred and eighty (180) days.

Whenever the facilities or works which the Companies have the right to construct or the servitudes which have been made available to the Companies shall cause damage to private interests, the Companies shall pay a reasonable compensation.

(C) The Companies shall have the right to remove and use all available local materials, such as: surface soil, timber, clay, ballast, lime, gypsum, stone and similar substances; to the extent

that such materials and substances are reasonably necessary in the exercise of their operations. If the materials belong to the Government, the Companies shall have the right to remove and use them without charge, with the exception of timber, for which the Companies shall pay a reasonable charge, not to exceed the current market price in the territory of the Republic.

If the materials shall be the property of third parties, the Companies shall pay the owner a reasonable charge not to exceed the current market price in the territory of the Republic. The Companies shall have the right to use, without charge, all water necessary for their operations, with the sole limitation of not prejudicing or damaging existing irrigation systems and watering places set aside for people and animals.

(D)

- (1) The Government will, without charge, place at the disposal of the Companies such Government owned lands as in the judgment of the Companies are necessary to carry on their operations under this Convention.

The size or area of the parcels of land requested from time to time shall be reasonably adequate and appropriate in connection with the operations which the Companies are to undertake hereunder.

The Companies shall have the right to construct, on, over and under said parcels in accordance with the plans they have filed.

- (2) The Companies shall compensate the Government for any damage caused by the construction of their works and in the operation and maintenance of their facilities.
- (3) Whenever the Companies shall find it necessary for their operations to occupy privately owned lands, the right to so occupy such lands may be acquired by agreement between the Companies and the owner. In the event no agreement is reached, the Government will regard the rights sought by the Companies as being required for a work of public utility, and the Government will acquire them according to law, at the expense of the Companies. In fixing the value of such rights no regard shall be had for the purpose for which the lands may be used by the Companies, and the Government agrees that any law or procedure for the acquisition of such rights shall not impose confiscatory or excessive values.

The acquisition, although made at the expense of the Companies, shall be effected by the Government in its own name, but the Companies shall have the right to use, without charge, such rights and such lands as their own during the life of this Convention.

- (4) The Government warrants to the Companies the quiet use and the quiet occupancy of the lands hereinabove referred to for the duration of this Convention.
- (5) For the purpose of exploration the Companies shall have the right to enter upon privately owned lands, without acquiring the rights thereto, by paying to the owner a fair and reasonable compensation for any deprivation of his use of the land and for any loss of income.

The Government agrees to establish the appropriate legal procedure for the exercise of the aforesaid right by the Companies.

- (6) The Companies shall have the right to use for their operations, and for the movement of their personnel and materials, any and all means of communication and transportation.
- (7) The Government shall have the right to use, for official governmental emergency and, so far as possible, without interfering with or prejudicing the exercise of the normal operations of the Companies, the facilities of the Companies, upon payment of a fair compensation to be mutually agreed upon between the parties.
- (8) The Companies shall have the right to build a refinery in the territory of the Republic when in the judgment of the Companies such undertaking is economically sound, and the Companies may enlarge such refinery from time to time. If the Companies deem it convenient or desirable, the refinery may be owned by a new company having its own juridic personality, and such new company shall have an autonomous existence and shall not be subject to the terms and conditions of this Convention except as contained in this Sub-section (8). The Government may participate in the ownership of the refinery on terms mutually acceptable to the Government and the Companies. In addition to the right granted the Companies to build, maintain and operate the refinery, each of the Corporations, collectively referred to as the Companies, shall have the further right to market refined petroleum products in the territory of the Republic in accordance with such agreement as such individual Corporation may conclude with the Government. In the event the Companies build the refinery contemplated in this Sub-section (8), the reasonable needs of the Country for the products of such refinery, as measured by their normal consumption, shall be supplied before the products of such refinery may be exported. The Government shall have the right to have all or any portion of its royalty petroleum received in kind under this Convention processed at such refinery up to the maximum limit of fifty percent

(50%) of the productive capacity of the refinery under conditions acceptable to the Companies. A reasonable fee, to be mutually agreed upon, shall be paid by the Government for the processing of such royalty oil. If such a processing arrangement is made, the refined products resulting therefrom shall be delivered to the Government at the refinery.

Article 5

Rents and Distribution of Profits

(A)

(1) During the entire period of this Convention, the parties agree that the Companies shall pay, in forfeiture, an annual sum of two hundred thousand U.S. dollars (\$200,000) in lieu of the payment of all fiscal assessments (except port and storage charges and customs duties as specified in Section (O) of Article VI and income taxes and charges for public utility services and municipal fiscal assessments) in effect in the Somali Republic, be they imposts, taxes, charges or fees of any other nature. The first such payment shall be payable on the effective date of the Permit and shall be proportionately reduced to correspond to the balance of the calendar year then remaining. Thereafter, the annual sum of \$200,000 shall be payable on each January 1 for the ensuing calendar year.

(2) During the entire period of this Convention, the parties agree that the Companies shall pay, in forfeiture, an annual sum of twenty thousand U.S. dollars (\$20,000) in lieu of the payment of all municipal assessments (other than reasonable charges for services rendered) in effect in the respective municipalities, be they imposts, taxes, charges or fees of any other nature. This sum shall be paid to the Government who hereby undertakes to pay to the respective municipalities whatsoever is respectively due to each of them. The first such payment by the Companies shall be payable on the effective date of this Convention and shall be proportionately reduced to correspond to the balance of the calendar year then remaining. Thereafter the annual sum of \$20,000 shall be payable on each January 1 for the ensuing calendar year.

(B) It is agreed that the Companies shall also pay to the Government an annual fee of fifteen thousand U. S. dollars (\$15,000) for the Concession Area. The first such fee shall be payable on the effective date of the Mining Concession and shall be proportionately reduced to correspond to the balance of the calendar year then remaining. Thereafter, the annual fee of \$15,000 shall be payable on each January 1 for the ensuing calendar year.

(C) The Companies shall also pay to the Government an annual rental fee not greater than seven hundred eighty four thousand nine hundred and thirty-five U. S. dollars (\$ 784,935), provided that if at any time the Concession Area shall be less than fifty two thousand three hundred and twenty-nine (52,329) square kilometers, the amount of the annual rental fee shall be reduced by fifteen U. S. dollars (\$ 15) for every square kilometer by which the Concession Area is less than 52,329 square kilometers. The first such rental fee shall be payable upon the effective date of the Mining Concession and shall be proportionately reduced to correspond to the balance of the calendar year then remaining. Thereafter such rental fee shall be payable on each January 1 for the ensuing calendar year.

(D) The Companies shall pay to the Government a royalty of fifteen per cent (15%) of the value in the field of production, off all petroleum produced, saved and measured in the field of production, freed of water and foreign substances, subject to revision as hereinafter provided in Section (I) of this Article V. The value of such petroleum for all purposes of this Article V shall be determined pursuant to Section (K) hereof.

(E) The Companies shall also pay a royalty of twelve and one-half per cent (12½%) on the sale price realized from the sale of any natural gas, less the cost of handling, processing and transporting such gas from the well-head to the place of sale.

(F) No royalty shall be payable on petroleum or natural gas used or consumed in the Companies' operations in connection with the research and exploration for and the exploitation of petroleum or natural gas in the Somali Republic or lost through causes beyond the control of the Companies.

(G) (1)

(a) As of the effective date of the Mining Concession, in addition to the annual payment under Section (A) above, the payment of rentals under Sections (B) and (C) above, and the payment of royalties under Sections (D) and (E) above, the Companies shall pay, in lieu of any income tax and any municipal surtax thereon generally imposed under the laws of the Somali Republic, an income tax of twenty-five per cent (25%) of the Companies' net income as hereinafter defined. For purposes of this Section (G) (1) «net income» means in respect of any year the income of the Companies obtained from all their petroleum and natural gas exploration, development, prospecting, producing and transportation activities in the Somali Republic in that year after deducting:

(i) All fees rents, royalties, taxes, imposts, and all other payments to the Government, except income tax under this Section (G) (1) (a);

- (ii) All the items contained in Sections (G) (4) (a) and (G) (4) (b) of this Article V;
 - (iii) The net income carry over deduction (as defined in Section (G) (1) (b), if any from the preceding year.
- (b) Where in respect of any year the total of the deductions under paragraphs (i), (ii) and (iii) of Section (G) (1) (a) above exceeds the income in respect of that year before making such deductions, the excess shall be the income carry over deduction for the next succeeding year for purposes of computing the net income of said next succeeding year.

(G)

- (2) The Government may, at its election, on or before September 30 of any year after the effective date of the Mining Concession, substitute an alternative income tax in lieu of the income tax provided in the foregoing Section (G) (1), effective the January 1 first following such an election, which alternative income tax shall also be in lieu of any income tax and any municipal surtax thereon generally imposed under the laws of the Somali Republic. Such an election once made by the Government shall be permanent. The alternative income tax shall be computed as follows:
- (a) If in respect of any complete year, the total amount of fees, rents, royalty, taxes, imposts and all other payments to the Government for which the Companies are liable in respect of operations and income therefrom under the Mining Concession held by the Companies in the Somali Republic falls short of fifty per cent (50%) of the Companies profits (as hereinafter defined in Section (G) (4) hereof) during that year, the Companies shall pay to the Government as an income tax such sum as will make the total of the Companies' payments to the Government equal to fifty per cent (50%) of such profits;
 - (b) If in respect of any complete year, the total amount of fees, rents, royalties, taxes, imposts and all other payments to the Government for which the Companies are liable as aforesaid, exceeds fifty per cent (50%) of the said profits of the Companies during that year, the amount of such excess shall be a credit which shall be applied in satisfaction and payment of any additional royalty required as a result of a revision of the royalty payment pursuant to Section (1) of this Article V, and in satisfaction and payment of any income tax liability arising under paragraph (a) of this Section (G) (2) for any subsequent year.

(3) The Government undertakes and agrees that the Companies will not be subjected to any taxes, imposts, fees, customs duties or assessments of any nature, whether governmental or municipal in character, other than those contained in this Convention.

(4) In the above Section (G) (2) of this Article V, the term «profits» means in respect of any year the income of the Companies obtained from all their petroleum and natural gas exploration, development, prospecting, producing and transportation activities in the Somali Republic in that year after deducting:

(a) All expenses and losses (except fees, rents, royalties, taxes, imposts and other payments to the Government) incurred by the Companies in carrying out such activities in the Somali Republic and properly attributable thereto, irrespective of where incurred, including expenditures incurred by the Companies or their Parent Corporations subsequent to April 25, 1966.

All expenses and losses incurred outside the Somali Republic shall be authenticated by the original supporting documents or by a Statement of Expense certified by an independent U. S. or German Certified Public Accountant. Exploration and prospecting expenses, intangible drilling costs (to the extent such expenses and costs are not incidental to the procurement or installation of physical assets), the costs of drilling wells not productive of petroleum in commercial quantities and expenses of organising and initiating petroleum operations in the Somali Republic, may be deducted in the year in which they are incurred or they may be capitalized and amortized; provided, however, that all expenditures made by the Companies or their Parent Corporations prior to the effective date of the Mining Concession shall be capitalized and may be amortized only as provided below in paragraph (b). The unamortized balance of the cost of physical assets abandoned during any year may be deducted in the year of abandonment.

(b) An amount in respect of amortization during that year of capital expenditures at the following rates:

(i) In the case of all expenditures incurred prior to the effective date of the Mining Concession, irrespective of the date and place incurred, a per annum rate not exceeding ten percent (10%) of such expenditures, the rate to be elected annually by the Companies until such expenditures are fully amortized.

(ii) In the case of all capital expenditures and expenditures capitalized under Section (G) (4) (a), other than for movable physical assets used in connection with such operations (including expenses incidental to the procurement and installation of such movable physical assets), acquired or incurred after the effective date of the Mining Concession, a per annum rate equal to ten per cent (10%) of such expenditures irrespective of where incurred until such expenditures have been fully amortized.

(iii) In the case of capital expenditures for movable physical assets used in connection with such operations (including expenses incidental to their procurement and installation) acquired after the granting of the Mining Concession, a per annum rate equal to twenty per cent (20%) of such expenditures until such expenditures have been fully amortized.

(c) The amount, at the time when any physical item covered by the expenses in (a) or (b) is used up or the use of which is no longer practicable, by which such item has not then been fully depreciated or amortized less any realized salvage.

(d) The profits carry over deduction (as defined in Section (G) (5)), if any from the preceeding year; provided, however, that for the first year to which the alternative income tax of Section (G) (2) applies, the deduction shall be the net income carry over deduction (as defined in Section (G) (1) (b)), if any from the preceeding year.

(5) Where in respect of any year the total of the deductions under paragraphs (a), (b), (c) and (d) of Section (G) (4) above exceeds the income in respect of that year before making such deductions, the excess shall be the profits carry over deduction for the next succeeding year for purposes of computing the profits for said next succeeding year.

(6) In computing profits as herein defined, sound accounting practices usual in the petroleum industry shall be employed.

(H) For purposes of computing and paying income taxes under Section (G) of this Article V, of the Constitution of the Eidsvoll Aktiefabriks- og Bergverks-Aktien-Gesellschaft, Gelsenkirchener Bergwerks-Aktien-Gesellschaft, Scholven-

Chemie Aktiengesellschaft, Deutsche Schanichtbau- und Tiefbohrergesellschaft mbH and Preussag Aktiengesellschaft, Erdöl- und Bohrverwaltung, may each in respect of operations under this Convention, report its ratable portion of income therefrom and expenses therein, independently of any other of the Companies named provided there shall remain in effect the joint and several obligation of all the Companies pursuant to the provisions of Article I.

(I) At the end of ten (10) years from the date of the first sale of petroleum (other than the petroleum produced in the testing of wells) produced in the Somali Republic under this Convention, the royalty payable by the Companies to the Government specified in Section (D) of this Article V shall, upon the written request of the Government, be revised by mutual agreement, taking into consideration changes which have occurred between the effective date of this Convention and the date of such written request in the arithmetic average of the petroleum royalty percentages paid by privately owned companies (i.e. companies in whose ownership no government has an interest) to the governments of Iraq, Saudi Arabia, Qatar and Kuwait under concession agreements which are in existence upon the effective date of this Convention, and which specify the payment of percentage royalty.

(J) At its option to be exercised at least ninety (90) days in advance of the date on which it is to take effect, the Government may take petroleum in payment and satisfaction of all or part of its percentage royalty under Section (D) of this Article V. Any such petroleum taken by the Government in payment of its royalty will be delivered by the Companies into Government storage facilities in the field of production; however, at the request of the Government, the Companies will transport such petroleum at the Government's risk and expense, and to the extent that transportation facilities of the Companies are available, to Government storage facilities at such other place or places in the Somali Republic as the Government may designate. At the request of the Government, the Companies will provide free storage, at the risk of the Government, for such petroleum, either in the field of production or at their seaboard terminal, for a period of not exceeding one hundred and eighty (180) days and for a quantity not exceeding one hundred thousand (100,000) barrels. If any such petroleum shall remain in storage for more than one hundred and eighty (180) days, the Government shall pay the Companies a reasonable storage charge.

(K) Except to the extent that the Government has elected pursuant to Section (J) of this Article V to take petroleum in payment and satisfaction of its percentage royalty, the Companies will pay the Government its percentage royalty under Section (D) of this Article V in cash, settlement of which shall be made for each calendar quarter within thirty (30) days after the close of each quarter.

The Companies will pay to the Government the value of such petroleum in the field of production, which shall be the market price for such petroleum then prevailing at the export terminal of the Companies less the cost of handling and transporting such petroleum from the field of production to such export terminal; provided, however, that if there is no established market price for such petroleum at such export terminal, the value of such petroleum at the export terminal of the Companies shall be the arithmetic average of posted prices then prevailing at Persian Gulf export terminals in Iraq, Saudi Arabia, Qatar and Kuwait of four mutually agreeable reference crudes selling in large quantities with appropriate adjustments for gravity and sulphur content.

The value of petroleum in the field of production shall be its value at the export terminal of the Companies less the costs of handling and transporting it from such field of production to such export terminal. Such cost of handling and transportation shall be based on actual cost, as shown on the books of the Companies, plus a reasonable overhead attributable to such transportation, plus reasonable amortization of the cost of the transportation facilities owned by the Companies. The option of the Government to take its royalty in petroleum or in cash may be changed back and forth from time to time, that is to say, the Government may elect to take its royalty in cash for a period of time and then elect again to take its royalty in petroleum for a period of time and so on, but such option shall not be changed more frequently than once in each year.

(L) The Companies may at their option pay the cash royalty and make all other payments to the Government in United States dollars, in Deutsche Mark or in freely convertible currency.

(M) The Companies shall be subject to the normal exchange control applicable to the Somali Republic provided, however, that:

- (1) The Companies shall be entitled to retain and freely transfer outside the Somali Republic all funds acquired by them outside the Somali Republic, including the proceeds of sales.
- (2) The Companies shall be entitled to export from the Somali Republic free of limitation or restriction any funds held by them in the Somali Republic in the same currency in which their investment was made.
- (3) In the matter of purchase and sale of currency whether of the Somali Republic or other countries the rates of exchange shall not be less favorable to the Companies than those granted to any investor who introduces or transfers foreign exchange in the Somali Republic.
- (4) No restriction shall be placed on the importation of funds by the Companies for the purpose of carrying out their operations under this Convention.

(N) The Companies shall measure, in a method approved by the Government, all petroleum produced and saved, and the duly authorized representative of the Government shall have the right to examine such measurements, and to test the appliances used therefor. If, upon such examination or testing, any such appliance shall be found to be out of order, the Government may require that the same be put in order by and at the expense of the Companies, and if such requirement shall not be complied with within a reasonable time, the Government may cause such appliance to be put in order and may recover the expense of so doing from the Companies. If any error shall be discovered in such measurement, such error shall, if the Government so desires after hearing the Companies explanation, be considered to have existed for ninety (90) days previous to the discovery thereof or from the last occasion of measurement in case such occasion shall be within such ninety (90) day period, and the royalty shall be adjusted accordingly. If the Companies desire to alter any measuring appliance, they will give reasonable notice to the Government to enable a representative of the Government to be present during such alteration. It is understood that the Companies intend to use the standard measuring methods and devices approved by the American Petroleum Institute.

(O) The Companies shall keep full and correct accounts of all petroleum measured as aforesaid, and the duly authorized representatives of the Government shall have access at all reasonable times to the books of the Companies containing such accounts and may make extracts therefrom. The Companies shall, within ninety (90) days after the end of each calendar year, deliver to the Government an abstract of such accounts for such year, which accounts shall be treated as confidential by the Government unless otherwise agreed to by the Companies.

Article 6

General Provisions

(A) The Government warrants that it has not granted and will not grant to others any permits or concessions, and that it has not itself undertaken and will not undertake any activities, which will adversely affect the rights and interests of the Companies under either the Permit or Mining Concession.

(B) If, in the course of their operations, the Companies discover deposits of metals, precious stones, or other minerals, except petroleum or natural gas, of known commercial value, they shall notify the Government. The Companies shall always have the right, however, to drill through such deposits in exploring for or exploiting petroleum or natural gas, without prejudice to the rights of any concession holder or the Government to exploit such deposits.

(C) The Government shall at all times cooperate with the Companies in their activities under this Convention and shall furnish the agents and employees of the Companies all reasonable protection and every possible assistance.

(D) The Companies agree to use their best efforts to develop the petroleum and natural gas resources of the Somali Republic, as contemplated in this Convention.

(E) Each of the Companies shall maintain a branch in the Somali Republic for the duration of this Convention and shall establish and maintain an office in Mogadiscio with the right to establish and maintain such other offices elsewhere in the Somali Republic as may be desired.

(F) Whenever the Companies, in conducting operations under the terms of this Convention, shall deem it necessary to use the services of independent specialized technical organizations, whether individuals or companies, herein called «Independent Contractors», for particular operations and shall enter into private agreements with them, the Government does hereby recognize that the rights of the Companies under this Convention shall extend also to such Independent Contractors except that such Independent Contractors shall not by virtue of this Convention be exempt from the general provisions of the income tax laws of the Somali Republic.

(G) In particular conditions of emergency, and specifically when the Somali Republic is in conflict with other nations or where serious national emergencies must be dealt with, the Government may, subject to payment of fair and just compensation, requisition any facility of the Companies required to meet such situations.

(H) The Companies agree to indemnify, in a fair and reasonable measure, all damages which may be caused by the Companies or by their agents, employees or Independent Contractors to persons, property or the interests of third parties.

The Companies shall at all times save harmless and keep indemnified the Government from and against all actions, suits, claims and demands by such parties in respect of such damages.

The Government, on its behalf, agrees to take all possible measures to facilitate the carrying out of this Convention by the Companies and to protect the property and operations of the Companies.

The Government, at the request of the Companies, will within the limits of the law, prohibit the erection of houses, even the local type, or any buildings for the carrying on of any enterprise in the areas which the Companies shall declare to be dangerous by reason of their operations.

The Government will within the limits of the law prohibit anchorage near the submerged pipelines of the Companies at river crossings and elsewhere and will within the limits of the law prohibit any operations which may interfere with any of the other facilities or works of the Companies.

(I) The Companies undertake to employ Somali citizens in their operations, exception being made for executive, administrative and technical personnel and skilled workers who in the opinion of the Companies are not available in the Somali Republic. The Government undertakes to grant entry visas and residence permits to all foreign personnel, except to «persona non grata», which the Companies deem necessary in the execution of their operations. At such time as the production of crude oil reaches reasonable quantities, the Companies, by mutual agreement with the Government, will establish a program for the training of Somali citizens and for the sending of a certain number of these citizens to the United States of America or other foreign country for educational and training courses. To this end the Companies undertake to expend a minimum amount of Fifteen Thousand United States Dollars (\$15,000.00) per year for a period of not less than ten (10) years from the commencement of production operations.

(J) The Government undertakes that, during the term of this Convention, it will not discriminate in any way against the Companies or their operations or the petroleum industry generally provided, however, that any term of another petroleum concession shall not be considered discriminatory.

(K) The Government authorizes the Companies to keep their official records, documentation and correspondence in the English or German language and may keep their books of account in terms of U. S. Dollars or Deutsche Mark.

(L) No failure or omission on the part of the Government or the Companies to carry out or perform any of the terms, conditions or obligations of this Convention shall give the Companies or the Government any claim against the other or be deemed a breach of this Convention insofar as such failure or omission may arise through Force Majeure. If, through Force Majeure, the fulfillment by the Government or the Companies of any of the terms, conditions or obligations of this Convention shall be delayed, the period of such delay, together with such period as may be necessary for the resumption of operations, shall be added to the period fixed by this Convention; provided, however, that no addition shall be made to the term of this Convention unless the operations of the Companies under this Convention shall be suspended for not less than sixty (60) days consecutively through Force Majeure occurring within the Somali Republic or occurring without the Somali Republic and affecting such operations.

In the evaluation of the causes of «Force Majeure», the Government and the Companies agree to apply criteria of the greatest latitude including foreign causes beyond the control of the parties.

(M) Any definitive official action to be taken hereunder by the Government shall be taken by the Minister of competence or by the Minister expressly named by the Government. Any such action shall be binding on the Government as its official act.

All written notices and communications which are required to be sent to the Government by the Companies may be sent to the Minister of competence or to the Minister designated by the Government.

All written notices and communications which, pursuant to this Convention are to be sent to the Companies, shall be sent to the Office of the Group of German Oil Companies in Mogadiscio or such other office as may be designated in writing by the Companies to the Government from time to time. Wherever this Convention provides for the approval of any matter or any action by the Government of the Companies, such approval or action shall not unduly or probably be withheld nor be delayed for a period of more than sixty (60) days, except where any provision of this Convention may provide to the contrary.

(N) Neither the Government nor the Companies shall take any action to cancel or enforce this Convention for any alleged breach of any provision thereof without first giving written notice to the other party specifying the alleged breach. If within ninety days of its receipt of such written notice, or if the alleged breach is referred to arbitration pursuant to Section (P) of this Article VI, within ninety days of a decision of the arbitrators declaring a breach to have occurred, the Party in default shall give written assurance that it intends, and will take all steps necessary, to remedy the breach. It shall be deemed cured if remedied within a reasonable time. «Reasonable time» within which an alleged breach may be remedied shall depend on the circumstances, such as the nature of the breach and ability of the Party to remedy it with due diligence and, in general, probably a period of three months shall be deemed such a «reasonable time». Failure of the Companies to remedy a breach as above provided for shall result in the termination of this Convention if the Government so decides. Where the alleged breach involves the payment of money, the remedy shall include the payment of interest at six per cent (6%) per annum from the date on which payment was due. The failure of the Government or the Companies to insist in any instance upon the strict performance of any one of the terms, conditions or obligations of this Convention or to exercise any election herein contained, shall not be construed as a waiver or relinquishment for the future of such term, condition, obligation or election, but the same shall continue and remain in full force and effect. No

waiver by the Government or the Companies of any term, condition or obligation of this Convention shall be deemed to have been made unless expressed in writing and signed by the parties.

(O)

- (1) The Companies and the Independent Contractors shall have the right to import into the Somali Republic in total exemption of all taxes, customs duties and other fiscal assessments of whatsoever nature, all machinery, replacement parts, equipment and materials of whatsoever nature which they may require for the industrial scope of the Companies and their Independent Contractors, provided such goods are not produced in the Somali Republic in suitable quality and locally available at comparable prices.

The Ministry of Finance and the Companies, shall undertake to compile separate lists which shall identify the goods importable in exemption and those which are to be subject to the payment of customs duties, taking into consideration prior exemptions.

- (2) The normal Governmental port and storage charges and fees for services rendered are excepted from the total exemption granted in Section (O) (1) above, and the Companies shall pay such port and storage charges and fees for services rendered in effect at the time for articles imported under this Convention.
- (3) The Government shall have the right to inspect all records and documentation in order to determine that such imported articles have been used solely for the purposes for which the exemption was granted.
- (4) The articles imported in exemption may not be sold to third parties for use or consumption in the Somali Republic, unless they are damaged or depreciated. In such cases, the sale shall be authorized by the Government upon payment of the tax or duty due on their assessed value at the time of sale.
- (5) The Companies and the Independent Contractors shall have the right at any time to export and re-export, without payment of any taxes, customs duties or other fiscal assessments of whatsoever nature except normal port and storage charges and fees for services rendered, all imported substances, articles and property covered by this Convention. No limitation or restriction shall be imposed on the exportation of funds, assets or profits of the Companies or the Independent Contractors.

- (6) The Government undertakes to permit the passage of materials for the construction, operation and maintenance of pipelines across the frontiers of the Somali Republic in exemption of all taxes, customs duties and other fiscal assessments of whatsoever nature, as provided in subsection (1) hereof.
- (7) The Companies shall have the right to export all petroleum and natural gas produced under the Mining Concession in exemption of all taxes, customs duties and other fiscal assessments of whatsoever nature, except normal port and storage charges and fees for services rendered; provided, however, that whenever such exports take place through privately owned and operated facilities, the exports will be in exemption also of normal port or storage charges.

(P)

- (1) Any dispute or difference between the Government and the Companies concerning any matter relating to this Convention or the exercise of rights and performance of obligations hereunder, which shall not be determined by mutual agreement within a period of ninety (90) days from the commencement of the dispute or difference, shall be referred to arbitration. One arbitrator shall be chosen by the Government and one arbitrator shall be chosen by the Companies within thirty (30) days after being requested in writing by either to do so. Such two arbitrators shall choose a third impartial arbitrator. In the event that such two arbitrators shall fail to agree upon the third arbitrator, they shall request the President of the Supreme Court of Somalia to appoint such third arbitrator. The third arbitrator shall be an impartial person who is neither a citizen of the Somali Republic nor the United States of America nor the Federal Republic of Germany and who shall have no connection, directly or indirectly, with either the Government, the Companies or any Organization in the world engaged in the petroleum industry. The place of arbitration shall be such as may be agreed to by the Government and the Companies, or, in default of agreement, shall be at Mogadiscio.
- (2) The Government and the Companies shall each pay the expense of the arbitrator they have chosen. The expense of the third arbitrator and any costs imposed by the President of the Supreme Court of Somalia shall be divided and paid, in equal shares, one half by the Government and the other half by the Companies.
- (3) The arbitration proceedings shall be conducted in conformity with the principles and rules normally applied by international tribunals.

- (4) The decision of a majority of the arbitrators shall be final and conclusive.

(Q) In the event that another company, with the previous authority of the Government thereto having been first obtained, should assume the performance of this Convention as its sole business, and if such company should decide to issue shares of its stock to the general public, subscription lists for such stocks shall be opened in the Somali Republic simultaneously with and on the same conditions as similar lists for such stock opened in the United States of America or in the Federal Republic of Germany. Somali citizens shall be given a subscription preference to the extent of at least twenty percent (20%) of such issue. Any such Company shall be and remain an American, German or Somali company registered in the United States of America, in the Federal Republic of Germany or in the Somali Republic, and having its principal place of business in the country of its nationality. If the Somali citizens, within the time established by the Companies for such subscription or purchase, do not purchase all the allotted shares reserved for them, the Companies shall have the right to dispose of the remaining shares as they see fit.

Article 7

Provisions as to Surrender, Termination and Extension

(A) *Surrender.*

- (1) The Companies shall have the right at any time to surrender this Convention and to abandon the undertaking, upon giving three (3) month's prior written notice to the Government of their intention so to do. Upon the expiration of such three (3) months period, this Convention together with all the obligations of the Companies shall cease and terminate. If such date of surrender shall be within thirty-five (35) years from the effective date of this Convention, the Companies shall be entitled to export from the Somali Republic, in exemption of the payment of all taxes, customs duties and other fiscal assessments of whatsoever nature, other than the normal port and storage charges and fees for services rendered, all their properties of every nature except buildings, wells, pipelines and other facilities which shall have been permanently affixed to the land. During such three (3) months period the Government may elect, by written notice to the Companies, to purchase all such removable property at a price equal to its replacement value at the effective date of surrender, less depreciation. Such price shall be fixed by mutual agreement between the Government and the Companies, or, if they cannot agree on such price within a period of thirty (30) days from the date of such notice of election to purchase, such

price shall be determined by arbitration. Unless otherwise agreed, the removable property purchased by the Government shall be delivered to the Government on payment by the Government of the purchase price in Somali shillings. The Companies shall have no right to remove property or to receive such purchase price until all amounts due the Government up to the date of such surrender shall have been fully paid or fully set off by such purchase price. In case of surrender within such thirty-five (35) years period, the Government shall receive, free of charge, all buildings, wells, pipelines and other facilities which shall have been permanently affixed to the land.

- (2) If such date of surrender shall be after thirty-five (35) years from the date of this Convention, the Government shall receive, free of charge, all the rights and interests of the Companies in the lands, equipment and installations within the Somali Republic in normal use on the date of surrender.
- (3) The foregoing provisions in this Section (A) relate to property and installations for exploration and exploitation operations and not to any refinery facilities or other property used in the manufacture or sale of products.

(B) *Termination.*

- (1) In the event this Convention shall terminate by reason of the expiration of the Permit, the Companies shall have the right to export in exemption of the payment of all taxes, customs duties and other fiscal assessments of whatsoever nature, other than normal port and storage charges and fees for services rendered, all their materials, equipment and movable property, and shall have the further right to sell their buildings, wells, pipelines and other facilities which shall have been permanently affixed to the land and may freely transfer and export the proceeds of any such sales.
- (2) In the event this Convention shall terminate by reason of the expiration of the Mining Concession and extensions thereof, if any, all the rights and interests of the Companies in lands, equipment and installations, of whatsoever nature, in the Somali Republic, in normal use at the date of termination in research, exploration and exploitation operations shall become the property of the Government free of charge.
- (3) The foregoing provisions in this Section (B) relate to property and installations for exploration and exploitation

operations and not to any refinery facilities or other property used in the manufacture or sale of products.

(C) *Extensions.*

If the Companies shall well and faithfully perform their obligations hereunder during the term of the Mining Concession and shall desire an extension or extensions thereof, the Mining Concession granted pursuant hereto may be extended at the discretion of the Government for two (2) additional and successive terms of not more than ten (10) years each. In the event the Companies should desire such an extension, they shall notify the Government in writing of such desire not less than eighteen (18) months prior to the expiration of the term or the extended term of the Mining Concession, as the case may be. The terms and conditions of each extension which the Government intends to grant shall be negotiated.

Article 8

Reports and Information

(A) The Companies shall at their own expense furnish to the Ministry of competence on or before April 30 of each year a report of the progress of their operations during the preceding year in the Permit Area or Concession Area. The report shall be in a form mutually satisfactory to the Ministry of competence and the Companies. Such report shall contain:

- (1) A general description of the operation;
- (2) A comprehensive report of the geological and geophysical surveys, including detailed geological maps;
- (3) A list of the number of boreholes and wells drilled including the boreholes and wells drilled in search of water, with the depth of each and with a map showing their locations;
- (4) A declaration of any petroleum, water or commercial minerals encountered during the course of the operations of the Companies;
- (5) A statement of the amount of water produced with the oil and natural gas.

(B) The Companies shall keep and make available to the Government accurate records of the drilling, deepening, plugging or abandonment operations. Summaries of such records shall be presented to the Ministry of competence and shall include the following:

- (1) The subsoil and the strata through which the borehole or well was drilled;

- (2) The casing inserted in every borehole or well and every alteration to such casing;
- (3) The petroleum water and exploitable minerals encountered.

(C) The Companies shall, as far as reasonably possible, gather and preserve for a period of twelve months, characteristic samples of strata or fluid collected from wells or boreholes. The Ministry of competence shall have access to said samples at all times (always as far as reasonably possible) and shall be entitled to require that specimens not exceeding one-half of each such sample be delivered to and retained by him.

(D) The Companies shall furnish the Ministry of competence by January 31 of each year, a statement of the general program they intend to carry out during that year.

(E) Any technical information furnished by the Companies, shall, unless the Companies agree to its earlier release, be treated as confidential material until one year after the Companies have released all of the acreage to which such material relates or until one year after the termination of this Convention. The Minister of competence shall nevertheless be entitled at any time to use such information in the preparation and publication of returns and general reports in such manner so that the information furnished by the Companies will not be directly or indirectly disclosed. The foregoing shall not prevent the use of the aforesaid information in any arbitration or litigation between the Government and the Companies. However should such events occur, the Government will take, as far as reasonably possible, appropriate measures to prevent disclosure to others than the parties and the arbitrators or the judiciary authority.

(F) The Companies shall provide an adequate system for the disposal of water, waste oil and other refuse.

(G) As soon as the site of any borehole or well for the production of petroleum or natural gas has been selected, the Companies shall notify the Ministry of competence in writing of the location thereof and the same shall be described by a certain number in the maps and records which the Companies are required to keep under the provisions of this Convention. The Companies shall notify the Ministry of competence of every change of number of any such borehole or well. No such borehole or well shall be commenced and no such borehole or well shall be recommenced after work has been discontinued thereat for more than six months unless seven days notice in writing shall have first been given to the Ministry of competence.

(H) Twenty four hours advance notice of the abandonment of each borehole or well for the production of petroleum or natural gas shall be given to the Minister of competence. Similar notice shall be given for the withdrawal of cemented strings or other form of casing. Every such borehole or well which the Companies abandon shall be so securely plugged by the Companies as reasonably to protect any fresh water strata.

(I) Upon the expiration or surrender of their rights under this Convention, the Companies shall deliver to the Government all productive wells, together with all casings and other appurtenances below surface level which cannot be removed without causing damage to said wells; or if so requested by the Minister of competence at least two months prior to the expiration or surrender of the Companies' rights under this Convention, the Companies shall upon such expiration or surrender plug and abandon any designated wells.

(J) A duly authorized representative of the Government shall at reasonable times have the right to enter the Permit or Concession Area and the installations and premises of the Companies and inspect the works, samples, cores kept in the Somali Republic, books, registers and papers to ensure the proper implementation by the Area and the installations and premises of the Companies and in-provisions of this Convention.

(K) The Companies shall carry on the operations under this Convention in accordance with good oil field practice and without prejudice to the generality of the foregoing, the Companies shall take all measures practicable in order to:

- (1) control the flow and prevent the escape or waste of petroleum discovered in or obtained from the Permit or Concession Area;
- (2) conserve the Permit or Concession Area for productive operations;
- (3) prevent damage to adjoining petroleum bearing strata;
- (4) prevent the entrance of water through boreholes and wells to petroleum bearing strata;
- (5) prevent the escape of petroleum into any water-well, spring, stream, river, lake, reservoir, estuary or harbor;

- (6) cause as little damage as possible to the surface of the Permit or Concession Area and to trees, crops, buildings, structures and other property thereon;
- (7) confine the petroleum derived from the Permit or Concession Area in tanks, pipes or other receptacles constructed for that purpose.

(L) The Companies shall keep and make available written geological and geophysical plans, maps and records relating to the Permit or Concession Area.

Article 9

Miscellaneous

(A) This Convention has been written and executed in the English text, which is the official text.

(B) This Convention replaces any prior Conventions covering the area included hereunder as shown in Exhibit «1» attached hereto.

(C) This Convention shall obligate the parties from the date of its execution; however, for all purposes in this Convention the effective date of this Convention shall be the date of the publication of the Decree of Approval in the Official Bulletin of the Somali Republic.

(D) The Companies shall not assign, in whole or in part, the concession or any rights granted to them pursuant to this Convention without the prior approval of the Government, provided, however, that the Government shall approve such assignments when made by one or more of the companies to a company holding directly or indirectly more than fifty percent (50%) of the share capital of such company or companies or more than fifty percent (50%) of whose share capital is held directly or indirectly (a) by such company or companies or (b) by a company holding directly or indirectly more than fifty percent (50%) of the share capital of such company or companies. In the case of any approved assignments, the Companies and the assignee (s) shall be jointly and severally responsible to the Government for carrying out the obligations and performance of the duties arising out of this Convention.

No amendment or modification of this Convention shall be made without the mutual accord of the Parties hereto.

Executed at Mogadiscio, Somali Republic, this 19th day of February, 1969, in six (6) original copies.

(Witnessess)

sgd. Liban

The Government of the Somali Republic

sgd. by Mohamed Ali Nur Daar

Minister of Industry and Commerce

Deutsche Erdol-Aktiengesellschaft

Gelsenkirchener Bergwerks-Aktien

Gesellschaft

sgd. Von Eichborn

Deutsche Schachtbau-und Tiefbohr-

Gesellschaft MBH

Preussag Aktiengesellschaft Erdol-und

Bohrverwaltung

Scholven-Chemie Aktiengesellschaft

sgd. by Dr. Heinrich Otto

Special Representative

sgd. by Dr. Guido Schurmeyer

Special Representative

EXHIBIT « 2 »

Metes and bounds description of the Permit Area
shown on map marked Exhibit « 1 »

Tract I: Beginning at a point which is in the intersection of latitude $8^{\circ}00'00''$ north and the coastline of the Indian Ocean, thence southwesterly, following the coastline of the Indian Ocean to a point which is the intersection of the coastline of the Indian Ocean and latitude $7^{\circ}35'00''$ north, thence due west in a straight line to a point which is the intersection of latitude $7^{\circ}35'00''$ north and longitude $49^{\circ}17'00''$ east; thence due north on meridian $49^{\circ}17'00''$ east to a point which is the intersection of latitude $8^{\circ}00'00''$ north with longitude $49^{\circ}17'00''$ east; thence in a straight line along latitude $8^{\circ}00'00''$ north to a point which is the intersection of latitude $8^{\circ}00'00''$ north and the coastline of the Indian Ocean, which is the point of beginning.

Tract II: Beginning at a point which is the intersection of latitude $6^{\circ}12'00''$ north and the coastline of the Indian Ocean; thence southwesterly, following in its entirety, the coastline of the Indian Ocean to a point which is the intersection of the coastline of the Indian Ocean and the common boundary between Somalia and Kenya; thence northwesterly along the common boundary between Somalia and Kenya to a point which is the intersection of the boundary between Somalia and Kenya and longitude $41^{\circ}00'00''$ east; thence northeasterly in a straight line to a point which is the intersection of latitude $1^{\circ}16'00''$ north and longitude $43^{\circ}11'00''$ east; thence northeasterly in a straight line to a point which is the intersection of latitude $2^{\circ}10'00''$ north and longitude $44^{\circ}37'00''$ east; thence northeasterly in a straight line to a point which is the intersection of latitude $3^{\circ}15'00''$ north and longitude $45^{\circ}45'00''$ east; thence northeasterly in a straight line to a point which is the intersection of latitude $4^{\circ}15'00''$ north and longitude $46^{\circ}30'00''$ east; thence northeasterly in a straight line to a point which is the intersection of latitude $5^{\circ}30'00''$ north and longitude $47^{\circ}00'00''$ east; thence northeasterly in a straight line to a point which is the intersection of latitude $6^{\circ}12'00''$ north and longitude $47^{\circ}43'00''$ east; thence south-easterly in a straight line to a point which is the intersection of latitude $6^{\circ}02'00''$ north and longitude $48^{\circ}25'00''$ east; thence north-easterly in a straight line to a point which is the intersection of latitude $6^{\circ}22'00''$ north and longitude $48^{\circ}40'00''$ east; thence south-easterly in a straight line to the intersection of latitude $6^{\circ}12'00''$ north and the coastline of the Indian Ocean, which is the point of beginning.

The above tracts include a strip of territorial waters up to an isobath of 100 meters adjacent to the land shown on Exhibit « 1 » which border the Indian Ocean.

LIST A — (Exempt)

- 1) Drilling rigs and machinery complete, including all necessary tools, supplies, equipment and items required to move, rig up, drill and complete any hole; any and all geological, engineering and laboratory supplies and equipment; all necessary equipment, supplies and tools for complete geophysical program including aerial magnetometer, ground gravity and seismic surveys; all required equipment, tools and supplies necessary for the construction and operation of a petroleum refinery or refineries including natural gas processing and chemical plants; all necessary equipment, tools and supplies required in the construction and operation of any pipeline system; materials for drilling fluids and drilling operations; chemicals, cements and explosives necessary to the operations of the Companies; any and all electrical and radio-active devices, instruments, logging tools and supplies required in the Companies' operation; tubular goods, valves and fittings, any and all petroleum and natural gas producing - processing and handling equipment, materials and supplies required both in the hole and above ground; all pumping equipment, materials and supplies needed both in the hole and above ground; any and all fluid metering and/or measuring devices, storage vessels, barrels and tanks; all hoisting masts, drilling masts and derricks; pressure control equipment and materials, rope, wireline, lumber and stock metal (bars, channels, I-Beam, sheets, etc.). The Companies, from time to time, shall furnish the Government industrial catalogs and brochures which, to a greater extent, shall include the aforesaid equipment and materials notwithstanding special devices and items resulting from laboratory or research work.
- 2) Any and all office equipment, machines, printing and duplicating devices, furnishings and supplies needed in the operations of the Companies.
- 3) Camp equipment and furnishings for both mobile and permanent field operations.
- 4) Complete prefabricated buildings and any reinforcing or building materials required for the Companies' offices, housing and operational constructions including bridges and roads.
- 5) Trade journals and technical literature pertaining to the petroleum industry.
- 6) Safety and fire fighting equipment and supplies necessary to the Companies' operations.

- 7) All aircraft, buildings tools and supplies required for the institution, operation and maintenance of the Companies' aviation Department.
- 8) Commercial radio equipment and supplies required in the Companies' radio network.
- 9) Any and all ships, boats, lifting devices, materials, tools and supplies required in the construction and operation of ocean shipping terminals and/or harbors.
- 10) Any and all photographic cameras, tools, devices and supplies required for photographic surveys.
- 11) Any and all hospital equipment, instruments and supplies.
- 12) First aid supplies and medicines.
- 13) Hand tools.
- 14) Electrical equipment, generators, tools, wiring and supplies.
- 15) Power plant systems and prime movers including natural gas, pneumatic, diesel, gasoline and steam engines.
- 16) Refrigerators and refrigeration systems required in the Company's operations.
- 17) Air conditioning assemblies and systems permanently affixed and sealed to units of mobile field housing, which are not for domestic use.
- 18) All track and wheel vehicles and trailers required in the operations including their auxiliary drives, spare parts and hand tools.
- 19) All machine shop and garage equipment, supplies and tools including wood and metal cutting and chipping devices; welding equipment.
- 20) Petroleum fuels, preservatives, lubricants and paints.
- 21) Spare parts for all of the foregoing.

- 22) Any and all materials and items not included in the foregoing taking into consideration an expanded petroleum operation, new devices and materials for the exploration, production, handling and processing of petroleum and/or natural gas and their products and by-products.

LIST B — (Non-exempt)

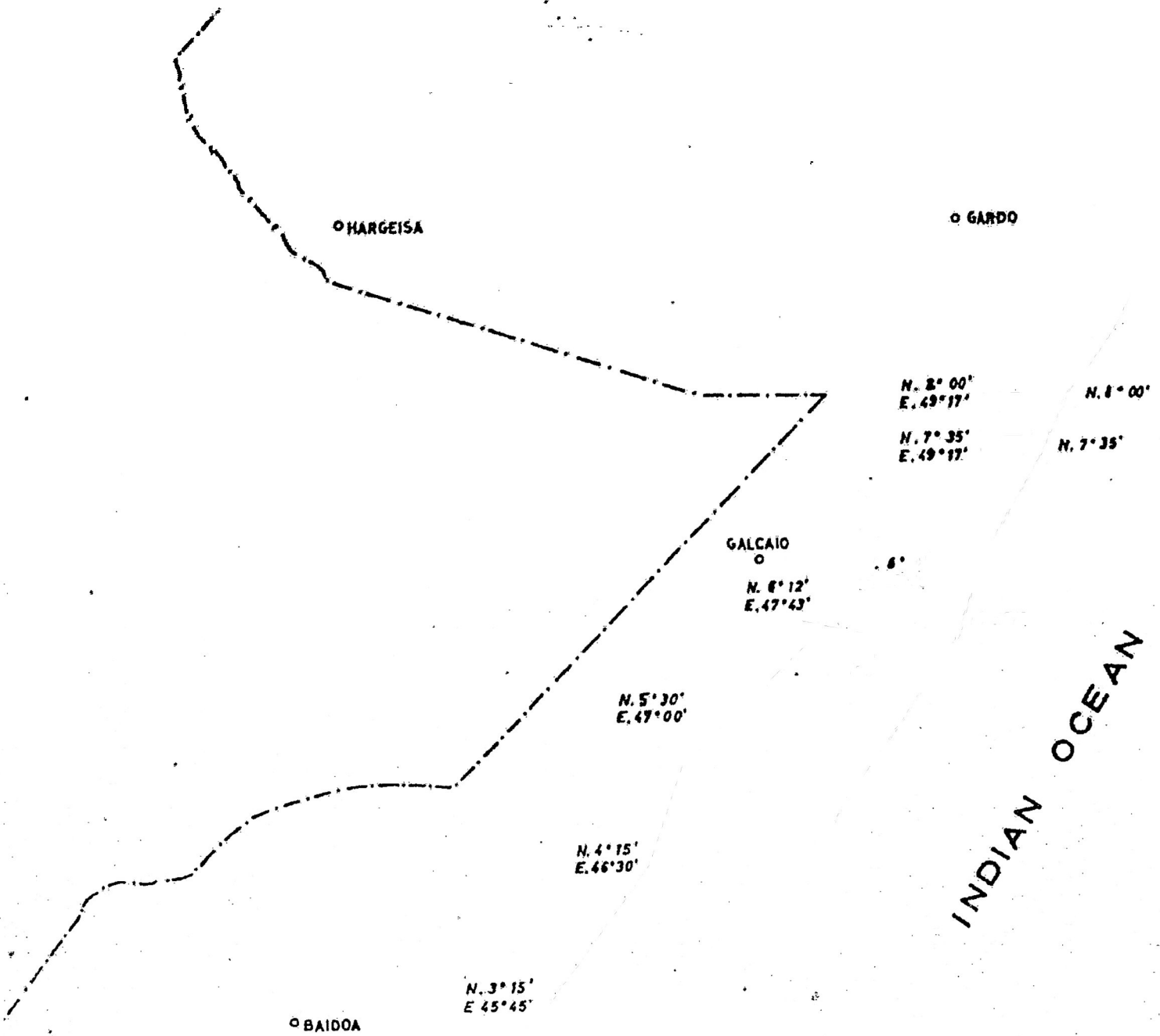
- 1) Foods.
- 2) Beverages.
- 3) Those items listed in «A» above which are strictly intended for the personal use of the employees.
- 4) Those items in exception to the basic material requirements necessary to the Companies' «Industrial Scope».

PARTE SECONDA

DISPOSIZIONI, COMUNICATI, AVVISI, VARIE

N. N.

GULF OF ADEN



INDIAN OCEAN

SOMALI REPUBLIC

EXHIBIT 1

ATTACHED TO THE CONVENTION OF

PERMIT AREA

Scale 1:6 000 000

