THE CROATIAN PARLIAMENT
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Pursuant to Article 89 of the Constitution of the Republic of Croatia, I hereby issue the

DECISION
PROMULGATING THE ACT ON THE Exploration and Production of Hydrocarbons

I hereby promulgate the Act on the Exploration and Production of Hydrocarbons passed by the Croatian Parliament at its session on 25 May 2018.

Class: 011-01/18-01/60
Reg. No.: 71-06-01/1-18-2
Zagreb, 30 May 2018

The President
of the Republic of Croatia
Kolinda Grabar-Kitarović, m.p.

ACT ON THE EXPLORATION AND PRODUCTION OF HYDROCARBONS

PART ONE
INTRODUCTORY PROVISIONS

Scope of the Act

Article 1

(1) This Act shall regulate the Exploration and Production of Hydrocarbons, the Exploration and Production of Geothermal Waters the accumulated heat from which may be used for energy purposes, storage of natural gas and Geological Storage of Carbon Dioxide, whereby Hydrocarbons, Geothermal Waters or Geological Structures for storage and geological storage are contained in the soil or in the subsea of the internal waters or territorial sea of the Republic of Croatia, that is, in the subsoil of the continental shelf of the Adriatic Sea to the line of delimitation with the neighbouring countries over which the Republic of Croatia exercises jurisdiction and sovereign rights in compliance with international law.

(2) Annex I Template Production Sharing Agreement and Annex II Hydrocarbon Exploration and Production Costs eligible for recovery in the event of division of recovered quantities of Hydrocarbons shall form an integral part of this Act.

Application of Acquis Communautaire

Article 2

This Act contains provisions that are in accordance with the following acts of the European Union:


Application of Regulations

Article 3

(1) Issues regarding the protection of the environment and nature not covered by this Act shall be governed by the provisions of regulations governing the protection of the environment and nature.

(2) Issues regarding spatial planning not regulated by this Act shall be governed by the provisions of regulations governing spatial planning.

(3) Issues regarding the protection of Geothermal Waters when used for energy purposes not regulated by this Act shall be governed by the provisions of regulations governing waters.

(4) Issues regarding marine and subsea areas of the Republic of Croatia and legal relations therein, not covered by this Act and matters regarding the safety of navigation and protection of the sea against pollution from maritime facilities, shall be governed by the provisions of regulations governing maritime affairs and maritime domain, respectively.

Interest of the Republic of Croatia

Article 4

(1) Hydrocarbons, Geothermal Waters, Geological Structures suitable for Underground Gas Storage and Geological Storage of Carbon Dioxide represent goods of interest for the Republic of Croatia, have its particular protection and shall be produced under the conditions and in the manner stipulated by this Act.


(3) Hydrocarbons, Geothermal Waters, Geological Structures suitable for storage of natural gas and Geological Storage of Carbon Dioxide shall be owned by the Republic of Croatia.

Energy Strategy of the Republic of Croatia and Framework Plans and Programmes

Article 5

(1) The Energy Strategy of the Republic of Croatia, adopted by the Croatian Parliament pursuant to the regulations governing energy, shall be the basic planning act that establishes the management of Hydrocarbons and Geothermal Waters, storage of natural gas and Geological Storage of Carbon Dioxide and the planning of petroleum economic activity on the national level.

(2) The Energy Strategy of the Republic of Croatia shall contain the basis for directing and coordinating economic, technical, scientific, educational, organisational and other measures and measures for implementing international obligations for the purpose of management of Hydrocarbons and Geothermal Waters, storage of natural gas and Geological Storage of Carbon Dioxide.

(3) Hydrocarbons management shall be carried out pursuant to the Framework Plan and Programme for Onshore Exploration and Production of Hydrocarbons and the Framework Plan and Programme for Exploration and Production of Hydrocarbons in the Adriatic.

(4) The Framework Plans and Programmes referred to in paragraph 3 of this Article shall be adopted by the minister competent for energy pursuant to the Energy Strategy of the Republic of Croatia and the regulations governing the strategic environmental assessment.

(5) Units of local and regional self-government shall, in their development planning acts, adopt the objectives of the Energy Strategy of the Republic of Croatia, the Framework Plan and Programme for Onshore Exploration and Production of Hydrocarbons and the Framework Plan and Programme for Exploration and Production of Hydrocarbons in the Adriatic, as well as ensure their implementation.
Respective terms in this Act shall have the following meaning:

1) **Agency** means a legal person with public authority responsible for monitoring the activities of Exploration and Production of Hydrocarbons and Geothermal Waters, Underground Gas Storage and Geological Storage of Carbon Dioxide, that carries out tasks within the scope and competence laid down by this Act and other regulations related to the application of this Act or any other act amending, supplementing or replacing this Act, or another body or person that is its legal successor or has assumed its tasks under the competence of this Act.

2) **Substantial change** means, in relation to Geological Storage of Carbon Dioxide, any change not provided for under the Licence for Geological Storage of Carbon Dioxide that may have significant effects on nature, the environment and human health.

3) **Budget** means the estimated costs expected to be incurred during the implementation of an approved Work Programme and forming an integral part of any Work Programme.

4) **Well** means a petroleum facility constructed by drilling in underground formations from a starting point on ground surface or at the bottom of water bodies to a final depth, for the purposes of Exploration and Production of crude oil or natural gas or Geothermal Waters or for injecting any kind of fluid in a hydrocarbon Reservoir, other than a seismic Well or a structure test Well or stratigraphic test Well.

5) **Exploration Licence** means a Licence for the Exploration and Production of Hydrocarbons, or a Licence for the Exploration of Geothermal Waters, or a Licence for Exploration for the purpose of Underground Gas Storage or a Licence for Exploration for the purpose of Geological Storage of Carbon Dioxide.

6) **Licence for the Exploration and Production of Hydrocarbons** means a decision or decisions of the Government granting the Investor the right to directly conclude Agreements on the Exploration and Production of Hydrocarbons under the conditions expressly stipulated by this Act, right to the Exploration of Hydrocarbons and right to directly grant a Production Licence for Hydrocarbons, provided that all the prerequisites stipulated by this Act have been met.

7) **Licence for the Exploration of Geothermal Waters** means a decision or decisions of the Ministry granting the Investor the right to the Exploration of Geothermal Waters and right to directly grant a Licence for the recovery of Geothermal Waters and conclude Agreements on the Production of Geothermal Waters, provided that all the prerequisites regarding the commencement of the production of Geothermal Waters stipulated by this Act have been met.

8) **Exploration Licence for the purpose of natural gas storage** means a decision or decisions of the Ministry granting the Investor the right to the Exploration of the existence of prerequisites for the Underground Gas Storage in Geological Structures and right to directly grant a Licence for Geological Storage of Carbon Dioxide, provided that all the prerequisites stipulated by this Act have been met.

9) **Exploration Licence for the purpose of permanent carbon dioxide storage** means a decision or decisions of the Ministry granting the Investor the right to the Exploration of the existence of prerequisites for the Geological Storage of Carbon Dioxide in Geological Structures and right to directly grant a Licence for Geological Storage of Carbon Dioxide, provided that all the prerequisites stipulated by this Act have been met.

10) **Production Licence** means a Licence for the recovery of Hydrocarbons, or a Licence for the recovery of Geothermal Waters, or a Licence for the Underground Gas Storage or a Licence for Geological Storage of Carbon Dioxide.

11) **Production Licence for Hydrocarbons** means a decision or decisions of the Government, and, in relation to an existing right, a decision or decisions of the Ministry permitting the Production of Hydrocarbons.

12) **Production Licence for Geothermal Waters** means a decision or decisions of the Ministry permitting the production of geothermal water.
13) **Production Licence for Underground Gas Storage** means a decision or decisions of the Ministry permitting the storage of natural gas.

14) **Licence for Geological Storage of Carbon Dioxide** means a decision or decisions of the Ministry permitting Geological Storage of Carbon Dioxide in Geological Structures.

15) **Production** means the Production of Hydrocarbons and Geothermal Waters from Reservoirs, treatment of Hydrocarbons, transport of Hydrocarbons and Geothermal Waters to the Delivery Point, including the pipelines when they have a technological connection to the established Exploitation Fields, Underground Gas Storage, Geological Storage of Carbon Dioxide and Decommissioning. Production shall include but not be limited to:

   – all the works and activities with respect to the drilling of Wells other than Exploration Wells and Appraisal Wells, the deepening, plugging, sidetracking of such Wells, including the plan, construction and installation of such equipment, pipeline or lines, plants, production units and all other systems that relate to such Wells and may be necessary pursuant to the verified Development and Production Plan; and

   – all the works and activities relating to the servicing and maintenance of pipelines, lines, installations, production units and all activities relating to the production and management of Wells conducted in order to facilitate and enable the recovery of Hydrocarbons and Geothermal Waters from Reservoirs as well as Underground Gas Storage and Geological Storage of Carbon Dioxide.

16) **Exploitation Field** means an onshore or offshore area confined by the geographic coordinates of its peak points and restricted in its depth, following the borders of a Reservoir of Hydrocarbons, Geothermal Waters or Geological Structures suitable for Underground Gas Storage and Geological Storage of Carbon Dioxide.

17) **Reserves Study** means categorising and classifying of reserves of Hydrocarbons or Geothermal Waters and confirming the commercial potential of the Reservoir, i.e. identifying the structure, form and volume of Geological Structures suitable for Underground Gas Storage and Geological Storage of Carbon Dioxide.

18) **FOB** means Free on Board at the Delivery Point and has the meaning set out in the ICC's international rules for the interpretation of commercial terms (Incoterms 2010), and refers to the realised sales price for the Investor’s Production Share at the point of sale less transportation, insurance and handling costs beyond the Delivery Point.

19) **Geophysical Surveys** means all invasive and/or non-invasive surveys of physical characteristics of the underground, performed from the air, on terrain surface, water bodies and/or at the bottom of the water bodies, as well as from the Wellbore.

20) **Geological Structure** means a geological unit that can be established and mapped, and, due to its lithological, structural and physical characteristics, is suitable for the accumulation of Hydrocarbons and Geothermal Waters, Underground Gas Storage and Geological Storage of Carbon Dioxide.

21) **Geothermal Waters** means Geothermal Waters from which accumulated heat may be used for energy purposes, apart from Geothermal Waters used for medicinal, balneological or recreational purposes and other functions, to which water regulations apply, as well as groundwater used by draw-works for heating or cooling water in a low-temperature heat distribution system, to which construction regulations apply.

22) **Construction** means the planning, building, reconstruction, investment maintenance and Removal of Petroleum Facilities and expert supervision of the execution of such activities.

23) **Construction of Petroleum Facilities** means the performance of construction and other works (preparatory, ground, structural, installation, finishing and fitting the construction products, equipment and plants) for constructing a new petroleum facility.

24) **Hydrodynamic Unit** means, in relation to Geological Storage of Carbon Dioxide, hydrodynamically connected pore space where pressure communication can be measured by technical means and which is bordered by flow barriers, such as faults, salt domes, lithological boundaries, or by the wedging out or outcropping of the formation.
25) **Inspections** means petroleum inspection, environmental protection inspection, nature protection inspection, as well as other competent state administration authorities performing inspection supervision with regard to the implementation of the provisions of this Act.

26) **Investment Maintenance of Petroleum Facilities** means the performance of works on the existing petroleum facility in order to preserve the basic requirements of the petroleum facility during its lifespan, provided that this does not change the compliance of the petroleum facility with the location conditions pursuant to which it was constructed, i.e. it does not change the purpose of the petroleum facility or the technological process described in the verified petroleum documentation.

27) **Investor** means one or more Petroleum Economic Entities that, pursuant to this Act, received an Exploration Licence or, depending on the context, a Production Licence.

28) **Leakage** means, in relation to Geological Storage of Carbon Dioxide, any release of carbon dioxide from the Storage Complex.

29) **Exploration** means all Exploration works and activities aimed at establishing the existence, position and form of the Reservoir, quantity and quality of the reserves and the conditions regarding the Production of Hydrocarbons and Geothermal Waters, i.e. works and testing aimed at establishing the possibility of storing natural gas and permanently disposing of carbon dioxide in Geological Structures and the conditions of production, including, but not limited to:

   – geophysical and other geological surveys, the interpretation of collected data and their study treatment,
   – drilling, deepening, deviation, completion, testing, suspension or the abandonment of Exploration Wells,
   – Decommissioning,
   – purchase or procurement of the goods, services, materials and equipment required by the aforementioned works.

30) **Discovery Well** means a Well the purpose of which is to establish the existence, position and form of hydrocarbon or geothermal water Reservoirs, and their quantity and quality, i.e. establish the existence of Geological Structures suitable for Underground Gas Storage and Geological Storage of Carbon Dioxide.

31) **Exploration Phase** means a period within the Exploration Period during which the Investor undertook to perform Minimum Work Obligations pursuant to the concluded Agreement on the Exploration and Production of Hydrocarbons; there are two Exploration Phases - the first Exploration Phase lasts for the first three years of Exploration and the second Exploration Phase lasts for two years of Exploration following the end of the first Exploration Phase.

32) **Exploration Block** means an onshore or offshore section confined by the geographic coordinates of its peak points that, following the tendering procedure, was designated by a Licence for the Exploration of Hydrocarbons, Geothermal Waters and the existence of potential Geological Structures suitable for Underground Gas Storage or Geological Storage of Carbon Dioxide.

33) **Exploration costs** means all eligible costs that the Investor shall bear during the Exploration pursuant to the issued Licence for the Exploration and Production of Hydrocarbons and the concluded Production Sharing Agreement.

34) **Exploration Period** means the period designated by this Act during which the Investor is allowed to perform the Exploration.

35) **Public Undertaking** means a public undertaking defined as such by the act governing public procurement.

36) **Commercial Discovery** means any Discovery or a number of discoveries of recoverable reserves of Hydrocarbons or Geothermal Waters identified in the reserves study, which, pursuant to this Act, justify the production of discovered reserves of Hydrocarbons or Geothermal Waters, or any Discovery or a number of discoveries of Geological Structures suitable for Underground Gas Storage and Geological Storage of Carbon Dioxide identified in the study regarding the Geological Structures suitable for Underground Gas Storage and Geological Storage of Carbon Dioxide.
37) **Corrective Measures** means, in relation to Geological Storage of Carbon Dioxide, measures undertaken to correct significant irregularities or to close Leaks in order to prevent or stop the release of carbon dioxide from the Storage Complex.

38) **Reservoir** means any sedimentary, igneous or metamorphic porous rocks that contain natural accumulation of Hydrocarbons or Geothermal Waters, but are confined by cap rocks and represent a single Hydrodynamic Unit.

39) **Local Pipeline** means a pipeline connecting the Measurement Point and the point of hydrocarbon entry into the Transmission Pipeline.

40) **Transmission Pipeline** means the main state pipeline to which the Investor shall have access pursuant to this Act and the Agreement on the Exploration and Production of Hydrocarbons.

41) **International Good Oilfield Practice** means practices and procedures, recognised and continuously updated by the Society of Petroleum Engineers (SPE) used internationally by prudent operators in conditions and circumstances similar to the ones relating to the Petroleum Operations in the Exploration Block or Exploitation Field, all in accordance with the European Union practice, with the aim to:

- conserve Hydrocarbons by increasing the recoverability of Hydrocarbons in a technically and economically sustainable manner, with a corresponding control of reserves decline and minimization of losses at the surface
- improve operational safety and protection from accidents and
- protect the environment and nature by minimizing the impact of Petroleum Operations on the environment and nature.

42) **Migration** means, in relation to Geological Storage of Carbon Dioxide, the movement of carbon dioxide within the Storage Complex.

43) **Ministry** means the ministry competent for energy.

44) **Minimum Financial Obligation** means the minimum monetary cost to which the Investor committed in respect to Minimum Work Obligations.

45) **Minimum Work Obligations** means the minimum of Hydrocarbon Exploration obligations that the Investor undertook to perform during an individual Exploration Phase.

46) **Measurement Point** means the place or places designated in the verified Development and Production Plan where appropriate equipment shall be located for the purpose of performing volumetric measurements and other determinations, temperature and other adjustments, determination of water and sediment and other appropriate measurements, all to establish the recovered quantities of Hydrocarbons.

47) **National Oil Company** means the company which is majority owned by the Republic of Croatia and which is registered for the activity of Hydrocarbon Exploration and Production.

48) **Petroleum Economic Entity** means one or more individual or legal entity with the registered seat or branch in the Republic of Croatia registered with the authority competent for the activity of Exploration and Production of Hydrocarbons or Geothermal Waters or Underground Gas Storage or Geological Storage of Carbon Dioxide, depending on the application, as well as a legal person with the registered seat in other countries registered for the activity of Exploration and Production of Hydrocarbons or Geothermal Waters or Underground Gas Storage or Geological Storage of Carbon Dioxide with the competent authority of the country of the legal person’s registered seat.

49) **Petroleum Facilities** means all facilities, plants, equipment, tools, devices and installations used in the Exploration and Production of Hydrocarbons and Geothermal Waters, as well as Underground Gas Storage and Geological Storage of Carbon Dioxide.

50) **Petroleum Plans** means plans developed for the purposes of performing Petroleum Operations in accordance with this Act and regulations adopted pursuant to this Act.

51) **Petroleum Operations** means all works entailing the Exploration and Production of Hydrocarbons, Geothermal Waters, Underground Gas Storage or Geological Storage of Carbon Dioxide and all other activities performed in accordance with this Act, including the lifting of
Hydrocarbons from the Exploitation Field, but excluding the storage, transport and processing beyond the Delivery Point.

52) **Petroleum** means all activities relating to the Exploration and Production of Hydrocarbons, Geothermal Waters used for energy purposes, Underground Gas Storage and Geological Storage of Carbon Dioxide.

53) **Fee** means Fees that the Investor, pursuant to this Act, pays for the Exploration and Production of Hydrocarbons, Geothermal Waters, Underground Gas Storage and Geological Storage of Carbon Dioxide, and the quantities and types of which are established by the Government, at the proposal of the Ministry, in form of a regulation.

54) **Carbon Dioxide Plume** means, in relation to Geological Storage of Carbon Dioxide, the dispersing volume of carbon dioxide in the geological formation.

55) **Appraisal Well** means a Well drilled during Exploration, within the Appraisal Area, for the purpose of delineating a Reservoir (or several Reservoirs), in terms of thickness and lateral extent and estimating the quantity of recoverable petroleum and Geothermal Waters therein as well as the production conditions, i.e. the verification of Geological Structures suitable for Underground Gas Storage and Geological Storage of Carbon Dioxide.

56) **Appraisal Works** means any and all works performed as part of the Exploration, within the Appraisal Area in order to delineate one or more Reservoirs in terms of the thickness and lateral reach, and for the purposes of determining the physical reach (areal extensions), Reservoirs and the probable capacity of production from the Reservoir(s) of petroleum or Geothermal Waters and the conditions of exploitation, i.e. Geological Structures suitable for Underground Gas Storage and Geological Storage of Carbon Dioxide.

57) **Appraisal Area** means a geographical area within the Exploration Block, encompassing the surface of the Geological Structure(s) or prospect(s) where Appraisal is intended to be performed within Exploration and a reasonable margin surrounding such Discovery.

58) **Framework Plan and Programme for Exploration and Production of Hydrocarbons in the Adriatic** means the plan and Programme adopted by the Ministry pursuant to the regulations governing strategic Environmental Impact Assessment or any act amending, supplementing or replacing such plan and Programme, defining the conditions, limitations and environmental protection measures during the performance and monitoring of the activities of Exploration and Production of Hydrocarbons in the Adriatic.

59) **Framework Plan and Programme for Onshore Exploration and Production of Hydrocarbons** means the plan and Programme adopted by the Ministry pursuant to the regulations governing strategic Environmental Impact Assessment or any act amending, supplementing or replacing such plan and Programme, defining the conditions, limitations and environmental protection measures during the performance and monitoring of the activities of onshore Exploration and Production of Hydrocarbons.

60) **Discovery** means an occurrence of Hydrocarbons or Geothermal Waters in any drilled structure, the existence of which was previously not proved.

61) **Waste** means the substances defined as such pursuant to the act governing the matter of sustainable waste management.

62) **Unit development plan** means the plan for the unit development of the hydrocarbon Reservoir located partly in the Discovery area within one Exploration Block or Exploitation Field, and partly within a neighbouring Exploration Block or Exploitation Field on the territory of the Republic of Croatia in which other parties have the right to perform Petroleum Operations or within the borders of a neighbouring country.

63) **Platts price report** means the official quotation of the price range for various types of crude oil on the global market connected to the price of reference crude oil, published in the Platts Oilgram Report or Platts Crude Oil Marketwire Report or an equivalent Platts report providing detailed market information on the crude oil price developments.

64) **Subcontractor** means any company or person contracted by the Investor or its Subcontractor to provide goods, works or services in connection with Petroleum Operations.
65) **Underground Gas Storage** means an area of a certain volume within a Geological Structure used for storing natural gas or Geological Storage of Carbon Dioxide in underground Geological Structures and the accompanying plants and Petroleum Facilities on the surface, as well as plants and Petroleum Facilities for injecting gases.

66) **Field** means a hydrocarbon Reservoir or multiple hydrocarbon Reservoirs all grouped into or related to the same individual geological structural features or stratigraphic conditions.

67) **Existing Right to Production** means a concession or an Agreement on the concession for the Production of Hydrocarbons or Geothermal Waters, i.e. storage of natural gas, in force at the time of entry into force of this Act, or any other legally binding document authorising the Production of Hydrocarbons or Geothermal Waters or storage of natural gas.

68) **Produced Oil** means crude oil produced from the Exploitation Field, measured at the Measurement Point.

69) **Produced Gas** means natural gas produced from the Exploitation Field, measured at the Measurement Point.

70) **Produced Hydrocarbons** means recovered oil, gas or condensate produced from the Exploitation Field, measured at the Measurement Point.

71) **Connecting pipeline** means a pipeline that connects Wells to the collection system and leads to the Measurement Point.

72) **Test Production** means production performed within the approved Exploration Block or Exploitation Field for the purpose of technological testing and establishing production conditions.

73) **Discharge** means, in relation to Geological Storage of Carbon Dioxide, any Leakage of carbon dioxide from the Storage Complex.

74) **Illegal Production** means any production without valid documentation stipulated by this Act or contrary to the valid documentation, in particular:

   - production within Exploration, unless permitted under petroleum plans
   - sale of quantities recovered during Test Production, if the relevant Fee for recovered quantities of Hydrocarbons in accordance with this Act was not paid
   - production outside the limits set out in the verified Petroleum Plans pursuant to which the Production Licence was granted
   - production on land plots not covered by the granted Production Licence or outside the scope set out in the verified petroleum plan pursuant to which the Production Licence was granted or contrary to the Agreement on the Exploration and Production of Hydrocarbons or the production Agreement.

75) **Work Programme** means the annual specification of petroleum operations that the Investor intends to carry out in accordance with the issued Exploration Licence or Production Licence.

76) **Production Period** means the period from the moment the Government grants the Production Licence for the Hydrocarbons, i.e. the entry into force of the Agreement on the Production of Geothermal Waters or the Agreement on the Underground Gas Storage or the Licence for Geological Storage of Carbon Dioxide.

77) **Post-Closure** means, in relation to Geological Storage of Carbon Dioxide, period after the closure of storage site, including the period after the transfer of responsibility to the competent authority.

78) **Reconstruction of Petroleum Facilities** means the performance of construction and other works on the existing petroleum facility and plant with an impact on the fulfilment of basic requirements for such petroleum facility or that change the compliance of that petroleum facility with the location requirements pursuant to which it was constructed (additional construction, further construction, performance of works to change the purpose of the petroleum facility or technological process, etc.), i.e. the performance of construction and other works on the existing petroleum facility for the purpose of its reconstruction.

79) **Decommissioning** means all works necessary for the relinquishment and rehabilitation of the Exploration Block or Exploitation Field, i.e. area no longer required for Petroleum Operations in
accordance with this Act and regulations adopted pursuant to this Act, as well as the International Good Oilfield Practice.

80) **Storage Complex** means, in relation to Geological Storage of Carbon Dioxide, the storage site and surrounding geological domain which can have an effect on overall storage integrity and security; that is, secondary containment formations.

81) **Underground Gas Storage** means all Petroleum Facilities below and above ground necessary for drawing and injecting natural gas into Geological Structures suitable for storage of natural gas.

82) **Water Column** means, in relation to Geological Storage of Carbon Dioxide, the vertically continuous mass of water from the surface to the bottom sediments of a water body.

83) **Environmental Damage** means any damage, disturbance or hindrance to the environment, such as significant soil erosion, removal of vegetation, destruction of wildlife, marine organisms, pollution of groundwater, pollution of surface water, land or sea contamination, air pollution, noise pollution, bush fire, disruption of water supplies, disruption of natural drainage, damage to archaeological, paleontological and cultural sites, in accordance with the regulations on environmental protection, nature and preservation of cultural objects, as well as other regulations.

84) **Technical and technological unit** means a set of technologically connected Petroleum Facilities ensuring the attainment of the production objectives set out in the verified petroleum documentation.

85) **Delivery Point** means the point or points, located either inside or outside the Exploitation Field, located beyond the Measurement Point, at which petroleum or Geothermal Waters reach the outlet flange of the delivery facility, and may be the entry point into the Local Pipeline or main pipeline or an outlet flange of the Well or another case as specified in the verified Development and Production Plan, or such other point or points which may be agreed by the Ministry and the Investor.

86) **Carbon Dioxide Stream** means, in relation to Geological Storage of Carbon Dioxide, the flow of the substances that results from carbon dioxide capture processes.

87) **Geological Storage of Carbon Dioxide** means the injection accompanied by storage of Carbon Dioxide Streams in underground geological formations. The injection of carbon dioxide in underground Geological Structures for the purpose of enhanced oil recovery shall not be deemed Geological Storage of Carbon Dioxide.

88) **Transport Network** means, in relation to Geological Storage of Carbon Dioxide, a network of pipelines and accompanying infrastructure, including stations for transport of carbon dioxide to the storage site.

89) **Third country** means all countries that are not Member States of the European Union.

90) **Development and production costs** means all eligible costs the Investor shall bear during development and production, excluding the costs incurred on the Exploration Block before the Discovery was declared a Commercial Discovery, pursuant to the issued Licence for the Exploration and Production of Hydrocarbons and the concluded Production Sharing Agreement.

91) **Cost oil** means a portion of the Produced Oil that the Investor may retain each Calendar Year for the purposes of cost recovery.

92) **Cost gas** means a portion of the Produced Gas that the Investor may retain each Calendar Year for the purposes of cost recovery.

93) **Petroleum** means oil, natural gas and gas condensate.

94) **Agreement on the Exploration and Production of Hydrocarbons** means any of the Agreements concluded pursuant to this Act for the purposes of Exploration and Production of Hydrocarbons, i.e. the Production Sharing Agreement and the Agreements on the Production of Hydrocarbons.

95) **Production Sharing Agreement** means the Agreement concluded by and between the Government and the Investor after the Licence for the Exploration and Production of Hydrocarbons has been issued, in accordance with the provisions of this Act, based on the division of recovered quantities off Hydrocarbons between the Government and the Investor that remain after the payment of the Fee for the recovered quantities of Hydrocarbons and the recovery of the Investor’s Hydrocarbon Exploration and Production costs.
96) **Agreement on the Production of Hydrocarbons** means, in relation to the Exploration and Production of Hydrocarbons, the Agreement concluded by and between the Government and the Investor after the Licence for the Exploration and Production of Hydrocarbons has been issued, in accordance with the provisions of this Act, and, in relation to an existing right, the Agreement concluded by and between the Ministry and the Investor, providing for the Investor’s right to total production and payment of the Fee for the recovered quantities of Hydrocarbons.

97) **Agreement on the Production of Geothermal Waters** means, in relation to the production of Geothermal Waters, the Agreement concluded by and between the Ministry and the Investor for the purpose of production of Geothermal Waters, in accordance with the provisions of this Act.

98) **Agreement on the Underground Gas Storage** means, in relation to storage of natural gas, the Agreement concluded by and between the Ministry and the Investor for the purpose of storage of natural gas, in accordance with the provisions of this Act.

99) **Removal of Petroleum Facilities** is a part of Decommissioning, and means the performance of works to remove a petroleum facility, or a part thereof, from its location, including the management of the existing waste at the petroleum facility, building material and construction waste generated during the removal of the petroleum facility pursuant to the regulations governing waste management and restoring the property or land where the petroleum facility was located to the condition similar to the original, acceptable for nature, the environment, flora and fauna, safety of people and property and human health.

100) **Significant Irregularity** in relation to Geological Storage of Carbon Dioxide, any irregularity in the operations of injection or Geological Storage of Carbon Dioxide or in the conditions of the underground storage facility itself, which implies the risk of Leakage or risk to nature and the environment or human health.

101) **the Government** means the Government of the Republic of Croatia.

102) **Closure of the Underground Gas Storage facility** means, in relation to Geological Storage of Carbon Dioxide, definitive cessation of carbon dioxide injection into that storage site.

103) **Significant Risk** means, in relation to Geological Storage of Carbon Dioxide, a combination of the probability of occurrence of damage and the magnitude of damage that cannot be disregarded without calling into question the purpose of this Act.

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**PART TWO**

**SUBSTANTIVE AND PROCEDURAL PROVISIONS**

**TITLE I**

**COMMON PROVISIONS**

**Competences of the Ministry**

**Article 7**

Within its competences, the Ministry shall:

– draft regulations pertaining to the Exploration and Production of Hydrocarbons, Exploration and Production of Geothermal Waters, storage of natural gas, and Geological Storage of Carbon Dioxide

– submit proposals to the Government for adopting a decision regarding the tendering procedure for the Exploration and Production of Hydrocarbons, issuing Licences for the Exploration and Production of Hydrocarbons, concluding Agreements on the Exploration and Production of Hydrocarbons, and issuing Licences for the Production of Hydrocarbons;

– adopt decisions regarding the tendering procedure for the Exploration and Production of Geothermal Waters, storage of natural gas, and Geological Storage of Carbon Dioxide;

– issue Licences for the Exploration of Geothermal Waters, Exploration Licences for the purpose of storing natural gas, and Exploration Licences for the purpose of Geological Storage of Carbon Dioxide;
issue Licences for Hydrocarbon Production where there is an Existing Right to Production, Licences for the Production of Geothermal Waters, Licences for the storage of natural gas, and Licences for Geological Storage of Carbon Dioxide;

– conclude Agreements on the Production of Hydrocarbons with Investors based on an Existing Right to Production, Agreements on the Production of Geothermal Waters, and Agreements on the storage of natural gas;

– keep registers pursuant to this Act;

– establish Commissions pursuant to this Act;

– conduct Reserves Study verification processes, keep records of reserves and quantities of produced (recovered) Hydrocarbons, Geothermal Waters, the existence and capacities of Geological Structures favourable for Underground Gas Storage or Geological Storage of Carbon Dioxide, and compile annual balance sheets regarding reserves;

– conduct verification processes concerning Petroleum Plans;

– issue construction permits and operating permits for Petroleum Facilities;

– carry out professional qualification exams pursuant to this Act;

– have all other competences for carrying out individual tasks provided for in this Act and in the regulations adopted based on this Act.

### Competences of the Agency

Article 8

(1) Within its competences, the Agency shall:

– set up and coordinate presentations, keep and organise a database of geological and geophysical data, as well as data regarding Wells, in order to introduce potential Investors to the hydrocarbon, geothermal and geological prospects for Underground Gas Storage and Geological Storage of Carbon Dioxide in certain areas in the Republic of Croatia

– submit a proposal to the Ministry regarding the adoption of a decision on conducting a tendering procedure pursuant to this Act

– prepare the tendering procedure and participate in it

– define the Fees for the Exploration and Production of Hydrocarbons

– ensure the conditions for an efficient exercise of Investors’ rights and obligations based on the issued Exploration Licences, Production Licences, and the concluded Agreements on the Exploration and Production of Hydrocarbons, Agreements on the Production of Geothermal Waters and Agreements on the storage of natural gas

– provide opinions regarding the Work Programmes and Budgets in accordance with Article 118 herein

– control costs pursuant to the Agreements on the Exploration and Production of Hydrocarbons with the purpose of cost recovery

– report to the European Commission on all general difficulties met by the Investors during the access or implementation of activities pursuant to this Act to which its attention is drawn, while respecting confidential business information

– publish and submit to the European Commission an annual report containing information regarding the geographical areas open for Exploration and Production of Hydrocarbons, issued
Licences for the Exploration and Production of Hydrocarbons, licensees and the contents of the Licences, as well as the estimated reserves in the its territory if this does not include confidential business information

– have all other competences for carrying out individual tasks provided for in this Act and in the regulations adopted based on this Act.

(2) When monitoring the activities included in Petroleum Operations in accordance with the issued Licence for the Exploration and Exploration of Hydrocarbons, the concluded Agreement on the Exploration and Production of Hydrocarbons, provisions of this Act and the regulations adopted based on this Act, the Agency shall cooperate with the competent government administration authorities within the framework of their competences.

(3) Throughout the duration of individual Exploration Licences, Production Licences and the concluded Agreements on the Exploration and Production of Hydrocarbons, Agreements on the Production of Geothermal Waters and Agreements on the Storage of Natural Gas, as well as regarding the existing rights to Production, the Agency shall be authorised to request the Investors, at any moment, to deliver any data or information regarding the exercise of their rights or fulfilment of their obligations in accordance with the conditions stipulated in the issued Exploration Licence, Production Licence and the concluded Agreement on the Exploration and Production of Hydrocarbons, Agreement on the Production of Geothermal Waters and Agreement on Underground Gas Storage, as well as regarding the existing rights to production, pursuant to the provisions from this Act and the regulations adopted based on this Act, and the Investor shall be obligated to deliver this data or information within the specified deadline.

Registers

Article 9

(1) The Ministry shall keep a block register and an Exploitation Field register approved pursuant to this Act, a register of issued Licences for Geological Storage of Carbon Dioxide and a register of closed underground storages and the surrounding Storage Complexes.

(2) The Ministry shall enter data into these registers ex officio, following the entry into force of each individual Agreement on the Exploration and Production of Hydrocarbons, the issuing of Exploration Licences, the enforceability of the decision on determining an Exploitation Field, the issuing of Licences for the production, the entry into force of Agreements on the Production of Geothermal Waters and Agreements on the storage of natural gas, the issuing of Licences for Geological Storage of Carbon Dioxide, and the approval of the final plan of action after closing.

(3) Data regarding all approved Exploration Blocks and all Petroleum Facilities located within the approved Exploration Block shall be entered into the of Exploration Block register.

(4) Data regarding all approved Exploitation Fields and all Petroleum Facilities located within a determined Exploitation Field, or exceptionally outside of it when they are technologically connected to the determined Exploitation Fields, which is defined in the verified petroleum documents, shall be entered into the Exploitation Field register.

(5) The register of closed underground storages and the surrounding Storage Complexes contains their spatial plans, cross sections, and the available data relevant for assessing whether the stored gases shall be completely and permanently contained.

(6) The Agency shall keep a register of Agreements on the Exploration and Production of Hydrocarbons, Agreements on the Production of Geothermal Waters, and Agreements on the storage of natural gas, and enter basic data regarding all concluded contracts into such registers.

(7) For the purpose of managing the registers from paragraphs 1, 2, 3, 4, 5, and 6 of this Article, the Agency shall provide a common IT platform in cooperation with the Ministry.

(8) Agreements on the Exploration and Production of Hydrocarbons, Agreements on the Production of Geothermal Waters, and Agreements on the Storage of Natural Gas, providing for the
payment obligation for Fees that are considered to be public contributions shall be entered into the register of concessions kept by the central state administration authority competent for finances.

(9) The agreements mentioned in paragraph 8 of this Article shall be entered into the register of concessions by the Ministry.

Commissions

Article 10

(1) Pursuant to the provisions of this Act, the following Commissions shall be appointed:
- the Commission for opening, reviewing and assessing tenders for issuing Licences for the Exploration and Production of Hydrocarbons pursuant to Article 21 herein;
- the Commission for opening, reviewing and assessing tenders for issuing Licences for the Exploration of Geothermal Waters, Exploration Licences for the purpose of storing natural gas and Exploration Licences for the purpose of permanently disposing of carbon dioxide, in accordance with Article 62 herein;
- the Commission for determining the reserves in accordance with Article 40 herein;
- the Commission for the valuation of Hydrocarbons in accordance with Article 52(6) herein;
- the Commission for verifying Petroleum Plans in accordance with Article 137(4) herein;
- the Commission for carrying out the technical audit of Petroleum Facilities in accordance with Article 170 herein;
- the Commission for carrying out professional qualification exams in accordance with Article 130 herein.

(2) The Commissions mentioned in paragraph 1 of this Article shall be established by the Minister competent for energy, who shall also be responsible for appointing the members of the Commissions, choosing them from the ranks of the Ministry and the Agency employees. If necessary, he can also appoint scientists and experts from other public law authorities and institutions, as well as other experts from the scientific and expert public.

Legal Protection

Article 11

(1) The decisions from Article 26(1), Article 28(2), Article 36(5), Article 48(4), Article 65, Article 70, Article 80(3), Article 86(3) herein and orders from Article 40(1), Article 44(4), Article 137(3), Article 185(15) herein, adopted by the Government or the Ministry in accordance with this Act are administrative acts enforceable at the moment of delivery of such decisions and orders to the party.

(2) An appeal against decisions and orders referred to in paragraph 1 of this Article shall not be allowed, but the dissatisfied party may initiate an administrative dispute with the competent court.

(3) The decisions from Article 15(1), Article 23(2), Article 34(11), Article 58(1), Article 63(1), adopted by the Government or the Ministry in accordance with this Act, are acts of business.

Delivery of Licences and Orders

Article 12

(1) Exploration Licences, Production Licences and orders regarding the approval of an Exploitation Field shall be delivered to:
1. the Investor;
2. the Agency;
3. the competent petroleum inspection authority;
4. the central state administration authority competent for finances;
5. the central state administration authority competent for spatial planning;
6. the unit of local self-government on whose territory an Exploration Block or Exploitation Field is located;
7. the unit of regional self-government on whose territory an Exploration Block or Exploitation Field is located;
8. the central state administration authority competent for water management if an Exploration Block or Exploitation Field is located within a zone of sanitary protection of drinking water pumping sites or within an area important for the water regime;
9. the central state administration authority competent for maritime affairs if an Exploration Block or Exploitation Field is located in a marine area;
10. the central state administration authority competent for inland navigation if an Exploration Block or Exploitation Field is located in a part of internal waters, affecting waterways;
11. the central state administration authority competent for managing state-owned assets, i.e. the authority which is competent for managing forests and forest land, i.e. agricultural land, in a particular case if the Republic of Croatia owns land plots located within the limits of an Exploration Block or Exploitation Field;
12. the central state administration authority competent for nature and environmental protection.

(2) With the aim of informing the public, the units of local and regional self-government on whose territory an Exploration Block or Exploitation Field is located shall publish the entire content of the acts from paragraph 1 of this Article on their web sites within 8 days from the receipt of such acts.

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**Tendering Procedure Principles**

**Article 13**

(1) The tendering procedure carried out pursuant to this Act shall be public.

(2) When conducting the tendering procedures pursuant to this Act, the Ministry shall adhere to the principles of free movement of goods, freedom of establishment, freedom to provide services, the principle of effectiveness and the principles of the Treaty on the Functioning of the European Union, such as the principle of competition, the principle of equal treatment, the prohibition of discrimination principle, the principle of mutual recognition and the transparency principle.

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**TITLE II**

**EXPLORATION AND PRODUCTION OF HYDROCARBONS**

**Chapter I**

**LICENCES AND THE AGREEMENT ON THE EXPLORATION AND PRODUCTION OF HYDROCARBONS**

**Section A**

**Tendering Procedure**

**Article 14**

(1) The Petroleum Operations involved in the Exploration of Hydrocarbons can be performed exclusively based on an issued Licence for the Exploration and Production of Hydrocarbons and a concluded Agreement on the Exploration and Production of Hydrocarbons.
(2) The Petroleum Operations involved in the Production of Hydrocarbons can be performed exclusively based on an Agreement on Exploration and Production of Hydrocarbons and the Production Licence for Hydrocarbons, or based on an existing right to the Production of Hydrocarbons.

(3) The Licences for the Exploration and Production of Hydrocarbons are issued and the Agreements on the Exploration and Production of Hydrocarbons are concluded based on a single procedure pursuant to Article 15 herein or based on the procedure for issuing Licences for the Exploration and Production of Hydrocarbons and concluding the Agreements on the Exploration and Production of Hydrocarbons in areas included in previous tendering procedure and in relinquished areas, pursuant to Article 20 herein.

(4) Once they have fulfilled the stipulated conditions, the Investors that have been issued Licences for the Exploration and Production of Hydrocarbons shall be granted a Licence for the Production of Hydrocarbons pursuant to a Government decision, without conducting any further procedures.

**Tendering Procedure**

**Article 15**

(1) The tendering process for the issuing of a Licence for the Exploration and Production of Hydrocarbons shall begin once the Government has adopted a decision on conducting a tendering procedure for the Exploration and Production of Hydrocarbons based on a proposal of the Agency received via the Ministry.

(2) The tendering procedure for the Exploration and Production of Hydrocarbons shall be conducted by collecting, reviewing and evaluating tenders of interested Investors, and issuing Licences for the Exploration and Production of Hydrocarbons to the chosen tenderers (Investors), and it shall end by concluding Agreements on the Exploration and Production of Hydrocarbons.

(3) Following the decision on conducting a tendering procedure for the Exploration and Production of Hydrocarbons, the Agency shall publish a tender notice for the Exploration and Production of Hydrocarbons at least 90 days before the expiry of the deadline for the delivery of tenders in the Official Gazette of the Republic of Croatia and the Official Journal of the European Union.

(4) The notice referred to in paragraph 3 of this Article shall contain the basic information regarding the Licence, information regarding the blocks available for the tendering procedure, an indicative date, i.e. deadline, for issuing a Licence, as well as criteria for the selection of tenderers.

(5) Every change to the criteria from paragraph 4 of this Article shall be published in its entirety in the Official Journal of the European Union.

(6) The Agency shall coordinate the presentations aimed at introducing potential Investors to the hydrocarbon prospects of certain areas in the Republic of Croatia and draft tender specifications.

**Preparatory Activities, Tender Specifications and Content of the Tender**

**Article 16**

(1) Preparatory activities for the publication of the tendering procedure for the Exploration and Production of Hydrocarbons shall be carried out by the Agency.

(2) Preparatory activities shall be all activities occurring prior to the publication of the tendering procedure from paragraph 1 of this Article, and particularly the drafting of tender specifications in accordance with paragraph 3 of this Article.

(3) The Agency shall draft documents for the tendering procedure for the Exploration and Production of Hydrocarbons, and it shall be published on the official web-sites of the Ministry and the Agency. The documents shall deal in detail with the following:

– the language, manner of drafting and submitting the tender;
– general data regarding the Licences for the Exploration and Production of Hydrocarbons, duration of the Exploration of Hydrocarbons within an Exploration Block, the content of Licences for the Exploration and Production of Hydrocarbons, the duration of hydrocarbon production, as well as the possibilities for extending the Exploration Period pursuant to Article 25(4) herein and the possibilities for extending the Production Period pursuant to Article 25(8) herein;

– participation of the National Oil Company in accordance with Article 18 herein;

– administrative, formal, financial, legal and technical requirements;

– requirements regarding the tendering security;

– procedure and criteria for the evaluation and selection of the most favourable tenderers for individual hydrocarbon blocks;

– borders of the blocks in accordance with the Framework Plan and Programme for the Exploration and Production of Hydrocarbons in the Adriatic and the framework plan and programme for onshore Exploration and Production of Hydrocarbons;

– a summary of geological potential;

– standards for carrying out Petroleum Operations and protecting the environment;

– requirements for the obligations and securities regarding the Decommissioning of Discovery Wells;

– type and draft of the proposal for the Agreement on the Exploration and Production of Hydrocarbons with an elaboration of the contents referred to in Articles 29 and 30 herein, in accordance with the template from Annex I hereto.

(4) The tender specifications referred to in paragraph 3 of this Article prescribe in detail the following conditions for issuing Licences for the Exploration and Production of Hydrocarbons:

– documents proving the financial suitability of the tenderers, which shall prove that the tenderer is suitable for financing the activities included in the Exploration and Production of Hydrocarbons, as well as the manner in which these activities shall be financed if the tender is successful;

– documents proving the legal capacity of the tenderer, including the information on the activities the tenderer is registered for, which show that the operator is registered for carrying out activities of Exploration and Production of Hydrocarbons, including the documents proving that there are no impediments from Article 17 herein;

– documents proving the technical capabilities of the tenderer, which shall show that the tenderer has sufficient technical capabilities, i.e. experience of the tenderer in the field of Exploration and Production of Hydrocarbons;

– payment of the tender fee;

– the obligation of delivering a tendering security;

– the obligation of providing a statement in which the tenderer acknowledges that the tenderer has reviewed the provisions of the draft Agreement on the Exploration and Production of Hydrocarbons and that the tenderer is familiar with those provisions, and based on which the tenderer accepts the material provisions of the contract and gives his consent to having those provisions make up the basis of the Agreement on the Exploration and Production of Hydrocarbons;

– grounds for excluding participants from the tendering procedure.

(5) The following participants shall be excluded from the tendering procedure:

– those that have attempted to improperly influence the single procedure for issuing Licences for Exploration and Production of Hydrocarbons and for concluding contracts, obtain confidential information which could provide them with an unfair advantage in the procedure, or those that have negligently delivered wrong information which could substantially influence decisions regarding the issuing of a Licence for the Exploration and Production of Hydrocarbons or the conclusion of an Agreement on the Exploration and Production of Hydrocarbons;
– those that do not meet the requirements from Article 17 herein;
– those that do not deliver a valid tendering security;
– those that do not deliver documents related to their legal and financial capabilities or documents related to their technical capabilities, and the protection of health, safety and the environment;
– those that have shown any lack of efficiency or responsibility in any form in their previous activities in other countries, which activities are the subject matter of the Licence for the Exploration and Production of Hydrocarbons;
– those that do not meet certain criteria stipulated in the tender specifications.

(6) The tender shall contain the following:
1. Letter of application;
2. Information regarding the tenderer and its members in the case of a consortium;
3. If the tenderer is a consortium, one of its members shall be appointed as the operator;
4. A certificate of payment of the tender fee;
5. Evidence that there are no impediments referred to in Article 17 herein;
6. Tendering security in the form of a bank guarantee;
7. Documents related to the legal capability of the tenderer;
8. An overview of professional, technical and financial requirements, as well as requirements related to the protection of health, safety and the environment, which shall be met by the tenderer, and the documents proving that they have been met;
9. Information based on which a selection can be made in accordance with the selection criteria.

(7) Apart from the information referred to in paragraph 6 of this Article, the tender shall also be accompanied by the following:
1. A minimum Work Programme regarding the Exploration, according to its type and scope, including estimated cost, drafted in accordance with the tender specifications;
2. A detailed plan of the operations to be performed during the first stage of the Exploration;
3. A detailed plan of the operations to be performed during the second stage of the Exploration;
4. The total amount of financing necessary for the performance of the planned exploratory activities and the manner of securing these finances, showing the net value of the company based on audited financial statements;
5. The proposed Fee for the conclusion of an Agreement on the Exploration and Production of Hydrocarbons;
6. The geological assessment and geological model in the most extensive scope possible;
7. The priority order of the blocks if the tenderer is submitting a tender for more than one Exploration Block;
8. Other evidence necessary for making the decision regarding the selection of the most favourable tenderer, referred to in the tender specifications;
9. A statement in which the tenderer acknowledges that the tenderer has reviewed the provisions of the draft Agreement on the Exploration and Production of Hydrocarbons and that the tenderer is familiar with those provisions, and gives its consent to having those provisions constitute the basis of the Agreement on the Exploration and Production of Hydrocarbons, accompanied by the draft Agreement on the Exploration and Production of Hydrocarbons with annotations and proposals for amendments regarding the articles the tenderer would like to negotiate.

(8) Any changes to the conditions and requirements of the tendering procedure shall be published on the web site of the Agency, no less than 15 days before the expiry of the deadline for the delivery of tenders.
Impediments to the Exercise of Rights

Article 17

(1) The Commission referred to in Article 12 herein shall exclude the Petroleum Economic Entity from participating in the procedure for issuing the Licence for the Exploration and Production of Hydrocarbons:

1. if the Petroleum Economic Entity or the person who is a member of the administrative, managing or supervising body, or he/she is authorised to represent, make decisions or supervise the Petroleum Economic Entity in question, is convicted with final force and effect of any of the following criminal offences pursuant to the regulation governing criminal offences, i.e. the corresponding criminal offences according to the regulations of the country in which the Petroleum Economic Entity is established or the country of nationality of the person authorised to represent the Petroleum Economic Entity:

   a) participation in a criminal organisation pursuant to
      – Article 328 (criminal association) and Article 329 (committing a criminal offence as a member of a criminal association) of the Criminal Code (Official Gazette No. 125/11, 144/12, 56/15, 61/15 and 101/17);
      – Article 333 (conspiracy to commit a criminal offence) of the Criminal Code (Official Gazette No. 110/97, 27/98, 50/00, 129/00, 51/01, 111/03, 190/03, 105/04, 84/05, 71/06, 110/07, 152/08, 57/11, 77/11 and 143/12);
   b) corruption pursuant to
      – Article 252 (receiving bribes in business dealings), Article 253 (giving bribes in business dealings), Article 254 (misuse of public procurement procedures), Article 291 (abuse of position and authority), Article 292 (unlawful favouritism), Article 293 (taking a bribe), Article 294 (giving a bribe) Article 295 (trading in influence) and Article 296 (giving a bribe for trading in influence) of the Criminal Code (Official Gazette No. 125/11, 144/12, 56/15, 61/15 and 101/17).
      – Article 294a (taking bribes in business dealings), Article 294b (giving bribes in business dealings), Article 337 (abuse of position and authority), Article 338 (abuse of the performance of duties of state authority), Article 343 (illegal mediation), Article 347 (taking bribes) and Article 348 (giving bribes) of the Criminal Code (Official Gazette No. 110/97, 27/98, 50/00, 129/00, 51/01, 111/03, 190/03, 105/04, 84/05, 71/06, 110/07, 152/08, 57/11, 77/11 and 143/12)
   c) fraud pursuant to
      – Article 236 (fraud), Article 247 (fraud in business dealings), Article 256 (tax or customs duty evasion) and Article 258 (subsidy fraud) of the Criminal Code (Official Gazette No. 125/11, 144/12, 56/15, 61/15 and 101/17).
      – Article 224 (fraud), Article 293 (fraud in business dealings) and Article 286 (tax and other duties evasion) of the Criminal Code (Official Gazette No. 110/97, 27/98, 50/00, 129/00, 51/01, 111/03, 190/03, 105/04, 84/05, 71/06, 110/07, 152/08, 57/11, 77/11 and 143/12)
   d) terrorism or criminal offences relating to terrorist activities pursuant to
      – Article 97 (terrorism), Article 99 (public incitement to terrorism), Article 100 (recruitment for terrorism), Article 101 (training for terrorism) and Article 102 (terrorist association) of the Criminal Code (Official Gazette No. 125/11, 144/12, 56/15, 61/15 and 101/17).
      – Article 169 (terrorism), Article 169a (public incitement to terrorism) and Article 169b (recruitment and training for terrorism) of the Criminal Code (Official Gazette No. 110/97, 27/98, 50/00, 129/00, 51/01, 111/03, 190/03, 105/04, 84/05, 71/06, 110/07, 152/08, 57/11, 77/11 and 143/12)
   e) money laundering or financing of terrorism pursuant to
      – Article 98 (financing of terrorism) and Article 265 (money laundering) of the Criminal Code (Official Gazette No. 125/11, 144/12, 56/15, 61/15 and 101/17).
f) child labour or other forms of human trafficking pursuant to

– Article 279 (money laundering) of the Criminal Code (Official Gazette No. 110/97, 27/98, 50/00, 129/00, 51/01, 111/03, 190/03, 105/04, 84/05, 71/06, 110/07, 152/08, 57/11, 77/11 and 143/12)

– Article 106 (trafficking in human beings) of the Criminal Code (Official Gazette No. 125/11, 144/12, 56/15, 61/15 and 101/17).

– Article 175 (human trafficking and slavery) of the Criminal Code (Official Gazette No. 110/97, 27/98, 50/00, 129/00, 51/01, 111/03, 190/03, 105/04, 84/05, 71/06, 110/07, 152/08, 57/11, 77/11 and 143/12)

2. if it finds that the Petroleum Economic Entity is in breach of its payment obligations of due public charges, taxes and/or pension and health insurance contributions, costs for Exploration and Production of Hydrocarbons, production of Geothermal Waters, Underground Gas Storage or Geological Storage of Carbon Dioxide, costs for use of forests or forest land, i.e. agricultural land for the purpose of hydrocarbon production or by way of illegal Exploration and Production of Hydrocarbons, Exploration and Production of Geothermal Waters, Underground Gas Storage or Geological Storage of Carbon Dioxide and failure to fulfil the obligation concerning the Decommissioning and protection of environment and nature in the Republic of Croatia or the country where the Petroleum Economic Entity is established;

3. if the Petroleum Economic Entity submitted false information during the submission of documents in the procedure of issuing the Licence for the Exploration and Production of Hydrocarbons pursuant to the provisions herein;

If the Petroleum Economic Entity is in winding-up proceedings, i.e. if it has suspended all its business activities in the Republic of Croatia or the country where the Petroleum Economic Entity is established.

(2) Notwithstanding paragraph 1, item 2 of this Article, the Commission shall not exclude the Petroleum Economic Entity from the procedure of issuing the Licence for the Exploration and Production of Hydrocarbons if, pursuant to a special regulation, it was not allowed to settle the liabilities or it was granted deferred payment.

(3) The right referred to in paragraph 1 item 1 of this Article shall be proved by means of a certified statement by the person legally authorised to represent the Petroleum Economic Entity and it shall be not older than three months.

(4) The right referred to in paragraph 1, items 2 and 4 of this Article shall be proved by the certifications obtained ex officio for the Petroleum Economic Entities registered in the Republic of Croatia, whereas for the Petroleum Economic Entities which are not established in the Republic of Croatia, the certificates issued by the competent authorities in the country where the Petroleum Economic Entity is established or the appropriate certified statements, if such certificates are not issued, shall be deemed as evidence.

(5) The Commission may exclude the Petroleum Economic Entity from the procedure of issuing the Licence for the Exploration and Production of Hydrocarbons if:

1. it may accordingly prove the breach of applicable obligations in the fields of environmental law, social and labour law, including collective contracts, and especially the payment of salaries, or the provisions of international environmental law, social and labour law;

2. it is the subject of insolvency proceedings, if it is managed by a person appointed by the competent court, if it is in an arrangement with creditors or in a similar process according to the regulations of the country in which the Petroleum Economic Entity is established;

3. it may prove through appropriate means that the Petroleum Economic Entity was guilty of a grave professional misconduct which calls in question its integrity;

4. it may accordingly prove that the Petroleum Economic Entity has concluded an Agreement with other Petroleum Economic Entities with the aim of disruption of market competition;
5. due to significant or existing deficiencies during the implementation of relevant requirements from the previous Licences or Agreements, the Petroleum Economic Entity’s Licence was revoked or previously concluded Agreement or a certain obligation of indemnity was terminated, or similar sanctions.

(6) If one or more reasons for the exclusion referred to in paragraph 5 of this Article shall be used, the reason(s) that shall be used for exclusion shall be stated in the tender specifications.

(7) Each Petroleum Economic Entity presented with a situation given in paragraph 1 of this Article may provide evidence in order to prove that the measures it has taken are sufficient to prove its reliability, notwithstanding the existence of material reasons for the exclusion. If such evidence is deemed sufficient, the Petroleum Economic Entity concerned shall not be excluded from the proceedings.

(8) Taking the measures referred to in paragraph 8 of this Article shall be proved by the Petroleum Economic Entity by means of:

1. paying the indemnity or taking other appropriate measures in order to pay the indemnity for damage caused by failure;
2. active cooperation with competent authorities for complete clarification of facts and circumstances regarding the failure;
3. adequate technical, organisational and staff measures in order to prevent further failures.

(9) The measures taken by the Petroleum Economic Entity referred to in paragraph 8 of this Article shall be evaluated taking into account the severity and special circumstances of the failure, and the Commission shall clarify the reasons for accepting or rejecting the measures.

(10) The Commission shall not exclude the Petroleum Economic Entity from the procedure of issuing the Licence for the Exploration and Production of Hydrocarbons if it considers that the measures referred to in paragraph 9 of this Article are adequate.

(11) The period of exclusion of the Petroleum Economic Entity which has reached the grounds for exclusion of this Article from the procedure of issuing the Licence for the Exploration and Production of Hydrocarbons is five years from the date of the final judgement, unless the final judgement states otherwise.

(12) In the case of a consortium, the circumstances of this Article shall be identified for all members of the consortium individually.

**Participation of the National Oil Company**

**Article 18**

(1) The tender specifications may also identify the obligation of the National Oil Company to participate with the chosen tenderer in the plan in a percentage between 10 and 30%.

(2) In the case referred to in paragraph 1 of this Article, the Licence for the Exploration and Production of Hydrocarbons shall be issued in appropriate proportions to the chosen tenderer and the National Oil Company.

(3) In the case referred to in paragraph 2 of this Article, the selected tenderer and the National Oil Company shall conclude a joint venture agreement in the period of three months from the issuance of the Licence for the Exploration and Production of Hydrocarbons, and prior to concluding the Agreement on Exploration and Production of Hydrocarbons.

(4) In the case referred to in paragraph 1 of this Article, the draft of the joint venture agreement shall constitute an integral part of the tender specifications.

**Tenderer Selection Criteria**

**Article 19**

(1) The Ministry shall ensure that there is no discrimination among Petroleum Economic Entities. However, for reasons of national security, the Ministry may deny the issuance of Licences to any
Petroleum Economic Entity which is under actual control by third countries or nationals of third countries.

(2) The criteria for the selection of the most favourable tenderer in the tendering procedure for the issuance of Licences for Exploration and Production of Hydrocarbons are as follows:

– technical, financial and professional capacities of the tenderer or the consortium of tenderers;
– the manners in which the tenderer or the consortium plan to carry out the activities subject to the Licence for the Exploration and Production of Hydrocarbons;
– overall quality of the submitted tender;
– financial conditions included in the tender submitted by the tenderer for issuing the Licence for the Exploration and Production of Hydrocarbons;
– any lack of efficiency or responsibility in any form which has been displayed in other countries by the Petroleum Economic Entity in previous activities within the scope of the Licence.

(3) Technical and professional competencies of the participants shall be assessed according to the tenderer's data on the participation in Exploration and Production of Hydrocarbons within the last five or more years, the number of employees with an employment contract, especially in appropriate jobs and annual quantity of recoverable Hydrocarbons, as well as tenderer’s references regarding the compliance with the rules of environmental protection and occupational safety.

(4) The financial suitability of the participant shall be assessed according to the data on the financial status and business activities of the tenderer, and the plan for financing the activities of Exploration and Production.

(5) The quality of the tender shall be assessed according to the planned works of the tenderer in the suggested minimum Work Programme divided into two exploratory phases, which includes geophysical screening, reprocessing of geophysical data, gravity and magnetic survey, satellite gravity survey screening, other tests according to the international practice during Petroleum Operations and exploratory drilling (number of Wells and the drilling depth), whereby the amount of suggested Petroleum Operations and their estimated costs shall be taken into account for each item.

(6) One of the criteria for the selection of the tenderer is also the Fee for concluding the Agreement on Exploration and Production of Hydrocarbons with the lowest amount set in the regulation referred to in Article 51 herein.

(7) If, following the assessment based on the criteria under paragraphs 2, 3, 4, 5 and 6 of this Article, two or more tenders have the same significance, the other relevant and objective non-discriminating criteria shall be taken into account in order to reach the final decision.

Issuance of the Licence for the Exploration and Production of Hydrocarbons in the Areas of the Previous Tendering procedure and in Relinquished Areas

Article 20

(1) The Government may issue a Licence for the Exploration and Production of Hydrocarbons without the implementing individual tenders for Exploration and Production of Hydrocarbons referred to in Article 15 herein, when the area, for which the Licence for the Exploration and Production of Hydrocarbons is requested:

– has been subject to the tendering procedure for Exploration and Production of Hydrocarbons, and which has not resulted in the Licence for the Exploration and Production of Hydrocarbons or it indeed has resulted in the Licence for the Exploration and Production of Hydrocarbons, but the Agreement on Exploration and Production of Hydrocarbons has not been signed; or
– has been relinquished by the Investor during the Exploration and Production of Hydrocarbons pursuant to Articles 26 and 50 herein.

(2) In the case referred to in paragraph 1 of this Article, the Ministry shall issue a notice in the Official Journal of the European Union indicating the areas available for the issuance of the Licence for the Exploration and Production of Hydrocarbons, concise information on the criteria for the
selection of the tenderer and the manner of submitting the tenders, as well as a note that the appropriate detailed information can be found on Agency web site. No tender may be considered prior to the issuance of the relevant notice referred to in this Article.

(3) Each significant change in the information within the notice referred to in paragraph 2 of this Article, or the introduction of a possibility or change of the participation percentage of the oil company pursuant to Article 18 herein are the subject matter of an additional notice.

(4) The tenders are prepared in accordance with the tender specifications published on Agency web site. The tender specifications shall be prepared by the Agency pursuant to Article 16 herein.

(5) The tenders shall be delivered to the Agency by the end of the first Quarter of each Calendar Year up to, and including, 31 March until 4:00 p.m. and by the last day of the third Quarter of each Calendar Year up to, and including, 30 September until 4:00 p.m., in the required form.

(6) The tenders shall be valid 12 months from the deadline for submitting tenders and shall have adequate support.

(7) Following the deadline referred to in paragraph 5 of this Article, the Agency shall notify in writing the Ministry of the tenders received, on the first work day of the second Quarter and on the first work day of the fourth Quarter of each Calendar Year.

(8) The Agency shall publish on its web site a notice which includes the number of received tenders with a specification of the relevant fields of the tenders no later than ten days following the deadline referred to in paragraph 5 of this Article.

(9) Pursuant to paragraph 5 of this Article, the Minister competent for energy shall appoint a separate Commission referred to in Article 21 herein for each evaluation of the tenders within ten days from the date of receiving the notice referred to in paragraph 7 of this Article.

(10) The criteria for the selection of the tenderer pursuant to Article 18 herein shall be applied during the tender evaluation.

(11) Following the evaluation of a tender, the Commission may invite the Petroleum Economic Entity to present its minimum Work Programme and negotiate the suggested minimum Work Programme within the period of Exploration.

Functioning of the Commission

Article 21

(1) The Commission shall open, examine and evaluate the tenders and carry out all other relevant actions necessary for making a proposal to the Government, through the Ministry, for issuing the Licence for the Exploration and Production of Hydrocarbons to the selected tenderers within the period no longer than two months from the deadline for submitting the tenders.

(2) After issuing the Licence for the Exploration and Production of Hydrocarbons pursuant to Article 23 herein, the Commission referred to in paragraph 1 of this Article shall conduct negotiations with the selected tenderer with the aim of concluding an Agreement on Exploration and Production of Hydrocarbons pursuant to Article 27 herein.

(3) All Petroleum Economic Entities to which the Licence for the Exploration and Production of Hydrocarbons was not issued pursuant to Article 23 herein may request a statement of reasons indicating why their tender was rejected, and the Commission shall inform them thereof.

(4) The Minister competent for energy shall appoint the Commission referred to in paragraph 1 of this Article at the latest before the deadline for the submission of tenders for the relevant tender referred to in Article 15 herein, or ten days from receiving the notice referred to in Article 20(7) herein.

(5) The Ministry shall notify the central state administration authority competent for finance of the intention to set up a Commission referred to in paragraph 4 of this Article.
(6) The central state administration authority competent for finance may suggest its representative be appointed to the Commission within five days from the date of receiving the notice referred to in paragraph 8 of this Article.

(7) The Commission shall have an odd number of members, five at least, and seven at most.

(8) The Commission shall consist of the president, vice-president, secretary and five members at the most, and they shall make decisions based on the simple majority of all members. The secretary shall participate in the work of the Commission without the right to vote.

(9) The president of the Commission is the representative of the Agency, whereas the vice-president is the representative of the Ministry.

(10) The Commission shall keep records of its work, which shall be signed by all the Commission members.

(11) The Minister competent for energy shall suspend a Commission member in accordance with the conditions set herein, and at his/her own request or ex officio if even after 15 days from the completion of an activity the Commission member has not signed the records.

(12) The Commission shall be dissolved after the Agreement on Exploration and Production of Hydrocarbons has been concluded, or upon the revocation of the Licence for the Exploration and Production of Hydrocarbons pursuant to Article 26 herein if the Agreement on Exploration and Production of Hydrocarbons has not been concluded following its issuance.

**Issuance or Transfer of the Licence for Offshore Exploration and Production of Hydrocarbons**

**Article 22**

Before issuing or transferring the right to offshore Exploration and Production of Hydrocarbons as obtained by the Licence pursuant to Article 34 herein, the Government can, through the Ministry, consult with the Coordinating Authority determined pursuant to the regulation governing the safety of offshore Exploration and Production of Hydrocarbons.

**Section B**  
**Licence for the Exploration and Production of Hydrocarbons**

**Contents of the Licence for the Exploration and Production of Hydrocarbons**

**Article 23**

(1) The Licence for the Exploration and Production of Hydrocarbons grants the Investor the right to Hydrocarbon Exploration and the direct award of the Production Licence for Hydrocarbons if the Investor has concluded an Agreement on Exploration and Production of Hydrocarbons, and has fulfilled all obligations thereunder.

(2) Pursuant to the conducted licensing round for issuing Licences for the Exploration and Production of Hydrocarbons in accordance with the provisions herein, and at the proposal of the Ministry, the Government shall adopt a decision on the issuance of the Licences for Exploration and Production of Hydrocarbons for each individual Exploration Block, which contain:

- the name of the selected tenderer;
- the subject of the Licence for the Exploration and Production of Hydrocarbons with all Petroleum Operations for which the licensee has been granted the Licence described in detail;
- the establishment of rights to a direct award of the Production Licence for Hydrocarbons in case of declaring a Commercial Discovery, under the condition that all contractual obligations of the Investor related to the Exploration and Production of Hydrocarbons have been properly fulfilled;
- the borders and surface area of the Exploration Block which shall be confined by the geographic coordinates of its peak points indicated in the official Croatian Terrestrial Reference Coordinate System reference coordinate system of the Republic of Croatia (HTRS);
– the validity period of the Licence for the Exploration and Production of Hydrocarbons with possible conditions for its renewal;
– the main terms of the Agreement on the Exploration and Production of Hydrocarbons which shall be concluded based on the obtained Licence for the Exploration and Production of Hydrocarbons;
– the obligation of the Hydrocarbon Exploration and Production licensee to adhere to all predetermined conditions regarding environmental and nature protection, as well as other special conditions that the licensee shall meet during the validity period of the Licence.

Article 24

An issued Licence for the Exploration and Production of Hydrocarbons shall not be:
– an issued Licence for the Exploration and Production of Hydrocarbons in case of a status change of the Investor who is the holder of the current approval, pursuant to the regulations governing companies, in case of change in the structure of such Investor participating in a joint venture or a transfer of the Licence for the Exploration and Production of Hydrocarbons;
– the decision of the competent state administration authorities adopted within the framework of the Licence for the Exploration and Production of Hydrocarbons regarding the grant, termination, renewal or cessation of activity or renewal of the approval.

Validity Period of the Licence for the Exploration and Production of Hydrocarbons

Article 25

(1) The Licence for the Exploration and Production of Hydrocarbons shall be issued for a maximum period of 30 years, which includes the Exploration Period and the Production Period.

(2) The validity period of the Licence for the Exploration and Production of Hydrocarbons shall start on the day the concluded Agreement on the Exploration and Production of Hydrocarbons enters into force.

(3) The Exploration Period shall last a maximum of five years, and can be extended at the justified request of the Investor.

(4) The Exploration Period can be extended a maximum of two times for the duration of the Exploration Period, and each renewal can last up to six months; while the approval for insufficiently explored blocks can be renewed for one year at the most if so stated in the tender specifications.

(5) Pursuant to the provision of Article 114 (3) herein, the Exploration Period shall be automatically extended during the procedures and activities referred to in Article 114 (1) and (2) herein.

(6) An extension of the validity period of the Exploration Period referred to in paragraphs 3 and 4 of this Article does not affect the overall validity period of the Licence for the Exploration and Production of Hydrocarbons.

(7) After the validity period of the Exploration Period has expired, and provided that the requirements herein regarding the direct award of the Production Licence for Hydrocarbons have been met, the Production Period shall start and last until the expiry of the validity period indicated in the Licence for the Exploration and Production of Hydrocarbons.

(8) The Production Period, i.e. the validity period of the directly awarded Production Licence for Hydrocarbons can be extended by the Government at the request of the Investor, in which case the validity period referred to in paragraph 1 of this Article shall also be extended.

(9) The Investor's request to extend the deadline from paragraph 8 herein shall be submitted to the Agency by the Investor at least 12 months before the Licence expiry.

(10) The Government shall respond to the timely request referred to in paragraph 9 of this Article in writing within three months of the submission of such a request.
(11) The temporary cessation of Petroleum Operations referred to in Article 117 herein shall not affect the duration of the Licence validity period for a maximum of 30 years awarded for the Exploration and Production of Hydrocarbons referred to in paragraph 1 of this Article.

Termination of the Licence for the Exploration and Production of Hydrocarbons

Article 26

(1) The issued Licence for the Exploration and Production of Hydrocarbons shall be terminated by a Government decision:

1. In case of the termination of the Agreement on the Exploration and Production of Hydrocarbons, for any reason, based on the issued Licence;

2. In case of the termination of the legal person that is the licensee, except in cases of restructuring or universal succession pursuant to the regulations governing companies;

3. If the Agreement on the Exploration and Production of Hydrocarbons has been concluded within the given deadline after the issuing of the Licence;

4. If the Investor has failed to fulfil its obligations pursuant to the Licence for the Exploration and Production of Hydrocarbons or the Agreement on the Exploration and Production of Hydrocarbons;

5. If the Investor has failed to fulfil its obligations referred to in Article 122 herein despite written warnings from the Ministry;

6. If the Investor is performing Petroleum Operations for which it has not been awarded a Licence for the Exploration and Production of Hydrocarbons, i.e. if the Investor is not conducting them in the manner determined by the Licence for the Exploration and Production of Hydrocarbons and the Agreement on the Exploration and Production of Hydrocarbons;

7. If the Investor is performing Petroleum Operations contrary to the measures concerning occupational safety, health and safety of people and property and contrary to the measures and obligations regarding environmental and nature protection, i.e. if the Investor is in violation of any provisions of the applicable regulations of the Republic of Croatia which has been officially stated in the inspection order;

8. In case of insolvency or bankruptcy of the Investor, and if the Investor fails to prove that it is able to perform the tasks for which he was awarded a Licence for the Exploration and Production of Hydrocarbons;

9. In case the hydrocarbon Exploitation Field has been relinquished;

10. If the information presented during the licensing round, i.e. in the tender that the Petroleum Economic Entity submitted, was subsequently proven as false, or in case of non-compliance of data with the prescribed conditions.

(2) The termination of the Licence for the Exploration and Production of Hydrocarbons shall also mean the termination of the Agreement on the Exploration and Production of Hydrocarbons which was concluded on the basis of the Licence.

Section C

Agreement on the Exploration and Production of Hydrocarbons and the Production Licence for Hydrocarbons

Procedure of Concluding the Agreement on the Exploration and Production of Hydrocarbons

Article 27

(1) After the Licence for the Exploration and Production of Hydrocarbons has been issued, the Commission referred to in Article 21 herein shall start the negotiations with the Investor regarding the procedure of concluding the Agreement on the Exploration and Production of Hydrocarbons in accordance with the issued Licence for the Exploration and Production of Hydrocarbons, and within
the framework of the received comments and proposals for the amended draft of the proposed Agreement on the Exploration and Production of Hydrocarbons, which the Investor has submitted as part of its tender, pursuant to Article 16(7)(9) herein.

(2) The draft of the proposed Agreement on the Exploration and Production of Hydrocarbons, which forms an integral part of the tender specifications, can be amended solely by the received comments and proposals of changes that the Investor has submitted as part of its tender, pursuant to Article 16(7)(9) herein, which do not affect the vital provisions of the draft Agreement on the Exploration and Production of Hydrocarbons.

(3) The provisions of the concluded Agreement on the Exploration and Production of Hydrocarbons shall not be contrary to the contents of the issued Licence for the Exploration and Production of Hydrocarbons or to the tender of the selected tenderer.

(4) After successful negotiations, the Commission referred to in Article 21 herein shall submit to the Government, through the Ministry, the Agreement on the Exploration and Production of Hydrocarbons awarded to the selected tenderer, in order to obtain the approval by the Government and determine the authorised representative of the Government who can sign the Agreement.

(5) The Government can refuse to sign the Agreement on the Exploration and Production of Hydrocarbons only if the submitted Agreement on the Exploration and Production of Hydrocarbons contains provisions which are contrary to this Act, the issued Licence for the Exploration and Production of Hydrocarbons or the tender of the selected tenderer.

(6) After concluding successful negotiations, no later than six months from the date of issue of the Licence for the Exploration Block in question, the Agreement on the Exploration and Production of Hydrocarbons shall be concluded between the selected tenderer and, on behalf of the Republic of Croatia, the authorised representative of the Government.

(7) If the selected tenderer fails to enter into negotiations or conclude the Agreement on the Exploration and Production of Hydrocarbons within the deadline given in paragraph 6 of this Article, after terminating the Licence for the Exploration and Production of Hydrocarbons previously issued to the tenderer, the Government shall be authorised to issue such a Licence to another tenderer who has fulfilled the tender criteria for the same hydrocarbon block if such a tenderer exists. The other tenderer shall then conclude the Agreement on the Exploration and Production of Hydrocarbons pursuant to paragraphs 1 – 6 of this Article.

*Production Licence for Hydrocarbons*

*Article 28*

(1) The Production Licence for Hydrocarbons forms an inseparable integral part of the Licence for the Exploration and Production of Hydrocarbons, provided that after the completion of the Exploration Works the hydrocarbon reserves are confirmed, the Exploitation Field is delineated, the Development and Production Plan is developed and verified and that the Investor fulfils other conditions stipulated by this Act and the regulations adopted pursuant to this Act.

(2) After the requirements referred to in paragraph 1 of this Article have been met, the Investor shall be awarded a Production Licence for Hydrocarbons, which the Government shall officially announce without implementing any further procedures by reaching a decision on issuing the Production Licence for Hydrocarbons that shall be regarded as an annex to the Agreement on the Exploration and Production of Hydrocarbons.

*Mandatory Contents of the Agreement on the Exploration and Production of Hydrocarbons*

*Article 29*

(1) The Agreements on the Exploration and Production of Hydrocarbons shall contain the following:

– the term and date of entry into force of the Agreement;
the duration of the Exploration Period and Exploration Phases pursuant to Article 35(1);
minimum work and expenditure obligations, the possibility of their audit, as well as the
amount of indemnity for the failure to fulfil commitments;
the obligation and possibility to relinquish a part or the entire Exploration Block or Exploitation
Field and the obligations stipulated in relation to the relinquished area;
the Decommissioning Plan, along with the obligation to set up a Decommissioning fund, i.e.
the obligation to deliver the Decommissioning credit support for the Exploration Block or Exploitation
Field;
the obligation to protect the nature and environment, health and safety of people and
property, and the safety measures for the preservation of the aforementioned;
setting the amount of pecuniary fees and the obligation of its payment, pursuant to the
regulation referred to in Article 51 herein;
the type and amount of the security for the performance of the Minimum Work Obligations
and their ratio when combined with several securities, as well as the activation mode of the
aforementioned security;
the possibility and conditions of the unit development of the Reservoir and the joint
performance of the works;
the right of the Investor to import and export all machines and equipment necessary for the
performance of the Petroleum Operations;
the title of the Republic of Croatia to the geological information obtained during the
implementation of the Agreement on the Exploration and Production of Hydrocarbons and the
obligation to keep the data confidential which the Government and the Investor have obtained
during the performance of Petroleum Operations during the Licence validity period and the term of
the Agreement on the Exploration and Production of Hydrocarbons;
the responsibility of the Investor and his obligation to compensate any damages and secure
the works, equipment and people pursuant to the provisions of this Act, the special regulations
governing mandatory relations and international standards of Hydrocarbon Exploration and
Production;
the circumstances and manner of termination of the Agreement on Exploration and
Production of Hydrocarbons;
the possibility of amending the Agreement;
the stability of the provisions of the Agreement on the Exploration and Production of
Hydrocarbons pursuant to Article 33 herein;
the dispute settlement provisions which state that the arbitration shall be performed pursuant
to the international rules of arbitration, that the place of arbitration shall be the Republic of Croatia
and that Croatian law shall apply;
provisions on the language of the Agreement which state that the Agreement shall be
concluded in Croatian and English, with the Croatian version as the prevailing one.
(2) Apart from the mandatory contents of the Agreement, there are other conditions pursuant
to the procedure for the issuance of the Licence for the Exploration and Production of Hydrocarbons,
i.e. pursuant to the tender specifications and the Licence for the Exploration and Production of
Hydrocarbons.

Article 30

(1) Apart from the contents from Article 29 herein, the Production Sharing Agreement shall
contain the following:
the issue of awarding the rights to perform Petroleum Operations and the issue of title
regarding the Produced Hydrocarbons;
– the obligations of the operator and the possibility of setting up an operating company;
– the establishment and competence of an advisory authority for the purpose of consultancy and providing guidelines for the issues related to Petroleum Operations;
– establishing the methodology and procedures for measuring the produced quantities of Hydrocarbons;
– the possibility of supplying the local market and the rules and conditions for using the infrastructure of the Republic of Croatia;
– bookkeeping and record keeping methods by the Investors, in accordance with the regulations governing taxes and accounting;
– management, recording and auditing methods for the purpose of cost recovery;
– the obligation of the Investor to employ and train employees, procure goods, works and services, pursuant to the approved procurement procedure;
– establishing the royalty, the conditions and methods of calculating the cost recovery and sharing profit petroleum;
– valuation of Hydrocarbons, i.e. the method of calculating hydrocarbon prices for cost recovery;
– the title and succession of title of fixed and movable assets procured and used during the implementation of the Agreement on Exploration and shared Production of Hydrocarbons;
– the accounting procedure which specifies the costs that require approval for cost recovery pursuant to the Production Sharing Agreement, Annex II herein, special regulations governing taxes and accounting, as well as international standards;
– the possibility and conditions for marketing and sale of Produced Hydrocarbons, that belong to the Republic of Croatia, by the Investor;

(2) The proposal of the Production Sharing Agreement with its developed mandatory contents referred to in Articles 29 and 30 herein forms an integral part of Annex I of this Act.

Force Majeure

Article 31

(1) If the Investor has not exercised its rights or met its obligations pursuant to the Licence for the Exploration and Production of Hydrocarbons and the Agreement on the Exploration and Production of Hydrocarbons or if it is violating the provisions of this Act and other special regulations governing mandatory relations due to force majeure, such actions or failures to act shall be not considered a violation of the Licence for the Exploration and Production of Hydrocarbons or a violation of the Agreement on the Exploration and Production of Hydrocarbons.

(2) Force majeure circumstances shall be considered circumstances outside of the influence of the Government and the Investor which could not have been foreseen, avoided or prevented, especially war (declared or undeclared), the threat of war or conflict, natural disasters, and any other circumstances which can be defined as force majeure according to international standards.

(3) The following circumstances shall not be considered force majeure: a lack of funds or any other financial instability of the Investor, insolvency or the initiation of bankruptcy or liquidation proceedings against the Investor.

(4) If the force majeure circumstances last longer than 18 consecutive months, both parties shall have the right to terminate the Agreement on the Exploration and Production of Hydrocarbons.

(5) If the force majeure circumstances last longer than 18 consecutive months, the Government shall have the right to unilaterally terminate the Agreement on the Exploration and Production of Hydrocarbons, regardless whether the Investor has managed to recover all costs related to the performance of Petroleum Operations.

(6) The provisions of this Act regarding force majeure shall not affect the obligation to settle any outstanding claims.
Termination of the Agreement on the Exploration and Production of Hydrocarbons

Article 32

(1) The termination of the Agreement on the Exploration and Production of Hydrocarbons does not release the contractual parties from their obligations which were in force during the adoption of the decision to terminate the Agreement on the Exploration and Production of Hydrocarbons.

(2) The Agreement on the Exploration and Production of Hydrocarbons shall be considered terminated in case the Licence for the Exploration and Production of Hydrocarbons has been revoked pursuant to this Act.

Stability of the Provisions of the Agreement on the Exploration and Production of Hydrocarbons

Article 33

(1) If during the validity period of the issued Licence for the Exploration and Production of Hydrocarbons and the concluded Agreement on the Exploration and Production of Hydrocarbons there are amendments to the legal and other regulations which were in force when the Licence for the Exploration and Production of Hydrocarbons and the Agreement on the Exploration and Production of Hydrocarbons came into effect, including the amendments to legal and other regulations resulting from the concluded international Agreements to which the Republic of Croatia is a party and which have a significant impact on the economic or commercial provisions of the Licence for the Exploration and Production of Hydrocarbons or the Agreement on the Exploration and Production of Hydrocarbons or other important interests of the parties to the Agreement, the parties to the Agreement shall enter into negotiations for the purpose of possible amendments to the Licence for the Exploration and Production of Hydrocarbons or the Agreement on the Exploration and Production of Hydrocarbons which would ensure a balance of interests and planned economic results of the contractual parties that existed at the moment the Licence for the Exploration and Production of Hydrocarbons was issued or the Agreement on the Exploration and Production of Hydrocarbons was concluded, and which are in accordance with the issued Licence for the Exploration and Production of Hydrocarbons or the concluded Agreement on the Exploration and Production of Hydrocarbons.

(2) The provision of paragraph 1 of this Article shall not apply in case of any amendment to legal and other regulations governing labour relations, protection of the environment and nature, the protection of human health, occupational safety, safety of persons and property, and the safety of Petroleum Operations.

(3) The participation of the National Oil Company pursuant to this Act shall not serve as the basis for amendments to the Licence for the Exploration and Production of Hydrocarbons or the Agreement on the Exploration and Production of Hydrocarbons in accordance with this Article herein.

Assignment of Rights and Obligations of the Investor

Article 34

(1) The Investor may assign completely or partially the rights and obligations under the Licence for the Exploration and Production of Hydrocarbons and the Agreement on the Exploration and Production of Hydrocarbons to another Petroleum Economic Entity only if the Government, on the basis of a proposition by the Ministry, gives a prior written consent, which it issues based on the modification of the Licence for the Exploration and Production of Hydrocarbons.

(2) The Investor shall also request a prior written consent referred to in paragraph 1 of this Article from the Government when the rights and obligations under the Licence for the Exploration and Production of Hydrocarbons and the Agreement on Exploration and Production of Hydrocarbons
are assigned to an Affiliated Company or when a status change of the Investor would result in such assignment.

(3) In case of an assignment referred to in paragraph 2 of this Article, the Investor and the Affiliated Company shall remain jointly and severally liable for all rights and obligations under the Licence for the Exploration and Production of Hydrocarbons and the Agreement on the Exploration and Production of Hydrocarbons.

(4) The Investor may request prior written consent referred to in paragraph 1 of this Article only in respect of the entity fulfilling all conditions for issuing the Licence for the Exploration and Production of Hydrocarbons and the Agreement on the Exploration and Production of Hydrocarbons in accordance with the present Act.

(5) The Government shall withhold prior written consent referred to in paragraph 1 of this Article if there are reasonable grounds to do so, particularly if conditions referred to in Article 17 herein are not fulfilled or tenderer selection criteria referred to in Article 19 herein are not met in so far as they apply to the present case.

(6) On the basis of a proposition by the Ministry the Government shall decide at the Investor’s request for issuing the prior written consent referred to in paragraph 1 of this Article within 30 days after the receipt of a request in the correct form.

(7) The Investor shall notify the Ministry without undue delay of the intention to assign rights and obligations under the Licence for the Exploration and Production of Hydrocarbons and the Agreement on the Exploration and Production of Hydrocarbons, and the Government via the National Oil Company shall have the first call on the acquisition of rights and obligations under the Licence for the Exploration and Production of Hydrocarbons and the Agreement on the Exploration and Production of Hydrocarbons.

(8) In addition to the Government, an entity suggested by the Government and fulfilling all conditions for issuing the Licence for the Exploration and Production of Hydrocarbons and the Agreement on the Exploration and Production of Hydrocarbons shall also enjoy the right referred to in paragraph 7 herein, in accordance with the present Act.

(9) If the Government or an entity referred to in paragraph 8 herein decides to acquire a share in the rights and obligations under the Licence for the Exploration and Production of Hydrocarbons and the Agreement on the Exploration and Production of Hydrocarbons on the basis of assignment of rights and obligations under such Agreement on the Exploration and Production of Hydrocarbons, the percentage of the share the entity is to acquire shall not be less than 10%.

(10) Failure to comply with paragraph 7 of this Article by the Investor shall be deemed by the Government to be an objective ground of refusal to issue prior consent for assigning rights and obligations under the Licence for the Exploration and Production of Hydrocarbons and the Agreement on the Exploration and Production of Hydrocarbons.

(11) A decision on issuing a prior consent referred to in paragraph 1 shall be made by the Government.

(12) Assignment of rights and obligations under the Licence for the Exploration and Production of Hydrocarbons and the Agreement on the Exploration and Production of Hydrocarbons that contravenes the provisions of this Act shall be void.

Chapter II
EXPLORATION OF HYDROCARBONS

Section A
General Provisions

Exploration Period

Article 35
(1) The Exploration Period shall begin on the date of entry into force of the Agreement on the Exploration and Production of Hydrocarbons, it shall last five years and it shall be divided into Exploration Phases as follows:

– the first Exploration Phase shall have a duration of three years and shall begin on the date of entry into force of the Agreement on the Exploration and Production of Hydrocarbons;

– the second Exploration Phase shall last two years and shall immediately follow the first Exploration Phase.

(2) The Exploration Period may be extended pursuant to the provision of Article 25(4) of this Act.

(3) The Investor shall start the Exploration Operations planned in the Work Programme and Budget within 30 days of their approval, provided that the Investor has received all approvals and permits necessary for the works performance under this Act, regulations adopted hereunder and regulations governing spatial planning, construction, environmental protection, nature protection, maritime affairs, water protection, forest protection and forestry, and safety of offshore Hydrocarbon Exploration and Production.

(4) The Investor shall complete the required Minimum Work Obligations during the Exploration Period.

(5) If, during the operations the Investor, as a result of legal, environmental, safety, operational or approval limitations or International Good Oilfield Practice considerations, finds that more works than those set out in the Minimum Work Obligations need to be performed, i.e. that Minimum Work Obligations need to be changed, the Agency shall approve these works upon the Agreement with the Ministry, where such request is justified.

(6) Within 60 days following completion of the Minimum Work Obligations for each phase of the Exploration Period, the Investor shall notify the Agency that the Minimum Work Obligations have been fulfilled regarding the respective phase of the Exploration Period and obtain a certificate.

(7) Within 30 after receiving the notification referred to in paragraph 6 herein the Agency shall, with the prior Agreement with the Ministry, issue a written report confirming that the Investor has fulfilled the Minimum Work Obligations regarding the respective phase of the Exploration Period.

(8) If the Investor fails to fulfil the Minimum Expenditure Obligations regarding the respective phase of the Exploration Period, the Investor shall pay to the Government the amount equal to the unexpended balance of the Minimum Expenditure Obligation with respect to the activity not carried out, while the orderly progression of payment or collection of financial security shall be deemed to construe certificate that the Investor has fulfilled the Minimum Work Obligation he had previously failed to fulfil.

Relinquishment of Hydrocarbon Exploration Blocks

Article 36

(1) At the end of the first Exploration Phase the Investor shall relinquish not less than 25% of the Exploration Block, and the Investor shall relinquish the remaining blocks at the end of the second Exploration Phase.

(2) Notwithstanding paragraph 1 herein, the Investor shall not relinquish any section of the Exploration Block that has been designated as the Appraisal Area defined in the appraisal Work Programme, or any part(s) of the Exploration Block which one or more Exploitation Fields have been determined.

(3) Subject to paragraphs 1 and 2 herein, the Investor shall propose the size, shape and location of the Exploration Blocks which it intends to relinquish pursuant to the provisions of this Act and the concluded Agreement on the Exploration and Production of Hydrocarbons.

(4) The block which the Investor is relinquishing shall be confined by the geographic coordinates of its peak points as set out in the official Croatian Terrestrial Reference Coordinate System (HTRS), of sufficient size and appropriate form to enable Petroleum Operations to be conducted thereon or
so that the Exploration Block could be included in the following tender. This applies correspondingly to the areas retained by the Investor.

(5) The Government shall issue a decision approving the size and shape of the Exploration Block that shall remain after relinquishment, and it may allow an exemption from the requirement that the Exploration Block be within a single area, where there are specific reasonable grounds to do so.

(6) The decision referred to in paragraph 5 of this Article shall contain the following information:
1) designation of the Republic of Croatia as the Exploration Block holder;
2) information on the Investor and the Licence for the Exploration and Production of Hydrocarbons;
3) Exploration Block name;
4) borders and surface area of the Exploration Block that the Investor is relinquishing, and that shall be confined by the geographic coordinates of its peak points as set out in the official Croatian Terrestrial Reference Coordinate System (HTRS);
5) borders and surface area of the Exploration Block that the Investor is retaining, and that shall be confined by the geographic coordinates of its peak points as set out in the official Croatian Terrestrial Reference Coordinate System (HTRS).

(7) By way of derogation from paragraph 1 of this Article, in case of a legitimate interest and if provided for in the tender specifications, derogation from the obligation referred to in paragraph 1 of this Article may be made, but only in accordance with the criteria defined in advance in the tender specifications and the Agreement on the Exploration and Production of Hydrocarbons.

Section B
Appraisal and Commercial Discovery

Appraisal Works

Article 37

(1) If the Investor considers that the Hydrocarbon Discovery merits appraisal, the Investor shall establish a Work Programme and submit it to the Agency for approval, together with the corresponding estimated Budget, the purpose of which is to establish whether the hydrocarbon Discovery constitutes a Commercial Discovery, as well as to determine the borders of the Reservoir.

(2) The Appraisal Works referred to in paragraph 1 of this Article shall be performed within the Appraisal Area defined by the appraisal Work Programme.

(3) Within three months after the completion of the appraisal Work Programme the Investor shall submit to the Agency a comprehensive evaluation report on the work performed relating to the Work Programme.

(4) If the appraisal Work Programme is still ongoing following the expiry of the Exploration Period, the Investor shall be allowed to complete the works and, accordingly, postpone the obligation of relinquishing the Hydrocarbon Exploration Blocks pursuant to Article 36 herein.

(5) Hydrocarbons from a Discovery may be produced and sold in accordance with provisions of Article 127 herein, and the quantities of Hydrocarbons produced from a Discovery may be used for the operational functioning of a facility located exclusively within the approved Appraisal Area, in accordance with the appraisal Programme referred to in paragraph 1 of this Article.

Declaration of a Commercial Discovery

Article 38

(1) In addition to the evaluation report on the work performed pursuant to Article 37(3) herein, the Investor shall submit a written statement to the Agency indicating one of the following:
that, based on the results of its appraisal Work Programme, the Investor has determined a Commercial Discovery, in which case the deadline for submission of the Reserves Study starts, in accordance with Article 41 herein; or

that, based on the results of its appraisal Work Programme, the Investor has not determined a Commercial Discovery.

(2) If a part of the Reservoir in respect of which a Commercial Discovery has been declared in accordance with paragraph 1 of this Article stretches outside the borders of the approved Exploration Block, such area may, at the Investor’s request and with the Government’s approval, be included in the proposed Exploitation Field relating to the Production Licence for hydrocarbon, provided that such area:

– is not the Licenced area under the Licence for the Exploration and Production of Hydrocarbons awarded to another Investor;
– is not the subject of a tendering procedure; and
– is available for granting a Licence for the Exploration and Production of Hydrocarbons.

(3) The request referred to in paragraph 2 of this Article shall contain the following information:

– borders and surface area of the proposed Exploitation Field with the geographic coordinates of its peak points as set out in the official Croatian Terrestrial Reference Coordinate System (HTRS), which result from the scope of the confirmed Hydrocarbons reserves, including a map with chartered borders;
– borders and surface area of the Exploration Blocks on which the proposed Exploitation Field is located, and that shall be confined by the geographic coordinates of its peak points as set out in the official Croatian Terrestrial Reference Coordinate System (HTRS), including a map with chartered borders

(4) The Government’s approval referred to in paragraph 3 of this Article shall be issued based on the Licence for the Exploration and Production of Hydrocarbons, and denied by an order.

(5) According to the second subparagraph of Article 38(2), if an Investor declares that a Discovery is not a Commercial Discovery, the Government may, at the Ministry’s proposal and with a prior notice made three months in advance, require the Investor to relinquish the Appraisal Area related to the said Discovery.

National Oil Company Participation Following a Commercial Discovery

Article 39

(1) If provided for in the tender specifications and in the Agreement on the Exploration and Production of Hydrocarbons and if the participation by National Oil Company has not yet started in accordance with Article 18 herein, the Government may, subject to an Agreement with the Investor, within 60 days after the publication of a Commercial Discovery of Hydrocarbons propose to establish an operating company responsible for production, established by the Investor and the National Oil Company.

(2) In the event referred to in paragraph 1 of this Article, the parties’ organisational structure and detailed rights and obligations regarding such operative company shall be laid down in a written Agreement and would become an annex to the Agreement on the Exploration and Production of Hydrocarbons.

Section C

Reserve Determination

Commission for Determining the Reserves

Article 40
(1) Based on the Investor’s request accompanied by a Reserves Study made in accordance with this Act and the rules of the profession, and with expert assistance by the Commission for determining the reserves in determining and certifying the quantity and quality of the reserves, the Ministry shall issue an order on determining the quantity and quality of the reserves.

(2) The members of the Commission for determining the reserves shall have the professional qualifications, shall have passed an examination of professional competence and shall have acquired professional experience as prescribed by the rules referred to in Article 43 herein.

(3) The member of the Commission for determining the reserves shall not review the documentation on reserves he/she has fully or partially participated in, or if that documentation has fully or partially been made within the legal entity he/she is employed in.

(4) The Commission for determining the reserves shall be established and its members shall be appointed by an order of the minister competent for energy from the ranks of the Ministry officials and Agency employees, as well as, where appropriate, appoint academic and professional employees from other authorities and institutions governed by public law, and other experts from the academic and professional public, in accordance with the ordinance referred to Article 43 herein.

(5) The cost of labour shall be covered by the Investor submitting a request referred to in paragraph 1 of this Article in accordance with the ordinance referred to in Article 43 herein.

Reserve Determination and Reserves Study

Article 41

(1) The Investor shall, within six months after submitting the statement referred to in subparagraph 1 of Article 38(1) herein, submit an Exploitation Field Reserves Study to the Ministry, in accordance with Article 40(1) herein, containing a proposal for classification and categorisation.

(2) The Investor shall, every three years from the enforcement of the order on confirming the quantity and quality of the Exploitation Field reserves, submit data and the Reserves Study, containing a proposal for the classification and categorisation, as well as net present value of indicated classes and categories of reserves with a clear indication of economic indicators used in the calculation, and the Ministry shall appoint a Commission to adopt an order on validating the quantity and quality of the reserves, Article 40 herein being applied correctly. If substantial differences in the production conditions and dynamics occur, the Ministry may request an extraordinary Reserves Study to be drafted.

(3) The final date for submitting the data and the Reserves Study referred to in paragraph 2 of this Article shall be set out in the order on determining the quantity and quality of the reserves, and it shall not exceed 120 days upon the expiry of three-year period after determining the reserve state.

(4) The Investor shall notify the Ministry of any deviations from the Reserves Study referred to in paragraph 1 of this Article.

(5) In case of substantial deviations referred to in paragraph 1 of this Article, the Investor shall prepare and submit to the Commission for determining the reserves new data and the new Reserves Study.

(6) The reserves shall be classified and categorised according to regulations on the single method of identifying, keeping records and collecting data on reserves and on the balance of those reserves, in accordance with the ordinance referred to in Article 43 herein.

(7) The Reserves Study may be prepared by the persons eligible for the preparation of Reserves Study documentation.

(8) The legal persons preparing a Reserves Study shall appoint a person that meets the eligibility requirements as an accountable manager before preparing the Reserves Study.

(9) The legal person referred to in paragraph 8 of this Article shall meet the following requirements:
1) activity of preparing the documents on reserves or documents on material, shape, size and volume of Geological Structures suitable for the storage of natural gas or permanent disposal of carbon dioxide entered in the commercial register;

2) employ at least one responsible professional as a full-time employee, with relevant professional qualifications and professional experience, who has passed an examination of professional competence in Petroleum or Geology, and who meets the requirements set out in the Ordinance from Article 139(7) herein;

3) maintain relevant equipment for preparation of documents on reserves or documents on material, shape, size and volume of Geological Structures suitable for Underground Gas Storage or Geological Storage of Carbon Dioxide.

(10) The legal person responsible for the preparation of specific parts of documents on reserves or documents on material, shape, size and volume of Geological Structures suitable for Underground Gas Storage or Geological Storage of Carbon Dioxide, which shall not be prepared by responsible person from Article 9 item 1 of this Article shall employ at least one responsible professional as a full-time employee, with relevant professional qualifications and professional experience, who has passed an examination of professional competence, in accordance with Article 130 herein, or it shall conclude a written contract for preparation of documents on reserves or documents on material, shape, size and volume of Geological Structures suitable for Underground Gas Storage or Geological Storage of Carbon Dioxide, in accordance with Article 130 herein.

(11) The legal person shall conclude an Agreement with the contracting entity for any activity concerning the preparation of documents on reserves or documents on material, shape, size and volume of Geological Structures suitable for Underground Gas Storage or Geological Storage of Carbon Dioxide.

(12) The legal person shall observe professional secrecy of the contracting entity of its services with regard to any trade secrets discovered during service contracting.

(13) A trade secret within the meaning of paragraph 12 of this Article shall be protected and kept by authorised persons that the legal person has employed during specific operation completion.

Reserves

Article 42

(1) The Investor shall keep records on the reserves and no later than 15 March each year submit to the Ministry and the Agency the data on the reserves per Exploitation Field containing the data on the state as at 31 December for the preceding year using prescribed forms for submitting the information set out in ordinance referred to in Article 43 herein.

(2) The reserve data shall contain a technical and economic appraisal and a net present value of reserve classes and categories with a clear indication of economic indicators used in the calculation.

Ordinance on Reserves

Article 43

The content of the request for determining the quantity and quality of the reserves, i.e. data on material, shape, size and volume of Geological Structures suitable for the Underground Gas Storage or Geological Storage of Carbon Dioxide, methods and conditions for classifying and categorising the reserves, i.e. methods and conditions for determining material, shape, size and volume of Geological Structures suitable for Underground Gas Storage or Geological Storage of Carbon Dioxide, work done by the Commission for determining the reserves and its conduct during the process of determining and certifying reserves, i.e. determining and certifying data on material, shape, size and volume of Geological Structures suitable for Underground Gas Storage or Geological Storage of Carbon Dioxide, forms for submitting information set out in Article 42 herein, substantial and insubstantial deviations from the documentation on hydrocarbon reserves, activities of the Hydrocarbon Valuation
Commission, i.e. determining hydrocarbon Market Price, and the Commission’s conduct during hydrocarbon valuation is prescribed by a regulation adopted by the minister competent for energy.

Section D
Exploitation Field

Procedure for Determining the Exploitation Field

Article 44

(1) If the Exploitation Field for which the determination procedure is initiated is not located within the areas intended for production in accordance with the spatial plan, the Investor shall initiate the procedure for aligning the production areas with the spatial plan based on the borders determined in the order on determining the quantity and quality of reserves, immediately upon receiving this order.

(2) The spatial plan developer initiates the procedure for aligning the production areas with the spatial plan no later than 8 days after receiving the Investor’s request in accordance with the regulation governing spatial planning and without prejudice to other received requests.

(3) The Investor shall bear the costs of aligning the production areas with the spatial plan referred to in paragraph (2) of this Article.

(4) The Investor shall submit to the Ministry a request for issuing an order on determining the Exploitation Field within 30 days following the alignment of the production areas with the spatial plan.

(5) The Investor shall attach to the request for determining the Exploitation Field a map of the requested Exploitation Field which shows the scope of the confirmed reserves, as well as a certificate of the compliance of the proposed Exploitation Field with the spatial plan received from the central state administrative authority in charge of spatial planning.

(6) The Exploitation Field determined by the order on determining the Exploitation Field may correspond to or be smaller than the production areas in accordance with the spatial plan and it is considered to be subject to the same spatial planning conditions.

Order on Determining the Exploitation Field

Article 45

The order on determining the Hydrocarbon Exploitation Field shall include the following:
1. the designation of the Republic of Croatia as the Exploitation Field holder;
2. information on the Investor and the Licence for the Exploration and Production of Hydrocarbons;
3. name of the Exploitation Field;
4. the borders and the surface area of the determined Exploitation Field, which shall be confined by the geographic coordinates of its peak points indicated in the official Croatian Terrestrial Reference Coordinate System (HTRS), as well as a list of the Reservoirs included in the Exploitation Field;
5. the total reserves within the determined Exploitation Field;
6. the obligation to submit the Development and Production Plan for verification;
7. the authorisation for entering the determined Exploitation Field in the Exploitation Field registry.

Exploitation Field

Article 46
(1) If the Republic of Croatia owns the plots of land for which the procedure for determining the Exploitation Field is initiated, the notification on initiating the procedure shall immediately be delivered to the central state administrative authority in charge of managing state property or to the authority in charge of managing forests and forest land, i.e. agricultural land, respectively.

(2) After the expiration of the Investor’s rights, this Exploitation Field remains an Exploitation Field with the Republic of Croatia as the licensee, until the reserves are depleted, and the Ministry may hold a new tender for awarding the Licence for the Exploration and Production of Hydrocarbons regarding the production of this Exploitation Field, provided that the other conditions set out in this Act are met.

(3) The Investor holding the Licence for the Exploration and Production of Hydrocarbons, upon whose request the Exploitation Field has been determined, has a legitimate interest regarding the development and verification of the Development and Production Plan pursuant to Article 47 herein and the resolution of property relations pursuant to Article 114 herein for the plots of land within the Exploitation Field where the Petroleum Facilities shall be located.

Chapter III
PRODUCTION OF HYDROCARBONS

Verification of the Development and Production Plan

Article 47

The Investor shall within one year from the enforceability of the order on determining the Exploitation Field referred to in Article 45 herein submit the Hydrocarbon Development and Production Plan to the Ministry for verification pursuant to Article 137 herein.

Issuing the Production Licence for Hydrocarbons

Article 48

(1) Upon issuing the order on the verification of the Development and Production Plan pursuant to Article 137 herein, the Government shall, without further procedures, issue to the Investor the Production Licence for Hydrocarbons, except in the event of an existing production right, where the Licence is issued by the Ministry.

(2) The Production Licence for Hydrocarbons forms an inseparable integral part of the Licence for the Exploration and Production of Hydrocarbons and the Agreement on the Exploration and Production of Hydrocarbons, and enables the Investor to commence and carry out production operations in the Exploitation Field in accordance with the verified petroleum documentation.

(3) The Government, i.e. the Ministry shall, in case of an existing right, refuse to issue the Production Licence for Hydrocarbons if the Investor violates the Agreement on the Exploration and Production of Hydrocarbons or learns ex officio that there is an impediment as referred to in Article 17 herein.

(4) The Production Licence for Hydrocarbons is issued by the Government, i.e. by the Ministry in case of an existing right, upon request of the Investor within 60 days from the submission of the request in the correct form to the Ministry by the Investor.

(5) To the request for receiving the Production Licence for Hydrocarbons the Investor shall attach the following:

1. evidence of the right to use the land plots within the Exploitation Field or the maritime domain of the maritime part of the Exploitation Field pursuant to the regulations governing maritime affairs, i.e. the maritime domain, in accordance with the Petroleum Operations from the verified Development and Production Plan or the supplementary Development and Production Plan for the period for which the Agreement on the Exploration and Production of Hydrocarbons is concluded;
2. a statement given under criminal and material liability before a notary public or a court that there are no impediments as referred to in Article 17 herein.

(6) The following shall present evidence referred to in paragraph 5, item 1 of this Article:
1. extract from the land register;
2. original or copy of the lease Agreement concluded with the plot owners;
3. contract or decision of the competent state administration authority based on which the Investor has acquired the title, easement, lease right or any other right from which the right to use the plot of land, i.e. the maritime or aquatic domain is derived;
4. written consent of the fiduciary owner to the former owner of the land plots.

(7) The Production Licence for Hydrocarbons shall include:
1. information on the Investor;
2. the name, the map position, the borders and the surface area of the determined Exploitation Field;
3. the identified hydrocarbon reserves in total;
4. the verified Development and Production Plan based on which the Production Licence for Hydrocarbons is issued or the supplementary Development and Production Plan in the case referred to in paragraph 8 of this Article;
5. the cadastral municipality, area of the plots of land indicating the cadastral and land registry designations or positions on the official nautical map of the maritime part of the Exploitation Field where the Petroleum Operations are approved, and for which the evidence referred to in paragraph 6 of this Article has been submitted;
6. the estimated costs for the Decommissioning of the Exploitation Field and the deadline for delivering the security covering the costs for the Decommissioning of the Exploitation Field;
7. the deadline before which the Investor shall conclude the Agreement on the Production of Hydrocarbons with the Ministry in the event of an existing production right;
8. the deadline before which the Petroleum Operations shall commence;
9. the date until which the Production Licence for Hydrocarbons is valid, which also marks the period for which the hydrocarbon production contract is concluded in the event of an existing production right, and this date is determined based on the Development and Production Plan or the supplementary Development and Production Plan referred to in item 4 of this paragraph.

(8) If the Investor holds a valid Licence for the Production of Hydrocarbons in the determined Exploitation Field, but there have been significant derogations from the plan set out in the verified Development and Production Plan, the Investor shall apply for a new Production Licence for Hydrocarbons.

Right to Purchase the Produced Hydrocarbons and Use the Infrastructure

Article 49

(1) The Republic of Croatia shall have first call on purchasing the Produced Hydrocarbons which are property of the Investor pursuant to the Agreement on the Exploration and Production of Hydrocarbons based on market conditions in accordance with Article 52 herein.

(2) If the volume of Hydrocarbons available to the Republic of Croatia is not sufficient for meeting the demand on the market of the Republic of Croatia, the Investor shall sell their quantities which are not bound by existing Agreements the Investor has concluded for the purpose of selling the Hydrocarbons in order to meet the consumption needs of the Republic of Croatia to a legal entity determined by the Government.

(3) The sale of Hydrocarbons referred to in paragraph (2) of this Article shall be subject to the obligations and conditions agreed by the parties, including the Market Price, which is to be agreed in accordance with Article 52 herein.
(4) Within the framework of the Petroleum Operations, the Investor shall build a Local Pipeline as a connection between the Exploitation Field and the main pipeline, where this is planned by the verified Development and Production Plan and all amendments to it, which shall be owned by them in accordance with the conditions of the Agreement on the Exploration and Production of Hydrocarbons.

(5) The Agency shall provide expert assistance and support to the Investor during the process of obtaining Licences and authorisations of the competent state authorities necessary for the construction of the Local Pipelines referred to in paragraph 4 of this Article.

(6) The construction and maintenance of the Local Pipelines referred to in paragraph 4 of this Article shall comply with the Petroleum Operations, the rules and measures for safety and for protecting nature and the environment, as well as with Good International Oilfield Practice.

(7) The Investor shall in case of free capacities in the Local Pipeline referred to in paragraph 4 of this Article make these available to third parties under market conditions.

(8) The tariff for pipeline transport referred to in paragraph 7 of this Article shall be set and charged by the pipeline owner subject to prior approval of the Ministry.

(9) The Investor may use the main pipeline’s free capacities in order to transport the Produced Hydrocarbons, subject to the conditions agreed through negotiations with the owner of the main pipeline.

Relinquishment of the Hydrocarbon Exploitation Field

Article 50

In addition to receiving the approval of the Government, the Exploitation Field is also considered to be relinquished in the following cases:

– production in the Exploitation Field is ceased permanently or for a continuous period of 18 months, unless such cessation is due to force majeure; or

– in case of the expiry of the Production Period.

Chapter IV

Fee

Article 51

(1) The Investor shall pay a Fee for the Exploration and Production of Hydrocarbons, Geothermal Waters, Underground Gas Storage and Geological Storage of Carbon Dioxide in a manner provided for in this Act.

(2) The Fee referred to in paragraph 1 of this Article may consist of a total pecuniary fee and distribution of the Hydrocarbons produced.

(3) The total Fee for the Exploration and Production of Hydrocarbons consists of a pecuniary fee for the Exploration Block, a pecuniary fee for the determined Exploitation Field area, a pecuniary fee for the conclusion of the Agreement on the Exploration and Production of Hydrocarbons, a pecuniary fee for the produced hydrocarbon quantities, an additional pecuniary fee for the realised hydrocarbon production and a pecuniary fee for administrative costs.

(4) The produced hydrocarbon quantities shall be distributed as percentage shares of the produced hydrocarbon quantities belonging to the Republic of Croatia.

(5) The produced Hydrocarbons are distributed as quantities of the Produced Hydrocarbons by subtracting the amounts representing the Fee for the produced hydrocarbon quantities from the total produced hydrocarbon quantities and distributing the remaining total produced hydrocarbon quantities between the Republic of Croatia and the Investor.
(6) The remaining quantities of the total Produced Hydrocarbons referred to in paragraph 5 of this Article are distributed by subtracting the amounts necessary to recover the Investor’s costs and dividing the remaining produced hydrocarbon quantities between the Republic of Croatia and the Investor.

(7) The Petroleum costs subject to the recovery in case of distribution of the produced hydrocarbon quantities include all costs, expenditures and obligations incurred to the Investor during the Petroleum Operations in accordance with the issued Licence for the Exploration and Production of Hydrocarbons and the concluded Production Sharing Agreement, pursuant to Annex II herein, which are controlled and approved by the Agency in accordance with Article 118 (10) herein.

(8) The total pecuniary fee referred to in paragraph 3 of this Article is not included in the calculation of petroleum costs subject to recovery in case of distribution of the produced hydrocarbon quantities referred to in paragraph 7 of this Article.

(9) The Agency shall regularly monitor the payment of the Fees.

(10) The Investor shall submit to the Agency evidence of calculated and paid amounts of the Fee referred to in paragraph 11 of this Article, including a specification of the hydrocarbon valuation pursuant to Article 52 herein.

(11) The Fee amounts and ratios of the Fee revenue distribution are set out by the Government through a regulation, at the proposal of the Ministry.

Valuation of Hydrocarbons

Article 52

(1) The Hydrocarbons shall be valued for the purposes of determining the amount of the Fee for the produced hydrocarbon quantities, the recovery of petroleum costs, the share in profits made from Hydrocarbons and the Investor’s gross revenues when calculating the Investor’s tax liability.

(2) Crude oil shall be valued at the FOB realised sales price at the Delivery Point expressed in US Dollars per Barrel at the date of the bill of lading, as determined for each month and referred to as “Market Price”. The value shall be established for each grade of crude oil or for each crude oil blend, if any.

(3) The Market Price applicable to liftings of crude oil during a certain month shall be calculated at the end of that month and shall be equal to the weighted average of the FOB prices obtained by the Investor and the Republic of Croatia at the Delivery Point for crude oil sold to third parties during that month, on an arm’s length basis, adjusted to reflect the variances in quality, grade, as well as FOB delivery terms and conditions of payment.

(4) In the event no such sales on an arm’s length basis are made during the month in question or such sales represent less than 30% of the total quantities of crude oil obtained from all the fields pursuant to the Agreement on the Exploration and Production of Hydrocarbons and sold during said month, the Market Price shall be determined as the average of the prevailing daily prices realised per Barrel on an arm’s length basis in such month through the sale of a basket of the three internationally traded crude oils in the Mediterranean of a similar gravity and sulphur content, as published in the Platts Oilgram Price Report, adjusted to reflect variances in gravity, sulphur and transportation and any special terms and conditions relating to the sale of such crude oils.

(5) The following transactions shall, inter alia, be excluded from the calculation of the Market Price:

a) sales in which the buyer is an affiliate of the seller as well as sales between legal entities constituting the Investor;

b) sales in which the buyer has any direct or indirect relationship or common interest with the Investor which could reasonably influence the sales price;

c) sales in exchange for a Fee other than payment in freely convertible currencies and sales fully or partially made for reasons other than the usual economic incentives involved in crude oil sales on
the international market, such as exchange contracts, sales from government to government or to
government agencies.

(6) The Commission for the valuation of Hydrocarbons appointed by the minister competent for
energy, which consists of representatives of the Ministry and the Agency and, if applicable,
representatives of other authorities governed by public law, whose activities and operation are
governed by the ordinance referred to in Article 43 herein, as well as representatives of the Investor,
shall meet promptly following the end of each Quarter and in any event within 20 days after the end
of the Quarter, in order to establish in accordance with the provisions herein the Market Price of the
produced crude oil which applied to the months of the preceding Quarter.

(7) The Investor and representatives of the Republic of Croatia in charge of selling crude oil shall
submit to the Commission referred to in paragraph (6) of this Article evidence that the sales of crude
oil are arm’s length sales.

(8) If no decision is taken by the Commission within 30 days after the end of the Quarter in
question, the Market Price of the produced crude oil shall be determined by an expert appointed by
the parties in mutual Agreement within 10 days, in accordance with the ordinance referred to in
Article 43 herein.

(9) Pending the determination of the price, the Market Price provisionally applicable to a certain
month shall be the Market Price of the preceding month. All necessary adjustments are made no
later than 30 days after the end of the Quarter in which the sales were made.

(10) If there are arm’s length sales agreements in place for the sale of natural gas, the Market
Price of natural gas shall be the actual sales price obtained under such agreements, calculated at the
Delivery Point, which may take into account quantities to be sold, quality, geographic location of
markets to be supplied as well as costs of production, transportation, treatment and distribution of
natural gas from the Delivery Point to the relevant market, in accordance with Good International
Oilfield Practice.

(11) If there is no arm’s length agreement in place for the sale of natural gas, the Market Price is
determined as that which permits the natural gas sold to reach, at the treatment or consumption
places, a fair Market Price equivalent to that of natural gas of comparable quality.

(12) The Investor shall make any and all natural gas sales agreements, including all the terms and
conditions contained therein or related thereto together with any pertaining annexes concluded for
the sale of natural gas extracted in accordance with the provisions herein, available to the Agency
and shall ensure that the natural gas sales agreements contain provisions to this effect.

Measuring the Produced Hydrocarbon Quantities

Article 53

(1) The Ministry’s petroleum inspection shall periodically, in intervals no longer than six months,
perform checks on the measurement of the produced hydrocarbon amounts using methods accepted
within the framework of Good International Oilfield Practice.

(2) The Hydrocarbons produced in Petroleum Operations on the determined Exploitation Field(s)
are measured through methods and devices generally accepted and customarily used in Good
International Oilfield Practice, which are set by the verified Development and Production Plan.
Hydrocarbons produced from the Exploitation Field shall be measured at the Measurement Point.

(3) The Investor shall prepare hydrocarbon measurement procedures in accordance with the
ordinance referred to in Article 139 herein and submit them for assessment by the Agency.

(4) The Investor shall record the Hydrocarbons and make available to the Ministry and the
Agency on request all analyses and measurement certificates produced by the hydrocarbon
measurement device, including evidence from the measurement system in accordance with the
provisions of the contract on the Exploration and Production of Hydrocarbons and this Act.
(5) The Ministry shall, through officially appointed representatives, periodically check whether the measurements have been performed in accordance with the provisions of the contract on the Exploration and Production of Hydrocarbons and this Act.

**TITLE III**

*Exploration and Production of Geothermal Waters*

Chapter I

*Licence for the Exploration of Geothermal Waters*

**Single Procedure for Issuing a Licence for the Exploration of Geothermal Waters and a Production Licence for Geothermal Waters**

**Article 54**

(1) Petroleum Operations for the Exploration of Geothermal Waters for the purpose of establishing geothermal water reserves can be performed solely on the basis of a Licence for the Exploration of Geothermal Waters.

(2) Petroleum Operations for the production of Geothermal Waters can be performed solely on the basis of a Production Licence for Geothermal Waters and an Agreement on the Production of Geothermal Waters.

(3) The issuing of a Production Licence for Geothermal Waters is carried out on the basis of a single tendering procedure, which begins with a procedure for the selection of the most favourable tenderer for the issuing of a Licence for the Exploration of Geothermal Waters, and ends with the signing of an Agreement on the Production of Geothermal Waters.

(4) The provisions of Article 20 herein, except for the provision on declaration, shall apply *mutatis mutandis* to the collecting of tenders regarding Exploration and Production of Geothermal Waters in the areas included in the former tendering procedure and relinquished areas.

(5) All decisions in the single procedure of this Article shall be made by the Ministry.

**Tendering Procedure**

**Article 55**

(1) The implementation of the tendering procedure for the selection of the most favourable tenderer for the Exploration of Geothermal Waters begins with the decision of the Ministry on the implementation of the tendering procedure for the selection of the most favourable tenderer for the Exploration of Geothermal Waters for the purpose of issuing a Production Licence for Geothermal Waters.

(2) The decision on the implementation of the tendering procedure for the selection of the most favourable tenderer for the Exploration of Geothermal Waters for the purpose of issuing a Production Licence for Geothermal Waters shall be made by the Ministry:

- if it concludes that there is a need for establishing individual reserves of Geothermal Waters in a specific area and determining their economic viability;
- based on the proposal of a Petroleum Economic Entity.

**Article 56**

If an Petroleum Economic Entity submits a proposal for the publication of a tender notice, it shall indicate on the proposal or enclose in it:

1. the geographical position, the borders and the surface area of the proposed Exploration Block, which shall be confined by the geographic coordinates of its peak points indicated in the official Croatian Terrestrial Reference Coordinate System (HTRS) and the name of the proposed Exploration Block;
2. a Programme of total Exploration Operations by type and scope, including a cost estimate, and a detailed plan of Petroleum Operations that shall be performed in each particular year of Exploration;
3. the total amount of funds required to perform the planned Exploration Operations and the manner of providing such funds;
4. excerpt from the court register from which it is evident that the applicant is registered for Exploration and Production of Geothermal Waters;
5. geological or other documentation on the possibility of existence of Geothermal Waters in the proposed Exploration Block, if any;
6. evidence that there are no impediments in spatial planning documents for conducting the Exploration.

Preparatory Actions for the Implementation of the Tendering Procedure

Article 57

(1) The preparatory actions for the publication of a tender for the selection of the most favourable tenderer for the Exploration of Geothermal Waters for the purpose of issuing a Production Licence for Geothermal Waters shall be carried out by the Agency.

(2) The preparatory actions shall be considered to include all the activities that precede the publication of the tender from paragraph 1 of this Article, in particular:
   1. preparation of the tender specifications;
   2. the request for the delivery of the tendering security and the determination of its amount;
   3. establishing the amount of the tender fees;
   4. determining the special conditions and limitations for the Exploration of Geothermal Waters for the purpose of issuing a Production Licence for Geothermal Waters;
   5. determining the borders of the Exploration Block;
   6. determining the type and the minimum amount of Exploration Operations;
   7. determining the criteria for the selection of the most favourable tenderer pursuant to Article 61 herein.

Special Conditions, Limitations and Approvals for the Publication of the Tender

Article 58

(1) The decision on the implementation of the tendering procedure for the selection of the most favourable tenderer for the Exploration of Geothermal Waters for the purpose of issuing a Production Licence for Geothermal Waters can be made for all areas where there are no impediments in spatial planning documents for conducting the Exploration.

(2) If the Republic of Croatia is the owner of the land plots within the borders of the proposed Exploration Block, the Ministry shall, at least 30 days prior to the publication of a tender for the selection of the most favourable tenderer for the Exploration of Geothermal Waters, notify the central state administration authority competent for managing state property, i.e. the authority that is, in the specific case, competent for the management of forests and forest land or agricultural land or, as regards the maritime domain, the central state administration authority competent for maritime affairs.

(3) The Ministry shall, at least 30 days prior to the publication of a tender, request special conditions, limitations and approvals as regards the borders of the proposed Exploration Block from the state administration authorities, units of local and regional self-government in whose area the proposed Exploration Block is located, and from legal persons with public authority.
(4) If the authorities or persons referred to in paragraphs 2 and 3 of this Article do not respond within 30 days of receiving the requests for special conditions and limitations, it shall be considered that the authorities or persons agree with the borders of the proposed Exploration Block and that they have no special conditions and limitations.

Course of the Tendering Procedure

Article 59

(1) The procedure for the selection of the most favourable tenderer for issuing a Licence for the Exploration of Geothermal Waters begins with the publication of the notice of intention to implement a tendering procedure in the Official Gazette of the Republic of Croatia and ends with the granting of a Licence for the Exploration of Geothermal Waters or a decision to annul the tendering procedure.

(2) The notice referred to in paragraph (2) of this Article shall be published by the Agency in the Official Gazette of the Republic of Croatia.

(3) The tender specifications shall be published on the official website of the Ministry and the Agency.

(4) The deadline for the submission of tenders shall not be shorter than one month from the date of publication of the notice of intention to implement a tendering procedure in the Official Gazette of the Republic of Croatia.

Content of Tenders

Article 60

The tender shall include:
1. a description of the personal, professional, technical and financial conditions that shall, according to the notice, be fulfilled the tenderer and the documents proving their fulfilment;
2. evidence that there are no impediments as regards Article 17 herein;
3. a Programme of total Exploration Operations by type and scope, including a cost estimate;
4. a detailed plan of operations that shall be performed in each Calendar Year of Exploration;
5. the deadline by which the Exploration is to be conducted;
6. the total amount of funds required to perform the planned Exploration Operations and the manner of providing such funds;
7. the deadline by which the production is intended to start within the Exploration Block;
8. a plan for the Decommissioning of the Exploration Block and credit support;
9. tendering security;
10. evidence of payment of the tender fees;
11. other data and documents relevant to the selection of the most favourable tenderer according to the published criteria for the selection the most favourable tender required by the tender specifications.

Criteria for the Selection of the Most Favourable Tenderer

Article 61

(1) The Ministry shall ensure that there is no discrimination among Petroleum Economic Entities. However, for reasons of national security, the Ministry may refuse to grant a Licence to any Petroleum Economic Entity, which is under real control of third countries or third country nationals.

(2) The criteria for selecting the most favourable tenderer for the issuing of a Licence for the Exploration of Geothermal Waters are:
– technical, professional and financial suitability of the tenderer or consortium;
– the manner in which the tenderer or consortium intends to conduct activities that are the subject of the Licence for the Exploration of Geothermal Waters;
– the overall quality of the submitted tender;
– the financial conditions offered by the tenderer for the purpose of being granted a Licence for the Exploration of Geothermal Waters;
– any lack of efficiency or responsibility in any form that the Petroleum Economic Entity has shown in other countries and in the previous performance of the activities covered by the Licence.

(3) The technical and professional capability of the participants is assessed according to the tenderer’s data on participation in the Exploration and Production of Geothermal Waters over the past five or more years, the number of employees employed, in particular as regards the relevant jobs, and the annual quantity of geothermal water produced for energy purposes, as well as the references of the tenderer in respect of adhering to the rules for environmental protection and occupational safety.

(4) The financial suitability of the participants is estimated according to the data on the financial situation and the business operations of the tenderer, as well as the plan for the financing of the activities of Exploration and Production of Geothermal Waters.

(5) The quality of the tender shall be assessed according to the planned works of the tenderer in the minimum Work Programme, which includes geophysical screening, reprocessing of geophysical data, gravity and magnetic survey, satellite gravity survey screening, other tests according to the International Good Oilfield Practice and exploratory drilling (number of Wells and the drilling depth), whereby the amount of suggested Petroleum Operations and their estimated costs shall be taken into account for each item.

(6) If, following the assessment based on the criteria under paragraphs 2, 3, 4, 5 and 5 herein, two or more tenders have the same significance, the other relevant and objective non-discriminating criteria shall be taken into account in order to reach the final decision.

Functioning of the Commission

Article 62

(1) The Commission shall open, review and evaluate the tenders and perform all other activities necessary for the purpose of submitting a proposal to the Ministry for the issuing of a Licence for the Exploration of Geothermal Waters within a period of not more than two months from the expiry of the deadline for the submission of tenders.

(2) The Minister competent for energy shall appoint the Commission referred to in paragraph 1 of this Article no later than 30 days before the deadline for the submission of tenders in the tendering procedure referred to in Article 59 herein.

(3) The Ministry shall notify the central state administration authority competent for finance of the intention to establish the Commission referred to in paragraph 3 of this Article.

(4) The central state administration authority competent for finance may propose the appointment of its representative to the Commission within a period of five days from the date of receipt of the notification referred to in paragraph 3 of this Article.

(5) The Commission shall have an odd number of members, at least three and a no more than seven.

(6) The Commission shall be composed of the chairman of the commission, the deputy chairman, the secretary and a maximum of five members, and shall decide by a majority vote of all members. The secretary shall participate in the work of the Commission, but shall not have the right to decide.
The president of the Commission is the representative of the Agency, whereas the vice-president is the representative of the Ministry.

The Commission shall keep minutes of its work, which shall be signed by all the Commission members.

The Minister competent for energy shall dismiss the member of the Commission in accordance with the conditions herein, at the member’s own request or ex officio if the member does not sign the record within 15 days after the completion of a particular activity.

The Commission shall be discharged upon issuing a Licence for the Exploration of Geothermal Waters.

**Licence for the Exploration of Geothermal Waters**

**Article 63**

(1) In accordance with the tendering procedure for the issuing of a Licence for the Exploration of Geothermal Waters, and pursuant to the provisions herein, the Ministry shall decide on the issuing of a Licence for the Exploration of Geothermal Waters for each individual Exploration Block which contains:

1. data on the selected tenderer;
2. the geographical position, the borders and the surface area of the Exploration Block, which shall be confined by the geographic coordinates of its peak points indicated in the official Croatian Terrestrial Reference Coordinate System (HTRS);
3. the deadline for submitting a final report on the conducted Exploration and Decommissioning of the Exploration Block in the event that geothermal water reserves have not been identified;
4. the deadline for the preparation and submission to the Ministry of a preliminary plan for planned Petroleum Operations in accordance with Article 132 herein;
5. the deadline for the preparation and submission of the Geothermal Water Reserves Study for the Exploration Block, and for the obtaining of an order on the determined quantity and quality of the reserves;
6. Decommissioning obligation, amount of the costs of Decommissioning of the Exploration Block and the deadline for submitting to the Ministry the credit support for the Exploration Block Decommissioning Costs;
7. conditions and limitations that the Investor shall take into account when conducting Petroleum Operations, which have been collected in accordance with Article 58(3) and (4) herein;
8. minimum amount and type of Exploration Operations which shall be performed in each Calendar Year of Exploration;
9. names of state administration authorities, units of local and regional self-government, legal persons with public authority and other parties that shall be notified of the commencement of the Petroleum Operations;
10. the possibility of performing Test Production during Exploration;
11. order to enter the approved Exploration Block into the Registry of Exploration Block, which is kept by the Ministry;
12. the validity period of the Licence for the Exploration of Geothermal Waters.

(2) The periods referred to in paragraph 1 of this Article shall be determined in accordance with the provisions of Article 64 and the detailed plan of operations to be performed in each Calendar Year which is an integral part of the tender referred to in Article 60 herein.

(3) The Exploration of Geothermal Waters is allowed only within the Exploration Block determined by the Licence for the Exploration of Geothermal Waters.
(4) The Investor shall submit to the Ministry the evidence of the right to use the land plots related to the Petroleum Operations specified in the Licence for the Exploration of Geothermal Waters prior to the commencement of Petroleum Operations in the Exploration Block.

(5) The provisions of Articles 36 and 50 herein shall apply to the procedure of relinquishing the Exploration Block and the Exploitation Field.

Validity of the Licence for the Exploration of Geothermal Waters

Article 64

(1) A Licence for the Exploration of Geothermal Waters shall be issued for the period required for performing Exploration Operations and for a maximum of five years.

(2) The Ministry may extend the validity of a Licence for the Exploration of Geothermal Waters at a justified request from the Investor when the established deadline is not sufficient for the completion of the relevant exploration carried out in accordance with the Licence for the Exploration of Geothermal Waters, whereby the lack of financial suitability of the Investor shall not be considered a justified reason to extend the Exploration Period.

(3) The validity of a Licence for the Exploration of Geothermal Waters at a written request from the Investor may be extended twice during the duration of the Licence for the Exploration of Geothermal Waters, whereby each extension may last for a maximum of six months and shall be requested at least three months before the expiry of the validity of the Licence for the Exploration of Geothermal Waters.

(4) In the case referred to in paragraphs 2 and 3 of this Article, the Ministry shall, within a period of 60 days from receiving an appropriate request from the Investor, by issuing an order on denying the Investor’s request or extend the validity of the Licence for the Exploration of Geothermal Waters on the basis of the modification of the Licence for the Exploration of Geothermal Waters.

Cancellation of the Licence for the Exploration of Geothermal Waters

Article 65

The Ministry can decide to cancel the Licence for the Exploration of Geothermal Waters:

1. if the Investor fails to comply with the deadlines and obligations as defined by the Licence for the Exploration of Geothermal Waters;
2. if the prescribed occupational safety measures and the measures required for the safety of people and property as well as the protection nature and environment, defined by an order of the petroleum inspection authority of the Ministry, have not been implemented;
3. if the Exploration hinders or endangers Hydrocarbon Exploration in the same Exploration Block or Hydrocarbon Exploration in adjacent Exploration Blocks;
4. if the Exploration endangers future hydrocarbon production;
5. if the Exploration hinders or endangers hydrocarbon production in determined Exploitation Fields;
6. if production is carried out within the scope of Exploration, unless allowed under the Licence for the Exploration of Geothermal Waters;
7. if the Geothermal Waters produced within the scope of Exploration for the purpose of technological testing and determination of the conditions for production is not disposed of in a lawful manner;
8. if the Exploration is conducted outside the borders of the Exploration Block determined by the Licence for the Exploration of Geothermal Waters;
9. if Exploration Operations are performed without proven land use rights or if such rights have subsequently expired;
10. if the Investor does not submit credit support for the Decommissioning Costs in the amount and form determined in the Licence for the Exploration of Geothermal Waters and within the validity period of the Licence for the Exploration of Geothermal Waters.

**Determination of Reserves and Exploitation Fields**

**Article 66**

The Investor shall, in accordance with the appropriate application of the provisions of Articles 37 and 38 herein, obtain an order on the quantity and quality of the reserves referred to in Article 40(1) herein, and, with appropriate application of Article 44 herein, obtain an order on determining the Exploitation Field referred to in Article 45(1) herein within the time period determined in the Licence for the Exploration of Geothermal Waters.

**Chapter II**

**PRODUCTION OF GEOTHERMAL WATERS**

**Verification of the Development and Production Plan**

**Article 67**

Pursuant to Article 137 herein, the Investor shall, within six months of the enforceability of the order on determining the Exploitation Field referred to in Article 66 herein, submit to the Ministry for verification the plan for the development and production of Geothermal Waters.

**Settlement of Property Relations**

**Article 68**

Prior to submitting an application for a Production Licence for Geothermal Waters, the Investor shall settle property relations in relation to the Exploitation Field in accordance with the Petroleum Operations outlined in the verified Development and Production Plan or the supplementary Development and Production Plan for the period for which the Investor intends to conclude an Agreement on the Production of Geothermal Waters.

**Request for a Production Licence for Geothermal Waters**

**Article 69**

(1) The Production Licence for Geothermal Waters shall be issued by the Ministry upon its decision and at the request from the Investor within 30 days from the submission of an appropriate request from the Investor.

(2) In the application for a Licence for the Exploration of Geothermal Waters the Investor shall include the following:

1. evidence of the right to use the land plots within the Exploitation Field or the maritime domain of the maritime part of the Exploitation Field in accordance with the Petroleum Operations from the verified Development and Production Plan or the supplementary Development and Production Plan for the period for which the Agreement on the Exploration and Production of Hydrocarbons is concluded;

2. a statement given under criminal and material liability before a notary public or a court that there are no impediments as referred to in Article 17 herein.

(3) The following shall present evidence referred to in paragraph 2, item 1 of this Article:

1. extract from the land register;
2. original or copy of the lease Agreement concluded with the plot owners;
3. contract or decision of the competent state administration authority based on which the Investor has acquired the title, easement, lease right or any other right from which the right to use the plot of land, i.e. the maritime or aquatic domain is derived;

4. written consent of the fiduciary owner to the former owner of the land plots.

Issuing of a Production Licence for Geothermal Waters

Article 70

(1) The Production Licence for Geothermal Waters includes, inter alia, the following:
1. information on the Investor;
2. name, map position, borders and surface area of the determined Exploitation Field;
3. total identified geothermal water reserves;
4. the verified Development and Production Plan based on which the Production Licence for Geothermal Waters is issued or a supplementary Development and Production Plan if it is the case referred to in paragraph 2 of this Article;
5. the cadastral municipality, the surface area of the cadastral plots with indicated cadastral and land registry identifiers or positions on the official nautical chart of the offshore part of the Exploitation Field on which the performance of Petroleum Operations is approved, and for which evidence referred to in Article 69(3) of this Act has been submitted;
6. the estimated costs for the Decommissioning of the Exploitation Field and the deadline for delivering the security covering the costs for the Decommissioning of the Exploitation Field;
7. the deadline by which the Investor shall conclude the Agreement on the Production of Geothermal Waters with the Ministry;
8. the deadline before which the Petroleum Operations shall commence;
9. the validity period of the Production Licence for Geothermal Waters that is also the period for which the Agreement on the Production of Geothermal Waters is concluded, and that is determined on the basis of the Development and Production Plan or the supplementary Development and Production Plan referred to in item 4 of this Article.

(2) When the Investor holds a valid Production Licence for Geothermal Waters, but significant deviations from the plan referred to in the verified Development and Production Plan have occurred, the Investor shall submit a request for the issuance of a new Production Licence for Geothermal Waters.

Agreement on the Production of Geothermal Waters

Article 71

(1) When delivering the Licence referred to in Article 70 of this Act, the Ministry shall present the Investor with the opportunity to conclude an Agreement on the Production of Geothermal Waters, i.e. an annex to the Agreement on the Production of Geothermal Waters.

(2) The Agreement on the Production of Geothermal Waters comprises the following:
1. amount and manner of paying the Fee for geothermal water production;
2. name, map position, borders and surface area of the determined Exploitation Field;
3. total identified geothermal water reserves;
4. the verified Development and Production Plan based on which the Production Licence for Geothermal Waters is issued;
5. the estimated amount of costs concerning the Decommissioning of the Exploitation Field and the deadline by which the Investor shall submit the credit support for the Exploitation Field Decommissioning Costs;
6. the deadline before which the Petroleum Operations shall commence;
7. the period for which the Agreement on the geothermal water production is concluded;

8. the provision providing for amendments to the Agreement on the Production of Geothermal Waters in the scope planned in the tender specifications for the Production Licence for Geothermal Waters and the provision on force majeure.

(3) The longest period of the Agreement on the Production of Geothermal Waters is 25 years, with the appropriate application of the provisions of Article 25 herein.

(4) If an annex to the Agreement on the Production of Geothermal Waters is concluded, it shall not extend the period referred to in the Agreement on the Production of Geothermal Waters, except at a justified request by the Investor for the purpose of producing geothermal water in a rational manner.

(5) Under the Agreement on the Production of Geothermal Waters the Republic of Croatia shall be deleted as the holder of the Exploitation Field, and the Investor shall be registered as the holder of the Exploitation Field in the Exploitation Field register.

(6) The Agreement on the Production of Geothermal Waters shall be signed by the Ministry and the Investor within 30 days from the date on which the Investor submits to the Ministry the appointment of the responsible Petroleum Operations manager and the credit support for the Exploitation Field Decommissioning Costs.

(7) The Agreement on the Production of Geothermal Waters shall enter into force on the date of its signing, and the Investor shall acquire the right to perform production works from the subject date.

(8) The Ministry shall decline the conclusion of the Agreement on the Production of Geothermal Waters if the Investor has failed to obtain a verification of the Development and Production Plan or if the Ministry has ex officio knowledge of the existence of an obstacle referred to in Article 17 herein.

(9) The Ministry may terminate the Agreement on the Production of Geothermal Waters if the Investor fails to perform the obligations referred to in the Agreement on the Production of Geothermal Waters or this Act.

*Application of the Provisions on Hydrocarbon Exploration and Production*

**Article 72**

The provisions of Article 34 herein shall apply *mutatis mutandis* to the transfer of rights, while the provisions of Articles 40 – 46 herein shall apply *mutatis mutandis* to the determination of the reserves, the Exploitation Field, the procedure for delineating the Exploitation Field and the order on delineating the Exploitation Field.

**TITLE IV**

**NATURAL GAS STORAGE**

*Unified Procedure of Issuing Exploration Licences for the Purpose of Storing Natural Gas and the Licence for Natural Gas Storage*

**Article 73**

(1) A Licence for natural gas storage is required to store natural gas.

(2) The Petroleum Operations with regard to exploring Geological Structures suitable for Underground Gas Storage may be performed exclusively on the basis of an Exploration Licence for the purpose of storing natural gas.

(3) The Petroleum Operations with regard to storing natural gas may be performed exclusively on the basis of a Licence for natural gas storage.

(4) The Licence for natural gas storage is issued on the basis of a single tendering procedure in a single procedure commencing with the procedure for the selection of the best tenderer for obtaining
an Exploration Licence for the purpose of natural gas storage, and ends with the conclusion of a natural gas storage contract.

(5) The provisions of Article 20 herein, except the provision on publishing notices referred to in paragraph 2, shall be applied to the collection of tenders concerning natural gas Exploration and storage in areas subject to the previous tendering procedure and in relinquished areas.

**Tendering Procedure**

**Article 74**

The provisions of Articles 55 – 62 herein shall be applied to the tendering procedure for the purposes of selecting the best tenderer for obtaining the Exploration Licence for the purpose of natural gas storage.

**Exploration Licence for the Purpose of Natural Gas Storage**

**Article 75**

The provisions of Articles 63 – 65 herein shall be applied to the conditions for issuance and the content of the Exploration Licence for the purpose of natural gas storage.

**Licence for Natural Gas Storage**

**Article 76**

The provisions of Articles 66 – 71 herein shall be applied to the assumptions and conditions for issuance and the content of the Licence for natural gas storage and the natural gas storage contract.

**Application of the Provisions on Hydrocarbon Exploration and Production**

**Article 77**

The provisions of Article 34 herein shall apply mutatis mutandis to the transfer of rights, while the provisions of Articles 40 – 46 herein shall apply mutatis mutandis to the determination of the reserves, the Exploitation Field, the procedure for delineating the Exploitation Field and the order on delineating the Exploitation Field.

**TITLE V**

**Geological Storage of Carbon Dioxide**

**Chapter I**

**Licence for Geological Storage of Carbon Dioxide**

**Article 78**

(1) An Exploration Licence for the purpose of Geological Storage of Carbon Dioxide is required for Exploration for the purpose of Geological Storage of Carbon Dioxide.

(2) The Ministry shall ensure that the procedures for issuing Exploration Licences are accessible to all Petroleum Economic Entities that possess the required capacities and that the Licences are issued or withheld on the basis of objective, publicly available non-discriminatory criteria.

(3) The provisions of Articles 55 – 65 herein shall be applied to the procedure of issuing an Exploration Licence for the purpose of Geological Storage of Carbon Dioxide along with the fulfilment of additional requirements stipulated in paragraphs 4 and 5 of this Article.
(4) The following special conditions shall be applied in the procedure of issuing an Exploration Licence for the purpose of Geological Storage of Carbon Dioxide:

1. The Republic of Croatia reserves the right to define the areas in which Geological Storage of Carbon Dioxide is possible in Geological Structures, pursuant to this Act, which includes the right of the Republic of Croatia to not allow any Geological Storage of Carbon Dioxide on its entire territory or in certain parts of the territory.

2. If Geological Storage of Carbon Dioxide is planned to be permitted in the territory of the Republic of Croatia, the storage capacities available in its territory or in certain parts of its territory shall be assessed as a prerequisite, which also includes the assessment being performed in such a manner that Exploration in accordance with the provisions of this Act is possible.

3. Determining the suitability of the Geological Structure for the purpose of using it as an underground storage is defined by characterising and assessing the potential Storage Complex and the surrounding area in accordance with the criterion under the ordinance referred to in Article 103 herein.

(5) The Exploration Licence for the purpose of Geological Storage of Carbon Dioxide, except for the conditions stipulated in Article 63(1) herein, shall also include the monitoring of the carbon dioxide injection tests when required.

(6) The Investor in possession of an Exploration Licence for the purpose of Geological Storage of Carbon Dioxide shall have the exclusive right to conduct Exploration of the potential complex for Geological Storage of Carbon Dioxide.

(7) The Ministry shall ex officio take account of no contradictory use of the potential complex being permitted within the validity/extension period of the Exploration Licence.

**Article 79**

(1) The provisions of this Act applicable to the Geological Storage of Carbon Dioxide in Geological Structures shall not be applied to the planned Geological Storage of Carbon Dioxide in Geological Structures in quantities less than 100 kilotons performed for the purpose of researching, developing or testing new products and procedures.

(2) Geological Storage of Carbon Dioxide in Water Columns is not permitted.

(3) Geological Structure means an underground storage for Geological Storage of Carbon Dioxide pursuant to this Act if there is no Significant Risk of Leakage and there is no Significant Risk to human health, nature and the environment according to the planned conditions of use.

**Procedure of Issuing a Licence for Geological Storage of Carbon Dioxide**

**Article 80**

(1) After delineating the Exploitation Field in accordance with Article 44 herein a procedure for adopting a decision on issuing a Licence for Geological Storage of Carbon Dioxide shall be initiated.

(2) The procedure referred to in paragraph 1 shall be initiated if requested, provided that all the conditions referred to in Article 78(3) herein have been fulfilled until the initiation of the procedure.

(3) The Licence for Geological Storage of Carbon Dioxide shall be issued by the Ministry at the request of the Investor referred to in Article 69(1) herein pursuant to the provisions of this Act.

(4) The Ministry shall ensure that no storage geoarea remains out of function without a Licence for Geological Storage of Carbon Dioxide, that only one operator is in charge of one storage geoarea and that no contradictory use is permitted on that location.

(5) The Ministry shall ensure that the procedures for issuing Licences for Geological Storage of Carbon Dioxide are accessible to all Petroleum Economic Entities that possess the required capacities and that the Licences are issued on the basis of objective, publicly available and non-discriminatory criteria.
(6) When adopting a decision on issuing a Licence for Geological Storage of Carbon Dioxide, the Investor that has previously obtained an Exploration Licence for the purpose of Geological Storage of Carbon Dioxide shall be given priority on the condition that after site Exploration is completed all the conditions stipulated in the Exploration Licence have been met and that the request for a Licence for the Geological Storage of Carbon Dioxide has been submitted within the validity period of the Exploration Licence for the purpose of Geological Storage of Carbon Dioxide.

(7) The Ministry shall ensure contradictory use of the complex is prohibited during the procedure of issuing Licences.

Request for Issuing a Licence for Geological Storage of Carbon Dioxide

Article 81

(1) For the approval of Geological Storage of Carbon Dioxide in Geological Structures, the request for issuing a Licence for Geological Storage of Carbon Dioxide, in addition to the conditions stipulated in Article 69(2) herein, shall include:

1. the name and address of the Investor;
2. evidence of technical competence of the potential Investor;
3. the characterization of the underground storage and the Storage Complex as well as the assessment of the expected storage safety in accordance with the provisions of this Act and the special regulation governing the conditions for delineating the structure, shape, size and volume of the Geological Structures suitable for Geological Storage of Carbon Dioxide;
4. the total quantity of carbon dioxide being injected and permanently disposed of, as well as the planned sources and methods of transport, the properties of carbon dioxide flows, the injection speed and pressure as well as the location of the injection facility;
5. description of the measures for the prevention of more Significant Irregularities;
6. the proposed monitoring plan in accordance with Article 89 herein;
7. the proposed plan of Corrective Measures in accordance with Article 92 herein;
8. the proposed interim plan for the period after closing in accordance with Article 93 herein;
9. the information from the Environmental Impact Assessment/order on environmental acceptability of the plan according to the regulations governing environmental protection;
10. Evidence that the financial security or another equivalent instrument, as required under Article 95 herein, shall be valid and in force prior to initiating the injection.

(2) The Ministry shall make available the request referred to in paragraph 1 of this Article to the European Commission within 30 days from its receipt as well as other documentation taken into consideration when permitting Geological Storage of Carbon Dioxide in Geological Structures.

(3) The Ministry shall notify the European Commission of the draft decision on issuing a Licence for Geological Storage of Carbon Dioxide.

(4) In the case referred to in paragraph 1, items 6, 7 and 8 of this Article, the Ministry shall, within two months after receiving the monitoring plan, the corrective measure plan and the interim action plan after the closing of the underground storage, issue an order on their acceptance or adopt a decision on their amendment and shall set a deadline for the amendment or shall adopt a decision on their rejection and shall set a deadline for the preparation and submission of a new monitoring plan, a corrective measure plan and an interim action plan after the closing of the underground storage.

Criteria for Issuing a Licence for Geological Storage of Carbon Dioxide

Article 82

The criteria for issuing a Licence for Geological Storage of Carbon Dioxide are as follows:
1. the fulfilment of all relevant requirements of this Act, a special regulation governing the conditions for delineating the structure, shape, size and volume of the Geological Structures suitable for Geological Storage of Carbon Dioxide and the regulations and environmental and nature protection legislation;

2. the Investor has financial resources and technical competence and is able to perform production at and monitor the location, while the expert and technical development and training for the Investor and the entire staff is provided;

3. when there is more than one storage area in the same Hydrodynamic Unit, the potential effects of the pressures are such that both locations can at the same time meet the requirements of this Act and a special regulation governing the conditions for delineating the structure, shape, size and volume of the Geological Structures suitable for Geological Storage of Carbon Dioxide

4. the opinion of the European Commission concerning the draft decision on issuing a Licence for Geological Storage of Carbon Dioxide that has been considered.

**Decision on Issuing a Licence for Geological Storage of Carbon Dioxide**

**Article 83**

(1) The Ministry shall issue a decision on issuing a Licence for Geological Storage of Carbon Dioxide if the criteria established by the appropriate application of Articles 69 and 80 herein have been met.

(2) The decision on issuing a Licence for Geological Storage of Carbon Dioxide, apart from the information set out in Article 70 herein, shall also contain:

1. the name and address of the Investor;

2. the exact location and borders of the Storage Complex and the information on the Hydrodynamic Unit;

3. requirements regarding the permanent disposal operation, the total volume of the carbon dioxide whose storage is permitted, the limit value of the pressure in the Reservoir and the maximum capacity and injection pressure;

4. requirements regarding the composition of the Carbon Dioxide Stream and the procedure of its acceptance, as well as additional requirements regarding the injection and permanent disposal, if necessary, especially the requirements established in order to prevent major irregularities;

5. the approved monitoring plan, the obligation to implement and update the plan in accordance with Article 89 herein, as well as reporting obligations in accordance with Article 139 herein;

6. the obligation to inform the Ministry and the Agency in case of Leakage or major irregularities, the approved plan of Corrective Measures and the obligation to implement the plan of Corrective Measures in case of Leakage or major irregularities in accordance with Article 92 herein;

7. requirements with regard to closure and the approved plan for temporary treatment of the location following closure referred to in Article 93 herein;

8. provisions regarding the amendments, revision, update and repeal of the decision on issuing a Licence for Geological Storage of Carbon Dioxide;

9. requirements regarding the establishment and validity of a financial or another instrument in accordance with Article 95 of this Act.

(3) The Ministry shall notify the European Commission of the act referred to in paragraph 2 of this Article and, in case of derogation from the Commission’s opinion referred to in Article 82(4) herein, shall detail the reasons for such derogation.

** Licence for Geological Storage of Carbon Dioxide**

**Article 84**
(1) Following the enforceability of the decision on issuing the Licence for Geological Storage of Carbon Dioxide referred to in Article 83 herein, but prior to the issuing of the Licence for Geological Storage of Carbon Dioxide, the Investor shall deliver to the Ministry the appointment of the accountable Petroleum Operations manager and the financial security referred to in Article 95 herein.

(2) The minimum period for which the Licence for Geological Storage of Carbon Dioxide is issued shall be 20 years, while the maximum period shall be 40 years, except in cases prescribed in Article 94 herein for which the period may be less than 20 years.

Revision of the Draft Licence for Geological Storage of Carbon Dioxide by the European Commission

Article 85

(1) The Ministry shall, within one month after receiving the request in the correct form pursuant to the provisions of Article 81 herein, make available to the Commission the request for issuing a Licence for Geological Storage of Carbon Dioxide and the Licence for Geological Storage of Carbon Dioxide.

(2) The Ministry shall, in cases referred to in paragraph 1 of this Article, make available any other relevant materials, documents, acts and information that the Ministry shall take into consideration when deciding on issuing a Licence for Geological Storage of Carbon Dioxide.

(3) The Ministry shall notify the European Commission of all draft decisions on issuing a Licence for Geological Storage of Carbon Dioxide and all other materials, documents, acts and information that have been taken into consideration during the adoption of the request for issuing a Licence for Geological Storage of Carbon Dioxide.

(4) The Ministry shall notify the European Commission of the decision referred to in Article 83 herein, and when such a decision departs from the opinion of the European Commission, its reasons shall be stated in the decision on issuing a Licence for Geological Storage of Carbon Dioxide.

Modification, Revision, Update and Cancellation of the Licence for Geological Storage of Carbon Dioxide

Article 86

(1) The Investor shall notify the Ministry of all planned changes with regard to Geological Storage of Carbon Dioxide, substantial changes to the conditions and restrictions of the issued Licence for Geological Storage of Carbon Dioxide, including substantial changes in connection with the Investor. If necessary, the Ministry shall update the Licence for Geological Storage of Carbon Dioxide or the conditions and restrictions of the issued Licence for Geological Storage of Carbon Dioxide.

(2) No essential changes shall be implemented prior to the issuing of a new or updated Licence for Geological Storage of Carbon Dioxide pursuant to this Act.

(3) The Ministry shall issue an order to revise and, if necessary, update or, ultimately, cancel the Licence for Geological Storage of Carbon Dioxide:

1. if it has been notified or has knowledge that Leakage or major irregularities occurred;
2. if the submitted reports to which provisions of this Act appropriately apply or the inspection reports demonstrate non-compliance of the conditions of the Licence for Geological Storage of Carbon Dioxide or the risk of Leakage or major irregularities;
3. if it has knowledge that the Investor has failed to comply with the conditions of the Licence for Geological Storage of Carbon Dioxide in any other manner;
4. if this is deemed necessary based on the latest scientific discoveries and technological progress; or
5. five years following the issuing of a Licence for Geological Storage of Carbon Dioxide and after subsequent ten-year periods;

6. for other reasons by appropriately applying the provisions of this Act.

(4) Following the cancellation of the Licence for Geological Storage of Carbon Dioxide pursuant to paragraph 3 of this Article, the Ministry shall issue a new Licence for Geological Storage of Carbon Dioxide or close the underground storage facility pursuant to the provisions set out herein.

(5) Until a new Licence for Geological Storage of Carbon Dioxide has been issued, the Agency shall temporarily assume all legal obligations in connection with the acceptance criteria when the Ministry decides to resume the injection of gases, monitoring or corrective actions pursuant to the requirements as determined herein.

(6) In the case referred to in paragraph 5 of this Article, the potential incurred costs shall be charged to the previous Investor by the Ministry, *inter alia*, by activating the financial security referred to in Article 95 herein.

(7) If the Licence for Geological Storage of Carbon Dioxide has been cancelled pursuant to paragraph 3 of this Article, the Investor shall lose all its rights acquired prior to the issuing of a Licence for Geological Storage of Carbon Dioxide.

Chapter II

Geological Storage of Carbon Dioxide

Rights and Obligations During Geological Storage of Carbon Dioxide

Article 87

The provisions appropriately applicable to the rights and obligations of Investors during permanent Geological Storage of Carbon Dioxide shall be the provisions of Chapter II of Title III herein.

Criteria and Procedure for the Acceptance of Carbon Dioxide Streams

Article 88

(1) The Carbon Dioxide Stream shall consist primarily of carbon dioxide. For this reason, no waste or other substances shall be added for the purpose of removing such waste or other substances. However, the Carbon Dioxide Stream may contain substances that have been added to it by accident during the locating, capturing or injecting process and traces of substances that have been added to facilitate the monitoring and verification of carbon dioxide Migration. The concentrations of all substances added purposefully or by accident shall be below levels that might:

1. have adverse effects on the integrity of the underground storage facility for Geological Storage of Carbon Dioxide or the relevant transport infrastructure;

2. present major risk that could significantly affect the nature, environment and human health; or

3. violate the requirements prescribed by applicable regulations.

(2) The Ministry shall ensure that the Investor:

1. accepts and implements the injection only for those Carbon Dioxide Streams whose composition has been analysed, including the analysis of corrosive substances and risk assessment, and if the risk assessment has established that pollution levels are in accordance with the conditions of paragraph 1 of this Article;

2. keeps a registry of quantities and properties of the accepted and injected Carbon Dioxide Streams, including the composition of such streams.
Monitoring

Article 89

(1) The Investor shall monitor the injection facilities, the Storage Complex (including Carbon Dioxide Plumes, if necessary), and the immediate environment, if necessary, for the purpose of:

1. comparing the actual behaviour and the modelled behaviour of carbon dioxide and flowback water in the underground storage facility;
2. detecting major irregularities;
3. detecting Migration of carbon dioxide within the underground storage facility;
4. detecting Leakage of carbon dioxide from the underground storage facility;
5. detecting major adverse effects on the immediate environment, especially the effects on drinking water, human population or the users of the surrounding biosphere;
6. efficiency assessment of potential corrective actions taken in accordance with Article 92 herein;
7. updating the assessment of short-term and long-term safety and integrity of the Storage Complex, including assessing whether the stored carbon dioxide shall be completely confined and permanently disposed in the underground storage facility.

(2) The monitoring shall be based on a monitoring plan developed by the Investor pursuant to the requirements set out herein, in the Ordinance on permanent geological storage of gases referred to in Article 103 herein and in the regulations governing the monitoring of greenhouse gas emissions, which shall be delivered to the Ministry and the Agency and approved by the Ministry pursuant to Article 81(4) herein.

(3) In order to take into account the changes in the assessed risk of Leakage and the application of best available technology, the plan shall be updated in accordance with the requirements set out in the Ordinance on permanent geological storage of gases referred to in Article 103 herein or at least every five years. The updated plans shall be delivered to the Ministry and the Agency for re-approval.

Delivery of the Reports by the Investor

Article 90

The Investor holding the Licence for Geological Storage of Carbon Dioxide pursuant to Article 84 herein shall, on an annual basis as a minimum, deliver to the Ministry and the Agency a report containing:

1. all results of the monitoring pursuant to Article 89 herein in the period for which the report is being delivered, including the information on the technology used during the monitoring;
2. the quantities and properties of the accepted and injected Carbon Dioxide Streams, including the composition of those streams, in the period for which the report is being delivered, that have been registered pursuant to Article 88(2)(2) herein;
3. proof that a financial security has been obtained and maintained pursuant to Article 95 herein;
4. any other information that the Ministry and the Agency find relevant for the purpose of assessing whether the conditions of the Licence for Geological Storage of Carbon Dioxide have been met and acquiring new insights with regard to the behaviour of carbon dioxide in the underground storage facility.

Inspections

Article 91
(1) The Inspections shall set up a system of regular and extraordinary Inspections for the purpose of verifying and promoting the compliance with the requirements of this Act, the Ordinance on permanent disposal of gases referred to in Article 103 herein, as well as monitoring the effects on nature, environment and human health.

(2) The Inspections shall include activities such as reviewing completed operations in accordance with the issued Exploration Licence or the Licence for Geological Storage of Carbon Dioxide, which shall include facilities above ground level, including injection facilities, the assessment of works, injection and monitoring operations on behalf of the Investor as well as a review of all relevant documents kept by the Investor.

(3) Regular Inspections shall be conducted at least once a year during the three years following closure and once every five years until the Agency assumes responsibility. All relevant injection facilities and monitoring as well as a whole set of relevant effects of the Storage Complex on nature, the environment and human health shall be monitored during such Inspections.

(4) Extraordinary Inspections shall be conducted in the following cases:

1. if the Ministry or the Agency or the competent state administration authorities have been notified or have knowledge that Leakage or major irregularity had occurred pursuant to Article 92(1) herein;
2. if the reports pursuant to Article 90 herein show insufficient compliance with the conditions of the issued Exploration Licence or Licence for Geological Storage of Carbon Dioxide;
3. for investigating serious complaints with regard to nature, the environment or human health;
4. in other situations if the Ministry or the Agency or the competent state authorities or inspection authorities deem this necessary.

(5) Records on the results of the inspection shall be compiled following each inspection and delivered to the Ministry and the Agency within seven days.

(6) The report shall assess whether the requirements prescribed herein have been complied with and whether further action is necessary.

(7) The report shall be delivered to the Investor in question and made available to the public pursuant to the provisions of the regulations governing the right to access information within two months after the inspection.

**Measures in Case of Leakage or Major Irregularities**

**Article 92**

(1) The Investor shall immediately notify the Ministry and the Agency of any Leakage or major irregularities and take Corrective Measures, including measures relating to the protection of human health.

(2) In the case of Leakage or major irregularities that imply a risk of Leakage, the Investor shall also notify the central state administration authority competent for nature and environment protection.

(3) The Corrective Measures from paragraph 1 of this Article shall be considered the minimum that needs to be undertaken based on the plan of Corrective Measures delivered to the Ministry and the Agency and that the Ministry authorises pursuant to Article 81(4) herein.

(4) The Ministry and the Agency may at any point require the Investor to take the necessary Corrective Measures as well as measures relating to the protection of human health. These can be additional measures or different measures to those established in the plan of Corrective Measures. The Ministry and the Agency may also at any point take Corrective Measures at their own initiative.

(5) If the Investor fails to take the necessary Corrective Measures, the Ministry and the Agency shall take the necessary Corrective Measures.
(6) The Ministry shall charge the costs incurred in connection with the measures referred to in paragraphs 3 and 4 of this Article to the Investor, *inter alia*, by withdrawing the funds from the financial security pursuant to Article 95 herein.

**Obligations with Regard to Closure and Following Closure**

**Article 93**

(1) The underground storage facility shall be closed:

1. if the relevant conditions set out in the Licence for Geological Storage of Carbon Dioxide have been met;
2. upon justified request by the Investor, following the authorisation by the Ministry; or
3. if the Ministry so decides following the cancellation of the Licence for Geological Storage of Carbon Dioxide pursuant to Article 86(3) herein.

(2) Following the closure of the underground storage facility pursuant to paragraph 1, items 1 or 2 of this Article, the Investor shall retain the responsibility for monitoring, reporting and Corrective Measures pursuant to the requirements prescribed herein, for all obligations in relation to the delivery of emission units in case of Leakage in accordance with the act governing air protection and for prevention and Decommissioning measures pursuant to the regulations governing damage to nature and the environment, until the responsibility for the underground storage facility is transferred to the Agency pursuant to Article 94 herein. The Investor shall also be responsible for final isolation of the underground storage facility and the removal of the injection facility.

(3) The Investor shall meet all obligations referred to in paragraph 2 of this Article on the basis of the temporary plan of action following closure, which shall be developed by the Investor in accordance with International Good Oilfield Practice and pursuant to the requirements set out herein and in the Ordinance on permanent disposal of gases referred to in Article 103 herein, which shall be approved by the Ministry pursuant to Articles 81(4) and 83(2)(7) herein.

(4) Prior to the closure of the underground storage facility in accordance with paragraph 1, items 1 or 2 of this Article, the temporary plan of action following closure shall be:

1. updated if necessary, taking into account the risk analysis, International Good Oilfield Practice and technological advancement;
2. delivered to the Ministry for approval;
3. authorised by the Ministry as the final plan of action following closure.

(5) Following the closure of the underground storage facility pursuant to paragraph 1, item 3 of this Article, the Agency shall retain the responsibility for monitoring and the corrective actions pursuant to the requirements prescribed herein, for all obligations in relation to the delivery of emission units in case of Leakage in accordance with the act governing air protection and for prevention and Decommissioning measures pursuant to the regulations governing damage to nature and the environment. The Agency shall meet all requirements regarding action following closure pursuant to this Act based on the temporary plan of action referred to in paragraph 4 of this Article, which shall be updated as necessary.

(6) The Agency shall charge the costs incurred in connection with the measures referred to in paragraph 5 of this Article to the Investor, *inter alia*, by activating the financial security pursuant to Article 95 herein.

**Transfer of Responsibility**

**Article 94**

(2) Following the closure of the underground storage facility pursuant to the provisions of Article 93(1)(1) or 93(1)(2) herein, all legal obligations with regard to monitoring and corrective actions pursuant to the requirements prescribed herein, to the delivery of emission units in case of Leakage
in accordance with the act governing air protection and to prevention and remediation measures pursuant to the regulations governing damage to nature and the environment shall be transferred to the Agency at the initiative of the authority mentioned or at a request by the Investor if the following conditions have been met:

1. all available evidence point to the fact that the injected carbon dioxide shall be completely and permanently confined;
2. the minimum deadline as prescribed by the Ministry has passed. This minimum deadline may be less than 20 years only if the Ministry is confident that the criterion referred to in item 1 of this Article has been met before the end of this period;
3. the financial obligations referred to in Article 95 herein have been met;
4. the underground storage facility has been isolated and the injection equipment has been removed.

(2) The Investor shall prepare a report in which it shall document that the condition as stipulated in paragraph 1, item 1 of this Article has been met and deliver this report to the Ministry for it to authorise the transfer of responsibility. The report shall, as a minimum, verify that:

1. the actual behaviour of the injected carbon dioxide corresponds to the modelled behaviour;
2. no Leakage has been established;
3. the underground storage facility is transformed into a state of long-term stability.

(3) After the Ministry has determined that the conditions referred to in paragraph 1, items 1 and 2 of this Article have been meet, the Ministry shall draft an order on authorising the transfer of responsibility. The draft order shall state the method for determining that the conditions from paragraph 1, item 4 of this Article have been met, as well as the potential updated requirements with regard to the isolation of the underground storage facility and the removal of the injection equipment. If the Ministry finds that the conditions referred to in paragraph 1, items 1 and 2 of this Article have not been met, the Ministry shall deliver a statement of reasons to the Investor.

(4) The Ministry shall make available to the European Commission the report referred to in paragraph 2 of this Article within 30 days following its receipt and the draft order on authorising the transfer of responsibility. It shall also make available all other relevant materials, documents, acts and information that the Ministry should have taken into account upon drafting the decision on authorising the transfer of responsibility. The Ministry shall notify the Commission of all draft decisions on authorising and other materials taken into account during the adoption of the draft decision.

(5) After the Ministry has determined that the conditions referred to in paragraph 1, items 1 to 4 of this Article had been met, it shall issue an order on authorising the transfer of responsibility and shall notify the Investor thereof. The Ministry shall notify the European Commission of the final decision, and if this decision departs from the opinion of the European Commission, this shall be justified.

(6) Following the transfer of responsibility, the regular Inspections provided for in Article 91(3) herein shall terminate and the monitoring may be reduced to a level enabling the detection of Leakage or major irregularities. If potential Leakage or major irregularities are detected, the monitoring shall be intensified in the amount necessary for the purpose of assessing the extent of the issue and the efficiency of Corrective Measures.

(7) If an error occurs after the transfer of responsibility, but the error is determined to be the result of the actions by the previous Investor, including the cases of insufficient data, hiding relevant data, negligence, purposeful deception or when operations have not been implemented with due diligence, the Ministry shall charge the costs incurred after the transfer of responsibility to the previous Investor.

(8) If the underground storage facility has been closed pursuant to Article 93(1)(3) herein, the transfer of responsibility shall be considered as completed if and when all available evidence show
that the stored gases have been completely and permanently confined and that the underground storage facility has been isolated, the injection facility has been removed and all other necessary actions as set out herein have been completed.

**Financial Security**

**Article 95**

(1) Prior to issuing an Exploration Licence or a Licence for Geological Storage of Carbon Dioxide, the Investor shall deliver a financial security to the Ministry.

(2) The financial security referred to in paragraph 1 of this Article shall be a bank guarantee intended as a security to fulfil all obligations arising as part of the Exploration Licence or the storage Licence issued pursuant to this Act, including the requirements with regard to the executed operations, closure, period following closure, as well as other necessary actions in connection with the Decommissioning of the Exploration Block or the Exploitation Field as defined herein, as well as all obligations arising from the inclusion of the storage geographical area into the scope of the regulations determining the trade of greenhouse gas quotas.

(3) The bank guarantee shall be irrevocable, unconditional, at first call and not subject to objection and shall be nominated to the Ministry. The guarantee shall cover the period of the issued Exploration Licences or the Licences for geological storage of carbon dioxide, as well as the cases established herein.

(4) The financial security referred to in paragraph 1 of this Article shall be adjusted to the changes in the estimated risk of Leakage on a periodical basis, as well as to the estimated costs of all obligations incurred as part of the Exploration Licence or the Licence for Geological Storage of Carbon Dioxide, which is to be determined by the issuing of an Exploration Licence or a Licence for Geological Storage of Carbon Dioxide, as well as all obligations derived from the inclusion of the storage geographical area into the scope of the regulations determining the trade of greenhouse gas quotas.

(5) The financial security referred to in paragraph 1 of this Article shall remain valid and in force:

1. following the closure of the underground storage facility pursuant to Article 93(1)(1) or 93(1)(2) herein, but prior to the transfer of responsibility of the underground storage facility to the Agency pursuant to Article 94 herein;

2. following the cancellation of the Licence for Geological Storage of Carbon Dioxide pursuant to Article 86(3) herein:
   - until a new Licence for Geological Storage of Carbon Dioxide has been issued;
   - if the underground storage facility has been closed pursuant to Article 93(1)(3) herein, but prior to the transfer of responsibility pursuant to Article 94 herein, provided that the financial obligations referred to in Article 96 herein had been met.

**Financial Mechanism**

**Article 96**

(1) Based on the arrangement decided on by the Ministry, the Investor shall deliver to the Ministry a financial contribution before the transfer of responsibility takes place pursuant to Article 94 herein.

(2) With regard to the contribution made by the Investor, it shall take into account the criteria from the Ordinance on permanent disposal of gases referred to in Article 103 herein and the elements which refer to the storage history of carbon dioxide that are relevant for determining the obligations following the transfer of responsibility and it shall cover the minimum estimated monitoring costs over a 30-year period.
(3) This financial contribution may be used to cover the costs incurred to the Agency following the transfer of responsibility in order to ensure that the carbon dioxide has been completely and permanently confined at the locations of its geological storage following the transfer of responsibility.

(4) The financial contribution referred to in paragraph 1 of this Article shall be determined in the issued Licence for Geological Storage of Carbon Dioxide.

**Access to the Transport Network and Underground Storage Facilities**

**Article 97**

(1) The Ministry shall take all necessary measures to provide the potential users with the possibility to access Transport Networks and underground storage facilities for the purpose of permanent geological storage of gases.

(2) The access referred to in paragraph 1 shall be provided on a transparent and non-discriminatory basis, as defined by the Ministry. The Ministry shall apply the goals of fair and open access, taking into account:

1. the available storage capacity or the storage capacity reasonably assumed to become available in the areas defined according to the provisions of Articles 78 and 79 herein and the available transportation capacity or the transport capacity reasonably assumed to become available;

2. the proportional share of its obligations with regard to the reduction of carbon dioxide pursuant to international legal instruments and legislation, whose plan is to meet the capture and Geological Storage of Carbon Dioxide;

3. the need to deny access in case of incompatible technical specifications which cannot be neutralised in a reasonable manner;

4. the necessity to meet duly justified and reasonable needs of the owners or Investors of the underground storage facilities or Transport Network and the interests of all other users of the underground storage facility or network or relevant equipment and facilities for treatment and handling which might be affected by this.

(3) The Transport Network operators and the Investors into the underground storage facilities may deny access on the grounds of insufficient capacity. Each denial of access shall be duly justified.

(4) The Ministry shall take all necessary measures to ensure that the Investor of the underground storage facility denying access on the grounds of insufficient capacity or lack of a connection port implements all possible improvements, if this is economically justifiable or if the potential buyer is willing to pay, provided that this does not negatively affect the safety of transportation and permanent disposal of gases with regard to the protection of nature, the environment and human health.

**Dispute Settlement**

**Article 98**

(1) Disputes relating to the access to Transport Networks and underground storage facilities shall be resolved pursuant to the applicable legal regulations of the Republic of Croatia.

(2) In case of transboundary disputes, the applicable dispute resolution system shall be the system of the Member State that holds jurisdiction over the Transport Network or the underground storage facilities to which access has been denied.

(3) If, in case of transboundary disputes, the Transport Network or underground storage facility in question is covered by several Member States, the Member States in question shall consult each other to ensure consistent application of Directive 2009/31/EC.
Transboundary Cooperation

Article 99
In cases of transboundary transfer of gases, transboundary underground storage facilities or transboundary Storage Complexes, the competent authorities of the Member States in question shall jointly meet the requirements of Directive 2009/31/EC and other relevant legislation of the European Union.

Registers

Article 100

(1) The Ministry shall set up and maintain:
1. a registry of issued Exploration Licences for the purpose of Geological Storage of Carbon Dioxide;
2. a registry of issued Licences for Geological Storage of Carbon Dioxide;
3. a register of all closed underground storage facilities and the surrounding Storage Complexes, including their spatial plans, cross sections, and the available data relevant for assessing whether the stored gases shall be completely and permanently confined.

(2) The registries referred to in paragraph 1 of this Article shall be taken into account by the competent government authorities during the relevant planning processes and the issuing of Licences for activities that might affect the geological storage of gases or might be affected by the geological storage of gases in underground storage facilities included in the register.

Public Information

Article 101
Information on the underground storage facilities for Geological Storage of Carbon Dioxide that are essential for nature, the environment and human health shall be made available to the public by applying the provisions of the regulations governing the right to access information.

Delivery of Reports by the Republic of Croatia

Article 102
The Ministry shall submit a report to the European Commission on the implementation of Directive 2009/31/EC, which shall also include the registry referred to in Article 100(1)(3) herein.

Ordinance on Permanent Geological Storage of Carbon Dioxide

Article 103
The criteria for the characterization and assessment of a potential Storage Complex and its surrounding area as well as the criteria for determining and updating the monitoring plan and for supervising the underground storage facility after its closure shall be prescribed by the Ordinance on permanent geological storage of gases, which is to be issued by the minister competent for energy.

TITLE VI
PERFORMANCE OF PETROLEUM OPERATIONS

Chapter I
COMMON PROVISIONS

Article 104
(1) The performance of Petroleum Operations shall be permitted only within the borders of the Exploration Block or Exploitation Field, unless the point of delivery is located outside the Exploitation Field or when the technologically connected facilities provided for in the verified petroleum documentation are located outside the established Exploitation Field, thus being subject to the provisions set out in this Act and in the regulations adopted based on this Act.

(2) The Ministry may, for reasons of national security, public safety, public health, safety of traffic, environment protection, conservation of nature and national cultural heritage with artistic, historic or archaeological value, safety of petroleum facilities, safety of employees, planned management and rational utilization of hydrocarbon Reservoirs, impose certain conditions and requirements during the performance of Petroleum Operations.


Article 105

(1) During the performance of Petroleum Operations, the Investor shall take all necessary measures for the protection of the environment and nature, human health, safety and property, in accordance with the issued Exploration Licence, Production Licence, provisions of the Agreement on the Exploration and Production of Hydrocarbons or the Agreement on the Production of Geothermal Waters or the Agreement on Underground Gas Storage and this Act.

(2) For the purpose of overall protection of nature and the environment from adverse effects of the Petroleum Operations, the Investor shall ensure that during the performance of these operations:

– all necessary measures aimed at preventing pollution are taken, especially by applying the best available technologies in terms of the provisions of specific regulations;

– no significant pollution of nature and the environment occurs;

– generation or production of waste is avoided, i.e. waste is recovered or, when such measures are not possible, it is disposed of in such a manner so as to prevent or reduce the impact on nature and the environment, pursuant to the principle of proximity pursuant to specific regulations governing waste management;

– energy is used in an efficient manner;

– all necessary measures or measures set out in specific regulations governing environment protection and safety of off-shore Exploration and Production of Hydrocarbons are taken in order to prevent accidents and remediate their consequences;

– following the termination of Petroleum Operations, all measures are taken that are aimed at preventing the risk of pollution of nature and the environment and securing the facility area to such a level eliminating the possibility of danger to people, property, nature and the environment from arising.

(3) During the performance of Petroleum Operations, the Investor shall implement occupational safety pursuant to the regulations governing workplace safety and regulations governing the conditions for safe work and the health of employees employed during the performance of operations.

(4) The holders and owners of land plots and facilities within the borders of the Exploration Blocks and Exploitation Fields, as well as other citizens, are required to abide by the safety measures and the Investor’s instructions when moving and working within the borders of the Exploration Blocks and Exploitation Fields in which Petroleum Operations are in progress.

Rescue Services and Firefighting Unit

Article 106
(1) The Investor shall organise or contract a rescue service and firefighting unit, based on its specific circumstances, and provide them with the necessary equipment pursuant to specific regulations governing protection and rescue.

(2) The operations or working tasks of the rescue service and firefighting unit shall be performed by authorised service providers or employees that have been specially trained for such operations.

*Subcontractors’ Obligations Regarding the Regulations and Measures of Occupational Safety*

**Article 107**

(1) If the Investor requires one or more other natural persons or legal entities to perform the Petroleum Operations, prior to the start of these operations the employees of such persons shall be familiar with the regulations and measures of occupational safety and the dangers that may arise during the performance of operations.

(2) The entities referred to in paragraph 1 of this Article shall perform Petroleum Operations in accordance with the provisions herein.

(3) The implementation of the prescribed technical standards and measures for occupational safety shall be supervised by competent employees of the natural persons or legal entities performing the operations as well as by specifically designated employees of the natural person or legal entity for whose purposes these operations are executed.

(4) The mutual relationship of the natural persons or legal entities referred to in paragraphs 1 and 3 of this Article shall be determined by means of a contract.

*Obligation to Follow Technical Standards and Measures for Occupational Safety and Fire Protection*

**Article 108**

(1) Every employee of the natural persons or legal entities performing the Petroleum Operations referred to in Article 107 herein shall follow the prescribed technical standards and measures of occupational safety and fire protection.

(2) Natural persons and accountable persons of the legal entities and other persons responsible for performing Petroleum Operations as established by the general regulation on occupational safety measures, as well as the employees supervising occupational safety, shall hold the right to temporarily remove an employee from their place of work or working tasks if they violated a prescribed measure, thus threatening personal and general safety.

*Reporting Danger*

**Article 109**

(1) Every employee of the natural persons or legal entities performing the Petroleum Operations referred to in Article 107 herein shall inform the accountable employee as soon as possible of the occurrence of any danger during the performance of Petroleum Operations, especially on the occurrence of explosive, heavy and poisonous gases, fire, uncontrolled eruption of hydrocarbon or Geothermal Waters and other phenomena that may threaten the safety of people, property, nature and the environment.

(2) The Investor shall inform the petroleum inspection authority of the Ministry of the emergence of the situation referred to in paragraph 1 of this Article as soon as possible.

*Obligation to Inform Competent Authorities in case of Death and Serious Injury at Work*

**Article 110**
Legal entities performing Petroleum Operations shall inform the petroleum inspection authority of the Ministry and the competent police station of any case of death, group injury, serious injury and any other injury at work as soon as possible.

*Conservation and Loss Prevention*

**Article 111**

(1) The Investor shall adopt all appropriate and necessary measures which have been harmonised with International Good Oilfield Practice in order to prevent losses of Hydrocarbons and Geothermal Waters above or below ground level during the performance of Petroleum Operations, which have been established in the verified Development and Production Plan.

(2) The Investor shall utilise the hydrocarbon and geothermal water Reservoirs in a rational manner, in accordance with this Act.

(3) Hydrocarbon and geothermal water Reservoirs shall be utilised in a rational manner if the Hydrocarbons and Geothermal Waters are collected, treated, compiled and transported with minimum losses of Hydrocarbons pursuant to International Good Oilfield Practice and regulations governing nature and environmental protection.

*Investor’s Liability*

**Article 112**

(1) The Investor shall be liable for performing Petroleum Operations pursuant to the conditions of the issued Exploration Licence, Production Licence, provisions of the Agreement on the Exploration and Production of Hydrocarbons or the Agreement on the Production of Geothermal Waters or the Agreement on Underground Gas Storage, this Act and specific regulations governing mandatory relations.

(2) The Investor shall also be liable for all actions or failures to act committed during the performance of Petroleum Operations that are not in accordance with international standards of Exploration and Production.

(3) In case the Investor is represented by several legal entities, they shall be jointly and severally liable pursuant to paragraphs 1 and 2 of this Article.

*Rights and Obligations of Investors During the Performance of Petroleum Operations*

**Article 113**

(1) The Investor shall hold the following rights during the performance of Petroleum Operations:

- the right to enter property and use the Exploration Block or Exploitation Field in accordance with the provisions provided herein;
- the right to erect operative, administrative and logistic infrastructure necessary for performing Petroleum Operations as well as the right to use this infrastructure in accordance with the provisions provided herein;
- use third party services to execute Petroleum Operations;
- initiate and conduct negotiations with the Ministry with regard to the problems that could potentially arise from the issued Exploration Licence, Production Licence, Agreement on the Exploration and Production of Hydrocarbons or Agreement on the Production of Geothermal Waters or Agreement on Underground Gas Storage or their extension;
- waive a part of or all the rights and terminate all activities in the Exploration Block or Exploitation Field pursuant to the conditions defined in the issued Exploration Licence, Production Licence, provisions of the Agreement on the Exploration and Production of Hydrocarbons or the
Agreement on the Production of Geothermal Waters or the Agreement on Underground Gas Storage and the provisions set out herein;

– in case of a complete or partial transfer of its shares to other legal entities pursuant to the conditions of the Agreement on the Exploration and Production of Hydrocarbons or the Agreement on the Production of Geothermal Waters or the Agreement on Underground Gas Storage, the Investor shall hold the right to freely dispose of the proceedings from the sale or the transfer of its shares;

– all rights it is entitled to pursuant to the issued Exploration Licence, Production Licence, Agreement on the Exploration and Production of Hydrocarbons or Agreement on the Production of Geothermal Waters or Agreement on Underground Gas Storage, in accordance with this Act;

(2) The Investor shall have the following obligations during the performance of Petroleum Operations:

– to apply the most efficient methods and technologies for the performance of Petroleum Operations that are based on International Good Oilfield Practice;

– to perform Petroleum Operations pursuant to the conditions of the issued Exploration Licence, Production Licence, concluded Agreement on the Exploration and Production of Hydrocarbons or Agreement on the Production of Geothermal Waters or Agreement on Underground Gas Storage, provisions of this Act and regulations adopted based on this Act;

– follow all requirements referring to nature and environmental protection, safety of sea navigation if the Petroleum Operations are performed at sea, protection of Reservoirs, ensure measures for human safety and health, all pursuant to the conditions of the issued Exploration Licence, Production Licence, Agreement on the Exploration and Production of Hydrocarbons or Agreement on the Production of Geothermal Waters or Agreement on Underground Gas Storage, provisions of this Act and regulations adopted based on this Act;

– if pollution of nature and the environment occurs during the performance of Petroleum Operations, to treat this pollution in an ecologically acceptable manner;

– to provide the Ministry, the Agency and the inspection authority with access to all necessary documents and information and access to the locations at which the Petroleum Operations are performed, in accordance to their supervisory authorisations referred to herein;

– to regularly inform the Ministry and the Agency of the fulfilment of obligations and the completion of planned Petroleum Operations;

– to take account of the protection of cultural and historic objects in the Republic of Croatia;

– to pay all taxes and other obligations in a timely manner pursuant to the conditions of the issued Exploration Licence, Production Licence, Agreement on the Exploration and Production of Hydrocarbons or Agreement on the Production of Geothermal Waters or Agreement on Underground Gas Storage, provisions set out herein and in other specific regulations governing taxes;

– to decommission, at their own expense, the land or any other natural area that was damaged during the performance of Petroleum Operations;

– pursuant to the provisions of the Agreement on the Exploration and Production of Hydrocarbons or the Agreement on the Production of Geothermal Waters or the Agreement on Underground Gas Storage or the Licence for Geological Storage of Carbon Dioxide and the provisions provided herein, to provide an appropriate security, i.e. to deposit a contracted amount for the Decommissioning of the Exploration Block or Exploitation Field to a separate account;

– to immediately notify the Agency of all disputes with third parties that might affect the performance of conditions referred to in the issued Exploration Licence, Production Licence, obligations derived from the Agreement on the Exploration and Production of Hydrocarbons or the Agreement on the Production of Geothermal Waters and adhering to the provisions of this Act and regulations adopted based on this Act;
– to execute all other obligations pursuant to the conditions of the issued Exploration Licence, Production Licence, Agreement on the Exploration and Production of Hydrocarbons or Agreement on the Production of Geothermal Waters or Agreement on Underground Gas Storage, provisions of this Act and regulations adopted pursuant to this Act;

– to submit an annual report to the Ministry and the Agency for the previous year by 31 March of the current year at the latest, pursuant to the Ordinance referred to in Article 43 herein, regarding the fulfilment of their obligations defined by the Exploration Licence, Production Licence, Agreement on the Exploration and Production of Hydrocarbons or Agreement on the Production of Geothermal Waters or Agreement on Underground Gas Storage.

Use of Land and Underground

Article 114

(1) Pursuant to an issued Licence for the Exploration and Production of Hydrocarbons and a concluded Agreement on the Exploration and Production of Hydrocarbons or a Licence for the Exploration of Geothermal Waters or an Exploration Licence for the purpose of storage of natural gas or an Exploration Licence for the purpose of Geological Storage of Carbon Dioxide, if the land is located within the borders of the Exploration Block owned by the Republic of Croatia, the central state administration authority competent for managing state property or the authority competent for managing forests and forest land or agricultural land in the specific case shall, within 60 days following receipt of an orderly request sent by the Investor, adopt the appropriate acts authorising the Investor’s unimpeded use of the land within the coordinates defined in the Licence for the Exploration and Production of Hydrocarbons or the Licence for the Exploration of Geothermal Waters or the Exploration Licence for the purpose of storage of natural gas or the Exploration Licence for the purpose of Geological Storage of Carbon Dioxide and shall issue written consent of the immovable property owner, enabling the Investor to obtain the required Licences.

(2) If the land referred to in paragraph 1 of this Article is not owned by the Republic of Croatia, but is owned by third parties, the Investor shall, as part of the operations defined in the Licence for the Exploration and Production of Hydrocarbons and the concluded Agreement on the Exploration and Production of Hydrocarbons or the Licence for the Exploration of Geothermal Waters or the Exploration Licence for the purpose of storage of natural gas or the Exploration Licence for the purpose of Geological Storage of Carbon Dioxide, appropriately define the relations with the owners of the land in order to be able to execute all rights provided for in the issued Licence for the Exploration and Production of Hydrocarbons and the concluded Agreement on the Exploration and Production of Hydrocarbons or the Licence for the Exploration of Geothermal Waters or the Exploration Licence for the purpose of storage of natural gas or the Exploration Licence for the purpose of Geological Storage of Carbon Dioxide. If the Investor fails to resolve the legal property relations within three months, it shall immediately inform the Agency and initiate measures for the expropriation of land parcels pursuant to the provisions of the act governing the expropriation of immovable property.

(3) If the subject of the Agreement on the Exploration and Production of Hydrocarbons or the Licence for the Exploration of Geothermal Waters or the Exploration Licence for the purpose of storage of natural gas or the Exploration Licence for the purpose of Geological Storage of Carbon Dioxide is maritime property, following the conclusion of a production Agreement, but prior to the start of the performance of Petroleum Operations, the Investor shall submit a request for the award of a concession for the use of maritime property.

(4) The Exploration Period referred to in Article 35(1) herein shall start after the operations and procedures referred to in paragraphs 1 to 3 of this Article have ended.

(5) The Investor shall bear all costs incurred during the procedures referred to in paragraphs 1 to 3 of this Article, as well as the costs of all Fees paid to the Republic of Croatia pursuant to the
Title to the Property Necessary for the Performance of Petroleum Operations

Article 115

(1) Movable and immovable property acquired for the purpose of performing Petroleum Operations which can be separated without damaging the permanent property shall be owned by the Investor that acquired it, except when the value of such property was compensated during the cost recovery process based on the Production Sharing Agreement, in which case the title over this property shall be transferred to the Republic of Croatia.

(2) The title to the movable and immovable property shall be transferred to the Republic of Croatia at the moment the Production Sharing Agreement expires, regardless of whether the property costs have been recovered to the Investor pursuant to the regulations governing taxes.

(3) In case the Exploration Licence or the Production Licence or the Agreement on the Exploration and Production of Hydrocarbons or the Agreement on the Production of Geothermal Waters or the Agreement on Underground Gas Storage has been cancelled, regardless of the grounds for the cancellation, or if the Exploration Licence or the Production Licence or the Agreement on the Exploration and Production of Hydrocarbons or the Agreement on the Production of Geothermal Waters or the Agreement on Underground Gas Storage or the existing production right has expired or been terminated, all immovable property or construction that is not separable from the immovable property located in the Exploration Block or Exploitation Field shall be owned by the Republic of Croatia, regardless of whether the costs of such property have been recovered during the validity of the Exploration Licence or the Production Licence or the Agreement on the Exploration and Production of Hydrocarbons or the Agreement on the Production of Geothermal Waters or the Agreement on Underground Gas Storage or the existing production right.

(4) At the moment of transfer of title pursuant to paragraphs 2 and 3 of this Article, the Agency and the Investor shall register the property that is being transferred to the Republic of Croatia as well as the fact that the title has been transferred.

(5) The Investor shall be responsible for proper maintenance, insurance and safety of all property required for Petroleum Operations and for keeping them in good order and working condition at all times.

(6) All immovable and movable property for which the title has been transferred to the Republic of Croatia pursuant to this Article shall be subject to the Decommissioning obligation of the Investor pursuant to Article 185 herein, unless provided otherwise pursuant to Article 119 herein.

(7) The Investor holds no right to receive Fees for any property that has been transferred to the Republic of Croatia pursuant to the provisions provided herein.

Operator

Article 116

(1) An Operator is a Petroleum Economic Entity that was awarded an Exploration Licence following the publication of a tender, while in cases of a consortium, an Operator is a Petroleum Economic Entity that was nominated as Operator by the consortium in cases when one member of a consortium shall be nominated as Operator during the submission of tenders of Petroleum Economic Entities.
(2) The Operator shall be the only legal entity which may, on behalf of the Investor, execute Agreements, incur costs, assume commitments and implement other actions in connection with the Petroleum Operations.

(3) The Operator shall diligently and in accordance with this Act, as well as with International Good Oilfield Practice perform Petroleum Operations on behalf of the Investor.

(4) The Operator shall be subject to all specific obligations defined in the concluded Agreement on the Exploration and Production of Hydrocarbons or the Agreement on the Production of Geothermal Waters or the Agreement on Underground Gas Storage or the Licence for Geological Storage of Carbon Dioxide, this Act and the regulations adopted based on this Act.

(5) The Investor shall at any time have the right to appoint another legal entity as the Operator, upon giving prior written notice of such appointment to the Government not less than 30 days in advance. Such new Operator shall be approved by a Government decision, provided that such approval is not unreasonably withheld or delayed.

(6) During the Exploration and Production of Hydrocarbons at sea, and in accordance with the act governing the safety of offshore Exploration and Production of Hydrocarbons, in cases when the Operator is nominated by the Investor, the Investor shall notify the Government of this fact in advance, while the Government may, if necessary, upon consultation with the coordination defined by a regulation governing safety of offshore Exploration and Production of Hydrocarbons, object to this nomination. If an objection has been submitted, the Government may ask the Investor to nominate an appropriate alternative Operator or take over this duty pursuant to the act governing the safety of offshore Exploration and Production of Hydrocarbons.

(7) The Government may decide that the Operator is no longer capable of performing this function if:

   – it has become insolvent or declared bankrupt;
   – it committed a substantial violation of the Agreement on the Exploration and Production of Hydrocarbons or Agreement on the Production of Geothermal Waters or Agreement on Underground Gas Storage or the Licence for Geological Storage of Carbon Dioxide and failed to initiate the resolution of this violation within 30 days upon receipt of the Ministry’s notification stating the details of the infringement or failed to resolve the violation within six months upon receipt of the Ministry’s notification.

(8) If, pursuant to paragraph 7 of this Article, the Operator is no longer considered capable of performing its role, the Ministry may request that a new Operator be nominated by sending a written notification to the Operator and the legal entities constituting the Investor. In this case the Investor shall have 30 days to nominate a new Operator with the Ministry.

Temporary Suspension of the Performance of Petroleum Operations

Article 117

(1) If the performance of Petroleum Operations in the Exploitation Field has to be temporarily suspended due to unforeseen circumstances, the Investor shall, within 24 hours after the suspension of operations, report those circumstances to the Ministry, the petroleum inspection of the Ministry, the Agency and the central state administration authority competent for maritime affairs, if the Petroleum Operations are executed on waterways.

(2) If the temporary suspension of the performance of Petroleum Operations has been planned in advance, the Investor shall, within 15 days prior to the suspension of works, inform the Ministry, the Ministry’s petroleum inspection body, the Agency and the central state administration authority competent for maritime affairs, if the Petroleum Operations are executed on waterways, and deliver to them a record stating the causes of the suspension and measures taken to eliminate the danger of damage that could arise during the suspension of operations and re-initiation of operations and
implement insurance measures aimed at excluding the possibility of danger to people, property, nature and the environment from arising.

(3) Temporary suspension of the performance of Petroleum Operations pursuant to the provisions provided herein shall not exceed 180 consecutive days in a single Calendar Year.

(4) By way of derogation from the provisions of paragraph 3 of this Article, the temporary suspension of the performance of Petroleum Operations may exceed 180 consecutive days in a single Calendar Year, when this has been dealt with and shown in the verified Development and Production Plan.

(5) If the temporary suspension of the performance of Petroleum Operations exceeds 180 consecutive days, except in the cases of force majeure referred to in Article 31 herein, the Investor shall be considered to have completely and permanently terminated the performance of Petroleum Operations in the Exploitation Field.

Work Programmes and Budgets

Article 118

(1) Pursuant to the issued Exploration Licences or Production Licences or the concluded Agreements on the Exploration and Production of Hydrocarbons or Agreements on the Production of Geothermal Waters or Agreements on the storage of natural gas, the Investors shall prepare annual working Programmes and Budgets and submit them to the Agency to obtain its opinion not later than 90 days before the start of each Calendar Year and not later than 30 days from the date the Exploration Licences, Licences for Geological Storage of Carbon Dioxide, the Agreements on the Exploration and Production of Hydrocarbons, Agreements on the Production of Geothermal Waters or Agreements on the storage of natural gas came into force.

(2) The annual Work Programmes and Budgets shall be harmonised with the minimum working obligations the Investor has undertaken during the Exploration stage and the Petroleum Plans.

(3) The Agency shall issue an opinion regarding the annual Work Programme and Budget within 30 days following its receipt.

(4) If the Agency has some comments on the submitted annual Work Programme and Budget, it shall notify the Investor of the amendments that the Investor shall make to correct the annual Work Programme and Budget within 30 days upon receiving the notification.

(5) Upon receipt of the amended Work Programme and Budget from paragraph 4 of this Article, the Agency shall issue an opinion within 15 days.

(6) If the annual Work Programme and Budget that the Agency already issued an opinion to is amended during a Calendar Year, the Investor shall deliver a statement of reasons for the changes to the annual Work Programme and Budget in order to obtain consent from the Agency, and these changes shall be inserted into the annual Work Programme and Budget, provided that the main goals of the Work Programme and Budget remain unchanged and in accordance with the minimum working obligations of the Investor or the Petroleum Plans.

(7) The Agency shall issue a written consent to the changes in the Work Programme and Budget within 15 days following the receipt of the statement of reasons for the changes to the annual Work Programme and Budget referred to in paragraph 6 of this Article.

(8) The Investor shall, within 30 days after the end of each calendar Quarter, deliver to the Agency a status report on the conducted operations and incurred costs under the approved Work Programme and Budget during the calendar Quarter in question.

(9) The report for the final Quarter of each Calendar Year shall also include a year-end summary of operations and costs during the Calendar Year in question.

(10) The Agency shall issue an opinion confirming the justifiability or non-justifiability of the executed Petroleum Operations and costs reported in the reports referred to in paragraphs 8 and 9 of this Article.
(11) In case of the Production Sharing Agreement, the Agency shall not accept unjustified operations and costs for the purpose of cost recovery.

**Termination of the Performance of Petroleum Operations**

**Article 119**

(1) If the performance of Petroleum Operations in the Exploration Block or Exploitation Field is completely and permanently terminated regardless of the reason, the Investor shall, within 15 days prior to the termination of operations, report this to the Ministry, the petroleum inspection body of the Ministry, the Agency and the central state administration authority competent for maritime affairs, if the Petroleum Operations are executed on waterways.

(2) In this case, the Investor shall draft a Reserves Study and specify the reasons for the termination of operations and deliver it to the Ministry within 60 days.

(3) In case of termination of operations referred to in paragraph 1 of this Article, the Ministry shall issue an order on establishing a commission for determining the reserves referred to in Article 40 herein, which shall examine the reasons for the termination of operations, the existence of reserves and their utilization.

(4) If the commission referred to in paragraph 3 of this Article determines that the reserves have not been utilised and that the resumption of Petroleum Operations is possible, the Ministry shall issue an order on determining the measures for protecting the remaining reserves and relinquishment and Decommissioning measures pursuant to Article 185 herein.

**Handling of Documents in case of Termination**

**Article 120**

(1) If the Investor completely and permanently terminates the performance of Petroleum Operations in the Exploitation Field, it shall deliver the full documentation regarding the state of operations up to that moment to the Ministry within 30 days from the day the performance of Petroleum Operations has been completely and permanently terminated. The Republic of Croatia shall have title to this documentation.

(2) The Ministry may provide access to the documentation referred to in paragraph 1 of this Article to any Petroleum Economic Entity which is interested in resuming the performance of Petroleum Operations in the Exploitation Field.

**Insurance**

**Article 121**

(1) The Investor shall, during the validity period of the issued Exploration Licence, Production Licence, concluded Agreement on the Exploration and Production of Hydrocarbons or Agreement on the Production of Geothermal Waters or Agreement on Underground Gas Storage, have and maintain in force appropriate insurance policies insuring the property of the Investor and third parties, the health and safety of the Investor’s and third parties’ employees, ecological damage or any other risks that may arise from the performance of Petroleum Operations, provided that they abide by specific regulations in force governing the area of insurance.

(2) The Investor shall conclude or renew the concluded insurance policies during the entire validity period of the issued Exploration Licences, Production Licences, the concluded Agreement on the Exploration and Production of Hydrocarbons or Agreement on the Production of Geothermal Waters or the Agreement on Underground Gas Storage.

**Title to Documents and Data**

**Article 122**
(1) The Republic of Croatia shall have exclusive title to all geological, geochemical, geophysical, engineering and other data collected during Exploration or Production, including all analyses, interpretations and studies derived on the basis of such data.

(2) The Investor shall be authorised to use the data referred to in paragraph 1 of this Article solely for the purpose of performing Petroleum Operations during the validity period of the Exploration Licence, Production Licence, the concluded Agreement on the Exploration and Production of Hydrocarbons or Agreement on the Production of Geothermal Waters or the Agreement on Underground Gas Storage, with the obligation to respect data privacy pursuant to the provisions of the Agreement on the Exploration and Production of Hydrocarbons or Agreement on the Production of Geothermal Waters or Agreement on Underground Gas Storage or the Licence for Geological Storage of Carbon Dioxide.

(3) The Investor shall deliver all data referred to in paragraph 1 of this Article free of charge.

(4) The Investor shall deliver the data referred to in paragraph 1 of this Article to the Agency within 60 days after the completion of the data collection process or the drafting of the analyses, interpretations, studies and results derived on the basis of collected data.

(5) The Investor shall deliver a copy of the data referred to in paragraph 4 of this Article to the Croatian Geological Survey in accordance with paragraph 11 below.

(6) Prior to the delivery of the data referred to in paragraph 4 of this Article and immediately after the completion of the data collection process referred to in paragraph 1 of this Article and the drafting of the analyses, interpretations, studies and results derived on the basis of collected data, regardless of the completion or drafting on the last day of each calendar Quarter (in which case current drafts shall be delivered), the Investor shall notify the Agency in order for the Agency to determine the specification and manner of delivery of the data referred to in paragraph 1 of this Article that the Investor is required to deliver.

(7) The provisions provided herein shall also apply to all previously collected data referred to in paragraph 1 of this Article that are in the possession of the Investor or other Petroleum Economic Entities.

(8) The Ministry shall be authorised for the collection, storage, processing and disposal of all the data and results referred to in paragraph 1 of this Article.

(9) Operative tasks referred to in paragraph 8 of this Article shall be performed by the Agency under the control of the Ministry.

(10) The Agency shall keep a record of all stored data and results referred to in paragraph 1 of this Article and make them appropriately available pursuant to Article 124 herein.

(11) The Agency, in collaboration with the Croatian Geological Survey, shall ensure that copies of all data referred to in paragraph 1 of this Article are stored at the Croatian Geological Survey.

(12) The Croatian Geological Survey shall not provide access to the data to third parties nor use the data for scientific and research purposes without prior consent by the Agency, pursuant to Article 124(4) herein.

Data Collected During Exploration or Production

Article 123

The types of geological, geochemical, geophysical, engineering data and results referred to in Article 122 herein include, but are not limited to, the following:

1. geophysical data including, but not limited to, seismic, gravimetric and magnetometric and other geophysical data obtained by magnetotelluric, geoelectric, georadar, satellite and other measurements. The data shall include all originally recorded, processed, specially processed and re-processed data and the results, analyses and studies derived from them;

2. data collected through reconnaissance or preliminary regional exploration;
3. geochemical data including, but not limited to, original data, location maps and all interpretations of data obtained by geochemical measurements containing all information on exact locations and applied analytical methods and standards, including reference standards and presentations of results of all tested samples and final studies;

4. Well data including, but not limited to, plans, original and interpreted data collected during the creation of the Well and data obtained by measurements in the Well channel and their final results as well as all reports, analyses and all derivations therefrom. The data shall include all geological, geophysical, geochemical and engineering data in their original, processed and interpreted form;

5. physical data including, but not limited to, all cores, sidewall cores, samples of cuttings retrieved from sieves and fluid samples retrieved during the creation of the Well (the Investor has the right to retain a reasonable part of the samples of cuttings and cores as well as fluids that they might require for their own exploration);

6. reports, interpretations, analyses, presentations, elaborations and studies drafted on the basis of the data collected during Exploration or production.

Data Access

Article 124

(1) Investors that want to participate in the tendering procedure or obtain an Exploration Licence may be authorised access to the data room and gain the right to use the data for the purpose of taking part in a tender or submitting an application.

(2) The data room referred to in paragraph 1 of this Article shall be set up at the premises of the Agency, while access and the right to use the data for the purpose of taking part in a tender or submitting an application referred to in paragraph 1 of this Article shall be authorised pursuant to the Agency’s internal acts.

(3) The Investor shall have the right to use and access all geological, geophysical, geochemical and engineering data the Agency has in its possession which are related to the Exploration Block following the signing of the Agreement on the Exploration and Production of Hydrocarbons or the Agreement on the Production of Geothermal Waters or the Agreement on Underground Gas Storage or the issuing of a Licence for Geological Storage of Carbon Dioxide.

(4) The data may be released to academic and educational communities free of charge for the purpose of scientific and educational work and state institutions for the purposes of preparing the plans and strategic studies for non-commercial purposes.

(5) Academic and educational communities and state institutions shall obtain the approval from the Agency to use the data, accurately stating the data and the purposes for which they shall be used. The academic and educational community and state institutions shall deliver all scientific works and results to the Agency.

Collection of New Geophysical Data for Several Petroleum Entities

Article 125

(1) The Ministry may, in collaboration with the Agency, organise the collection of new geophysical data for several petroleum entities for the purpose of gaining new insights into the geological potential available to the interested Petroleum Economic Entities.

(2) For the purposes referred to in paragraph 1 of this Article and in accordance with International Good Oilfield Practice, the Ministry shall publish a call to tender in the Official Gazette of the Republic of Croatia for concluding collaboration Agreements for the purpose of collecting new geophysical data, processing and interpretation, sales and marketing for several clients with a legal entity offering such type of service, which shall not be considered an activity subject to the issuing of a Licence pursuant to the provisions provided herein.
(3) The notification referred to in paragraph 2 of this Article shall be published in the Official Journal of the European Union and on the website of the Ministry, while the offers shall be delivered within the deadlines and in the manner defined in the notification, not earlier than 90 days after its publication.

(4) The tenderer shall be chosen based on the criteria that form part of the notification referred to in paragraph 2 of this Article and include the criteria referred to in Article 19(2) herein.

(5) The decision on the chosen tenderer pursuant to the criteria referred to in paragraph 4 of this Article shall be issued by the Ministry.

(6) Based on the selected tenderer, the Ministry shall conclude a collaboration Agreement for the purpose of collecting new geophysical data, processing and interpretation, sales and marketing for several clients referred to in paragraph 2 of this Article.

(7) Following the conclusion of the Agreement referred to in paragraph 6 of this Article, the tenderer may start collecting new geophysical data if they prepared a geophysical recording study referred to in Article 132(2) herein, obtained consent from the Ministry referred to in Article 132(4) herein, obtained all acts referred to in Article 132(1) herein as well as other necessary consents or Licences for the use of land and the underground referred to in Article 114 herein and reported on the start of the performance of Petroleum Operations according the geophysical recording study referred to in Article 132(5) herein.

Unit Development of Reservoirs

Article 126

(1) For the purpose of coordinating Petroleum Operations executed by two or more Investors whose Exploitation Fields include one or more Reservoirs or the Reservoir exceeds the area that is in use by an individual Investor, the Investors shall conclude an Agreement on unit development of such Reservoirs, having previously agreed on the terms of such an Agreement with the Ministry and the Agency.

(2) If the Investors fail to agree on the unit development of such Reservoirs, the Agency shall nominate an expert to solve the subject issue and their finding and opinion shall represent the basis for action in accordance with the provisions set out herein.

(3) The Agency shall appoint an expert 30 days after receiving a request by one or several Investors on the inability to reach an Agreement on unit development of the Reservoir. The appointed expert shall be independent, impartial and internationally recognised, with the necessary qualifications and experience.

(4) The expert shall render their decision no later than 90 days after their appointment. The expert’s decision is final and binding for the Investors.

(5) The costs of the expert’s work referred to in paragraph 3 of this Article shall be borne by the Investors.

Test Production

Article 127

(1) Hydrocarbons and Geothermal Waters may be test produced during the Exploration Period for the purposes of laboratory tests and hydrodynamic measurements for the purpose of determining the features of Reservoirs, primarily regarding the quantities and time determined in the Well drilling project, for Discovery or Appraisal Wells.

(2) Hydrocarbons and Geothermal Waters may be test produced during the Production Period in accordance with Article 179 herein.

(3) The Republic of Croatia shall have title to the Hydrocarbons and Geothermal Waters produced in Test Production.
(4) Hydrocarbons and Geothermal Waters produced in Test Production may not be sold unless a Fee for recovered quantities has been paid in accordance with Article 51 herein.

(5) The provisions of this Article shall also be applicable to test storage of natural gas or for the purposes of disposal of carbon dioxide.

Chapter II
Managing Petroleum Operations

Manager of Petroleum Operations in the Exploration Block

Article 128

(1) The Investor shall appoint a manager of Petroleum Operations in the Exploration Block within 30 days following the date of entry into force of the Agreement on the Exploration and Production of Hydrocarbons, i.e. from the date that the Licence for the Exploration of Geothermal Waters or the Exploration Licence for the purpose of natural gas storage, or the Exploration Licence for the purpose of Geological Storage of Carbon Dioxide, becomes final.

(2) The responsible manager of Petroleum Operations in the Exploration Block shall be adequately qualified, experienced and shall have passed the petroleum or Geology licencing exam.

(3) If the responsible manager of Petroleum Operations in the Exploration Block is not a full time employee of the Investor, the Investor shall employ at least one person who is properly qualified, but has not passed the professional qualification exam.

(4) The petroleum licensing exam is regulated by the ordinance referred to in Article 130(1) herein.

(5) The Investor shall deliver the Petroleum Operations reports to the Ministry and the Agency, in accordance with Article 118(8) herein, as well as meet all other obligations under the provisions of this Act and other regulations adopted on the basis of this Act, being such reports the responsibility of the responsible manager of Petroleum Operations.

Responsible Manager of Petroleum Operations in the Exploitation Field

Article 129

The Investor shall appoint a responsible manager of Petroleum Operations in the Exploitation Field within 30 days as of delivery of the order on determining the Exploitation Field.

(2) The responsible manager of Petroleum Operations in the Exploitation Field shall be adequately qualified, experienced and shall have passed the petroleum or Geology licencing exam.

(3) The petroleum licensing exam is regulated by the ordinance referred to in Article 130(1) herein.

(4) The Investor shall, at least 15 days before the commencement of the Petroleum Operations in the Exploitation Field, report such commencement to all entities defined in the Production Licence for Hydrocarbons or Geothermal Waters or the Licence for the purpose of natural gas storage, or the Licence for the purpose of Geological Storage of Carbon Dioxide.

(5) The Investor shall deliver the Production Plan for each Exploitation Field to the Ministry and the Agency within 60 days before the commencement of the production in each Exploitation Field and 30 days before the beginning of each Calendar Year. The Production Plan shall be harmonised with the reviewed Development and Production Plan, and it shall be developed by the responsible manager of Petroleum Operations.

Professional Qualifications Required for Certain Activities Encompassed by the Petroleum Operations

Article 130
(1) The activities and tasks concerning professional management of Petroleum Operations, control, independent petroleum measurements and other petroleum operation activities, shall be performed exclusively by eligible employees in terms of professional qualifications and their type, passed licencing exam and work experience as set out in the Ordinance referred to in paragraph 7 of this Article.

(2) The responsible persons in charge of activities concerning the preparation and review of the reserve studies and the preparation and review of the Petroleum Plans, shall pass the corresponding licencing exam.

(3) The purpose of the licencing exam under paragraphs 1 and 2 is to evaluate the knowledge of Petroleum and Geology legislation in force, as well as other rules and regulations important for the field of petroleum.

(4) The licencing exam under paragraphs 1 and 2 of this Article shall be taken before the central state administration authority competent for specific types of professional qualifications. The petroleum licensing exam shall be taken at the Ministry, before the licencing examination commission established by the Ministry.

(5) The members of the commission referred to in paragraph 4 of this Article shall be elected from the ranks of the Ministry officials, the Agency employees as well as Petroleum scientists and professionals, and they shall be appointed by an order of the minister competent for energy.

(6) The Petroleum licencing exam applicant shall pay the costs of the examination commission referred to in paragraph 5 of this Article.

(7) The Programme, the conditions and the method of taking the petroleum licencing exam, the examination commission structure and workflow, the application of persons taking the Petroleum licencing exam, the conditions to be met to take the exam as well as all other issues related to professional qualifications, the verification therein and professional training, shall be regulated by an ordinance adopted by the minister competent for energy.

Chapter III
Petroleum Plans

Types of Petroleum Plans

Article 131

(1) The performance of Petroleum Operations and the Construction of Petroleum Facilities under this Act shall be subject to Petroleum Plans.

(2) The Petroleum Plans referred to in paragraph 1 of this Article are as follows: the Preliminary plan, the Development and Production Plan, the Supplementary Development and Production Plan, the Well drilling project and the simplified plan.

Preliminary Plan

Article 132

(1) The Preliminary Plan shall be made for all Petroleum Plans as a baseline study for the purpose of an appropriate assessment of the impact on the ecological network, an assessment of the need for an Environmental Impact Assessment, for the purpose of environmental impact study concerning the impact of a petroleum plan and for obtaining the location permit, as applicable.

(2) The preliminary plan shall be made for the Development and Production Plan referred to in Article 133, the supplementary Development and Production Plan referred to in Article 134, the Well drilling project referred to in Article 135, the simplified plan referred to in Article 136 herein, as well as the Geophysical Screening that shall be prepared for Petroleum Operations concerning the survey of geophysical data.
(3) The preliminary plan shall be delivered to and reviewed by the Ministry before being submitted for the procedure in accordance with paragraph 1 of this Article.

(4) The Ministry shall issue an approval to the Investor or require amendments to the preliminary plan within 15 days of delivery of the plan referred to in paragraph 3 of this Article.

(5) Once all acts referred to in paragraph 1 of this Article have been obtained, and before the commencement of the Petroleum Operations according to the preliminary geophysical screening plan, the Investor shall notify the Ministry, the Agency and the petroleum Inspections of the Ministry of the commencement and the completion of such operations.

**Development and Production Plan**

**Article 133**

(1) The Development and Production Plan shall be made for the purpose of the Petroleum Operations and the Construction of Petroleum Facilities referred to in this Act.

(2) The content of the Development and Production Plan is regulated by the ordinance referred to in Article 139 herein.

(3) The Development and Production Plan shall be subject to review pursuant to Article 137 herein.

**Supplementary Development and Production Plan**

**Article 134**

(1) The Supplementary Development and Production Plan shall be made in case of substantial deviations from the plan of the Petroleum Operations and the Construction of Petroleum Facilities referred to in this Act.

(2) Substantial deviations referred to in paragraph 1 of this Article shall be defined by the ordinance referred to in Article 139 herein.

(3) The Supplementary Development and Production Plan shall be subject to review pursuant to Article 137 herein.

(4) The contents of the Supplementary Development and Production Plan is regulated by the ordinance referred to in Article 1 herein.

**Well drilling project**

**Article 135**

(1) The Well drilling project shall be made for:

1. the drilling of an Exploration Well in the Exploration Period, and it shall include a Decommissioning Plan and Test Production for laboratory testing and hydrodynamic and other measurements aimed at defining characteristics of a Reservoir if possible;

2. the drilling of an Appraisal Well in the Exploration Period, and it shall include a restoration plan and a Test Production for laboratory testing and hydrodynamic aimed at defining characteristics of a Reservoir, if applicable;

3. the drilling of a development/production Well in the Production Period, according to the Development and Production Plan or the Supplementary Development and Production Plan;

4. the abandonment of a Well in the Exploration or Production Period in accordance with the Well drilling project, in case of Exploration and Appraisal Wells, or in accordance with the Decommissioning Plan from reviewed Petroleum Plans, in case of development/production Wells.

(2) The approval of the Ministry shall be obtained before preparing the plan referred to in paragraph 1 of this Article. The Ministry shall issue the approval within 15 days of receipt of a request in the correct form.
Having received the approval referred to in paragraph 2 of this Article, the Investor shall obtain all required Licences and approvals stipulated by the rules and regulations governing environmental and spatial planning.

The Ministry shall, within 30 days of delivery of the Well drilling project referred to in paragraph 1 of this Article, determine whether the plan was made in accordance with the obtained approval specified in paragraph 2 of this Article, and issue a certificate thereof to the Investor.

After receiving the certificate of the Ministry referred to in paragraph 4 of this Article, the Investor may start the Petroleum Operations according to the Well drilling project. The Investor may also start the Petroleum Operations according to the Well drilling project if he has delivered the security referred to in Article 186 herein, if applicable.

The Investor shall notify the Ministry, the Agency and the petroleum inspection of the Ministry the commencement and the completion of the Petroleum Operations according to the Well drilling project.

Notwithstanding paragraph 1 of this Article, Article 137 herein shall apply in case referred to in paragraph 1, item 1 of this Article.

The contents of the Well drilling project is regulated by the ordinance under Article 139 herein.

Simplified Plan

Article 136

The Simplified plan is made in case of irrelevant deviations occurred at the time of construction or reconstruction of the Petroleum Facilities, when location conditions stipulated by the legislation regulating the spatial planning do not change.

Possible irrelevant deviations are regulated by the ordinance referred to in Article 139 herein.

The approval of the Ministry shall be obtained before preparing the Simplified plan referred to in paragraph 1 of this Article. The Ministry shall issue the approval within 30 days of receipt of a request in the correct form.

When a Simplified plan is made in accordance with paragraph 1 of this Article, the Investor shall submit a copy of the Simplified plan to the Ministry, including a description of how the technical solution contained in the Simplified plan is integrated in the reviewed petroleum plan documentation, that is, the reviewed Development and Production Plan or the Supplementary Development and Production Plan, or the reviewed Exploration Well drilling project.

The Ministry shall, within 15 days of delivery of the Simplified plan referred to in paragraph 1 of this Article, determine whether the plan was made in accordance with the obtained approval under paragraph 3 of this Article, and issue a certificate thereof to the Investor.

The Investor shall notify the Ministry, the Agency and the petroleum inspection of the Ministry with regard to the commencement and the completion of the Petroleum Operations in accordance with the Simplified plan.

Review of Petroleum Plans

Article 137

The Development and Production Plan, the Supplementary Development and Production Plan and the Well drilling project referred to in Article 135(1), item 1 herein, are subject to
verification in terms of a rational Production of Hydrocarbons, Geothermal Waters, Underground Gas Storage or Geological Storage of Carbon Dioxide, including occupational safety measures and standards, safety of Petroleum Facilities, and safety of persons, underground, surface and adjacent facilities, as well as provisions of this Act and regulations adopted on the basis of this Act.

(2) The Investor shall enclose with the application for verification referred to in paragraph 1 of this Article all required Licences and approvals stipulated by the rules and regulations governing environmental and spatial planning.

(3) On the basis of the Investor’s application that includes the petroleum plan subject to verification, the Ministry, professionally assisted by the Commission for verifying Petroleum Plans, shall issue an order on reviewing the Petroleum Plans.

(4) The members of the Commission referred to in paragraph 3 of this Article shall be appointed by the minister competent for energy from the ranks of the Ministry officials and the Agency employees, as well as, where appropriate, academic and professional employees from other authorities and institutions governed by public law, including other experts from the academic and professional community, in accordance with the ordinance referred to Article 139 herein.

(5) The member of the Commission referred to in paragraph 4 of this Article shall not review the Petroleum Plans in which he/she has fully or partially participated, or if that plan has fully or partially been developed within the legal entity he/she is employed at.

(6) The costs of the Commission for verifying Petroleum Plans referred to in paragraph 1 of this Article shall be paid by the Investor in accordance with the ordinance referred to in Article 139 herein.

Persons Authorised for the Preparation of Petroleum Plans

Article 138

(1) Petroleum Plans shall be developed only by legal entities meeting the following requirements regarding the activity of petroleum plan preparation:

1. they have registered the activity of petroleum plan preparation with the Court Register;
2. they employ at least one responsible professional as a full-time employee, with relevant professional qualifications and professional experience, who has passed a petroleum licensing exam, and who meets the requirements set out in the ordinance from Article 139(7) herein, that is, they employ a responsible plan developer referred to in paragraph 2 of this Article;
3. they have adequate equipment for the preparation of Petroleum Plans at their disposal.

(2) Before starting the preparation of the petroleum plan, the legal entities preparing the plans shall appoint a responsible petroleum plan developer and, if necessary, the developers of individual parts of the petroleum plan, who meet the requirements set out in the ordinance referred to in Article 139 herein.

(3) The legal entity in charge of the preparation of specific parts of the Petroleum Plans, which cannot be developed by the responsible person referred to in paragraph 4 of this Article, shall employ at least one responsible professional as a full-time employee with relevant professional qualifications and professional experience, who has passed the licensing exam referred to in Article 130(7) herein, or it shall conclude a written Agreement with such person or a legal entity employing the responsible professional concerned, regarding the preparation of specific segments of Petroleum Plans.

(4) The legal entity shall conclude a written Agreement with the contracting entity in case of every ordered and accepted engagement on petroleum plans.

(5) The legal entity shall observe and protect each trade secret of the contracting entity, which the legal entity has become aware of while delivering the services ordered.

(6) The trade secret within the meaning of paragraph 5 of this Article shall be protected and kept by authorised persons engaged by the legal person during the performance of a particular activity.
Ordinance on Petroleum Plans

Article 139

The contents of Petroleum Plans referred to in Article 131 herein, the contents of requests for consent, certificate and review of Petroleum Plans, substantial and irrelevant deviations from Petroleum Plans, the functioning of the Commission for verifying Petroleum Plans as well as the contents of the approval and certificate of performed petroleum plan verification shall be regulated by an ordinance adopted by the Minister competent for energy.

Chapter IV
Construction of Petroleum Facilities

Participants in the Construction of Petroleum Facilities

Article 140

Within the meaning of this Act, the participants in the Construction of Petroleum Facilities shall be:

– the Investor;
– the plan developer;
– the contractor;
– the supervisory engineer;
– a reviewer.

Investor

Article 141

The Investor shall entrust the planning of Petroleum Facilities, the construction thereof and the supervision of construction to persons meeting the requirements to conduct such activities as stipulated by this Act.

Article 142

The Investor who is acting as a contractor at the same time shall entrust the professional supervision of Construction of Petroleum Facilities to another person meeting the requirements for conducting professional supervision of Construction of Petroleum Facilities, as stipulated by this Act.

Plan Developer

Article 143

(1) Only legal entities meeting the requirements referred to in Article 154 herein, may prepare the construction plans for Petroleum Facilities.

(2) The main plan developer, the plan developer and the responsible person in charge of planning individual parts of the Petroleum Facilities shall be natural persons bearing the professional title certified engineer in the corresponding professional branch in accordance with the ordinance referred to in Article 178 herein.

(3) The plan developer is responsible for the compliance of the plans with the stipulated conditions, and especially that the Petroleum Facilities planned meet the requirements of the location permit and other stipulated requirements. In case of several plan developers participating in the plan, the integrity and the consistence among plans shall be the responsibility of the main plan developer.
Before making a construction plan for the Petroleum Facilities, the legal entities preparing the plan shall appoint the main plan developer, other plan developers and persons responsible for preparing specific parts of the construction plan for Petroleum Facilities.

The plan developer shall not be an employee of the contractor building the petroleum plants and facilities concerned.

**Contractor**

**Article 144**

(1) The contractor is a person building or performing certain construction works on Petroleum Facilities or plants.

(2) Building or performing certain construction works on Petroleum Facilities may be also entrusted to a natural person or a legal entity registered for such activities.

(3) The contractor shall build in accordance with the construction permit and, at the same time, it shall:

- entrust the construction works on Petroleum Facilities and other works to persons meeting the requirements stipulated for such works or activities;
- perform works pursuant to stipulated requirements for Petroleum Facilities;
- ensure evidence of quality of the works performed and the operability of products and equipment installed;
- duly dispose of construction waste generated during construction and
- prepare a written statement on the works performed and maintenance conditions for the Petroleum Facilities pursuant to the ordinance referred to in Article 178 herein.

**Article 145**

(1) The contractor shall appoint a site engineer, i.e. a foreman who shall act as a person in charge of managing the construction, i.e. individual works. The site engineer, i.e. the foreman, shall be responsible for the implementation of obligations referred to in Article 144 herein.

(2) If two or more contractors participate in the construction works, the Investor shall elect the main contractor who shall coordinate works and appoint the main site engineer.

(3) The main site engineer shall be responsible for the integrity and consistence of the works, the consistence of implementation of obligations referred to in Article 144 herein, and for coordination of implementation of rules and regulations governing the health and safety of employees during the performance of the construction works.

(4) The main site engineer, the site engineer and the foreman may be natural persons meeting the requirements stipulated by the ordinance referred to in Article 178 herein.

**Supervisory Engineer**

**Article 146**

(1) The Supervisory engineer shall be a natural person conducting professional supervision of the Construction of Petroleum Facilities, and he/she shall meet the requirements stipulated by the ordinance referred to in Article 178 herein.

(2) Petroleum Facilities where several types of works or major works are performed require professional supervision of more supervisory engineers with corresponding professional field qualifications who shall be coordinated by the main supervisory engineer.

(3) The main supervisory engineer and the supervisory engineer shall be elected by the Investor.

(4) When conducting professional construction supervision, the supervisory engineer shall ensure that the construction works are performed in accordance with the construction permit, this Act and special rules and regulations governing the construction; he/she shall ensure that the
contractor and the person managing the construction or specific works meets the requirements stipulated by this Act or special rules and regulations governing the construction; he/she shall immediately notify the Investor of all deficiencies and irregularities observed in the main construction plan and during constructions works, and he/she shall inform the Investor and competent inspection authorities of the measures undertaken.

(5) The supervisory engineer shall make a final report concerning the obligations indicated in paragraph 4 of this Article, in accordance with the ordinance referred to in Article 178 herein.

(6) The main supervisory engineer shall be responsible for the integrity and consistence of the professional construction supervision of petroleum plants and facilities, and he/she shall prepare a final report on that matter.

(7) The supervisory engineer shall not be an employee of the contractor building the petroleum plants and facilities concerned.

Reviewer

Article 147

(1) The reviewer is a natural person authorised to control the plan who shall meet the requirements stipulated by this Act, the regulations adopted based on this Act as well as the regulations governing construction activity.

(2) The reviewer shall control the main construction plan of Petroleum Facilities, or the parts thereof, which are subject to mandatory control stipulated by the regulations governing the construction activity.

Types of plans

Article 148

Depending on their intended use, the plans may be classified as follows:
- main construction plan;
- detailed plan;
- Petroleum Facilities removal plan;
- as-built plan.

Main Construction Plan

Article 149

(1) The main construction plan of Petroleum Facilities is a collection of designs, consistent with one another, providing a technical solution for the construction or Reconstruction of Petroleum Facilities, as well as evidence of compliance with the requirements of this Act, the regulations adopted on the basis of this Act and the regulations governing the construction activity.

(2) The main construction plan of Petroleum Facilities shall be pursuant to the reviewed Development and Production Plan and the Supplementary Development and Production Plan.

(3) The main construction plan of Petroleum Facilities shall be permanently kept by the Investor or his legal successor, together with the construction permit.

Contents of the Main Construction Plan

Article 150

(1) Depending on the type and specifics of the Petroleum Facilities, the main construction plan of Petroleum Facilities may include:
- the general book and the bill of quantities for the designed works, including data required for the calculation of municipality and water Fees as well as building tax;
- technical and technological design;
- engineering design;
- construction design;
- electrical design;
- geodetic design;
- fire protection study;
- occupational health and safety study;
- environmental protection study.

(2) In addition to designs and studies under paragraph 1 of this Article, the main construction plan shall also contain other types of designs and studies, depending on the specifics of the construction or reconstruction works on Petroleum Facilities, especially of those facilities that are located in the internal sea waters, the territorial sea and in the epicontinental shelf of the Republic of Croatia.

(3) The designs referred to in paragraph 1 of this Article shall contain a description of how the technical solution is integrated into the existing petroleum plan documentation and the operating life of Petroleum Facilities, as well as their maintenance requirements.

(4) The main construction plan forms part of the construction permit, and it shall contain an indication thereof, certified by the Ministry.

(5) The main construction plan of Petroleum Facilities shall be made as to prevent any modification of its contents or substitution of its parts.

**Detailed Plan**

**Article 151**

(1) The detailed plan is a detailed elaboration of the technical solution contained in the main construction plan of Petroleum Facilities. The detailed plan shall be made pursuant to the main construction plan of Petroleum Facilities.

(2) The detailed plan is developed for Petroleum Facilities that cannot be constructed or reconstructed without a detailed design, due to their specifics.

(3) The detailed plan of Petroleum Facilities shall be permanently kept by the Investor or his legal successor.

**As-Built Plan**

**Article 152**

(1) The as-built plan provides a detailed elaboration and drawings of as-built situation of the Petroleum Facilities that did not require modification and/or supplement of the construction permit.

(2) The as-built plan shall be made pursuant to the main construction plan or the detailed plan of Petroleum Facilities.

(3) The as-built plan shall be made after the construction of the Petroleum Facilities when the as-built situation of such facilities does not significantly depart from the main/detailed plan, i.e. as a technical basis for the legalisation procedure for illegally built Petroleum Facilities.

(4) The as-built plan of Petroleum Facilities shall be permanently kept by the Investor or his legal successor.

**Petroleum Facilities Removal Plan**

**Article 153**
(1) The Petroleum Facilities removal plan is a plan providing a technical elaboration of solutions, i.e. the procedure and the method of Removal of Petroleum Facilities or the parts therein, prior solution of issues related to disconnection of Petroleum Facilities from the energy grid or other infrastructure, safety measures, waste management, recovery or disposal measures regarding waste generated by the Removal of Petroleum Facilities, in accordance with regulations governing waste management, as well as transportation and disposal of building material generated as a consequence of the Removal of Petroleum Facilities.

(2) The Petroleum Facilities removal plan shall be harmonised with the Decommissioning Plan from the reviewed Development and Production Plan and the Supplementary Development and Production Plan.

(3) The provisions of this Article shall not apply to the abandonment of all types of Wells stipulated by this Act, carried out in accordance with Article 135(19) item 4 herein.

Requirements to be Met by Legal Persons Developing Construction Plans of Petroleum Facilities

Article 154

(1) The legal entities developing construction plans of Petroleum Facilities shall meet the following requirements regarding the activity of developing construction plans of Petroleum Facilities:

1. they have registered the activity of developing construction plans of Petroleum Facilities with the Court Register;

2. they employ at least one responsible professional as a full-time employee bearing the professional title certified engineer of the corresponding professional branch, who has relevant professional qualifications, professional experience and licencing exam in accordance with the ordinance referred to in Article 178 herein;

3. they have adequate equipment for the development of construction plans of Petroleum Facilities at their disposal.

(2) Notwithstanding paragraph 1, item 2 of this Article, a legal person engaged for the development of specific segments of the construction plan of Petroleum Facilities, which shall not be developed by the responsible person from paragraph 1, item 2 of this Article, and which form an integral part of the construction plan of Petroleum Facilities, shall employ at least one person as a full-time employee bearing the professional title certified engineer of the corresponding professional branch in accordance with the ordinance referred to in Article 178 herein, or shall conclude a written Agreement concerning the development of specific plan segments with such person or a legal person employing a responsible professional.

(3) The legal entity shall enter into a written Agreement with the contracting entity in case of every ordered and accepted engagement for developing a construction plan of Petroleum Facilities.

(4) The legal entity shall observe and protect each trade secret of the contracting entity, which the legal entity has become aware of while delivering the services ordered.

(5) Trade secret within the meaning of paragraph 4 of this Article shall be protected and kept by authorised persons that the legal person has employed during specific operation performance.

Construction Permit

Article 155

(1) Within the meaning of this Act, the construction or Reconstruction of Petroleum Facilities in the exploitation period shall require a construction permit.

(2) The construction permit shall be issued for both the construction and Reconstruction of Petroleum Facilities specified in the location permit, which constitute a separate technical and
technological unit, or for a separate Technical and Technological Unit when special regulations governing spatial planning do not require the issuing of a location permit.

(3) The construction permit for the construction and Reconstruction of Petroleum Facilities shall be issued by the Ministry.

(4) The construction and Reconstruction of Petroleum Facilities may commence once the final construction permit has been obtained, and the works shall be executed in accordance with such permit.

(5) The Investor may, under his own responsibility and at his own risk, commence the construction or reconstruction based on an enforceable construction permit.

**Article 156**

(1) No construction permit shall be required for Investment Maintenance of Petroleum Facilities, and for their removal.

(2) The Investment Maintenance of Petroleum Facilities shall require a certificate of Simplified Plan referred to in Article 136 herein.


(4) Before the commencement and after the completion of the maintenance or removal works on Petroleum Facilities, the Investor shall submit to the Ministry a written notification on the commencement and on the completion of maintenance or removal works on Petroleum Facilities.

(5) The deadline for the submission of written notifications referred to in the previous paragraph shall be indicated in the Simplified Plan certificate or the certificate of the Petroleum Facilities removal plan.

(6) The Investor shall submit the appointment of the foreman in charge of maintenance or removal works on Petroleum Facilities to the Ministry together with the notification of commencement of the maintenance or removal works on Petroleum Facilities.

(7) The Investor shall submit a report on performed maintenance or removal works on Petroleum Facilities to the Ministry, together with the notification of completion of the maintenance or removal works on Petroleum Facilities.

(8) Notwithstanding the aforesaid, the conversion of Wells shall require the certificate of the Well drilling project.

**Request for the Issuance of the Construction Permit**

**Article 157**

(1) A construction permit shall be issued on the basis of a request submitted by the Investor in accordance with this Act.

(1) The request submitted by the Investor shall contain:

- three copies of the main construction plan for Petroleum Facilities, joined with the final location permit using a binding thread;

- a map showing the Exploitation Field borders and indicating all land plots or positions on the official nautical chart of the offshore part of the Exploitation Field, encompassed by the construction permit concerned, including the position of the petroleum facility or plant to be built;

- a reviewer’s written report if the main plan is subject to control, and

- evidence of the right to build Petroleum Facilities.

(3) The evidence referred to in paragraph 2, subparagraph 4 of this Article shall be considered the following:

1. extract from the land register;
2. a lease Agreement concluded with the owners of land plots;
3. a contract or decision of the competent state administration authority based on which the Investor has acquired the title, easement, lease right or any other right from which the right to use the plot of land, i.e. the maritime or aquatic domain is derived;

4. a partnership Agreement entered into with the land plot owners;

5. written consent of the owner and the fiduciary owner to the former owner of the land plots in case of fiduciary transfer of title;

6. written consent of the property owner.

(4) Signatures affixed on the evidence referred to in paragraph 3, subparagraphs 2, 3, 4 and 5 of this Article shall be notarised.

(5) Notwithstanding paragraph 2, subparagraph 1 of this Article, the main construction plan of Petroleum Facilities not subject to the location permit pursuant to special regulations shall not contain the location permit.

Procedure of Issuing a Construction Permit

Article 158

(1) During the procedure of issuing a construction permit for the Construction of Petroleum Facilities, the Ministry shall obtain consent or opinions (hereinafter referred to as: the certificates) on compliance of the main construction plan of Petroleum Facilities with the ordinance referred to in Article 178 herein from the authorities or persons defined by the aforesaid ordinance.

(2) In order to obtain the certificates referred to in paragraph 1 of this Article concerning the compliance of the main construction plan of Petroleum Facilities with the ordinance referred to in Article 178 herein, the Ministry shall, within 30 days of receipt of a construction permit request in the correct form, invite the authorities or persons defined by the ordinance referred to in Article 178 herein that have participated in issuing the location permit related to the Petroleum Facilities concerned to review the main construction plan of such Petroleum Facilities.

(2) In order to obtain the certificates referred to in paragraph 1 of this Article, the Ministry shall also invite other state administration authorities, legal entities exercising official authority and independent experts selected by the Ministry.

(4) The Investor and the responsible plan developer shall attend the review of the main construction plan of the Petroleum Facilities.

(5) The certificate referred to in paragraph 1 of this Article shall be considered issued if an authority or a person referred to in paragraphs 2 and 3 provides its answer in writing during the review or within 15 days after the review of the main construction plan of Petroleum Facilities.

(6) If during the review or within 15 days after the review of the main construction plan of the Petroleum Facilities, an authority or a person stipulated in the ordinance referred to in Article 178 herein determines that the main construction plan of Petroleum Facilities is not compliant with the provisions of the ordinance referred to in Article 178 herein, the Ministry shall render a conclusion giving the Investor a suitable deadline to harmonise the plan, provided that this deadline does not exceed six months.

(7) If the Investor fails to act according to such conclusion, the Ministry shall deny the construction permit request regarding the Construction of Petroleum Facilities.

(8) If the Investor proceeds according to the conclusion from paragraph 6 of this Article, the Ministry shall once again act within the meaning of paragraphs 2, 3, 4 and 5 of this Article.

(9) If an authority or a person stipulated in the ordinance referred to in Article 178 herein accepts the repeated invitation to review the main construction plan of Petroleum Facilities, and if on that occasion it determines that the main construction plan is compliant with the provisions of the ordinance referred to in Article 178 herein, it shall provide an answer in writing immediately or subsequently, within eight days after the repeated review of the main construction plan of Petroleum Facilities.
(10) If an authority or a person stipulated in the ordinance referred to in Article 178 herein accepts the repeated invitation to review the main construction plan of Petroleum Facilities, and if on that occasion it determines that the main plan is not compliant with the provisions of the ordinance referred to in Article 178 herein once again, it shall provide a statement in writing within 15 days at most after the repeated review of the main construction plan of Petroleum Facilities.

(11) The Ministry shall issue an order on denying the construction permit request for the Construction of Petroleum Facilities within 15 days of receipt of the statement referred to in paragraph 9 of this Article.

(12) The certificate referred to in paragraph 1 of this Article shall be deemed issued, i.e. the main construction plan of Petroleum Facilities compliant with the provisions of the ordinance referred to in Article 178 herein, if the authority or a person referred to in paragraphs 2 and 3 of this Article does not respond to the invitation to review the main construction plan of Petroleum Facilities or if it does not provide an answer during the review or within a subsequently given deadline.

(13) The certificate referred to in paragraph 1 of this Article shall be considered issued, i.e. the main construction plan of Petroleum Facilities compliant with the provisions of the ordinance referred to in Article 178 herein, if an authority or a person referred to in paragraphs 2 and 3 of this Article does not respond to the repeated invitation to review the main construction plan of Petroleum Facilities or if it does not provide an answer during the repeated review or within a subsequently given deadline, or if it fails to submit the written statement from paragraph 9 of this Article to the Ministry within the stipulated deadline after the repeated review.

(14) If the review or the repeated review of the main construction plan of the Petroleum Facilities takes place outside the location of the seat or a branch office of the authority referred to in paragraph 2 of this Article, the Investor shall pay the travel expenses and per diems to the body representatives who attended the review or the repeated review of the main construction plan of Petroleum Facilities, in the amount stipulated by the ordinance referred to in Article 178 herein.

Requirements for Issuing the Construction Permit

Article 159

(1) In the procedure of issuing the construction permit for the Construction of Petroleum Facilities, the following shall be determined:

- the main construction plan of Petroleum Facilities has been made in accordance with the location permit and the Agreement on the Exploration and Production of Hydrocarbons or the Agreement on the Production of Geothermal Waters, or the Agreement on Underground Gas Storage or the Licence for Geological Storage of Carbon Dioxide;
- the main construction plan of Petroleum Facilities and plant has been made in accordance with this Act and regulations adopted based in this Act;
- the certificates of the authorities and persons stipulated in Article 158 herein have been obtained;
- the documents under Article 157 herein have been enclosed with the construction permit request for the Construction of Petroleum Facilities.

(2) If all requirements stipulated by this Act have been met and if the Investor has submitted evidence of payment of the municipality and water Fees, as well as of the building tax according to special regulations governing the municipality Fee, the water Fee and the administrative Fee, the Ministry shall issue the construction permit for the Construction of Petroleum Facilities within 30 days after submitting the request in the correct form.

(3) If the Ministry determines that the requirements for issuing the construction permit for the Construction of Petroleum Facilities have not been met, it shall render a conclusion giving the Investor a suitable deadline to comply with these requirements, provided that such deadline does not exceed 30 days.
(4) The Ministry shall issue an order on denying the request for issuing the construction permit for the Construction of Petroleum Facilities should the Investor fail to meet stipulated requirements within the deadline given in the conclusion referred to in paragraph 3 of this Article.

(5) The Ministry shall permanently keep the main construction plan and the construction permit for the Construction of Petroleum Facilities.

Construction Permit Delivery

Article 160

(1) The construction permit enclosed with the main plan, i.e. the order on denying the construction permit shall be delivered to the Investor.

(2) The construction permit, excluding the main plan, i.e. the order on denying the construction permit, shall be delivered to the authorities or persons set out in the ordinance referred to in Article 178 herein that had been invited to review the main construction plan of Petroleum Facilities referred to in Article 158 herein.

Phased Construction Permit

Article 161

(1) A phased construction permit shall be issued in case of construction or reconstruction of a complex petroleum facility and plant, or a technical and technological unit.

(2) The petroleum facility and plant construction or reconstruction phases shall be set out in the location permit and elaborated in detail in the main construction plan.

Construction Permit Validity

Article 162

(1) A construction permit for the Construction of Petroleum Facilities shall cease to be valid if the Investor does not start building the Petroleum Facilities within two years following the construction permit enforceability.

(2) The validity of a construction permit for the Construction of Petroleum Facilities shall be extended once at the request of the Investor, for a period of two years, provided that the requirements stipulated in accordance with the provisions of this Act as well as other requirements for issuing the construction permit remain unchanged.

Modifications of and Supplements to the Construction Permit

Article 163

An enforceable or final construction permit for the Construction of Petroleum Facilities may be modified or supplemented at request of the Investor until the operating permit is issued in accordance with the regulations governing construction activity.

Deadline for the Completion of the Construction of Petroleum Facilities

Article 164

(1) The completion deadline regarding the Construction of Petroleum Facilities depends on their complexity, and it shall be indicated in the construction permit.

(2) The completion deadline regarding the Construction of Petroleum Facilities shall start as of the date of notification on the commencement of construction.

(3) The completion deadline regarding the Construction of Petroleum Facilities shall not be affected by modifications of or supplements to the construction permit.
Obligation of Submitting a Notification on the Commencement of Construction

Article 165

(1) The Investor shall, at least 15 days prior to the construction or Reconstruction of Petroleum Facilities, or before continuing the works after an interruption of more than three months, notify in writing the Ministry and all entities specified in the construction permit, of the commencement or continuation of construction works on Petroleum Facilities.

(2) In its notification on the commencement of construction, the Investor shall provide information on the construction permit and participants in the Construction of Petroleum Facilities.

(3) In case of interruption of Petroleum Facilities construction, the Investor shall undertake measures to secure Petroleum Facilities, as well as neighbouring buildings, land and other objects.

Securing Petroleum Facilities

Article 166

During construction, Petroleum Facilities shall be secured in accordance with stipulated requirements concerning fire and explosion protection, occupational safety and all other measures with regard to the protection of people’s health, nature and the environment.

Documents to be Kept by the Contractor at the Construction Site

Article 167

(1) During Construction of Petroleum Facilities, the contractor shall keep the following at the construction site:

- the order on registering the company in the Court register or a crafts licence;
- a document appointing the main site engineer, site engineer or a foreman;
- a document appointing the supervisory engineer and the main supervisory engineer;
- the construction permit for Petroleum Facilities, including the main construction plan of such facilities;
- detailed plans of Petroleum Facilities;
- a reviewer’s written report if the main plan is subject to control;
- the construction log book;
- evidence of quality of the works performed and the operability of products and equipment installed;
- other documentations, permits and approvals that the contractor shall keep at the construction site of Petroleum Facilities as of commencement of construction.

(2) The form, the conditions and the method of construction log book keeping at the construction site of Petroleum Facilities shall be regulated by the ordinance referred to in Article 187 herein.

(3) After completing the Construction of Petroleum Facilities, the documentation referred to in paragraph 1 of this Article shall be permanently kept by the Investor or its legal successor.

Operating Permit

Article 168

(1) Petroleum Facilities may be used and operated once the operating permit has been issued by the Ministry.

(2) The Ministry shall issue the operating permit when the technical inspection ensures that Petroleum Facilities concerned have been built in accordance with the construction permit.
(3) In the event of a phased construction permit referred to in Article 161 herein, the operating permit shall be issued when the technical inspection ensures that Petroleum Facilities concerned have been built in accordance with the phased construction permit.

(4) In case of Petroleum Facilities requiring an environmental permit pursuant to special regulations governing environmental protection, the operating permit shall cease to be valid in the part regarding such requirements, subject to conditions stipulated by these regulations.

Request for Issuing an Operating Permit

Article 169

(1) An operating permit shall be issued on the basis of a request submitted by the Investor in accordance with this Act.

(1) The request submitted by the Investor shall contain:
- construction permit for Petroleum Facilities;
- information on participants in the Construction of Petroleum Facilities;
- the contractor’s written statement on the works performed and the maintenance conditions for the Petroleum Facilities;
- a list of evidence of quality of the works performed and the operability of products and equipment installed;
- a final report on the works performed on Petroleum Facilities, prepared by supervisory engineers;
- a statement by geodetic engineers confirming that the Petroleum Facilities concerned have been constructed in accordance with the geodetic plan if such facilities require a geodetic plan;
- the geodetic survey for the purpose of cadastral registration of the Petroleum Facilities concerned if they do not require a geodetic plan, but shall be registered with the Cadastre;
- The statement of a certified geodetic engineer confirming that the Petroleum Facilities concerned are located on the building plot in accordance with the stakeout survey if such facilities do not require a geodetic plan;

(3) The contents of the contractor’s written statement on the works performed and the maintenance conditions of Petroleum Facilities, the contents of the supervisory engineer’s final report and the contents of the certified geodetic engineer’s statement shall be regulated by the ordinance referred to in Article 178 herein.

Technical Inspection of Petroleum Facilities

Article 170

(1) For the purpose of issuing an operating permit, the Ministry shall conduct a technical inspection of Petroleum Facilities within 30 days of receiving a request for issuing the operation permit in the correct form.

(2) In case of an incomplete request, the Ministry shall require a supplement thereof within 30 days of receiving the request.

(3) The technical inspection shall be conducted by a Commission established by the Ministry.

(4) The Ministry shall appoint the chairman of the Commission and elect the authorities and persons defined by the ordinance referred to in Article 178 herein, who shall make their representative a member of the Commission.

(5) The Commission chairman and members shall be expert employees and representatives of the authorities and persons defined by the ordinance referred to in Article 178 herein, which have issued the certificates referred to in Article 158 herein, the representatives of other state
administration authorities and legal entities with official authorities, as well as independent professionals selected by the founder of the Commission.

(6) The authorities and persons referred to in paragraph 4 of this Article shall ensure the participation of their representative in the work of the Commission.

(7) The manner of performing the technical inspection shall be regulated by the ordinance referred to in Article 1 herein.

Article 171

(1) The Ministry shall invite the participants in the Construction of Petroleum Facilities whose attendance is decisive for performing the technical inspection.

(2) The participants in the Construction of Petroleum Facilities that have been invited shall accept the invitation and participate in the work of the Commission.

(3) The Ministry shall notify the Investor of the location, date and time of performing the technical inspection. The Investor shall make sure that the participants in the Construction of Petroleum Facilities and plant attend the technical inspection.

(4) The chairman of the Commission shall prepare a report on the technical inspection that shall include the opinion of the Commission members about whether the Petroleum Facilities built may be used or if the deficiencies determined shall be eliminated prior to their use, or if the operating permit may not be issued.

(5) The technical inspection results show a deficiency due to which the petroleum facility or plant concerned does not meet one or more fundamental requirements regarding Petroleum Facilities, the requirements concerning the location or other requirements set out in the construction permit and the main construction plan, and if such a deficiency cannot be eliminated without modifying or supplementing the construction permit and the main construction plan, a suitable deadline for elimination, not exceeding 90 days, shall be given.

(6) If the technical inspection results show a deficiency due to which the petroleum facility or plant concerned does not meet one or more fundamental requirements regarding Petroleum Facilities, requirements related to the location or other requirements set out in the construction permit and the main construction plan, and if such a deficiency cannot be eliminated without modifying or supplementing the construction permit and the main construction plan, the Ministry shall proceed in accordance with Article 174(3) herein.

(7) Once the deficiency referred to in paragraph 5 of this Article is eliminated by the stipulated deadline, the Investor shall notify the Ministry and the member of the technical inspection Commission, who has determined the deficiency during the technical inspection, thereof. The member of the technical inspection Commission who has determined the deficiency during the technical inspection shall, within 15 days of receiving the notification, deliver to the Ministry a written statement indicating whether the deficiencies determined have been eliminated and if the operating permit can be issued.

(8) If the representative of the authority or the person referred to in paragraph 7 of this Article fails to deliver the written statement by the given deadline, it shall be deemed that the opinion of such authority or person has been given in the sense that the Petroleum Facilities may be used and that an operating permit may be issued.

(9) Notwithstanding the aforesaid, if the deficiencies referred to in paragraph 5 of this Article are such that it cannot be determined whether they have been eliminated without conducting an on-site inspection, the Ministry shall proceed in accordance with Articles 170 and 171 herein, and it shall conduct a subsequent technical inspection only of parts of the Petroleum Facilities where the deficiencies were determined, without re-establishing the facts that had already been established during the previous technical inspection.

(10) If the representative of the authority or the person specified in the ordinance referred to in Article 178 herein did not attend the technical inspection, nor did he/she deliver his/her opinion to
the authority competent for petroleum within eight days of the technical inspection date in accordance with paragraph 4 of this Article, it shall be deemed that the opinion of such authority or person has been given in the sense that the Petroleum Facilities may be used and that an operating permit may be issued.

Investor’s Obligations Regarding the Technical Inspection

Article 172

The Investor shall enable the technical inspection Commission to conduct the inspection, and it shall provide the Commission with the documentation referred to in Article 157(2) and Article 169(2) herein, as well as other documentation, Licences and approvals that the Investor shall have in relation to Petroleum Facilities.

Procedure Costs

Article 173

If the technical inspection is conducted outside the place of the seat of the authorities constituting the technical inspection Commission referred to in Article 179 herein, the Investor shall pay the travel expenses and per diems to the Commission representatives who attended the technical inspection, in the amount stipulated by the ordinance referred to in Article 178 herein.

Issuing the Operating Permit

Article 174

(1) The Ministry shall issue an operating permit for the constructed Petroleum Facilities within 30 days of the technical inspection conducted in accordance with Article 171 herein if the technical inspection Commission provided its opinion stating that such Petroleum Facilities may be used.

(2) The Investor shall, by the deadline referred to in paragraph 1 of this Article, pay the building tax determined in accordance with special regulations governing administrative Fees, and it shall deliver evidence of building tax payment to the Ministry.

(3) The operating permit request shall be denied in form of an order if:
- the Petroleum Facilities have been built contrary to the construction permit for Petroleum Facilities;
- the deficiencies determined are not eliminated within 90 days from the completion of the technical inspection;
- a revocation procedure of the construction permit for Petroleum Facilities is underway:
- the petroleum inspection of the Ministry is conducting a procedure regarding building suspension or Removal of Petroleum Facilities;
- the Petroleum Facilities concerned have not been put into a tight and clean condition after the construction;
- the building tax referred to in paragraph 2 of this Article has not been paid and the evidence of payment has not been delivered to the Ministry.

Operating Permit Delivery

Article 175

(1) The operating permit shall be delivered to Investor and the petroleum inspection.

(2) The Investor shall, within 15 days of the enforceability of the operating permit for Petroleum Facilities, deliver such permit to the cadastre office so that Petroleum Facilities can be entered in the cadastral records.
(3) In case referred to in Article 185(12) herein, the Investor shall, within 15 days of the enforceability of the order on deleting the Petroleum Facilities from the Exploitation Field register kept by the Ministry, deliver the decision to the competent cadastre office for the purpose of deleting the Petroleum Facilities from the cadastral records, and it shall inform the Ministry thereof.

**Responsibility for the Maintenance of Petroleum Facilities**

**Article 176**

(1) The responsibility for the maintenance of Petroleum Facilities lies with the Investor.

(2) In case of damage to Petroleum Facilities, which may put to risk the life and health of persons, the environment and nature, other buildings and things, or ground stability on the neighbouring land, the Investor shall undertake emergency measures to eliminate the risk in accordance with this Act, regulations adopted based on this Act and regulations governing spatial planning, construction, environmental protection, nature protection, maritime affairs, water protection, forests and forestry, and safety of offshore Hydrocarbon Exploration and Production, as well as mark the safety of offshore Hydrocarbon Exploration and Production concerned as dangerous until the damage is eliminated pursuant to the regulations governing occupational safety.

**Obligation of Submitting a Notification on the Commencement of use of the Operating Permit**

**Article 177**

The Investors that have been issued an operating permit for Petroleum Facilities shall, within 15 days prior to the commencement of use of the Petroleum Facilities, notify the petroleum inspection of the Ministry and all entities indicated in the operating permit of the commencement of use of the operating permit for Petroleum Facilities.

**Construction Ordinance**

**Article 178**

Professional qualifications, licensing exam and work experience of the construction plan developers, reviewers, main supervisory engineer, supervisory engineer, main site engineer, site engineer, foreman and Test Production manager, mandatory contents and elements of the construction plans of Petroleum Facilities, the method of equipping and marking the plan, the contents of the contractor’s written statement on the works performed and maintenance conditions of Petroleum Facilities, the contents of the supervisory engineer’s final report, the contents of the certified geodetic engineer’s statement, the contents of the Test Production Programme and the Test Production report, the method of conducting the technical inspection, including all other details relating to the Construction of Petroleum Facilities shall be governed by an ordinance adopted by the minister competent for energy subject to the opinion of minister competent for construction.

**Test Production for the Purpose of Technical and Technological Tests**

**Article 179**

(1) If during the construction or Reconstruction of Petroleum Facilities a need arises with regard to testing the basic requirements for Petroleum Facilities, and determining the production parameters and other knowledge deriving from such tests, the Investor may conduct Test Production.

(2) The Test Production conducted by the petroleum facility and plant operation shall be in accordance with the verified petroleum documentation.

(3) A more detailed explanation of Test Production, the basic requirements and reasons for the Test Production conducted by petroleum facility and plant operation, its duration and safety measures during the period concerned, as well as all other necessary parameters shall be addressed
in the main construction plan of the petroleum facility and plant, which shall be delivered to the Ministry together with the request for Test Production approval.

(4) The request for Test Production approval shall contain:
- the name of the Exploitation Field where the Test Production is planned;
- verified petroleum plan documentation serving as a basis for the performance of the Test Production;
- duration of the Test Production;
- the Test Production Programme;
- the appointment of the Test Production manager.

Based on a request in the correct form, the Ministry shall issue a Test Production approval to the Investor within 30 days of a duly received request.

(5) The Investor shall notify the Ministry and the petroleum inspection of the Test Production commencement and conclusion.

(6) When notifying the Ministry in writing of the conclusion of the Test Production conducted by petroleum facility and plant operation, the Investor shall also deliver a final Test Production report to the Ministry. The contents of the Test Production report shall be governed by the ordinance referred to in Article 139 herein.

(7) The duration of Test Production shall not exceed one year. However, it may be extended at the Investor’s request if the basic requirements and reasons for Test Production have not been met pursuant to paragraph 3 of this Article.

Handling of Illegally Built Petroleum Facilities

Article 180

Within the meaning of this Act, illegally built Petroleum Facilities shall be considered those Petroleum Facilities, or any reconstructed part of the existing Petroleum Facilities, which were built without an act approving the construction or contrary to such act, and which are recorded on the most recent 1:5000 scaled orthophoto map (DOF5) provided by the State Geodetic Administration and made on the basis of aerial photogrammetry images of the Republic of Croatia if until that day all construction and other works have been completed and if the Petroleum Facilities are used or can be used until entry into force of this Act.

Basic Requirements for Legalisation of Illegally Built Petroleum Facilities

Article 181

(1) Illegally built Petroleum Facilities shall be legalised under the conditions and following the procedure stipulated by this Act, where such legalisation shall apply to the Petroleum Facilities that, in terms of their intended use, size and position, have been built in accordance with the spatial plan in force as at the date of entry into force of this Act, provided that their legalisation is not excluded by paragraph 3 of this Article.

(2) Illegally built Petroleum Facilities shall be legalised under the conditions and following the procedure stipulated by this Act, where such legalisation shall also apply to the Petroleum Facilities that, in terms of their intended use, size and position, have not been built in accordance with the spatial plan in force as at the date of entry into force of this Act, provided that their legalisation is not excluded by paragraph 3 of this Article and that approvals of competent authorities governed by public law have been issued.

(3) The provisions of this Act shall not apply to illegally built Petroleum Facilities located in the area where, according to the spatial planning documents, there are obstacles to Petroleum Operations.
Legalisation Procedure Regarding Illegally Built Petroleum Facilities

Article 182

(1) Illegally built Petroleum Facilities shall be legalised by issuing an operating permit in accordance with this Act and regulations governing the construction.

(2) The request for issuing an operating permit for illegally built Petroleum Facilities submitted by the Investor shall include:

- a statement of the ministry competent for spatial planning confirming that the spatial planning documents do not reveal any obstacle to issuing an operating permit for illegally built Petroleum Facilities;
- as-built plan and other documentation, permits and approvals that the Investor shall have at Petroleum Facilities;
- a survey map with all Exploitation Field borders and location of the illegally built petroleum facility and plant that is technically linked to the Exploitation Field;
- a map clearly showing land plots on which illegally built Petroleum Facilities have been plotted;
- geodetic as-built site plan (site plan) of illegally built Petroleum Facilities, which has been certified by the cadastral office as an integral part of the geodetic survey;
- the Agreement on the Exploration and Production of Hydrocarbons or the Agreement on the Production of Geothermal Waters, or the Agreement on Underground Gas Storage or the Licence for Geological Storage of Carbon Dioxide;
- evidence of the right to build Petroleum Facilities;
- evidence of payment of municipality and water Fees as well as of the building tax, according to special regulations governing the municipality Fee, the water Fee and the administrative Fee.

(3) The evidence referred to in paragraph 2, subparagraph 7 of this Article shall be considered the following:

1. extract from the land register;
2. a lease Agreement concluded with the owners of land plots;
3. a contract or decision of the competent state administration authority based on which the Investor has acquired the title, easement, lease right or any other right from which the right to use the plot of land, i.e. the maritime or aquatic domain is derived;
4. a partnership Agreement entered into with the land plot owners;
5. written consent of the fiduciary owner given to the previous owner of the land plots.

(4) The signatures affixed on the proofs referred to in paragraph 3, subparagraphs 2, 3, 4 and 5 shall be notarised.

Article 183

The Ministry shall, within 30 days of receiving a request in the correct form for issuing an operating permit for illegally built Petroleum Facilities, conduct a technical inspection of Petroleum Facilities, applying the provisions of Articles 170 to 173 herein and special regulations governing the treatment of illegally constructed buildings, accordingly.

Article 184

The issuing of an operating permit for illegally built Petroleum Facilities, as well as other obligations ensuing from the operating permit, are regulated by the provisions of Articles 174 to 177 herein.

Chapter V
Decommissioning
Article 185

(1) After the completion of Petroleum Operations, the Investor shall decommission the Exploration Block or Exploitation Field in accordance with this Act, special regulations concerning environmental and nature protection, safety of people and property, protection of human health as well as International Good Oilfield Practice, and it shall inform the petroleum inspection and environmental protection inspection thereof.

(2) If the petroleum inspection and environmental protection inspection determine that the Decommissioning, safety measures and nature and environmental protection measures conducted are sufficient, they shall issue a certificate to the Investor and inform the Ministry thereof.

(3) If the petroleum inspection and environmental protection inspection determine that the Decommissioning and the safety measures referred to in paragraph 2 of this Article are not sufficient, they shall order the Investor to eliminate the deficiencies found in the Exploration Block or Exploitation Field within a given deadline not exceeding six months, and to undertake other safety measures and inform thereof the Ministry, the Agency and, in case the Petroleum Operations are conducted on the maritime domain, the central state administration body competent for maritime affairs.

(4) If the Investor fails to act upon orders referred to in paragraph 3, the Inspections shall inform the Ministry and the Agency thereof, and the Agency shall undertake necessary safety measures and conduct the Decommissioning, and the cost of which shall be borne by the Investor.

(5) Pursuant to this Act and regulations adopted based on this Act, the Investor shall pay all Fees referring to the Exploration Block or Exploitation Field before relinquishing such area or field.

(6) Upon receiving the certificate under paragraph 2 and evidence of performance of obligations under paragraph 5, the Ministry shall issue an order on the deletion of the Exploitation Field from the Exploitation Field register, unless the Commission for determining the reserves finds that the reserves have not been produced and that further Petroleum Operations are possible.

(7) If the Investor requests a reduction of the Exploitation Field, it shall undertake all actions set out in paragraph 1 of this Article regarding the area to be excluded from previously determined Exploitation Field.

(8) If in case under paragraph 7 of this Article the Inspections find that the safety measures, environmental and nature protection measures as well as the Decommissioning of a part of the Exploitation Field are sufficient, they shall issue a certificate thereon to the Investor and inform the Ministry and the Agency thereof.

(9) After receiving the certificate referred to in paragraph 8 of this Article, the Ministry shall, in accordance with the provisions of this Act, issue a new order on determining the Exploitation Field by applying mutatis mutandis Article 45 herein.

(10) If the Investor requests the deletion of Petroleum Facilities located within the Exploration Block or Exploitation Field, it shall undertake all actions set out in paragraph 1 of this Article regarding the location of Petroleum Facilities located within the Exploration Block or Exploitation Field.

(11) If in case under paragraph 10 of this Article, the Inspections find that the safety measures, environmental and nature protection measures as well as the Decommissioning of petroleum facility and plant locations are sufficient, they shall issue a certificate to the Investor and inform the Ministry and the Agency thereof.

(12) After receiving the certificate referred to in paragraph 11 of this Article, the Ministry shall issue an order on the deletion of Petroleum Facilities from the register of Exploitation Fields or Exploration Blocks.

(13) If Petroleum Facilities are located in an Exploration Block or Exploitation Field, the order referred to in paragraph 6 of this Article may not be issued before the order referred to in paragraph 12 of this Article becomes enforceable.
In case of any termination of the Agreement on the Exploration and Production of Hydrocarbons or the Agreement on the Production of Geothermal Waters, or the Agreement on Underground Gas Storage or the Licence for the purpose of Geological Storage of Carbon Dioxide, or in case of loss of any existing production right or legal basis conferring right to Exploration or production, regardless of cause or method, the Investor or the Petroleum Economic Entity concerned, shall, individually and their own expense, decommission the area of Petroleum Operations.

In the event referred to in paragraph 14 of this Article, the Ministry shall issue an order on mandatory Decommissioning, authorising the Investor or the Petroleum Economic Entity concerned to temporarily use the location of Petroleum Operations that shall be decommissioned.

The Ministry shall issue the order based on available data on the Petroleum Facilities that are no longer used by the Investor or the Petroleum Economic Entity.

The order referred to in paragraph 15 of this Article shall contain the following information:
- the name of the Investor or the Petroleum Economic Entity to which the order is issued;
- the name and the description of the petroleum facility or plant requiring Decommissioning;
- coordinates of the location provided for temporary use;
- the obligation and the deadline by which the Investor or the Petroleum Economic Entity shall resolve property relations with the owner of the land plot on which the petroleum facility or plant is located;
- the plan type and the deadline by which the plan of the petroleum facility or plant Decommissioning shall be performed;
- the deadline by which the Ministry shall receive the appointment of manager of Petroleum Operations;
- the validity date of the order on temporary use of the location to be decommissioned;
- the deadline by which evidence of restoration conducted pursuant to paragraphs 2 and 11 of this Article shall be delivered;
- the deadline by which the Ministry shall delete the petroleum facility or plant from the Register of Petroleum Facilities.

**Decommissioning Security**

**Article 186**

(1) In the Exploration Period, the Investor shall deliver an Exploration Block Decommissioning security to the Ministry in the amount and form stipulated in the Agreement on the Exploration and Production of Hydrocarbons or the Licence for the Exploration of Geothermal Waters, the Exploration Licence for the purpose of natural gas storage as well as the Exploration Licence for the purpose of Geological Storage of Carbon Dioxide.

(2) In the period of Geothermal Waters production, natural gas storage or Geological Storage of Carbon Dioxide, the Investor shall deliver a Exploitation Field Decommissioning security to the Ministry, in the amount and form stipulated by the decision issuing the Licence for the production of Geothermal Waters or a natural gas storage Licence or the Licence for Geological Storage of Carbon Dioxide.

(3) In the Production Period, the Investor shall, pursuant to the Agreement on the Exploration and Production of Hydrocarbons and in accordance with this Act, deliver a corresponding detailed Decommissioning Plan together with the Budget prepared in accordance with the reviewed Development and Production Plan, to the Agency for its approval, which shall include a detailed technical and engineering description of Decommissioning, removal and disposal of facilities and installations, as well as location cleaning and Decommissioning measures, and the Decommissioning Cost estimate for the purpose of establishing a Decommissioning fund.
(4) With the aim of ensuring the implementation of the Decommissioning Plan referred to in paragraph 3 of this Article, the Investor shall, after the review of the Development and Production Plan or the Supplementary Development and Production Plan, establish a Decommissioning fund and obtain the Agency’s approval of the formula for the calculation of the amount to be paid into the Decommissioning fund deposited in a bank escrow account.

(5) The Investor shall start paying the amounts in the Decommissioning fund in accordance with estimated Decommissioning Plan contained in the reviewed Development and Production Plan, but in any case not before the first anniversary of the commencement of commercial production.

(6) In the event that the actual Decommissioning Costs exceed the total amount paid into the fund, the remaining balance of the relinquishment costs shall be borne by the Investor.

(7) In the event of Geological Storage of Carbon Dioxide, the Investor shall deliver the financial security for Decommissioning in accordance with Article 95 herein.

PART THREE
CONTROL

Administrative and Inspection Authorities

Article 187

(1) The Ministry shall conduct the administrative supervision of the implementation of this Act and the regulations adopted under this Act, as well as of the legality and acting of administrative authorities and persons with official authority for the performance of state administration activities regarding Petroleum Operations entrusted to them.

(2) The inspection of the implementation of this Act and the regulations adopted under this Act shall be conducted by the petroleum inspection of the Ministry, the inspection of the central state administration authority for finances and other inspections pursuant this Act and other regulations governing inspection activity.

Special Measures During Inspection

Article 188

(1) When carrying out Inspections, the petroleum inspector shall issue an order to the Petroleum Economic Entity concerned:

1. prohibiting the performance of Petroleum Operations if the nature of irregularities and deficiencies may represent an imminent danger to the lives and health of employees and other citizens, or cause significant property damage;

2. prohibiting the performance of petroleum Exploration Operations if the Exploration is being conducted without or contrary to the Licence for the Exploration and Production of Hydrocarbons and the Agreement on the Exploration and Production of Hydrocarbons, or the Licence for Exploration of geothermal water, the Licence for Exploration for the purpose of natural gas storage or the Licence for Exploration for the purpose of Geological Storage of Carbon Dioxide.

3. prohibiting the performance of Exploration Petroleum Operations by drilling Exploration/Appraisal Wells without or contrary to the Well drilling project;

4. prohibiting the performance of production Petroleum Operations without or contrary to the Agreement on the Exploration and Production of Hydrocarbons and the Production Licence for Hydrocarbons or the Agreement on the Production of Geothermal Waters, or the Agreement on Underground Gas Storage or the Licence for Geological Storage of Carbon Dioxide and/or petroleum documentation specified in the Licence/Agreement;

5. prohibiting the performance of Exploitation Field Petroleum Operations according to the Simplified Plan or the Well drilling project if it is established that such operations are performed without the certificate referred to in Article 135(4) and Article 136(4) herein;
6. prohibiting the performance of Petroleum Operations if the economic entity concerned does not employ a manager of Petroleum Operations who is not a responsible professional meeting the requirements stipulated by this Act;

7. ordering the suspension of Construction of Petroleum Facilities if they are being built without a construction permit or if the works are not being performed in accordance with the construction permit;

8. ordering the prohibition of the operation of Petroleum Facilities if they are operating without an operating permit or contrary to such permit;

9. ordering the Removal of Petroleum Facilities or the parts thereof stipulated in this Act if they are being built or have been built without a construction permit or if the works are not being performed in accordance with the construction permit and without petroleum documentation required by this Act;

10. prohibiting the performance of the tasks of the manager of Petroleum Operations, control, independent petroleum measurements, operating Petroleum Facilities and performance of other tasks encompassed by Petroleum Operations, to persons not meeting the requirements stipulated by this Act;

11. prohibiting the use of Petroleum Facilities or plants without a certificate of functionality or other relevant certificates ensuing from the regulations governing occupational health and safety.

(2) When carrying out Inspections, the petroleum inspector shall issue an order to a natural person or a legal entity:

- prohibiting the performance of petroleum Exploration Operations if Exploration is being conducted without a Licence for the Exploration and Production of Hydrocarbons and an Agreement on the Exploration and Production of Hydrocarbons, or a Licence for Exploration of Geothermal Waters, a Licence for Exploration for the purpose of natural gas storage or a Licence for Exploration for the purpose of Geological Storage of Carbon Dioxide;

- prohibiting the performance of production Petroleum Operations without an Agreement on the Exploration and Production of Hydrocarbons and a Production Licence for Hydrocarbons or an Agreement on the Production of Geothermal Waters, or an Agreement on Underground Gas Storage or a Licence for Geological Storage of Carbon Dioxide;

Elimination of Identified Deficiencies

Article 189

If, during Inspections, the petroleum inspector establishes a violation of the provisions of this Act or regulations adopted based on this Act, apart from the prohibition measures under Article 188, an order shall also be issued ordering the Petroleum Economic Entity to eliminate the deficiencies or irregularities identified by a stipulated deadline.

Article 190

(1) An appeal may not be filed against inspection orders, but they can give rise to administrative proceedings.

(2) Administrative disputes against inspection orders shall be resolved in urgent proceedings.

Misdemeanour and Criminal Offence Charges

Article 191

If the findings of an inspection indicate a violation of this Act or a regulation adopted under this Act, the competent inspector shall inform the Ministry thereof, and the Ministry shall:

- bring charges before the competent authority, pursuant to general law governing misdemeanours and misdemeanour sanctions;
- issue a penalty charge notice;
- lay a criminal complaint to the competent authority;
- also undertake other measures and actions that the inspector is authorised to undertake pursuant to this Act and special regulations governing Inspections.

**PART FOUR**

**MISDEMEANOUR PROVISIONS**

**Article 192**

(1) A fine in the amount of HRK 500,000 - HRK 1,000,000 shall be imposed on a legal entity and a fine in the amount of HRK 25,000 - HRK 50,000 shall be imposed on both a responsible person of a legal entity and a natural person:

1. if they fail to comply with the Agency’s request for the provision of data or information in accordance with Article 8(3) herein;

2. if the transfer of rights and obligations under the Exploration or Production Licence or the Agreement on the Exploration and Production of Hydrocarbons, or the Agreement on the Production of Geothermal Waters, or the Agreement on Underground Gas Storage, is not conducted in accordance with Article 34(2) and (7) herein;

3. if they perform Exploration without or contrary to the Licence for the Exploration and Production of Hydrocarbons under Article 23 and the Agreement on the Exploration and Production of Hydrocarbons under Articles 29 and 30, or the Licence for Exploration of Geothermal Waters under Article 63 or the Exploration Licence for the purpose of natural gas storage under Article 75, or the Exploration Licence for the purpose of Geological Storage of Carbon Dioxide under Article 78, or the petroleum documentation under Article 135 or contrary to the Agency’s opinion on the annual operating Programme and Budget under Article 118(3) herein;

4. if they conduct production without or contrary to the Agreement on the Exploration and Production of Hydrocarbons under Articles 29 and 30, or the Production Licence for Hydrocarbons under Article 38, or the Licence for recovery of Geothermal Waters under Article 70 and the Agreement on Production of Geothermal Waters under Article 71, or the Licence for the natural gas storage or the Licence for Geological Storage of Carbon Dioxide under Article 84 or the reviewed petroleum documentation under Article 137 herein;

5. if they fail to report the commencement and the completion of Petroleum Operations pursuant to the Exploration Licence under Articles 23, 63, 75 and 84, the Production Licence under Articles 28, 70, 76 and 84 or an Agreement entered into under Articles 29, 30, 71 and 76 herein;

6. if they start Petroleum Operations before delivering a Decommissioning security or before starting to pay the amounts into the Decommissioning fund in accordance with the estimated Decommissioning Plan included in the reviewed Development and Production Plan under Article 186(1), (2), (3), (4), (5) and 7 herein;

7. if the Test Production resulted in the recovery of quantities exceeding the quantities established in the Well drilling project in accordance with Article 127(1) and if the quantities recovered exceed the quantities established in the petroleum documentation in accordance with Article 179(2) herein;

8. if, contrary to Article 127(4) herein, the Investor sells quantities recovered during Test Production without paying the royalty;

9. if they build Petroleum Facilities without or contrary to the construction permit referred to in Article 155(1) herein;

10. if the Petroleum Facilities are used without an operating permit under Article 168(1) herein;

11. if they fail to conduct all required safety measures and Exploration Block or Exploitation Field Decommissioning in accordance with Article 185(1), (4) and (14) herein after the completion or permanent suspension of Petroleum Operations;
12. if they fail to immediately undertake Corrective Measures to prevent carbon dioxide Leakage and to eliminate other irregularities posing a risk of carbon dioxide Leakage from the underground storage referred to in Article 92(1) herein;

13. if they fail to control the carbon dioxide injection plant, the carbon dioxide injection Well, the Storage Complex (including, if necessary, Carbon Dioxide Plume) and the area surrounding the injector Wells in accordance with Article 89(1) herein;

14. if they fail to deliver information referred to in Article 123(1) as provided in and by the deadline stipulated by Article 122(4), (5) and (6) herein;

15. if they fail to deliver information under Article 122(1) to the Agency, in accordance with Article 198 herein;

16. if they fail to initiate the legalisation process concerning illegally built Petroleum Facilities as stipulated by Article 182(1), (2), (3) and (4), by the deadline given in Article 199(1) herein;

17. if they fail to comply with the order referred to in Article 185(17) herein.

(2) A misdemeanour fine referred to in paragraph 1 of this Article shall also be imposed on natural persons who are small entrepreneurs, in the amount of HRK 100,000 - HRK 500,000.

Article 193

(1) A fine in the amount of HRK 250,000 - HRK 500,000 shall be imposed on a legal entity and a fine in the amount of HRK 15,000 - HRK 20,000 shall be imposed on both a responsible person of a legal entity and a natural person:

1. if they fail to timely inform the Ministry or the Agency, at the request of the Ministry or the Agency, of the fulfilment of obligations defined in the Exploration Licence under Articles 23, 63, 75, 83 and 84 herein, the Production Licence under Articles 28, 70, 76 and 84 herein, or an Agreement under Article 29, 30, 71 and 76 herein;

2. if they fail to timely deliver the Reserves Study referred to in Article 41(1) and (2) herein, to the Ministry;

3. if they fail to timely deliver the information laid down by Article 90 to the Ministry and the Agency;

4. if, after a complete and permanent suspension of Petroleum Operations under Article 119(1), they fail to deliver all plans and drawings, measurement books and other documentation referring to the phase of operations at the time of complete and permanent suspension of operations to the Ministry that shall keep them;

5. if they perform Petroleum Operations in an Exploration Block or Exploitation Field according to the Well drilling project referred to in Article 135(1) without a certificate referred to in Article 135(4) or a review referred to in Article 137 herein;

6. if they perform Petroleum Operations in an Exploration Block or Exploitation Field according to the Simplified Plan referred to in Article 136(1) herein without a certificate referred to in Article 136(5) herein;

7. if they fail to deliver carbon measurement procedures to the Agency for the purpose of obtaining its opinion, in accordance with Article 53(3) herein;

8. if they fail to immediately notify the Ministry and the Agency of carbon dioxide Leakage and other major irregularities posing a risk of carbon dioxide Leakage in accordance with in Article 92(1) herein;

9. if they fail to deliver annual Work Programmes and Budgets to the Agency for the purpose of obtaining its opinion, in accordance with deadlines under Article 118(1) herein;

10. if they fail to deliver the appraisal Work Programme and estimated Budget to the Agency in accordance with Article 37(1) herein;
11. if they do not proceed in accordance with Article 196(7) and fail to deliver to the Ministry in a timely manner the data on all Petroleum Facilities located within an approved Exploration Block or Exploitation Field technically connected to it.

A fine for misdemeanours under paragraph 1 of this Article shall also be imposed on natural persons who are small entrepreneurs, in the amount of HRK 50,000 - HRK 250,000.

Article 194

(1) A fine in the amount of HRK 100,000 - HRK 2500,000 shall be imposed on a legal entity and a fine in the amount of HRK 5,000 - HRK 15,000 shall be imposed on both a responsible person of a legal entity and a natural person:

1. if they fail to notify the Ministry of deviations from the Reserves Study in accordance with Article 41(4) herein;
2. if they fail to deliver the Reserves Study to the Ministry and the Agency in accordance with Article 42;
3. if they fail to deliver evidence of calculated and paid amounts of the Fee referred to in Article 51(3) herein;
4. if the Investor fails to provide evidence on the sale of crude oil referred to in Article 52(7) herein;
5. if they fail to deliver the reports under Article 90 to the Ministry and the Agency;
6. if they fail to deliver the reports stipulated by Article 94(2) herein to the Ministry;
7. if they fail to deliver a prior written notification of intention to appoint a new operator in accordance with Article 116(4) herein to the Government;
8. if they fail to appoint a manager of Petroleum Operations in the Exploration Block in accordance with Article 128(1) herein;
9. if they fail to appoint a manager of Petroleum Operations in the Exploitation Field in accordance with Article 129(1) herein;
10. if they fail to deliver the production plan stipulated by Article 129(5) herein to the Ministry and the Agency;
11. if they fail to notify the Ministry, the petroleum inspection of the Ministry, the Agency and the central state administrative authority competent for maritime affairs of temporary interruption in Petroleum Operations due to unforeseen circumstances within 24 hours of suspension of Petroleum Operations or within 15 days before an already planned temporary interruption of Petroleum Operations if the Petroleum Operations concerned are performed on a waterway in accordance with Article 117(1) and (2) herein;
12. if they fail to notify the Ministry, the petroleum inspection of the Ministry, the Agency and the central state administrative authority competent for maritime affairs of the complete and permanent suspension of Petroleum Operations performed on a waterway in accordance with Article 119(1) herein at least 15 days before such complete and permanent suspension;
13. if they fail to timely report to the Ministry and all entities specified in the construction permit of the commencement of Construction of Petroleum Facilities or the continuation of works after an interruption in accordance with Article 165(1) herein;
14. if they fail to report the commencement and the completion of maintenance works on Petroleum Facilities to the Ministry in accordance with Article 156(4) and (5) herein;
15. if they fail to appoint a manager of the maintenance works on Petroleum Facilities to the Ministry in accordance with Article 156(6) herein;
16. if they fail to report on the maintenance works performed on Petroleum Facilities to the Ministry in accordance with Article 156(7) herein;
17. if they fail to notify the Ministry of the delivery of the operating permit to the cadastre office or the delivery of the order on the deletion of Petroleum Facilities from the Exploitation Field register in accordance with Article 175(2) and (3) herein;

18. if they fail to timely report the commencement of operation of Petroleum Facilities or if they fail to report it in accordance with Article 177 herein;

19. if they fail to report the commencement and the completion of Test Production to the Ministry and the petroleum inspection in accordance with Article 179(5) herein;

20. if they fail to deliver the final Test Production report together with the written notification of the Test Production conclusion to the Ministry in accordance with Article 179(6) herein;

21. if they entrust the performance of the tasks of the manager of Petroleum Operations, control, independent petroleum measurements, operating petroleum facilities and performance of other tasks encompassed by Petroleum Operations to persons not meeting the requirements stipulated by Article 130(1) herein.

(2) A fine for misdemeanour under paragraph 1 of this Article shall also be imposed on natural persons who are small entrepreneurs, in the amount of HRK 250,000 - HRK 125,000.

PART FIVE

TRANSITIONAL AND FINAL PROVISIONS

Acquired Rights and Obligations

Article 195

(1) The entry into force of this Act shall not affect the rights and obligations deriving from Exploration Licences, rendered decisions on selection of the best tenderer, issued orders on Exploration approval, issued orders on Exploitation Field delineation, rendered decisions on production concession or the concession Agreements, acquired in accordance with regulations in force until entry into force of this Act.

(2) In the areas where the production is prohibited (e.g. modification of spatial plans, protected coastline, expansion of the borders of the area protected by law, etc.) and in the areas where a Petroleum Economic Entity had already acquired the production right before the prohibition, such economic entity may continue with the production, provided that Ministry does not revoke the concession decision.

(3) In case referred to in paragraph 2 of this Article, the Ministry shall pay the Petroleum Economic Entity damages for the loss of rights.

(4) When the Exploitation Field delineation deadline specified in the order on Exploitation Field delineation rendered according to a previous regulation expires, such Exploitation Field shall be transferred to the Republic of Croatia by operation of law.

(5) The Ministry shall inform the Investor or the Petroleum Economic Entity of the termination of rights referred to in paragraph 4 of this Article.

(6) The Ministry shall cancel ex officio the Investor whose name is specified on the order on Exploitation Field delineation from the Exploitation Field Register if such Investor or Petroleum Economic Entity has been deleted from the Court Register, and it shall register the Republic of Croatia.

(7) The Investor shall, within 12 months of the entry into force of this Act, deliver to the Ministry the data on all Petroleum Facilities located within an approved Exploration Block or Exploitation Field technically connected to it for the purpose of verifying the Exploration Blocks and Exploitation Fields in the registry kept by the Ministry.

(8) The deadlines set by this Article shall not be extended and by failing to meet the obligations by such deadlines, legal entities shall lose the rights acquired under this Article and all acquired rights shall be transferred to the Republic of Croatia by operation of law.
(9) In the case referred to in paragraph 8 of this Article, the Ministry shall issue an order and set a deadline not exceeding three months, by which the legal entities whose acquired rights have been revoked, shall meet their obligations concerning the payment of the concession Fee, as well as the obligation of Decommissioning and if the Decommissioning has not been performed, the Ministry shall set a deadline by which such Decommissioning shall be performed.

Conclusion of Initiated Procedures

Article 196

(1) All procedures initiated before entering into force of this Act shall be concluded pursuant to the regulations in force before entry into force of this Act as well as pursuant to the provisions of the Act on Organisation and Scope of Work of Ministries and other Central State Administration Authorities (OG No. 93/16 and 104/16).

(2) The Licences for Hydrocarbon Exploration and Production issued by the Government in accordance with the Hydrocarbon Exploration and Production Act (OG No. 94/13 and 14/14), based on which no Production Sharing Agreement has been entered into, that is, the Investors failed to enter into a Production Sharing Agreement once the Licence for the Exploration and Production of Hydrocarbons has been issued, shall be revoked as follows:

- the Licence for the Exploration and Production of Hydrocarbons in the Adriatic, in the “Central Adriatic 09” offshore block, issued based on the Decision granting the Licence for the Exploration and Production of Hydrocarbons in the Adriatic, in the “Central Adriatic 09” offshore block, class: 022-03/14-04/525, file no.: 50301-05/18-15/-1) of 2 January 2015 is hereby revoked;

- the Licence for the Exploration and Production of Hydrocarbons in the Adriatic, in the “South Adriatic 25” offshore block, issued based on the Decision granting the Licence for the Exploration and Production of Hydrocarbons in the Adriatic, in the “South Adriatic 25” offshore block, class: 022-03/14-04/531, file no.: 50301-05/18-15/-1) of 2 January 2015 is hereby revoked;

- the Licence for the Exploration and Production of Hydrocarbons in the Adriatic, in the “South Adriatic 26” offshore block, issued based on the Decision granting the Licence for the Exploration and Production of Hydrocarbons in the Adriatic, in the “South Adriatic 26” offshore block, class: 022-03/14-04/523, file no.: 50301-05/18-15/-1) of 2 January 2015 is hereby revoked;

- the Licence for onshore Hydrocarbon Exploration and Production in the “DR-03” onshore block, issued based on the Decision granting the Licence for the onshore Hydrocarbon Exploration and Production in the “DR-03” onshore block, class: 022-03/15-04/221, file no.: 50301-05/18-15/-5) of 03 June 2015 is hereby revoked;

(3) The provisions of this Act shall be applied to the rights and obligations to be performed by the Investors pursuant to the Licences for Hydrocarbon Exploration and Production issued and Production Sharing Agreements entered into, i.e. pursuant to the decisions granting hydrocarbon production concession and hydrocarbon production concession Agreements entered into before entry into force of this Act.

(4) The provisions of this Act shall be applied to the rights and obligations to be performed by the Investors pursuant to issued orders on the selection of the best tenderer, decisions on Exploration approval or decisions granting geothermal water production concession and pursuant to geothermal water production concession Agreements entered into before entry into force of this Act.

(5) The provisions of this Act shall be applied to the rights and obligations to be performed by the Investors pursuant to issued orders on the selection of the best tenderer, decisions on Exploration approval or decisions granting natural gas storage concession and pursuant to natural gas storage concession Agreements entered into before entry into force of this Act.

Data Delivery
Within six months from the date of entry into force of this Act, the Investors and other Petroleum Economic Entities shall, in accordance with the provisions of this Article, deliver to the Agency all data and results under Article 122(1) that have not been previously delivered. In case of violating this obligation, the orders on Exploration approval issued to the Exploration area licensees shall be revoked or their concession Agreement or the Agreement on the Exploration and Production of Hydrocarbons shall be terminated, or they shall be deprived of their production rights in other appropriate way and deleted from the exploration block register or Exploitation Field register.

**Deadline to File a Request for Issuing an Operating Permit for Illegally Built Petroleum Facilities**

Article 198

(1) The Investor shall file a request for issuing an operating permit for illegally built Petroleum Facilities within three years from the date of entry into force of this Act, and such a request may not be filed upon expiry of that deadline.

(2) The request for issuing an operating permit for illegally built Petroleum Facilities filed upon expire of the deadline under paragraph 1 of this Article shall be denied by an order.

**Adopting Subordinate Legislation**

Article 199

(1) The Government shall adopt a regulation referred to in Article 51 herein within six months following the date of entry into force of this Act.

(2) The minister competent for energy shall adopt an ordinance referred to in Article 103, Article 130(7), Article 139 and Article 178 herein within three months following the date of entry into force of this Act.

**Subordinate Legislation Remaining in Force**

Article 200

Until the subordinate legislation referred to in Article 199 becomes effective, the following subordinate legislation shall remain in force pursuant to authority ensuing from this Act:

- Ordinance on the central information system of mineral raw materials and registers (OG No. 142/13)
- Ordinance on the collection of data, method of keeping records and identification of the mineral raw materials’ reserves and on the creation of the balance of those reserves (OG No. 48/92 and 60/92).
- Ordinance on Exploration and Production of mineral raw materials (OG No. 142/13)
- Ordinance on evaluation of the documentation concerning reserves of mineral raw materials (OG No. 150/13)
- Ordinance on review procedure of mining plans (OG, No. 150/13)
- Ordinance on professional qualification required for the performance of certain petroleum activities (OG No. 9/00)
- Ordinance on mandatory contents, elements and method of equipping mining plans (OG, No. 61/14)
- Ordinance on permanent gas disposal in Geological Structures (OG, No. 106/13)
- Ordinance on main technical requirements of safety and security of offshore Hydrocarbon Exploration and Production in the Republic of Croatia (OG No. 52/10)
- Ordinance on contents and method of preparing petroleum studies (OG, No. 142/13)
- Ordinance on technical inspection of Petroleum Facilities and plant (OG, No. 142/13)
Article 201

(1) The Act on the Exploration and Production of Hydrocarbons (OG No. 94/13 and 14/14) shall become inoperative as of the day of entry into force herein.

(2) As of the date of entry into force herein, the following Articles shall become inoperative: Article 3; Article 5(1) item 1; Article 10(1) indent 2; Article 11(2) and (3), Article 11(5) in the part concerning removal of impurities and water from hydrocarbon; Article 17(1) item 1, indent 4 in the part concerning Geological Structures suitable for storage and permanent gas disposal; Article 17(1) item 2, indent 4, in the part concerning Geological Structures suitable for hydrocarbon storage and permanent gas disposal; Article 19(3), in the part concerning Geological Structures suitable for hydrocarbon storage and permanent gas disposal; Article 22(2) indent 1 in the part concerning Geological Structures suitable for hydrocarbon storage and permanent gas disposal; Article 23(2); Article 24(1) item 6; Article 26(4); Article 34(2), item 4 in the part concerning Geological Structures suitable for hydrocarbon storage and permanent gas disposal; Article 34(2) item 5 in the part concerning Geological Structures suitable for hydrocarbon storage and permanent gas disposal; Article 53; Article 54(2) and (3) in the part concerning Geological Structures suitable for hydrocarbon storage and permanent gas disposal; Article 55(1) and (3) in the part concerning Geological Structures suitable for hydrocarbon storage and permanent gas disposal; Article 56(1) in the part concerning Geological Structures suitable for hydrocarbon storage and permanent gas disposal; Article 56(2); Article 57(3); Article 58(3); Article 61(2) item 6 in the part concerning Geological Structures suitable for hydrocarbon storage and permanent gas disposal; Article 61(5); Article 62(1) item 6 in the part concerning Geological Structures suitable for hydrocarbon storage and permanent gas disposal; Article 62(3); Article 73(1) in the part concerning Geological Structures suitable for hydrocarbon storage and permanent gas disposal; Article 74(3) item 3 in the part concerning Geological Structures suitable for hydrocarbon storage and permanent gas disposal; Article 74(3) item 8 in the part concerning Geological Structures suitable for hydrocarbon storage and permanent gas disposal; Article 75(1) item 6 in the part concerning Geological Structures suitable for hydrocarbon storage and permanent gas disposal; Article 75(1) item 7 in the part concerning Geological Structures suitable for hydrocarbon storage and permanent gas disposal; Article 77(8); Article 145(4); Article 155(1) in the part concerning uncontrolled blowout of Hydrocarbons, and mineral and geothermal water; Article 164(1) item 3 of the Mining Act (OG No. 56/13 and 14/14) in the part concerning Hydrocarbons.

Entering into Force

Article 202

This Act shall enter into force on the eighth day following that of its publication in the Official Gazette.
THE CROATIAN PARLIAMENT

The Speaker of the Croatian Parliament

Gordan Jandroković, m.p.
ANNEX I

TEMPLATE OF THE Production Sharing Agreement

Agreement made by and BETWEEN:
THE GOVERNMENT OF THE REPUBLIC OF CROATIA, represented by __________, Minister responsible for energy (hereinafter referred to as the "Government"),
and
_____________________, a company incorporated under the laws of the__________, represented by______________, which expression shall mean and include its successors and such assigns as are permitted hereunder (hereinafter referred to as the "Investor"),
on ________________ in Zagreb.

The Government and the Investor hereinafter are referred to either individually as "Party" or collectively as "Parties", and references to "Ministry" hereinafter are references to the Ministry acting on behalf of the Government, and references to the Ministry acting in its capacity as the ministry responsible for energy pursuant to the Act on the Exploration and Production of Hydrocarbons (Official Gazette of the Republic of Croatia no. 52/2018) (Hereinafter referred to as the “Act”), as the context requires.

WITNESSETH:
WHEREAS, by virtue of the Act as amended or replaced from time to time, the ownership of Petroleum reserves wherever they are located in the Republic of Croatia, including the land, territorial waters, the continental shelf, and the exclusive economic zone, is vested in and is deemed to always have been vested entirely and solely in the Republic of Croatia; and
WHEREAS, the Act makes provision with respect to exploring for and producing Petroleum and authorises the Government to hold a tendering procedure, grant Licences for Petroleum recovery and conclude Agreements with Investors for an Exploration Block; and
WHEREAS, the Republic of Croatia aims to promote the development of Petroleum resources within and throughout the Exploration Block and the Investor desires to join and assist the Republic of Croatia in evaluating the Petroleum potential and promptly and efficiently developing Petroleum resources which may be discovered within the Exploration Block; and
WHEREAS, the Investor represents that it has the financial ability, technical competence, and professional skills necessary to carry out the Petroleum Operations hereinafter described; and
WHEREAS, the Investor recognizes and accepts content of the Strategic Study of Environment Impact of the Framework Plan and Programme of the Exploration and Production of Hydrocarbon as well as terms and limitations which are defined in the Framework Plan and Programme for Exploration and Production of Hydrocarbons; and
WHEREAS, the Investor applied for and was granted the Licence for the Exploration and Production of Hydrocarbons over the Exploration Block described in Article 3 and shown on the map in Supplement B hereof and this Agreement has been approved by the Government decision for granting consent on Production Sharing Agreements from_________________.

NOW THEREFORE, in consideration of the premises, mutual covenants, and conditions herein contained, it is hereby agreed as follows:

1 DEFINITIONS
1.1 In this Agreement, words importing the singular include the plural and vice versa, and except where the context otherwise indicates, shall have the meaning set forth in this Article.
1.2 Words that are not defined herein, but are defined in the Act and Regulations in force at any given time in the Republic of Croatia, shall have the meanings set forth in the aforementioned Act and regulations.
1.3 Any legislation and regulation referred to in this Agreement shall mean legislation or regulation in force on the Effective Date and includes any amendment(s) thereto.

1.4 The headings used in this Agreement are for convenience only and shall not be used to construe, define, restrict or describe the scope or object of the Agreement or of any of its clauses.

1.5 Unless otherwise defined in the Agreement, the technical terms and standards used herein, but only in relation to the performance of Petroleum Operations, have the meaning given by the American Petroleum Institute.

1.6. This Agreement supersedes and replaces any previous Agreement or understanding between the Parties, oral or written, on the subject matter hereof, prior to the commencement of this Agreement and each of the Parties hereby confirms and acknowledges that it has not relied on any representations in entering into this Agreement and that all liability for misrepresentation whether negligent or innocent (but expressly excluding liability for fraudulent misrepresentation) is hereby excluded.

Accounting Procedure means the rules and procedures aimed at establishing a method of classifying and determining the costs of Hydrocarbons for the purpose of reimbursement of costs, as set out in Annex C to this Agreement and form an integral part thereof.

Affiliated Company means a legal entity that directly or indirectly controls (or is under control of) one of the Parties in the Agreement, or some other legal entity that directly or indirectly controls another legal entity that directly or indirectly controls (or is under control of) one of the Parties in the Agreement, and it is assumed that the control implies that one legal person possesses more than fifty percent (50 %) a) of voting shares in case another legal person issues the shares or b) of the rights of control or participation if the other legal person does not possess more than twenty percent (20 %) of votes.

Agency means the Croatian Hydrocarbon Agency currently acting as a public authority as defined in the Act and/or any amending or succeeding act thereto or other body or person as its legal successor or which has overtaken its responsibilities under this Agreement.

Agreement Area means the area on which Investor has the right to conduct Petroleum Operations, and whose surface is reduced over the time during the term of this Agreement. Originally, the Agreement Area is equivalent to Exploration Block which is during the term of this Agreement subject to relinquishment, and in the case of Commercial Discovery subject to the determination of Exploitation Field(s) pursuant to the terms of this Agreement.

Agreement Year means a period of twelve (12) months commencing on the Effective Date, or on any anniversary of it, and ending on the calendar day immediately before the next anniversary thereof.

Agreement means this present document and pertaining Supplements which are made an integral part hereof and any amendments made thereto pursuant to the terms thereof.

Applicable Environment and Nature Protection Legislation means environmental and nature protection legislation, whether primary or secondary, national, European Union or international, applicable from time to time in the Republic of Croatia, and includes judgments, rulings and orders of any competent court.

Appraisal means all work carried out by the Investor within Exploration, subsequent to a Discovery for the purpose of delineating one or more Petroleum Reservoirs to which that Discovery relates in terms of thickness and lateral extent and in order to further define the quantity of recoverable Petroleum therein and all activities related thereto.

Appraisal Area means a geographical area within the Exploration Block, encompassing the surface of the Geological Structure(s) or prospect(s) where Appraisal is intended to be performed within Exploration and a reasonable margin surrounding such Discovery.

Appraisal Works means any and all works performed as part of the Exploration, within the Appraisal Area in order to delineate one or more Reservoirs in terms of the thickness and lateral reach, and for the purposes of determining the physical reach (areal extensions), Reservoirs and the probable capacity of production from the Petroleum Reservoir(s).
*Appraisal Well* means a Well drilled within Exploration, in the Appraisal Area, for the purposes of delineating a Reservoir (or several Reservoirs), in terms of thickness and lateral extent and estimating the quantity of recoverable Petroleum therein as well as the production conditions.

*Arm’s Length Sale* means sales of Petroleum in freely convertible currencies between sellers and buyers having no direct or indirect relationship or common interest whatsoever with each other that could reasonably influence the sales price, and shall, inter alia, exclude sales (whether direct or indirect, through brokers or otherwise) involving Affiliates, sales between companies which are Parties to this Agreement, sales between governments and government-owned entities, counter trades, restricted or distress sales, sales involving barter arrangements and generally any transactions motivated in whole or in part by considerations other than normal commercial practices.

*Produced Gas* means natural gas produced from the Exploitation Field, measured at the Measurement Point.

*Produced Oil* means crude oil produced from the Exploitation Field, measured at the Measurement Point.

*Produced Hydrocarbons* means recovered oil, gas or condensate produced from the Exploitation Field, measured at the Measurement Point.

*Barrel* means a quantity or unit of Crude Oil equal to 158.9874 litres (forty-two [42] United States gallons) at a temperature of 15 degrees centigrade (sixty [60] degrees Fahrenheit) under one atmosphere of pressure.

*Budget* means the estimated costs expected to be incurred during the implementation of an approved Work Programme and forming an integral part of any Work Programme.

*Calendar Year* means a period of twelve (12) months commencing January 1st and ending on the following December 31st, according to the Gregorian Calendar.

*Capital Expenses* means those expenses, other than Operating Expenses, incurred by the Investor in conducting Petroleum Operations, both within the Agreement Area and up to the Delivery Point(s), and shall include all capital expenses related to Exploration, appraisal, Development and Production Operations, as determined in accordance with the Accounting Procedure attached hereto as Supplement C.

*Commercial Discovery* means every Discovery or a number of Discoveries of reserves of Petroleum laid down in the Reserves Study that, pursuant to the Act, justify the production of discovered Petroleum reserves.

*Production Licence for Hydrocarbons* shall have a meaning as defined in the Act and or any amending or succeeding legislation thereto.

*Cost Gas* means the portion of the Produced Gas, less the quantity required for Royalty payment, as set out in accordance with Article 14 that the Investor may retain each Calendar Year for the purposes of recovery of its Petroleum Costs.

*Cost Oil* means the portion of the Produced Oil, less the quantity required for Royalty payment, as set out in accordance with Article 14 that the Investor may retain each Calendar Year for the purposes of recovery of its Petroleum Costs.

*Cost Petroleum* means Cost Oil and/or Cost Gas.

*Crude oil* means produced, unrefined petroleum at a temperature of 15 °C and pressure of 1 atmosphere and the Crude Oil known as condensate and Natural Gas liquids and other Hydrocarbons obtained from Natural Gas by condensation or extraction as well as non-petroleum liquid or liquids produced in association with liquid or gaseous petroleum.

*Custom duties* means all duties, taxes or imposts (except those charges, as may be in force from time to time, paid to the Government for actual services rendered such as normal handling and storage charges) which are payable as a result of the importation or exportation of the item or items under consideration.

*Decommissioning Cost* has the meaning given in Article 9.1.1.

*Decommissioning Plan* means a plan of works, and the estimate of those costs for the purposes of Decommissioning, in accordance with the verified Development and Production Plan.
Decommissioning means all works necessary for the relinquishment and rehabilitation of the Exploration Block or Exploitation Field, i.e. area no longer required for Petroleum Operations in accordance with this Act and regulations adopted pursuant to this Act, as well as the International Good Oilfield Practice.

Delivery Point means the point or points, located either inside or outside the Exploitation Field, located beyond the Measurement Point, at which petroleum or Geothermal Waters reach the outlet flange of the delivery facility, and may be the entry point into the Local Pipeline or main pipeline or an outlet flange of the Well or another case as specified in the verified Development and Production Plan, or such other point or points which may be agreed by the Ministry and the Investor.

Designated Area means the area pertaining to a Discovery that does not merit Appraisal or is not a Commercial Discovery or a Significant Gas Discovery, as provided for in Article 5.3.

Development and Production Costs means all approved costs the Investor shall bear as part of the development and production, excluding costs incurred on the corresponding Exploration Area before the Discovery has been declared as Commercial Discovery, all as determined in accordance with the Accounting Procedure attached hereto as Supplement C.

Development and Production Plan means the petroleum plan that shall be developed in accordance with the Act and Regulations.

Development and Production Operations means, without limitation:

– all the works and activities with respect to the drilling of Wells other than Exploration Wells and Appraisal Wells, the deepening, plugging, sidetracking of such Wells, including the plan, construction and installation of such equipment, pipeline or lines, plants, production units and all other systems that relate to such Wells and may be necessary pursuant to the verified Development and Production Plan; and

(ii) all operations and activities relating to the servicing and maintenance of pipelines, lines, installations, production units, and all related activities for Production and management of Wells conducted to facilitate and enable the extraction and the production of Petroleum.

Discovery Well means an Exploration Well that hits a Discovery.

Discovery means an occurrence of Petroleum recovered at any drilled structure, which was not previously known to have existed and which is measurable by conventional petroleum industry practices.

Effective Date means the date of execution of this Agreement by the Parties, as set out in Article 40.

Environmental Damage means any damage, disturbance or hindrance to the environment, such as significant soil erosion, removal of vegetation, destruction of wildlife, marine organisms, pollution of groundwater, pollution of surface water, land or sea contamination, air pollution, noise pollution, bush fire, disruption of water supplies, disruption of natural drainage, damage to archaeological, paleontological and cultural sites, in accordance with the regulations on environmental protection, nature and preservation of cultural objects, as well as other regulations.

Environmental Impact Assessment means an assessment of the possible impacts that any proposed activities may have on the environment, prepared in accordance with all Applicable Environmental and Nature Protection Legislation.

EU or European Union means the political and economic union of member states that are located in Europe originally established by the Treaty of Lisbon under its current name in 2009.

Exploitation Field means an onshore or offshore area confined by the geographic coordinates of its peak points and restricted in its depth, following the borders of a Reservoir of Hydrocarbons.

Production Period means a period of time running from the Government issuing of a Production Licence.

Exploration Block means a part of an area confined by the geographic coordinates of its peak points on land or at sea, which has been, after an implemented Licence round, designated for Petroleum Exploration based on the Licence.
**Exploration Costs** means all eligible costs that the Investor shall bear during the Exploration pursuant to the issued Licence for the Exploration and Production of Hydrocarbons and the concluded Production Sharing Agreement.

**Exploration** means all Exploration Operations and activities aimed at the determination of the presence, position and shape of Petroleum Reservoirs, their quantity, quality and the production conditions, including but not limited to:

– geophysical and other geological surveys, the interpretation of collected data and their study treatment;

– drilling, deepening, deviation, completion, testing, suspension or the abandonment of Exploration Wells;

– Decommissioning;

– purchase or procurement of the goods, services, materials and equipment required by the aforementioned works.

**Exploration Period** means the period specified in the Agreement during which the Investor may carry out Exploration Operations.

**Exploration Phase or phase** means a period within the Exploration Period during which the Investor undertook to perform Minimum Work Obligations pursuant to the concluded Agreement on the Exploration and Production of Hydrocarbons; there are two Exploration Phases - the first Exploration Phase lasts for the first three years of Exploration and the second Exploration Phase lasts for two years of Exploration following the end of the first Exploration Phase.

**Exploration Well** means any Well drilled for the purpose of confirming the existence, location and shape of a Petroleum Reservoir, and Petroleum volume and quality.

**Field** means a hydrocarbon Reservoir or multiple hydrocarbon Reservoirs all grouped into or related to the same individual geological structural features or stratigraphic conditions.

**FOB** means Free on Board at the Delivery Point and has the meaning set out in the ICC’s international rules for the interpretation of commercial terms (Incoterms 2010), and refers to the realised sales price for the Investor's Production Share at the point of sale less transportation, insurance and handling costs beyond the Delivery Point.

**Force Majeure** means those events or circumstances set forth in Article 34 of the Agreement.

**Government** means the Government of the Republic of Croatia.

**Gross Negligence or Wilful Misconduct** shall have a meaning as defined in the act which regulates civil obligations.

**Development and Production Preliminary Plan** means the Development and Production Preliminary Plan as defined in accordance with Article 7.1 herein. The Development and Production Preliminary Plan shall be developed pursuant to the Act and regulations.

**International Good Oilfield Practice** means practices and procedures, recognised and continuously updated by the Society of Petroleum Engineers (SPE) used internationally by prudent operators in conditions and circumstances similar to the ones relating to the Petroleum Operations in the Exploration Block or Exploitation Field, all in accordance with the European Union practice, with the aim to:

– conserve Hydrocarbons by increasing the recoverability of Hydrocarbons in a technically and economically sustainable manner, with a corresponding control of reserves decline and minimization of losses at the surface;

– improve operational safety and protection from accidents; and

– protect the environment and nature by minimizing the impact of Petroleum Operations on the environment and nature.

**Investor Parties** means any party with a participating interest in the Investor's rights and obligations under this Agreement.

**Act** means the Act on the Exploration and Production of Hydrocarbons (Official Gazette of the Republic of Croatia, No. 52/2018) and/or any other act amending or succeeding Act thereto.
**Licence** means a Licence for the Exploration and Production of Hydrocarbons and shall have the meaning as defined in the Act and/or any amending or succeeding Act thereto.

**Lifting Schedule** means the planned Programme of Petroleum lifting by each Party approved by the Ministry.

**Market Price** means the price as specified in Article 16.2 in relation to Crude Oil and 16.3 in relation to Natural Gas.

**Measurement Point** means the place or places designated in the verified Development and Production Plan where appropriate equipment shall be located for the purpose of performing volumetric measurements and other determinations, temperature and other adjustments, determination of water and sediment and other appropriate measurements, all to establish the recovered quantities of Hydrocarbons.

**Minimum Financial Obligation** means the minimum monetary cost to which the Investor committed in respect to Minimum Work Obligations, as defined in Article 5.2 of the Agreement.

**Minimum Work Obligations** means the minimum of Hydrocarbon Exploration obligations that the Investor undertook to perform during an individual Exploration Phase, as defined in Article 5.2 of the Agreement.

**Petroleum Plans** means plans developed for the purposes of performing Petroleum Operations in accordance with this Act and regulations adopted pursuant to this Act.

**Ministry** means the ministry competent for energy.

**Natural Gas** means a mixture of petroleum gases, petroleum gases with additions of other natural gas, and other natural gas mixture.

**Negligence** shall have the meaning as defined in the act regulating civil obligations.

**Operating Costs** means those costs described in Article 2.4 of the Supplement C.

**Operator** means the company appointed pursuant to Article 12 to serve as Operator with responsibility for carrying out Petroleum Operations in the Agreement Area, in accordance with the provisions of this Agreement on behalf of the Investor.

**Initial Agreement Area** means the Exploration Block, as described in Article 3.2 and delineated on the map attached as Supplement B.

**Person** means any individual, company, partnership, joint venture, association, trust or other legal entity.

**Petroleum costs** means all costs, expenditures and obligations incurred to the Investor during the performance of petroleum operation determined hereunder, determined in accordance with the Accounting Procedure attached hereto as Supplement C.

**Petroleum Operations** means all Hydrocarbon Exploration and Production works pursuant to the Act, including hydrocarbon lifting from the Exploitation Field, but excluding the storage, transport or processing after the Delivery Point.

**Petroleum** means oil, natural gas and gas condensate.

**Production** means the recovery of Hydrocarbons from Reservoirs, treating of Hydrocarbons, transport of Hydrocarbons to the Delivery Point, including the pipelines when they have a technological connection to the established Exploitation Fields and Decommissioning. Production shall include but not be limited to:

- all the works and activities with respect to the drilling of Wells other than Exploration Wells and Appraisal Wells, the deepening, plugging, sidetracking of such Wells, including the plan, construction and installation of such equipment, pipeline or lines, plants, production units and all other systems that relate to such Wells and may be necessary pursuant to the verified Development and Production Plan; and

- all the works and activities relating to the servicing and maintenance of pipelines, lines, installations, production units, and all activities relating to Production and management of Wells conducted to facilitate and enable the extraction and the production of Petroleum.
Production Share means, in relation to the Investor, the total share of Petroleum production from the Exploitation Field that the Investor is entitled to under the cost recovery provisions of Article 14 and the Profit Petroleum provision of Article 14, as appropriate.

Profit Gas means the Produced Gas, less the quantity required for Royalty payment and after the Investor has taken the Cost Gas pursuant to the provisions of Article 14.2.

Profit Oil means the Produced Oil, less the quantity required for Royalty payment after the Investor has taken the Cost Oil pursuant to the provisions of Article 14.2.

Profit Hydrocarbons means Profit Oil and/or Profit Gas.

Corporate Income Tax means the tax on profits from Petroleum Operations payable by the Investor Parties pursuant to Article 24.

Quarter means a period of three (3) consecutive months beginning January 1st, April 1st, July 1st or October 1st and ending March 31st, June 30th, September 30th or December 31st, respectively.

R-factor means the profitability mechanism used by the Parties to determine profit Petroleum allocations, as defined in Article 14.

Regulations means the regulations issued under the Act and any other acts and regulations adopted in the Republic of Croatia and applicable to Petroleum Operations.

Reserves Study means categorising and classifying hydrocarbon reserves and confirming the commercial potential of the Reservoir.

Reservoir means any sedimentary, igneous or metamorphic porous rocks that contain natural accumulation of Hydrocarbons or Geothermal Waters, but are confined by cap rocks and represent a single Hydrodynamic Unit.

Royalty means the Fee defined in Article 14.1.

Significant Gas Discovery Area means the area within the Exploration Block, encompassing the surface of the Significant Gas Discovery.

Significant Gas Discovery means a Discovery of Natural Gas from an Exploration Well within the Exploration Block which has tested significant flow rates and/or has potential for commercial production of Natural Gas (predominantly methane) from one or more Reservoirs, and which is estimated to be capable of continuous production from the said Reservoir(s) over a reasonable period and which in the opinion of the Investor could be declared a Commercial Discovery in the future, provided inter alia that:

(a) adequate Natural Gas pipeline transportation facilities are installed; or
(b) commercially accessible markets have been sufficiently developed for sale of Natural Gas on a commercial basis.

Subcontractor means any company or person contracted by the Investor or its Subcontractor to provide goods, works or services in connection with Petroleum Operations.

Supplement means any and all of the supplements:

- Supplement A – Coordinates of the Exploration Block;
- Supplement B – Map of the Exploration Block;
- Supplement C – Cost Accounting Procedure;
- Supplement D – Form of Bank Guarantee;
- Supplement E – Form of Parent Company Guarantee.

Each and all of them being an integral part of this Agreement.

Area means the land territory, the internal waters, the territorial waters, the continental shelf and the exclusive economic zone of the Republic of Croatia.

Unit development plan means the plan for unit development of the hydrocarbon Reservoir located partly in the Discovery area within one Exploration Block or Exploitation Field, and partly within a neighbouring Exploration Block or Exploitation Field on the territory of the Republic of Croatia in which other parties have the right to perform Petroleum Operations or within the borders of a neighbouring country.
Well means a petroleum facility constructed by drilling in underground formations from a starting point on ground surface or at the bottom of water bodies to a final depth, for the purposes of Exploration and Production of crude oil or natural gas or Geothermal Waters or for injecting any kind of fluid in a hydrocarbon Reservoir, other than a seismic Well or a structure test Well or stratigraphic test Well.

Work Programme means the annual specification of Petroleum Operations that the Investor intends to carry out in accordance with this Agreement during the Calendar Year or a part thereof.

2 GRANT OF RIGHTS, TITLE TO PETROLEUM

2.1 Grant of Rights
The Investor is granted the exclusive right to conduct Petroleum Operations in the Agreement Area at its sole risk, cost and expense and in accordance with applicable legislation and regulations of the Republic of Croatia and the terms and conditions set out herein. This Agreement shall not include rights for any activity other than Petroleum Operations with respect to surface areas, sea-beds, subsoil or to any other natural resources or aquatic reserves.

2.2 Title to Petroleum
The Republic of Croatia shall remain the sole owner of all Petroleum produced pursuant to the provisions of this Agreement except as regards that part of Petroleum, the title whereof has passed to the Investor in accordance with the provisions of this Agreement.

Title to Cost Oil and Cost Gas and the Investor’s share of Profit Gas and Profit Oil shall pass to the Investor at the Delivery Point.

3 TERM OF THE AGREEMENT AND AGREEMENT AREA

3.1 Term of the Agreement
3.1.1 This Agreement shall remain in force for a term of duration of the Licence issued pursuant to requirements of the Act. The total duration of the Agreement shall not exceed thirty (30) years unless extended upon mutual Agreement of the Parties at the request of the Investor for the purpose of a rational Production of Hydrocarbons and protection of the Reservoirs.

3.1.2 The term of this Agreement shall be divided in one (1) Exploration Period and one (1) or more Exploitation Period(s), which shall not exceed the term of this Agreement.

3.1.3 The Agreement may be extended upon mutual Agreement of the Parties pursuant to provisions of the Act.

3.2 Original Agreement Area
3.2.1 The Original Agreement Area covers the Exploration Block ______ and extends over an area of _____________________, delimited by the coordinates detailed in Supplement A, and as detailed and indicated on the map attached in Supplement B.

3.2.2 The Government, by execution of this Agreement, hereby validates and approves the foregoing coordinates of the Exploration Block.

4 WORK PROGRAMMES AND BUDGETS

4.1.1 No later than ninety (90) days prior to the beginning of each Calendar Year, and for the first Calendar Year, no later than one (1) month after the Effective Date, the Investor shall prepare and submit to the Agency a detailing by the Quarters itemized annual Work Programme and Budget for the Agreement Area, setting forth the Petroleum Operations the Investor proposes to carry out during the ensuing Calendar Year. Where appropriate, the annual Work Programme and Budget shall be aligned with Minimum Work Obligations and Mining plans. The Agency gives approval by written opinion on the annual Work Programme and Budget.
4.1.2 Each annual Work Programme and the corresponding annual Budget shall be divided into the various Exploration Operations and, as the case may be, the Appraisal with respect to each Appraisal Area, and the Development and Production Operations with respect to each Exploitation Field. The Work Programme(s) submitted by the Investor for each Calendar Year shall be accompanied by an indicative schedule of operations to be conducted in the coming year.

4.1.3 The Agency may propose amendments to the annual Work Programme and corresponding annual Budget by notice to the Investor, including all justifications deemed necessary, within thirty (30) days following receipt of said Work Programme. In such a case, the Agency and the Investor shall meet as soon as possible to review the requested amendments and establish by mutual Agreement the annual Work Programme and corresponding annual Budget in final form, in accordance with International Good Oilfield Practice. The date of the favourable opinion on the annual Work Programme and the corresponding annual Budget shall be the date of the above-mentioned mutual Agreement. If the Agency and the Investor do not reach an Agreement regarding the amendments or modifications proposed by the Agency before the end of the Calendar Year in which the annual Work Programme and corresponding annual Budget were submitted, the Investor shall be allowed to proceed under its proposed annual Work Programme and Budget to the minimum extent necessary to complete its Minimum Work Obligations specified in Article 5 or to ensure safe operations.

4.1.4 Failing notice by the Agency to the Investor of the need to amend or modify the annual Work Programme and corresponding annual Budget within the abovementioned period of thirty (30) days, said Work Programme and Budget shall be deemed approved by the Agency by its favourable opinion upon the expiry date of said period.

4.1.5 It is acknowledged by the Agency and the Investor that the results acquired as the work progresses or certain changes in circumstances may justify modifications to the annual Work Programme, in accordance with International Good Oilfield Practice.

4.1.6 In any case, the costs incurred for purposes of such modifications shall not be higher than initial Annual Budget for which the Agency issued a favourable opinion by more than five percent (5 %) or ten percent (10 %) for any individual item within the initial Annual Budget, without its written consent, which shall not be unreasonably withheld. Such consent shall be given within maximum fifteen (15) days from the date the modification is submitted for consideration.

4.1.7 In case of emergency, the Investor may incur costs necessary for prudent Petroleum Operations. The Investor shall report such costs to the Agency in accordance with Article 4.1.8. Unless such emergency is due to Negligence, Gross Negligence or Wilful Misconduct on the part of Investor, such costs shall be approved by the Agency, and shall automatically be included in the approved Budget. In case of operational imperatives requiring Agency's approval in a shorter timeframe than provided in Article 4.1.3 the Parties shall endeavour to complete the approval process within such shorter time frame.

5 Exploration

5.1 Exploration Period
5.1.1 The Exploration Period shall commence on the Effective Date and have a duration of five (5) Years, which shall be divided into Exploration Phases as follows:

(a) Phase I of the Exploration Period shall have a duration of three (3) years commencing on the Effective Date of this Agreement;

(b) Phase II of the Exploration Period shall have a duration of two (2) years immediately following Phase I.

The Exploration Period can be extended pursuant to the requirements of the Act twice for a further period of six (6) months

5.1.2 At the expiry of Phase I of the Exploration Period, provided that the Investor has completed the Minimum Work Obligation for that Exploration Phase, the Investor shall have the option, exercisable by filing a written application to the Agency at least two (2) months prior to the expiry of Phase I:

(a) to proceed to Phase II on presentation of the required securities as provided for in Article 15; or

(b) to relinquish the entire Exploration Block except for any Appraisal Area and any Exploitation Field, whether granted or with applications submitted, and to conduct Appraisal Operations and/or Development and Production Operations in relation to any Commercial Discovery in accordance with the terms of this Agreement, and the Investor shall have no further obligation in respect of the Minimum Work Obligation for the subsequent Exploration Phase of the Exploration Period.

The Agency shall give its opinion on the relevant claim with prior approval by the Ministry. If neither of the options is exercised by the Investor, this Agreement shall terminate at the end of Phase I and the Licence shall cease to be valid.

5.1.3 The application for the Phase II Exploration Period shall be accompanied with a map specifying the Exploration Block retained by the Investor, defined in accordance with the provisions of Article 6, together with a report specifying the work performed on the area to be relinquished in accordance with Article 6.1(a) from the Effective Date and the results obtained therefrom.

5.1.4 For any Discovery made at any point during the Exploration Period, the Investor shall have the right to retain such Discovery and its resulting Appraisal Area in order to appraise and submit a Development and Production Preliminary Plan, in accordance with provisions of Article 7. The Exploration Period of the resulting Appraisal Area shall be extended in order to complete such work as further detailed in Article 5.4.5.

5.1.5 If the Investor requests an extension of the Exploration Period, the Government shall decide on such extension by the end of the current Exploration Phase. The approval for such extension shall not be unreasonably withheld.

5.2 Exploration Operations, Minimum Work and Expenditure Obligations

5.2.1 Pursuant to Article 5.2.11, the Investor shall initiate the Exploration Operations within thirty (30) days from the approval of the Work Programme and Budget for the first Agreement Year by the Agency.

5.2.2 During Phase I of the Exploration Period the Investor shall meet the following Minimum Work Obligations:

(a) undertake at least ___________________; with an estimated value of ________________;

(b) undertake at least ___________________; with an estimated value of ________________;

(c) all other Exploration _________________; with an estimated value of ________________;

(d) drill at least ____________________ of minimum target depth __________________, with an estimated value of ________________.

The Investor shall have a Minimum Expenditure Obligation of ________________ for the purpose of the Minimum Work Obligations in the Phase I of the Exploration Period.

The Investor’s pre-effective costs incurred during the first Agreement Year before Work Programme and Budget approval shall be subject to the approval and recovery according to Article 14 of this Agreement.
If changes in the Minimum Work Obligations are necessitated pursuant to Article 5.2.2 or Article 5.2.3 as a result of legal, environmental, safety, operational or permitting constraints or International Good Oilfield Practice considerations, the Agency shall evaluate and, if justified, with prior consent from the Ministry, confirm in a written opinion any request for an adjustment to the Minimum Work Obligations carried out in a specific phase of the Exploration Period. If approved, any such Agency opinion shall be deemed an amendment to the Minimum Work Obligations. The Agency shall be under no obligation to agree a modification to the Minimum Work Obligations based on increased costs or other commercial considerations.

5.2.3 During the Phase II of the Exploration Period the Investor shall carry on the following Minimum Work Obligations:

(a) undertake at least _______________; with an estimated value of _______________; and
(b) all other Exploration _______________; with an estimated value of _______________; and
(c) drill at least _______________; with an estimated value of _______________; 
   (i) one Exploration Well to minimum target depth of _______________, with an estimated value of _______________; and
   (ii) one Exploration Well to minimum target depth of _______________, with an estimated value of _______________.

The Investor shall have a Minimum Expenditure Obligation of _______________ for the purpose of the Minimum Work Obligations in the Phase II of the Exploration Period.

5.2.4 Each Exploration Well mentioned above shall be drilled to the minimum target depth as indicated above, or to a lesser depth, or if discontinuing drilling according with International Good Oilfield Practice if authorised by the Ministry, which is justified by one of the following reasons:

(a) Well reaches its objective formation or basement is encountered at a depth less than the above-mentioned minimum target depth;
(b) technical problems are encountered which make further drilling impracticable or continued drilling is clearly dangerous due to abnormal formation pressure;
(c) rock formations are encountered, the hardness of which makes it impractical to continue drilling with appropriate equipment;
(d) Petroleum formations are encountered prior to objective formation or reaching the target depth, or requiring the installation of protective casings which prevent reaching the above-mentioned minimum target depth; or
(e) conditions are encountered which render further commercial hydrocarbon potential highly unlikely.

In each case, the Investor shall obtain prior approval of the Ministry, prior to discontinuing drilling, which approval shall not be unreasonably withheld, and by this approval, the Well in question shall be deemed to have been drilled to the above-mentioned minimum target depth.

5.2.5 If in an Exploration Phase the Investor drills a number of Exploration Wells and/or conducts a number of seismic surveying greater than the minimum drilling obligations or seismic surveying specified for said phase in the Minimum Work Obligation, the excess Exploration Wells and seismic surveying may be carried forward to a subsequent Exploration Phase and shall be deducted from the minimum drilling obligations specified for the next Exploration Phase.

5.2.6 In the event of a Discovery, all subsequent Wells drilled, in the associated Appraisal Area or Exploitation Field, shall be either Appraisal Wells or Development Wells and shall not count toward a Minimum Work Obligation unless approved by the Ministry.

5.2.7 Within sixty (60) Days following the completion of the Minimum Work Obligations for each phase of the Exploration Period, the Investor shall notify the Ministry and the Agency that Minimum Work Obligations have been fulfilled regarding the respective phase of the Exploration Period. The Agency shall have the right to review the Minimum Work Obligations performed by the Investor.
5.2.8 The Agency shall within thirty (30) Days of receiving such notice, with prior written consent from the Ministry, confirm in writing that the Investor has fulfilled such Minimum Work Obligations of the relevant phase of the Exploration Period.

5.2.9 If the Agency does not dispute in writing, within thirty (30) Days of Investor’s notice that the Investor has fulfilled its Minimum Work Obligations with respect to such phase, the Investor shall be deemed to have completed its Minimum Work Obligations with respect to the relevant phase.

5.2.10 If the Agency disputes in its written report that the Investor has fulfilled its Minimum Work Obligations, such objections shall set forth the full details of Agency’s objections. The Parties shall discuss disputes, which may arise as to whether or not the Minimum Work Obligations have been satisfied, in an effort to reach an amicable solution. Either of the Parties may refer the matter to dispute resolution, pursuant to Article 35, should they remain unable to agree.

5.2.11 The Investor shall obtain, prior to any Exploration activities, all approvals required by or under the Strategic Environmental Assessment of the Framework Plan and Programme of Exploration and Production of Hydrocarbons, and applicable environmental and nature protection legislation, the Act and the regulations. If there is a delay in obtaining any required approvals with respect to environmental and nature protection matters or any other required permit, approval or obligation from the competent authorities of the Republic of Croatia due to reasons not attributable to the Investor, and/or if there are any actions taken by the Government relating to procedure of obtaining the mentioned approvals, which results in a delay of Investor’s Exploration Work Programme, the Exploration Period and/or the Exploration Phase shall be suspended at the request of the Investor and based on the approval by the Ministry, which shall not be unreasonably withheld for a period of time equal to the duration of such delay. Without prejudice to the right of any Party pursuant to Article 34, for the avoidance of any doubt, any suspension, delay or pending approval with respect to the Exploration Period or Exploitation Phase or any other occurrence which may hinder or limit the Investor in carrying out its obligations in any manner under this Agreement, whether caused by the Government or the Investor, shall not affect the Investor’s obligation to make payments of applicable Fees as defined in Article 13.3.

5.2.12 Subject to provisions of this Article and Article 15 of this Agreement, if the Investor fails to meet the Minimum Work Obligations with regard to the applicable Exploration Phase, the Investor shall pay the Government the amount equal to the unexpended balance of the Minimum Expenditure Obligation with respect to the activity not performed pursuant to Article 5.2.2 or 5.2.3 concerning such Exploration Phase. Once the Investor pays the amount of such Minimum Expenditure Obligation to the Government, the Investor shall be deemed to have fulfilled the subject Minimum Work Obligation for all intents and purposes of this Agreement, including, but not limited to, the right to start the next Exploration Phase. For the avoidance of any doubt, once the Minimum Work Obligation has been fulfilled and approved as defined in this Article 5, the Minimum Expenditure Obligation shall also be deemed to have been fulfilled.

5.2.13 The spud of a Well shall be regarded as the start of the Well drilling process by removing rock, dirt and other sedimentary material with the drill bit.

5.3 Discovery

5.3.1 In the event of a Discovery of Petroleum in the Exploration Block, the Investor shall inform the Ministry and the Agency within seventy-two (72) hours of such Discovery, followed by a written notification within thirty (30) Days of the Discovery. The notice shall include all relevant information on the Discovery and particulars on any testing Programme which the Investor intends to carry out pursuant to the Act, as well as in accordance with International Good Oilfield Practice, to contribute to the evaluation of the Petroleum encountered during drilling.

5.3.2 Not later than thirty (30) days after completing the drilling or abandonment of the Discovery Well, the Investor shall submit to the Ministry and the Agency a report including, but not limited to:

(a) all the results of the drilling of the Discovery Well;
(b) the results of any tests being made of the Discovery Well;
(c) a preliminary classification of the Discovery as Crude Oil or Natural Gas; and
(d) a recommendation with respect to any Appraisal Works to be made of the Discovery.

5.3.3 If the Investor notifies the Ministry and the Agency that the Discovery does not merit Appraisal, the Government shall have the option, on three (3) months written notice, to require the Investor to immediately relinquish the Designated Area within the Exploration Block unless the Investor has provided valid justification to retain the Designated Area within the Exploration Block covering the Discovery. The Designated Area within the Exploration Block:
(a) comprises the vertical projection to the surface of the Geological Structure on which the Discovery Well was drilled; and
(b) is determined based on geophysical and other technical information obtained from the Discovery.

5.4 Appraisal

5.4.1 If the Investor considers that the Discovery merits Appraisal, the Investor shall no later than four (4) months following the submission of the report referred to in Article 5.3.2 diligently submit to the Agency a detailed Appraisal Work Programme and the estimated corresponding Budget for approval in a written opinion, designed to determine:
(a) without delay, and in any event within the period specified above whether such Discovery is a Commercial Discovery; and
(b) with reasonable precision, the borders of the area to be delineated as the Exploitation Field.

If the Agency fails to submit the written opinion, with prior consent from the Ministry, on the Work Programme with the estimated corresponding Budget submitted by the Investor approving or requesting amendments within thirty (30) days after its submission, the Work Programme with the estimated corresponding Budget shall be deemed approved.

5.4.2 The Work Programme with the estimated corresponding Budget shall:
a) specify in reasonable detail the Appraisal work including seismic, drilling of Wells and studies to be carried out, the estimated cost of these works and the time frame within which the Investor shall commence and complete the Programme; and
b) specify the presumed extension of said Discovery which shall not exceed the area encompassing the Geological Structure or feature and a reasonable margin surrounding such structure or feature proposed within the Appraisal Area.

5.4.3 The Investor shall implement the Work Programme with the estimated corresponding Budget with due care and within the deadline defined in the Work Programme. The Investor may amend the Work Programme with the estimated corresponding Budget with prior approval in the form of a written opinion of the Agency for which prior consent from the Ministry is required. The approval of the Agency in the form of a written opinion on the Work Programme with the estimated corresponding Budget and the proposed amendments shall not be unreasonably withheld or postponed.

5.4.4 Within three (3) months after the completion of the appraisal Work Programme the Investor shall submit to the Agency a comprehensive evaluation report on the work performed relating to the Work Programme. Such report shall include, but not be limited to, the following information:
(a) geological conditions, such as structural configuration;
(b) physical properties and extent of Reservoir rocks;
(c) pressure, volume and temperature analysis of the Reservoir fluid;
(d) fluid characteristics and qualities, including gravity and composition of liquid and gaseous petroleum, sulphur percentage, sediment and water percentage, and product yield pattern;
(e) production forecasts (per Well and per Field); and
(f) estimates of recoverable reserves, planed delivery rate and pressure, quality specifications and other relevant technical and economic factors including economic feasibility studies carried out by the Investor in respect of its declaration made under Article 5.5.

5.4.5 If upon expiry of the Phase II of the Exploration Period an Appraisal Work Programme with respect to a Discovery is under progress, the Investor may obtain, upon an application to the Government through the Agency, with respect to the Appraisal Area related to the said Discovery, the extension of the Exploration Period for a period of time necessary to complete the relevant Appraisal Works.

5.4.6 If the Investor, after completion of Appraisal, notifies the Ministry and the Agency, in accordance with the provisions of Article 5.5.1, in writing that the Discovery is not commercial, the Government may at the proposal by the Ministry, with a three (3) months’ prior notice, require the Investor to relinquish the Designated Area related to the said Discovery.

5.4.7 Where the Government makes use of the right provided in Article 5.4.6, the Investor shall forfeit its rights to all Petroleum which could be produced from said Discovery, and the Republic of Croatia may then carry out, or cause to be carried out, all the appraisal, development, production, treatment, transportation and marketing work relating to that Discovery, without any compensation to the Investor, provided, however, that said work shall be in accordance with International Good Oilfield Practice and not cause prejudice to the performance of the Petroleum Operations by the Investor.

5.4.8 Any Petroleum quantities produced from the Discovery prior to declaring it a Commercial Discovery are owned by the Republic of Croatia. Such quantities may be used for Petroleum Operations and may be sold if royalty is paid for them pursuant to Article 14.1.

5.4.9 Subject to the provisions of Article 5.4.5, 5.5 and 6.2, if no Commercial Discovery has been made in the Agreement Area by the end of the Exploration Period, which is extended pursuant to this Agreement, this Agreement shall terminate.

5.5 Publication of a Commercial Discovery

5.5.1 In addition to the evaluation report on the work performed pursuant to Article 5.4.4 herein, the Investor shall submit a written statement to the Agency indicating one of the following:

a) that based on the results of its Appraisal Work Programme it has determined that the Discovery is a Commercial Discovery; In that case, the Investor shall submit a reserves study pursuant to the Act and regulations; or

b) that based on the results of its Appraisal Work Programme it has determined that the Discovery is not a Commercial Discovery;

c) that based on the results of its Appraisal Work Programme it has determined that the Discovery is a Significant Gas Discovery which may become a Commercial Discovery conditional on the outcome of further work that the Investor commits itself to carry out under a further Exploration or Appraisal Work Programme in specified areas within or outside the Appraisal Area.

5.5.2 If pursuant to Article 5.5.1(a) the Ministry confirms that the Discovery is a Commercial Discovery in a decision on determining the quantity and quality of the reserves, the Investor shall initiate the procedure for delineating the Exploitation Field pursuant to the Act.

5.5.3. If the Exploitation Field for which the procedure for delineating the Exploitation Field is being initiated is not within the area planned for production pursuant to the Spatial Plan, the Investor shall initiate the procedure for adjusting the production areas with the Spatial Plan in accordance with the borders referred to in the decision on determining the quantity and quality of the reserves.

5.5.4 The Investor shall, within a deadline not exceeding six (6) months from delineating the Exploitation Field, submit to the Ministry for approval the Development and Production Preliminary Plan. The Development and Production Preliminary Plan shall be updated as the engineering and planning work progresses to the stage where the Investor can make a final investment decision regarding whether to proceed with the development and production of the Commercial Discovery.
5.5.5 In case of a Commercial Discovery the Government may propose to establish an operating company responsible for Development and Production Operations of the said Discovery, subject to a separate and express written Agreement with the Investor. In the event of such mutual Agreement, the parties’ organisational structure and detailed rights and obligations regarding such operative company shall be described in a written Agreement and would become an annex to this Agreement.

6 RELINQUISHMENT

6.1 Periodic Relinquishment

6.1.1 The Investor shall:

(a) at the end of Phase I of the Exploration Period relinquish not less than twenty five percent (25 %) of the Exploration Block;

(b) at the end of Phase II of the Exploration Period relinquish the remaining portion of the Exploration Block.

6.1.2 Notwithstanding paragraph 6.1.1 above, the Investor shall not relinquish any part of the Exploration Block which has been made an Appraisal Area or an area for which an Appraisal Work Programme has been submitted to the Agency or an Exploitation Field or a Significant Gas Discovery Area.

6.1.3 Subject to paragraph 6.1.9, the Investor may at any time without the consent of the Ministry and the Agency with at least three (3) months prior written notice to the Ministry and the Agency relinquish all or a part of the Exploration Block with the fulfilment of the legal obligations concerning the area being relinquished. Such voluntary relinquishment of a part of the Exploration Block during the Exploration Period shall not reduce the Minimum Work Obligations defined in Article 5 for the Exploration Phase during which a part of the Exploration Block was relinquished, as well as the amount of the subject security if not otherwise agreed between the Government and the Investor. For the avoidance of any doubt, the relinquishment of the entire Exploration Block at the end of Phase I of the Exploration Period releases the Investor from all Minimum Work Obligations concerning Phase II of the Exploration Period. The area relinquished before the end of Phase I of the Exploration Period shall account for twenty-five percent (25 %) of the Exploration Block which the Investor shall relinquish at the end of Phase I of the Exploration Period.

6.1.4 The Investor shall, subject to paragraphs 6.1.1, 6.1.2 and 6.1.5, propose the size, shape and location of the portion of the Exploration Block which it intends to relinquish pursuant to the provisions of this Agreement.

6.1.5 The notice submitted by the Investor in accordance with paragraph 6.1.3 shall be accompanied by a description of the area to be relinquished with a pertaining map of the area pursuant to the Act.

6.1.6 The block which the Investor is relinquishing according to the provisions of this Agreement shall be confined by the geographic coordinates of its peak points as set out in the official Croatian Terrestrial Reference Coordinate System (HTRS), of sufficient size and appropriate form to enable Petroleum Operations. This applies correspondingly to the areas retained by the Investor.

6.1.7 The Government shall approve the size and form of the Exploration Block that shall remain after relinquishment, and it may allow an exemption from the relinquishment that the block be within a single area. When particular reasons so warrant, the Government may exempt from the requirement to delimit the area in a single area.

6.1.8 If the Investor does not relinquish a portion of the Exploration Block at the time and in the manner required by this Article 6.1, all of the Exploration Block shall be deemed relinquished at the end of the Agreement Year concerned, with prior fulfilment of all legal obligations concerning the Exploration Block being relinquished.

6.1.9 Without the consent of the Government, and notwithstanding paragraph 6.1.1, the Investor shall not relinquish all of the Exploration Block if it has not fulfilled the Minimum Work Obligations or is in breach of any provision of this Agreement.
6.1.10 If the Investor fails to obtain all the required approvals and Licences pursuant to the valid legal regulations concerning environmental and nature protection, as well as to conduct the Strategic Environmental Impact Assessment of the Framework Plan and Programme for Exploration and Production of Hydrocarbons and all other location permit required for the performance of Petroleum Operations and only if such approvals may not be obtained in accordance with the existing administrative or legal procedure or a procedure pursuant to applicable acts, the Investor shall not be obligated to perform Petroleum Operations (i) by limiting them to the operations that were not approved and (ii) only within the Exploration Block included in such approval being withheld. Furthermore, in the case of such approval being withheld, the Investor may, at its own discretion, fully or in part, amend its proposed approach and propose a new approach.

6.2  **Final Relinquishment of an Exploration Block**

6.2.1 After the expiry of the Exploration Period, the Investor shall relinquish the entire Exploration Block, except for the part in which the Exploitation Field has been delineated.

6.2.2 If, at the end of the Exploration Period, a Discovery has been made but there has been insufficient time for the Investor (acting, and having acted, in accordance with this Agreement) to conduct an Appraisal of such Discovery, or there is a Significant Gas Discovery, the obligation of the Investors under this Article 6.2 shall, subject to the provisions of the Regulations, be postponed:

(a) for such area as the Investor proposes and the Ministry may determine to be necessary for Appraisal of the Discovery;

(b) for such period as is reasonably necessary to permit the Investor to Appraise (or to complete the Appraisal of) the Discovery; and

(c) for the Investor to decide whether to declare a Commercial Discovery and, if it does so, for the Ministry to declare an Exploitation Field in respect of it pursuant to the Act.

6.3  **Exploitation Field Relinquishment**

6.3.1 In addition to receiving the approval of the Government, the Exploitation Field is also considered to be relinquished in the following cases:

(a) production from the Exploitation Field ceasing permanently or for a continuous period of eighteen (18) months or such greater period as determined by the Act; save where such cessation is due to a Force Majeure event, or

b) in case of the expiry of the Production Period.

6.4  **Continuing Obligations in respect of the Relinquished Area**

6.4.1 This Agreement shall terminate in respect of a part of the Agreement Area which is relinquished.

6.4.2 The relinquishment of all or a part of the Agreement Area is without prejudice to the obligations of the Investor related to Decommissioning.

6.4.3 No relinquishment made in accordance with this Article 6 shall relieve the Investor of the obligation to pay surface Fees accrued, or making payments due and payable as a result of Petroleum Operations conducted prior to the date of relinquishment.

6.4.4 The Investor shall be liable and shall bear the cost and expenses for all claims, damages or losses arising out of or related to Environmental Damage resulting from suspended and abandoned Wells and other facilities for a period of five (5) Calendar Years following the relinquishment of a portion of the Exploration Area or the relinquishment of a Exploitation Area that includes such Wells or facilities unless Investor can demonstrate that the pollution and damages are caused by Force Majeure or by actions or omissions of others.

7 DEVELOPMENT AND PRODUCTION

7.1 Development and Production Preliminary Plan
7.1.1 After confirming a Commercial Discovery, as defined in Article 5.5.2, the Investor shall prepare and submit to the Ministry for consent the Development and Production Preliminary Plan for the Exploitation Field and all amendments thereto. The Investor may not perform any activities with reference to the Development and Production Preliminary Plan prior to such approval being obtained save with the express permission to enter into specific activities granted by the Ministry. The approval of the Development and Production Preliminary Plan by the Ministry shall not be unreasonably withheld or postponed. Failing notice by the Ministry to the Investor of a requirement to amend or modify the Development and Production Preliminary Plan within sixty (60) days following submission, the Development and Production Preliminary Plan shall be deemed approved as submitted.

7.1.2 The Development and Production Preliminary Plan shall include but not be limited to:

(a) description and a map of the estimated extent of the Exploitation Field;

(b) all information and data pertaining to the characteristics of the Commercial Discovery, including but not limited to: geological and geophysical information, areas, thickness and extent of the productive strata, petrophysical properties of the Reservoir formations, PVT data, the Reservoir’s productivity indices for the Wells tested at various flow rates, permeability and porosity of the Reservoir formation, the relevant characteristics and qualities of the Petroleum discovered, additional geological data and evaluations of the Reservoir, reserves estimates, and any other relevant characteristics and properties of the Reservoir and fluids contained therein, as well as evaluations, interpretations and analysis of such data;

(c) a description of the proposed Reservoir development and management Programme;

(d) an evaluation of the commerciality of the Development, including a full economic evaluation with an estimate of the petroleum reserves, both proven and probable (confirmed by a third party independent report), and of the corresponding production profiles, as well as a study on the methods for recovery of Petroleum and utilization of Natural Gas, if any;

(e) In the event of Associated Natural Gas, the Investor shall give an assessment of the possibility of such Associated Natural Gas exceeding the quantities of Natural Gas necessary for the requirements of the Petroleum Operations related to the production of Crude Oil (including reinjection operations) and if it considers that such excess Associated Natural Gas is capable of being produced in commercial quantities together with any analysis made thereof;

(f) an assessment and presentation of the possible outlets for the Natural Gas from the Discovery in question, both on the local market and for export;

(g) proposals as to the possibility of a joint marketing of the Parties shares of Petroleum;

(h) details of:

i. the geological and the Reservoir work done, together with the production profiles simulated, in order to reach the optimum hydrocarbon extraction;

ii. the work, facilities and services required for the development and production of the Reservoir, including, *inter alia*, drilling schedules, number of Wells, Well spacing and any other related activities. Proposals relating to production procedures shall ensure that the area does not suffer an excessive rate of decline of production, or an excessive loss of Reservoir pressure, and shall ensure environmental protection conforming to International Good Oilfield Practice and comply with the Regulations;

iv. the production, treatment and transportation facilities to be located in the Republic of Croatia. Proposals relating to facilities shall provide for the optimal use of existing or planned facilities;

v. facilities, wherever located, which are connected to any such facilities as aforesaid and which (or the operation of which) might affect the integrity, management or operation thereof;
vi. the Delivery Point;

vii. The Measurement Point;

(i) the production profiles for all Petroleum products, including possible injections for the life of the Development, the commencement of Production and the specific rates of Petroleum Production, and the level of production and of deliveries which the Investor submits, should constitute the start of Commercial Production;

(j) an estimated Decommissioning Plan, including an estimated calculation of the Decommissioning Costs, the estimated annual amount in the Decommissioning Fund provided for in Article 9 and the Investor’s opinion for the Decommissioning security;

(k) a risk management plan developed in accordance with the requirements of the applicable legislation and regulations of the Republic of Croatia and the Applicable Environmental Legislation, including the measures and directions established by the Ministry to prevent any damage and remove any hazards that the Petroleum Operations may cause to affected communities, Investor’s personnel and the environment;

(l) an emergency response plan developed in accordance with the requirements of the Regulations and of the Applicable Environmental Legislation, including measures to respond to any accident that may occur at the site of the Petroleum Operations, medical treatment and evacuation of personnel and surrounding populations and the protection of the environment;

(m) the Investor’s proposals for:
   i. the use of local goods, operations services; and
   ii. training and employment;

(n) the estimated Development and Production Expenditure including, but not limited to covering the feasibility, fabrication, installation, commissioning and pre-production stages of the Development;

(o) the Investor’s proposals for financing, hereunder full information as to the Investor’s current financial status, technical competence and experience;

(p) the Programme and time-schedule for the performance of the Development and Production Operations, including the estimated date of the commencement of Petroleum Production;

(q) where any Reservoir(s) extend beyond the Agreement Area, a suggested unitization or unit development plan;

(r) such other data and information (including in respect of insurance to be obtained by the Investors, and buyers and shippers of Petroleum) as the Act and regulations require and as the Ministry and the Agency otherwise requires.

7.1.3 From time to time, and in like manner, the Investor shall submit, for the approval of the Ministry, amendments to the Development and Production Preliminary Plan.

7.1.4 In determining whether to approve a Development and Production Preliminary Plan or an amendment to it properly submitted by the Investor, the Ministry shall give due consideration to the Investor’s proposal to secure the implementation of the activity described in 7.1.2(j) in respect of the Exploitation Field.

7.1.5 The Ministry may propose amendments to the Development and Production Preliminary Plan, as well as the requested Exploitation Field.

7.1.6 The Ministry may request that the Investor amend the Development and Production Preliminary Plan to stipulate that the Hydrocarbons are to be transported in pipeline systems in accordance with Article 19.2.1 provided that such transportation is not economically or otherwise damaging to the Investor. In that case the Ministry may, at the request of the Investor, extend the term for submitting the Development and Production Preliminary Plan. The Ministry shall specify its reasons for not approving the Development and Production Preliminary Plan or an amendment to it. However, in no case such approval shall be unreasonably withheld.
7.1.7 The Development and Production Preliminary Plan shall be such as would be undertaken by a person seeking diligently to develop and exploit (in accordance with this Agreement, the Act and International Good Oilfield Practice) the Petroleum in the Exploitation Field to the best interests of the Parties during the term of this Agreement.

7.2 Supplementary Development and Production Plan

7.2.1 After delineating the Exploitation Field and approving the Development and Production Preliminary Plan, the Investor shall prepare the plan's Environmental Impact Assessment and obtain a location permit pursuant to the act governing spatial planning.

7.2.2 After obtaining the location permit, the Investor shall submit to the Ministry the Development and Production Plan for verification pursuant to the Act and regulations.

7.2.3 In addition to the content included in Article 7.1.2, the Development and Production Plan includes all other elements provided for in the Act and regulations.

7.3 Issuing the Production Licence for Hydrocarbons

7.3.1 After verifying the Development and Production Plan, the Investor shall be issued a Licence for hydrocarbon recovery. Such Licence for hydrocarbon recovery shall be issued by the Government based on the decision adopted by the Government, pursuant to the Act, without conducting any other procedure, provided that the Investor meets all of the requirements provided for in the Act. The Licence for hydrocarbon recovery shall constitute an inseparable integral part of the Licence and this Agreement, and shall enable the Investor to commence and carry out Development and Production Operations in the Exploitation Field in accordance with the Development and Production Plan if the Investor has obtained all the required approvals and Licences.

7.3.2 Where a part of a Reservoir in respect of which a Commercial Discovery has been declared extends beyond the Agreement Area, such area shall, with consent by the Government, be included in the proposed Exploitation Field, in relation to the Licence for hydrocarbon recovery, provided that such area is:

(a) not subject to a Licence for hydrocarbon recovery granted to any other Person;
(b) not the subject of negotiations/tendering procedure for a Licence for hydrocarbon recovery; and
(c) available for licensing (i.e. is not an area over which Petroleum Operations are excluded).

The Parties may agree on the terms and conditions of inclusion of such additional area into the Exploitation Field pursuant to the Act and regulations.

7.4 Production Rate and Lifting

7.4.1 The Investor shall use all reasonable efforts to produce Petroleum in the most efficient manner which is economic and in accordance with International Good Oilfield Practice in compliance with Article 20 of this Agreement. The Investor shall submit to the Ministry and the Agency not later than sixty (60) days prior to commencement of Production from each Exploitation Field and then prior to commencement of each Calendar Year an estimated production schedule for each Exploitation Field.

7.4.2 In the case of more than one Commercial Discovery in the Exploration Block or more than one quality of Crude Oil in a Field, the Government and Investor shall, unless they mutually agree that the Crude Oils should be commingled, lift from each Commercial Discovery Crude Oil quantities in proportion to their respective total lifting from the Agreement Area. Natural Gas deriving from more than one Commercial Discovery in the Agreement Area shall to the extent feasible be lifted and transported in one commingled stream.

8 UNIT DEVELOPMENT AND JOINT OPERATIONS

If a Reservoir that exists in a Discovery Area is situated partly within the Agreement Area and partly in an area in the Republic of Croatia over which other parties have an Agreement to conduct Petroleum Operations pursuant to the Act and regulations, the Investor shall notify the Ministry and
the Agency and provide such information as the Ministry and the Agency may reasonably request in connection therewith.

8.1.2 If a Reservoir in a Discovery Area is situated partly within the Agreement Area and partly in an area in the Republic of Croatia over which other parties have an Agreement to conduct Petroleum Operations pursuant to the Act and both parts of the Reservoir can, in the reasonable opinion of the Government, be more efficiently developed together on a commercial basis, on receiving information in writing from any party to these Agreements or any information on this from any bona fide source, the Ministry and/or the Agency may, for securing the more effective recovery of Petroleum from such Reservoir, by notice in writing to the Investor, require the Investor:

(a) to cooperate and reach an Agreement with such parties pursuant to International Good Oilfield Practice concerning the unit development of the Reservoir as a whole;

(b) to submit an Agreement on unit development concluded between the Investor and such parties to the Ministry for approval within twelve (12) months from the date of receiving the notification by the Ministry. Within sixty (60) days from the date of submitting the Agreement on unit development, the Ministry shall submit a notification on approval, denying approval and/or required amendments to the Agreement on unit development to the Investor and the parties concerned; and

(c) to prepare a preliminary plan for unit development of the Reservoir within twelve (12) months from the date of approving the Agreement referred to in (b) above.

8.1.3 If no plan is submitted within the period specified or such longer period as the Ministry and the Agency and the Investor and the other parties may agree, or, if such plan, as submitted, is not acceptable to the Ministry and the Agency and the parties cannot agree on amendments to the proposed unit development of the Reservoir, the Agency may cause to be prepared by an expert, at the expense of the Investor and such other parties a plan for such unit development of the Reservoir, consistent with International Good Oilfield Practice. If the Ministry and the Investor can’t agree on an expert, the Government or the Investor may refer the matter for Dispute Resolution pursuant to Article 35.

8.1.4 If a proposed unit development plan for the Reservoir is agreed and adopted by the parties, or adopted following determination by the expert, the plan, as finally adopted, shall be the approved unit development plan for the Reservoir and the Investor shall comply with the terms of the said plan.

8.1.5 The provisions of this Agreement shall apply mutatis mutandis to a Discovery of a Reservoir located partly within the Agreement Area, which, although not equivalent to a Commercial Discovery if developed alone, would be a Commercial Discovery if developed together with that part of the Reservoir which extends outside the Agreement Area to the areas subject to Agreement for Petroleum Operations by other parties pursuant to the Act.

8.1.6 Where otherwise non-commercial volumes of Petroleum in the Agreement Area would, if exploited together with Reservoirs in an area adjacent to the Agreement Area, be commercial and not economically or otherwise damaging to the Investor, the Ministry may require the Investor and the Investor of that adjacent area to share facilities pursuant to the Act and in accordance with International Good Oilfield Practice. The request of the Ministry shall not be binding to the Investor, and the Investor shall consider the request bona fide and its consent shall not be unreasonably withheld.

8.1.7 If the Government enter into negotiations for unit development plan for the Reservoir or an Agreement for a unit development zone with a neighbouring country involving a Reservoir that exists in a Discovery Area that is situated partly within the Agreement Area and partly within the borders of the neighbouring country, the Government shall submit such unit development plan for the Reservoir or Agreement for a unit development zone to the Investor prior to execution, and the Investor shall have the right to propose modifications of such unit development plan or Agreement for unit development of the Reservoir. If the Government and the Investor fail to reach an Agreement concerning the proposed amendments and/or modifications within sixty (60) days from
the date on which the unit development plan for the Reservoir or the Agreement on unit development of the Reservoir was submitted to the Investor, then the Government and the person appointed and authorised by the Investor to act on behalf of the Investor with regard to this Agreement, or the Investor’s licensees shall meet in order to reach an Agreement on the terms of the unit development plan for the Reservoir or an Agreement on unit development of the Reservoir, whereby the Investor shall in no event accept the proposed unit development plan if such plan is economically or otherwise damaging to the Investor.

9 Decommissioning

9.1 Decommissioning Plan, Budget and Fund

9.1.1 No later than six (6) years prior to the anticipated date of Decommissioning of a Field or as soon as possible prior to the termination of, or relinquishment of a part of, any Agreement Area, the Investor shall in accordance with applicable Act and regulations submit to the Agency the relevant detailed Decommissioning Plan with the corresponding Budget prepared in accordance with the verified Development and Production Plan, and which shall include a detailed technical and engineering description of the Decommissioning, removal and disposal of the facilities and installations, and of the site clean-up and restoration measures including the estimated Decommissioning Costs (hereinafter: Decommissioning Cost). The Agency shall approve the Decommissioning Plan in a written opinion.

9.1.2 The Agency may request amendments to the above-mentioned Decommissioning Plan, by notice to the Investor including all the justifications deemed necessary, within ninety (90) days following receipt of said plan. In such a case, the Agency and the Investor shall meet as soon as possible to review the requested amendments and establish by mutual Agreement the plan in final form, pursuant to the Act and regulations and in accordance with International Good Oilfield Practice. The date of the favourable opinion shall be the date of the above-mentioned mutual Agreement. Failing notice by the Agency to the Investor of the need to amend or modify the Decommissioning Plan within the above mentioned period of ninety (90) days, Decommissioning Plan shall be deemed approved by the Agency in its favourable opinion upon the expiry date of said period.

9.1.3 The Decommissioning Plan shall be revised and resubmitted to the Agency for an opinion at such times as are reasonable having regard to the likelihood that the Decommissioning Plan, including estimated Decommissioning Costs thereunder, may need to be revised.

9.1.4 In order to secure the implementation of the Decommissioning Plan, the Investor shall be required to establish a Decommissioning Fund, as from the verification of the Development and Production Plan and approve with the Agency the Formula for Determination of amount of payment into this Decommissioning Fund. Such fund shall be deposited in an interest bearing escrow account in a bank acceptable to the Parties. Such annual provisions shall be deemed to be Petroleum Costs and recoverable pursuant to Article 14.

9.1.5 The Investor shall start paying the amounts in the Decommissioning fund in accordance with estimated Decommissioning Plan contained in the reviewed Development and Production Plan, but in any case not before the first anniversary of the commencement of commercial production.

9.1.6 It is the intent of the Parties that the total payment into the Decommissioning Fund made by Investor for any Field shall equal the Decommissioning Cost Estimates of such Field at the time Decommissioning Operations are to be conducted or at the expiry of this Agreement, whichever is earlier.

9.1.7 In the event that the actual Decommissioning Costs exceed the total amount paid into the fund, the remaining balance of the relinquishment costs shall be borne by the Investor. If actual Decommissioning Costs are lower than the total accumulated provisions, the remaining balance of the reserve fund shall be vested in the Republic of Croatia, and shall be deemed to be Petroleum Costs recoverable pursuant to Article 14.
9.1.8 The Investor shall continue to be liable pursuant to the applicable Act and regulations, after the term of this Agreement, for any damage, claim, cost, or expense arising from the Petroleum Facilities relating to Decommissioning, due to causes which have arisen or which have accrued during the term of this Agreement and which are attributable to the Gross Negligence or Wilful Misconduct of the Investor.

9.1.9 If excess funds remain in the Decommissioning Fund following completion of all Decommissioning and such funds have not been subject to full Cost Recovery, such excess funds shall be distributed to Investor. If excess funds remain in the Decommissioning Fund following completion of all relinquishment and such funds have been subject to full Cost Recovery, then such excess funds shall be transferred to the Government.

9.1.10 During the Exploration Period, and prior to the commencement of operations, the Investor shall issue a security in accordance with the Decommissioning Plan which is an integral part of the verified Exploration Well drilling project.

9.2 Scope of the Decommissioning Obligation

9.2.1 Except for those facilities and assets, which the Ministry has notified the Investor should not be removed, the Investor shall, in accordance with the Decommissioning Plan and pursuant to the Act and regulations, on expiry of the Agreement or relinquishment of a part of the Agreement Area:

(a) remove from the Agreement Area or part of the Agreement Area or abandon in place, pursuant to the Act and regulations and in accordance with International Good Oilfield Practice, all Wells, facilities and assets used in the conduct of Petroleum Operations, including, without limitation, pipelines, equipment, production and treatment facilities, electrical facilities, landing fields, and telecommunication facilities;

(b) perform all necessary site restoration and Decommissioning activities.

10 HEALTH, SAFETY AND ENVIRONMENTAL PROTECTION

10.1 The Government places a high priority on the preservation and protection of the environment, both onshore and offshore. The Government and the Investor recognize that Petroleum Operations may have some impact on the environment. Accordingly, in performance of this Agreement, the Investor shall conduct Petroleum Operations with due regard to concerns with respect to protection of the environment and conservation of natural resources and shall in particular:

(a) implement International Good Oilfield Practice and standards including advanced technologies, practices and methods of operation for the prevention of Environmental Damage in the conduct of its Petroleum Operations;

(b) establish, keep up to date and further develop a management system designed to ensure compliance with the health, safety and environment requirements in accordance with the International Good Oilfield Practice and in compliance with legislation and regulations of the Republic of Croatia.

(c) take all necessary and adequate steps to:

i. prevent Environmental Damage and, where some adverse impact on the environment is unavoidable, to minimise such impact and the consequential effects thereof on property and people;

ii. ensure payment of adequate compensation for injury to persons or damage to property caused consequent to Petroleum Operations, and the amount so paid as compensation shall not be deemed to be a recoverable cost under this Agreement;

iii. if the Investor does not act promptly so as to control or clean up any pollution or make good any damage caused, Government may, after giving the Investor reasonable notice in the circumstances, take any actions which are necessary pursuant to the legislation and regulations of the Republic of Croatia and in accordance with International Good Oilfield Practice, and the costs and expenses of such actions shall be borne by the Investor;
(d) act in accordance with obtained approvals related to Environmental Impact Assessment, employ an effective monitoring Programme as provided in this Agreement and applicable legislation and regulations of the Republic of Croatia.

(e) implement the proposals contained in its Development and Production Plan regarding the prevention of pollution, the treatment of wastes and the safeguarding of natural resources.

(f) at all-times comply with requirements of current health, safety and environmental legislation and regulations of the Republic of Croatia and treaties adopted by the Republic of Croatia as well as with any health, safety and environment (HSE) standards and rules agreed between the Parties.

10.2 In the event of:

(a) an emergency or accident arising from Petroleum Operations affecting the environment, the Investor shall forthwith notify the Ministry and the Agency accordingly and deal with it pursuant to approved intervention plans and pursuant to the legislation and regulations of the Republic of Croatia;

(b) any fire or oil spill, Investor shall promptly implement the relevant contingency plan;

(c) any other emergency or accident arising from Petroleum Operations affecting the environment, Investor shall take such action as may be prudent and necessary in accordance with International Good Oilfield Practice in such circumstances and as may be required under international obligations entered into by the Republic of Croatia, as well as all other measures ordered in such case by the competent authorities of the Republic of Croatia.

10.3 If Investor’s failure to comply with certain provisions of this Agreement results in Environmental Damage, the Investor shall take all necessary measures to remedy the failure and effects thereof in accordance with Applicable Environmental Legislation.

10.4 When entering into an Agreement, the Investor shall ensure that its Subcontractors and suppliers are qualified to fulfil the legal requirements relating to health, safety and the environment. Any Agreement entered into between the Investor and its Subcontractors relating to Petroleum Operations shall include the terms set out in this Agreement and any established measures and methods for the implementation of Investor’s obligations in relation to the health, safety and environmental protection under this Agreement.

11 INVESTOR’S GENERAL RIGHTS AND OBLIGATIONS, GOVERNMENT ASSISTANCE AND CONTROL

11.1 Investor’s General Rights

11.1.1 The Investor holds the exclusive right to perform Petroleum Operations within the Exploration Block and the Exploitation Field.

11.1.2 For purposes of performing the Petroleum Operations, the Investor shall have the right to lay pipelines and build communication and infrastructure facilities, access available infrastructure of the Republic of Croatia, subject to a prior approval, and exercise other ancillary rights as may be reasonably necessary for the conduct of Petroleum Operations subject to obtaining the required approvals and in compliance with the legislation and regulations of the Republic of Croatia.

11.1.3 The Investor shall have other rights as provided in this Agreement, the Act and other legislation and regulations of the Republic of Croatia.

11.2 Investor’s General Obligations

11.2.1 The Investor shall conduct Petroleum Operations in accordance with the Act, the regulations and individual administrative decisions issued by virtue of the Act as well as with all other applicable legislation and regulations at any time in force in the Republic of Croatia.

11.2.2 The Investor shall assure that anyone performing work for him, either personally, through personnel or through Subcontractors, shall comply with the provisions of Article 11.2.1.

11.2.3 The Investor shall supply all the necessary funds and purchase or rent all the equipment and materials required for the performance of the Petroleum Operations. The Investor shall also supply
all the technical expertise, including the engagement of the foreign personnel and Subcontractors required for the performance of the Petroleum Operations, subject to provisions of Article 28. The Investor shall be responsible for the preparation and implementation of the Work Programmes which shall be performed in the most appropriate way in accordance with Article 4 of this Agreement and International Good Oilfield Practice.

11.2.4 The Investor shall provide good working conditions, appropriate living accommodations, and access to medical attention and nursing care for all personnel employed by it or its Subcontractors in Petroleum Operations pursuant to the Act and regulations and in accordance with International Good Oilfield Practice.

11.2.5 The Investor shall furnish the Ministry, the Agency and its authorised representatives of the Government with such information, reports, records and accounts relating to the Petroleum Operations in the Agreement Area pursuant to the timeline and procedures as may be required and detailed in provisions of this Agreement, the Act and any other applicable acts and regulations of the Republic of Croatia.

11.3 Government Assistance

11.3.1 At the Investor’s request, and in the prescribed manner and pursuant to applicable acts and regulations of the Republic of Croatia, within its competence and to the extent possible, the Government shall, acting through the Agency or all other persons appointed by the Government, provide the Investor with assistance:

(a) at the Investor’s cost, where it is so required in obtaining necessary approvals, permits, consents, authorisations, visas, work permits, Licences, rights of way, easement, surface rights and security protection pursuant to this Agreement;

(b) in complying with import/export controls and regulations and custom formalities and where applicable obtaining exemptions from customs and other duties;

(c) to obtain onshore facilities at the Investor’s cost, in the event that such facilities are required outside the Agreement Area for Petroleum Operations (including storage, loading and processing facilities, pipelines and offices and access to land required for such facilities).

(d) in obtaining access to all geological, geophysical, drilling, Well and production information for the Agreement Area.

(e) in providing the right of ingress and egress from the Agreement Area and any facilities used in Petroleum Operations, wherever located, provided such right is within their control.

11.3.2 Upon presentation of appropriate documentation to Investor, the Government shall be promptly reimbursed by Investor for all reasonable costs incurred in providing the assistance requested by Investor as per Article 11.3.1, assuming that the Investor and the Agency have previously agreed on the amount of such costs.

11.4 Government Control

11.4.1 At all times during the term of this Agreement the competent authorities of the Republic of Croatia shall have over the right to control and inspect the activities of the Investor pursuant to provisions of this Agreement and applicable legislation and regulations of the Republic of Croatia.

12 OPERATOR AND ADVISORY COMMITTY

12.1 Operator

12.1.1 _______________________ is designated the Operator under this Agreement.

12.1.2 The Operator shall diligently and in accordance with this Act and regulations, as well as with International Good Oilfield Practice perform Petroleum Operations on behalf of the Investor. The Operator shall be the only legal entity which may, on behalf of the Investor, execute Agreements, incur costs, assume commitments and implement other actions in connection with the Petroleum Operations.
12.1.3 There shall only be one (1) Operator. Only the Investor or one of the Investor Parties shall be the Operator.

12.1.4 For all purposes of this Agreement, the Operator shall represent the Investor and the Ministry and the Agency may deal with the Operator. The Operator shall be subject to all of the specific obligations provided for in this Agreement and in the applicable Act and regulations and shall have the exclusive control and administration of the Petroleum Operations.

12.1.5 The Investor shall at any time have the right to appoint another legal entity as the Operator, upon giving prior written notice of such appointment to the Government not less than thirty (30) days in advance. Such new Operator shall be approved by a Government decision, provided that such approval is not unreasonably withheld or delayed.

12.1.6 The Government may decide that the Operator is no longer capable of performing this function if:

a) it has become insolvent or declared bankrupt;

b) it committed (i) a substantial violation of the Agreement and (ii) failed to initiate the resolution of this violation within thirty (30) days upon receipt of the Ministry’s notification stating the details of the violation and/or failed to resolve the violation within six (6) months upon receipt of the Ministry’s notification.

12.1.7 If, pursuant to paragraph 12.1.6 of this Article, the Operator is no longer considered capable of performing its role, the Ministry may request that a new Operator be nominated by sending a written notification to the Operator and the legal entities constituting the Investor. Then the Investor shall propose a new Operator to the Ministry within thirty (30) days.

12.2 Advisory Committee

12.2.1 Within sixty (60) days from the Effective Date the Agency shall establish the Advisory Committee (hereinafter: Advisory Committee) for the purpose of providing orderly advice and coordination of all matters pertaining to the Petroleum Operations and the Work Programmes and agree on the procedures to govern activities of this Commission. Within such period, the Agency and the Investor shall by written notice nominate its respective members of the Advisory Committee and their deputies.

12.2.2 The Advisory Committee shall comprise two (2) members designated by the Agency and two (2) members designated by the Investor.

12.2.3 Either Party may replace any of its representatives or designate a different representative by written notice to the other Party. The chairman of the Advisory Committee shall be the chairman of the Board of the Agency (hereinafter: the Chairman). The vice-chairman of the Advisory Committee shall be one of the members designated by the Investor (hereinafter: the Vice-Chairman). In the absence of the Chairman, the Vice-Chairman shall chair the meeting of the Advisory Committee.

12.2.4 Each Party shall have the right to invite a reasonable number of observers as deemed necessary to attend the meetings of the Advisory Committee.

12.2.5 The Advisory Committee shall review, deliberate, and give advice, suggestions and recommendations regarding the following subject matters as the case may be for the following:

a. Work Programmes and Budgets; and on any subsequent amendments thereto; as proposed by the Investor;

b. relinquishment of areas;

c. the Investor’s activity reports;

d. the determination of any Discovery as a Commercial Discovery, providing Declaration of Commerciality remains at a sole discretion of the Investor;

e. production levels submitted by the Investor, based on International Good Oilfield Practice;

f. Accounts of Petroleum Costs;
g. Procurement procedures for potential Subcontractors, goods and/or services, submitted by the Investor;

h. the Investor’s Accounting Procedures, the presentation of the statements of Recoverable Costs, and on the form and maintenance of operating records and reports on Petroleum Operations;

i. the Development and Production Preliminary Plan, the Development and Production Plan and relative Budgets, and on any subsequent amendments thereto, as proposed by the Investor;

j. the Decommissioning Plan and each Decommissioning Work Programme and Budget and all its subsequent amendments, at the Investor’s proposal;

k. any material revision to the Development and Production Plan, the production schedule, Lifting Schedule and Development and Production Work Programmes and Budgets;

l. any material revision to, procurement procedures for goods and/or services, submitted by the Investor;

m. a bank in which to place the Decommissioning Fund, in accordance with Article 9;

n. any proposed Decommissioning Plan submitted pursuant to Article 9 on any Decommissioning Work Programme and Budget;

o. any Terms of Reference which shall be prepared and agreed for the purposes of expert determination, pursuant to Article 35;

p. any costs in excess of five percent (5%) of the total Budget or ten percent (10%) for any individual item above any Budget; and

q. any matter having a material effect on Petroleum Operations.

12.2.2 The Advisory Committee shall have only an advisory role and shall not be authorised to bind the Investor in any manner.

13 BONUSES AND FEES
13.1 Payments

13.1.1 All payments by the Investor shall be made in Kuna (HRK). If the Kuna ceases to be the official currency of the Republic of Croatia, any amounts indicated herein in Kuna (HRK) shall be converted to the new currency in the manner specified in Article 32.1.4.

13.1.2 In the event of a change in the exchange rate of the Kuna (HRK) by more than 5% (5%) in relation to the Euro (EUR), for the purpose of paying bonuses and Fees set out in this Article 13, they shall be converted to ensure the same relationship and the establishment of an equilibrium exchange rate, taking into account the valid exchange rate in Euro (EUR) at the date of signing the Agreement, determined by applying the middle exchange rate published by the Croatian National Bank.

13.2 Bonuses

13.2.1 The Investor shall pay the Republic of Croatia the following amounts as bonuses:

(a) Signatory Bonus: ________________________ no later than ten (10) days from the date of entry into force of this Agreement, payable in Kuna as defined in Article 13.1 of this Agreement, by applying the exchange rate pursuant to Article 32.1.3;

(b) Production Bonuses:

Oil Fields

i. ________________________ kuna at the beginning of daily production;

ii. ________________________ kuna after cumulative production of ______________________
Barrels of oil equivalent;

iii. ________________________ kuna after cumulative production of ______________________
Barrels of oil equivalent;

iv. ________________________ kuna after cumulative production of ______________________
Barrels of oil equivalent;

v. ________________________ kuna after cumulative production of ______________________
Barrels of oil equivalent.

Gas Fields

i. ________________________ kuna at the beginning of daily production;

ii. ________________________ kuna after cumulative production of ______________________
Barrels of oil equivalent;

iii. ________________________ kuna after cumulative production of ______________________
Barrels of oil equivalent;

iv. ________________________ kuna after cumulative production of ______________________
Barrels of oil equivalent;

v. ________________________ kuna after cumulative production of ______________________
Barrels of oil equivalent.

13.3 Fees

13.3.1 The Investor shall pay the Republic of Croatia the following surface Fees:
(a) ________________ Kuna per square kilometre of Exploration Block annually during the Exploration Period;

(the surface Fees are defined by the provision of Article 51 herein).

(b) ________________ Kuna per square kilometre of Exploitation Field annually during the period of exploitation of each Exploitation Field.

(the surface Fees are defined by the provision of Article 51 herein).

For the Calendar Year in which this Agreement is executed, the surface Fee set forth in paragraph (a) above shall be prorated from the Effective Date through December 31st of said Calendar Year, and shall be paid within thirty (30) calendar days after the Effective Date.

For succeeding Calendar Years the surface Fees set forth in paragraph (a), above shall be paid in advance, thirty (30) calendar days before the beginning of each Calendar Year.

For the Calendar Year in which a Licence for the Exploration and Production of Hydrocarbons is granted for a given area, the surface Fee set forth in paragraph (b) shall be prorated from the date of granting said Licence for the Exploration and Production of Hydrocarbons through December 31st of said Calendar Year.

For succeeding Calendar Years the surface Fees set forth in paragraph (b), above shall be paid in advance, thirty (30) calendar days before the beginning of each Calendar Year.

The basis of computation of said surface Fees shall be the surface of the Exploration Block and, where applicable, of the Exploitation Field(s), kept by the Investor on the date of payment of said surface rentals.

In the event of relinquishing an area during a Calendar Year or in the event of Force Majeure, the Investor shall have no right to be reimbursed for the surface Fees already paid.

13.3.2 The Investor shall pay an administration Fee of ________________ Kuna during the first year of this Agreement increasing annually at a rate of four per cent (4 %) for the unexpired term of the Agreement. Such charges shall be payable within thirty (30) days of the Effective Date of this Agreement and thereafter within the first thirty (30) days of each Agreement Year: In the event of suspending operation during a Calendar Year or in the event of Force Majeure, the Investor shall have no right to be reimbursed for the administrative Fees already paid.

(the pecuniary fee for administrative costs is defined by the provision of Article 51 herein).

13.3.3 The bonuses, surface and administrative Fees required under this Article 13 shall not be included in the Petroleum Costs for purposes of cost recovery under Article 14.1.

14 ROYALTY, RECOVERY OF PETROLEUM COSTS AND Production Sharing

All Recovered Petroleum from each Exploitation Area shall be measured at the applicable Measurement Points. The value of Recovered Petroleum determined pursuant to the provisions of Article 16 shall be distributed in the following order and shares:

(a) _______ percent (___%) equal to the value of all Recovered Petroleum shall be payable to the Republic of Croatia as a Royalty as provided in Article 14.1;

(the royalty is defined by the provision of Article 51 herein).

(b) the remaining _________ percent (____%) of all Recovered Petroleum shall be sub-divided between the Republic of Croatia and the Investor:

i. first as a recovery of Petroleum Costs from all Discoveries in aggregate by the Investor with a cost recovery ceiling of ________________ percent (____%) as provided in Article 14.2, and

ii. then as a profit sharing between the Republic of Croatia and the Investor (based on the “R” Factor calculations) as provided in Article 14.3.

Subject to provisions of this Agreement, Investor shall be entitled to take and receive and freely export its Cost Oil and Cost Gas and share of Profit Oil and Profit Gas.

14.1 Royalty
14.1.1 Equivalent of \( \boxed{\text{\%}} \) of the value of Recovered Petroleum at the Measurement Point shall be payable to the Republic of Croatia in cash as a Royalty after the end of each month. The Investor may sell that Petroleum on an Arm’s Length basis pursuant to Article 16 in order to fulfill this obligation. If such Arm’s Length Sales is not possible or cannot be performed, the current Market Price defined by Article 16 shall be applied.

14.1.2 If the Investor has received a written notification no later than one hundred eighty (180) days in advance, provided that such right does not apply to Petroleum the Investor undertook to deliver under the existing Agreements with third parties, other than the Affiliates, the Government shall have the right to royalty in kind and shall inform the Investor of its intention. The Investor shall define the priority in sales and a reasonable delivery schedule and duly inform the Government thereof. The Royalty when taken in kind shall be delivered to the Government, which shall take possession thereof at the Delivery Point.

14.2 Recovery of Petroleum Costs

14.2.1 Subject to provisions of Article 26 and Supplement C, in case of a Commercial Discovery the Investor shall be entitled to recover one hundred percent (100\%) of its approved Petroleum Costs incurred in the Original Agreement Area (hereinafter referred to as “Cost Oil” and/or “Cost Gas” and collectively as “Cost Petroleum”).

14.2.2 The Investor shall be entitled to recover its Petroleum Costs out of the sales proceeds or other disposition of Recovered Oil and Recovered Gas, to the extent permitted under the provisions of this Article 14.2.3.

14.2.3 For purposes of recovery of its Petroleum Costs, the Investor may freely retain each Calendar Year Cost Oil and/or Cost Gas of up to \( \boxed{\text{\%}} \) of the Recovered Oil and of the Recovered Gas respectively, (where Royalty as defined in Article 14.1 has first been deducted from Recovered Oil and/or Recovered Gas), or only any lesser percentage which would be necessary and sufficient.

14.2.4 The value of Cost Oil and Cost Gas shall be determined in accordance with the provisions of Article 16.

14.2.5 To the extent that in a Calendar Year outstanding recoverable Petroleum Costs exceed the value of Cost Petroleum for such Calendar Year, the excess shall be carried forward without an interest for recovery in the next succeeding Calendar Year until fully recovered, or until expiry of the Contract, where such termination occurs earlier, whatever the reason thereof. No unrecovered cost can be recovered by the Investor after such expiry.

14.2.6 If, in any Quarter, Petroleum Costs recoverable pursuant to Supplement C shall be less than the actual value of the Cost Recovery Ceiling defined in Article 14.2.3, then the remaining balance of all such Cost Petroleum shall be deemed Profit Petroleum and shall be divided between and taken separately by the Republic of Croatia and the Investor according to Article 14.3.

14.3 Profit Sharing

14.3.1 Recovered Petroleum remaining after the deduction of Royalty in accordance with Article 14.1.1 and the deduction of Petroleum Costs in accordance with Article 14.2.2 shall be deemed Profit Petroleum.

14.3.2 From the first day of Production and as and when Petroleum are being produced, the Investor shall be entitled to take a percentage share of Profit Oil and/or Profit Gas, in consideration for its investment in the Petroleum Operations, which percentage share shall be determined in accordance with Article 14.3.4.

14.3.3 To determine the percentage share of Profit Oil and/or Profit Gas to which the Investor is entitled, the “R” Factor shall be calculated each Quarter in accordance with Article 14.3.4.

14.3.4 The “R” Factor shall be calculated as follows: \( R = \frac{X}{Y} \) where:

\[ X: \text{is equal to the “Cumulative Net Revenues” actually received by the Investor;} \]
Y: is equal to the “Cumulative Capital Expenses” actually incurred by the Investor.

For the purpose of this Article 14.3.4:
“Cumulative Net Revenues” means total Net Revenues, as defined below, received by the Investor from the Effective Date until the end of the Quarter preceding the relevant Quarter;
“Net Revenues” means the total amount actually received by the Investor for its share of Profit Petroleum and recovery of its Petroleum Costs in the Agreement Area, less, inter alia, all Operating Expenses, and excluding area rentals, Bonuses and the Administration Fee pursuant to Article 13, actually incurred by the Investor in the Agreement Area until the end of the Quarter preceding the relevant Quarter;
“Cumulative Capital Expenses” means all Development and Production Costs and all Exploration Costs in the Agreement Area, less, inter alia, the Operating Expenses, and excluding the area rentals, Bonuses and Administration Fee pursuant to Article 13, actually incurred by the Investor from the Effective Date until the end of the Quarter preceding the relevant Quarter.

14.3.5 The share of Profit Petroleum to which the Investor shall be entitled to [from the first day of production] is equal to the relevant percentage according to the value of the “R” factor as indicated in the table below:

(the fluctuations in the “R” factor value are defined by the provision of Article 51 herein).

14.3.6 The Investor shall account separately for all components for the calculation of the values of X and Y, pursuant to the Accounting Procedure referred to in Supplement C.

14.4 Calculations
14.4.1 The Quarter and annual calculations of recoverable Petroleum Costs and Profit Petroleum shall be performed in accordance with the methods and principles referred to in Articles 5 and 6 of Supplement C so that all calculations are performed in such a manner that ensures: (i) compliance with applicable competition act; (ii) there is no inappropriate exchange of commercially sensitive information; and (iii) the protection of each Investor Party’s commercially sensitive information. The Investor has the right to have an independent auditor (from a reputable firm of chartered accountants) calculate the R-Factor.

15 GUARANTEE
15.1 The Investor shall submit to the Ministry (i) an irrevocable, unconditional, on demand bank guarantee substantially in the form set forth in Supplement D hereto (hereinafter: Bank Guarantee) no later than ten (10) days from the date of entry into force of the Agreement and (ii) a parent company guarantee in the appropriate form set forth in Supplement E hereto (hereinafter: Parent Company Guarantee) on the date of entry into force of the Agreement for the amount specified in this Article 15. The bank guarantee shall be issued by a first class bank Licenced to operate in any of the following countries: the Republic of Croatia, any member state of the European Union, any country that had signed the Government Procurement Agreement (GPA) and any country that had signed and ratified Association Agreements or Bilateral Agreements with the European Union or the Republic of Croatia and has the right to do so, according to the legislation of those countries.

15.2 The amount of the Bank Performance shall be an amount equal to thirty percent (30%) of the total Minimum Expenditure Obligation in respect of Phase I of the Exploration Period to be undertaken by the Investor in the Exploration Block, while the Parent Company Guarantee shall be an amount equal to seventy percent (70%) of the total Minimum Expenditure Obligation in respect of Phase I of the Exploration Period to be undertaken by the Investor in the Exploration Block. The aggregate amount of the Bank Guarantee and the Parent Company Guarantee shall be an amount equal to the amount of one hundred percent (100%) of the total Minimum Expenditure Obligation in respect of Phase I of the Exploration Period to be undertaken by the Investor in the Exploration Block. If Phase I of the Exploration Period is extended pursuant to this Agreement, the Investor shall
extend the validity period of the subject guarantees accordingly if the Investor has not fully fulfilled its Minimum Work Obligations.

15.3 Before the commencement of Phase II of the Exploration Period the Investor shall deliver to the Ministry a similar bank guarantee and a parent company guarantee. The amount of the bank guarantee shall be an amount equal to thirty percent (30%) of the Minimum Work Obligation in respect of the Phase II of the Exploration Period to be undertaken by the Investor in the Agreement Area whereas the amount of the parent company amount shall be an amount equal to seventy percent (70%) of the Minimum Expenditure Obligation in respect of the Phase II of the Exploration Period to be undertaken by the Investor in the Agreement Area. The amount of the bank guarantee shall be an amount equal to One Hundred percent (100%) of the total Minimum Expenditure Obligation in respect of the Phase II of the Exploration Period to be undertaken by the Investor in the Agreement Area. If Phase II of the Exploration Period is extended pursuant to this Agreement, the Investor shall extend the validity period of the subject guarantees accordingly if the Investor has not fully fulfilled its Minimum Work Obligations.

15.4 Any Bank Guarantee or Parent Company Guarantee referred to above shall provide that after the completion and due performance of the Minimum Work Obligations of a particular Exploration Phase, the parent company guarantee and the bank guarantee shall be released and returned in favour of the Investor on presentation to the parent company of a Certificate from the Ministry, that the obligation of the Investor has been fulfilled and the relevant guarantees may be released. Such Certificate shall be provided by the Ministry within thirty (30) days from the completion of the Minimum Work Obligations for the corresponding Phase under this Agreement.

15.5 The Bank Guarantee and Parent Company Guarantee shall further provide that at the end of each Quarter and upon the completion and due performance of relevant activity in the Minimum Work Obligation of a particular Exploration Phase, the applicable value of the Bank Guarantee or Parent Company Guarantee shall be reduced in favour of the relevant Investor on presentation of a Certificate from the Ministry (such Certificate not to be unreasonably withheld) to the effect that the relevant Guarantees may be reduced. If, upon expiry of Phase I of the Exploration Period or any further Phase or extension thereof, or in the event of relinquishment of the entire Exploration Area or termination of the Agreement, the Exploration work has not reached the applicable Minimum Work Obligations if the Investor has not paid to the Government the unexpended balance of the Minimum Expenditure Obligations as set out in Article 5.2.12, the Ministry shall have the right to call on the guarantee in full or in part as compensation for the non-performance of the Minimum Work Obligations. Such compensation shall not exceed the Minimum Expenditure Obligation less the amount approved in accordance with this Article 15.5 towards the completed work of the Minimum Work Obligations.

15.6 After the payment of the Minimum Expenditure Obligation (reduced in accordance with 15.5) has been made, the Investor shall be deemed to have fulfilled its Minimum Work Obligations for the relevant Exploration Phase under this Agreement and the Bank Guarantee and the Parent Company Guarantee shall be returned to the Investor.

15.7 If any of the documents referred to above are not delivered by the Investor within the period specified herein, this Agreement may be terminated by the Government upon tendering ninety (90) days written notice of its intention to do so.

15.8 Notwithstanding any Change in Control pursuant to Article 31.2 of the Investor furnishing a guarantee as provided herein, Investor shall not, under any circumstances, be absolved of its obligations contained in the guarantees so provided.

15.9 The Ministry shall release the guarantee given by the Assignor pursuant to Articles 15.2 and 15.3 to the extent of the amount of the guarantee provided by the Assignee if:

(a) a Party (hereinafter: Assignor) assigns all or a part of its Participating Interest to another (hereinafter: Assignee) in accordance with Article 31; and
(b) the Assignee provides an irrevocable, unconditional bank guarantee from a reputed bank of good standing, acceptable to the Ministry, in favour of the Republic of Croatia, for an amount equal to thirty (30\%) percent of the unexpended Minimum Expenditure Obligation at the Effective Date of the assignment in accordance with the Assignee’s share; or

(c) the Assignee provides a parent company guarantee for an amount equal to seventy (70\%) percent of the unexpended Minimum Expenditure Obligation at the Effective Date of the assignment in accordance with the Assignee’s share; and

(d) the addendum to the Agreement giving effect to the assignment of Participating Interest is executed by all Parties.

16 VALUATION OF CRUDE OIL AND NATURAL GAS

16.1 Petroleum shall be valued for the purposes of determining (a) the amount of the Royalty paid in cash or in kind; (b) the recovery of Cost Petroleum, (c) the share of Profit Petroleum; and (d) the Investor’s Gross Revenues in computing the Investor’s income tax liability. All valuations shall be done in a manner which ensures: compliance with applicable competition law; there is no inappropriate exchange of commercially sensitive information; and the protection of each Investor’s commercially sensitive information.

16.2 Valuation of Crude Oil

16.2.1 Crude oil shall be valued at the FOB realised sales price at the Delivery Point expressed in US Dollars per Barrel at the date of the bill of lading, as determined for each month and referred to as Market Price. The value shall be established for each grade of crude oil or for each crude oil blend, if any.

16.2.2 The Market Price applicable to liftings of crude oil during a certain month shall be calculated at the end of that month and shall be equal to the weighted average of the FOB prices obtained by the Investor and the Republic of Croatia at the Delivery Point for crude oil sold to third parties during that month, on an arm’s length basis, adjusted to reflect the variances in quality, grade, as well as FOB delivery terms and conditions of payment. The quantities sold on an Arm’s Length Sales basis during the month shall represent at least thirty per cent (30\%) of the total quantities of Crude Oil obtained from all the Fields under this Agreement and sold during said month.

16.2.3 In the event no such sales on an arm’s length basis are made during the month in question or such sales represent less than 30\% of the total quantities of crude oil obtained from all the fields pursuant to the Agreement on the Exploration and Production of Hydrocarbons and sold during said month, the Market Price shall be determined as the average of the prevailing daily prices realised per Barrel on an arm’s length basis in such month through the sale of a basket of the three internationally traded crude oils in the Mediterranean of a similar gravity and sulphur content, as published in the Platts Oilgram Price Report, adjusted to reflect variances in gravity, sulphur and transportation and any special terms and conditions relating to the sale of such crude oils.

16.2.4 The following transactions shall, *inter alia*, be excluded from the calculation of the Market Price:

a) sales in which the buyer is an affiliate of the seller as well as sales between legal entities constituting the Investor;

b) sales in which the buyer has any direct or indirect relationship or common interest with the Investor which could reasonably influence the sales price;

c) sales in exchange for a Fee other than payment in freely convertible currencies and sales fully or partially made for reasons other than the usual economic incentives involved in crude oil sales on the international market, such as exchange contracts, sales from government to government or to government agencies.

16.2.5 The Commission for determining the value of Hydrocarbons appointed by the minister competent for energy pursuant to the Act comprised of representatives of the Ministry and the Agency and, as required, the representative from other public law authorities of the Republic of
Croatia and the representatives of the Investor, shall meet without delay after the end of each Quarter, and in any case no later than twenty (20) days after the expiry of the Quarter, for the purpose of determining the Market Price of recovered Crude Oil applicable to the months of the previous Quarter pursuant to the provisions of Article 16.

The Investor and representatives of the Republic of Croatia in charge of selling crude oil shall submit to the Commission evidence that the sales of crude oil are arm’s length sales.

16.2.6 In the event no decision is taken by the Commission within thirty (30) days after the end of the Quarter in question, the Market Price of the Crude Oil produced shall be determined by an expert appointed with the mutual Agreement of the Parties within ten (10) days. Failing reaching Agreement within ten (10) days, any one of the Parties may request the ICC’s International Centre for Expertise of the ADR International Chamber of Commerce to appoint such expert in accordance with the Rules for Expertise in force on the Effective Date of this Agreement. The expert, meeting the requirements set out in Article 35.2, shall establish the price in accordance with the provisions of this Article 16 within twenty (20) days from his appointment.

16.2.7 Pending the determination of the price, the Market Price provisionally applicable to a certain month shall be the Market Price of the preceding month. All necessary adjustments are made no later than thirty (30) days after the end of the Quarter in which the sales were made.

16.3 Valuation of Natural Gas

16.3.1 If there are Arm’s Length Sales Agreements in place for the sale of natural gas, the Market Price of natural gas shall be the actual sales price obtained under such Agreements, calculated at the Delivery Point, which may take into account quantities to be sold, quality, geographic location of markets to be supplied as well as costs of production, transportation, treatment and distribution of natural gas from the Delivery Point to the relevant market, in accordance with Good International Oilfield Practice.

16.3.2 If there is no arm’s length Agreement in place for the sale of natural gas, the Market Price is determined as that which permits the natural gas sold to reach, at the treatment or consumption places, a fair Market Price equivalent to that of natural gas of comparable quality.

16.3.3 The Investor shall make any and all natural gas sales Agreements, including all the terms and conditions contained therein or related thereto together with any pertaining annexes concluded for the sale of natural gas extracted in accordance with the provisions herein, available to the Agency and shall ensure that the natural gas sales Agreements contain provisions to this effect.

17 MEASUREMENT OF PETROLEUM

17.1 The petroleum produced in Petroleum Operations on the determined Exploitation Field(s) are measured through methods and devices generally accepted and customarily used in Good International Oilfield Practice, which are set by the verified Development and Production Plan. Hydrocarbons produced from the Exploitation Field shall be measured at the Measurement Point.

17.2 The Investor shall develop and submit for approval by the Agency Petroleum Measurement Procedures prepared in compliance with the Act and regulations.

17.3 The Investor shall keep all the records of analysis and measurement of Petroleum calibrations and proving of the measurement systems and make available to the Ministry and the Agency such records on request.

17.4 Through officially appointed representatives, the Ministry shall, in defined intervals, control whether the measurements were performed pursuant to the provisions of the Act and regulations.

18 MARKETING OF THE REPUBLIC OF CROATIA’S PROFIT OIL AND PROFIT GAS

18.1 Marketing and Sales of the Republic of Croatia’s Profit Oil and Profit Gas

Upon the Ministry’s or the Agency’s prior notice of at least ninety (90) days, the Investor may be requested to provide free-of-charge marketing and sales assistance to the Government for the sale
of all or part of the quantities of Profit Oil and Profit Gas to which the Republic of Croatia is entitled hereunder.

18.2 Option to market the Republic of Croatia’s Profit Oil and Profit Gas

Subject to the applicable Act and regulations, the Ministry or the Agency or any Person authorised by the Government therefore may require the Investor to market any part of the share of Profit Oil and Profit Gas owned by the Republic of Croatia under normal commercial terms and conditions agreed with the Investor in the international Petroleum industry and at fair market value achieved through Arm’s Length Sales pursuant to Article 16 for Crude Oil and Natural Gas, in force at the time the Petroleum in question are lifted.

The right referred to in the previous paragraph shall be exercised by the Investor informing the Ministry or the Agency or the Persons authorised by the Government concerning the Petroleum sales Agreements the Investor plans to conclude with a third party or has concluded with a third party. The Ministry or the Agency or the Persons authorised by the Government are entitled to request the Investor to sell any share in Profit Oil and Profit Gas owned by the Republic of Croatia under the same conditions applicable to the Investor in Petroleum sales Agreements concluded with third parties. If the Government fails to adhere to the conditions of the Petroleum sales Agreements concluded by the Investor with third parties, the Government shall indemnify the Investor for any damage incurred due to failure to adhere to the Petroleum sales Agreements with third parties by the Government.

The right referred to in the preceding paragraph may be exercised in accordance with the following rules:

(a) no later than six (6) Months prior to the start of a Quarter, the Ministry and the Agency shall give written notice to the Investor that he requires the Investor to market a specified quantity of Petroleum to be lifted rateably over a period of two (2) consecutive Quarters;

(b) the Parties shall meet and discuss possible commercial obligations and conditions concerning the activities referred to in Article 18.2(a) as soon as possible; and

(c) if an Agreement pursuant to Article 18.2(b) is reached, the Investor's obligation to market Petroleum from the Republic of Croatia shall continue mutatis mutandis from Quarter to Quarter after the initial two (2) consecutive Quarters until and unless the Ministry or the Agency fail to give the Investor written notice of termination which, subject to the above mentioned minimum period, shall take effect six (6) months after the end of the Quarter in which such written notice was given.

19 SUPPLY TO THE DOMESTIC MARKET AND USE OF INFRASTRUCTURE

19.1 Supply to the Domestic Market

19.1.1 The Republic of Croatia’s domestic requirements shall, to the extent possible, be supplied from the entitlements of the Government under this Agreement, and from other entitlements of the Government and any legal entity owned or controlled by the Government.

19.1.2 If Crude Oil and Natural Gas available to the Government pursuant to Article 19.1 is insufficient for fulfilling the Republic of Croatia’s domestic requirements, the Investor, if requested in writing by the Government, the Investor shall sell to the legal entity determined by the Government a portion of the Investor’s share of Profit Oil and/or Profit Gas not committed to existing contracts up to the full amount of Investor’s entitlement for the domestic consumption of the Republic of Croatia. Such sales shall be effected in accordance with obligations and conditions previously agreed in writing between the parties, including the Market Price to be agreed in accordance with the principles stipulated in Article 16 herein.

19.1.3 When the Republic of Croatia no longer requires supply from the Investor’s share of Profit Oil and/or Profit Gas pursuant to Article 19.1.2 it shall give notice to the Investor of the date on which such supply shall cease, in accordance with commercial obligations and conditions agreed between
the Parties pursuant to Article 19.1.2 (including a reasonable deadline for such notice), after which the Investor shall be entitled to freely lift and export its share of Profit Oil and/or Profit Gas.

19.1.4 In case of war or expectation of war or grave national emergency, the Government may request in writing all or a part of the Crude Oil and Natural Gas produced from the Exploitation Field(s) and require the Investor to increase such production to the extent required. In such event, the price to be paid by the Republic of Croatia for the Crude Oil and Natural Gas shall be the value determined in accordance with Article 16 of this Agreement.

19.1.5 In the event referred to in Article 19.1.4, the Republic of Croatia shall indemnify the Investor in full for the period, during which the requisition is maintained, including all reasonable damages, if any, which result from such requisition.

19.2 Use of Republic of Croatia Infrastructure

19.2.1 For transporting Crude Oil and Natural Gas the Investor may request and/or be required to connect its production facilities to the pipeline systems of the Republic of Croatia at the expense of the Investor. Such connections shall be agreed on at the moment of approving the Development and Production Preliminary Plan, provided that it is not commercially damaging or does not have an opposite effect on the Investor’s rights and interests deriving from Petroleum Operations and considering the services and alternative at the Investor’s disposal.

20 CONSERVATION OF PETROLEUM AND PREVENTION OF LOSS

20.1 The Investor shall adopt all those measures which are necessary and appropriate and consistent with International Good Oilfield Practice to prevent loss or waste of Petroleum above or under the ground during Petroleum Operations, gathering and distribution, storage or transportation operations, which have been determined in the verified Development and Production Plan.

20.2 The Investor shall utilise the hydrocarbon Reservoirs in a rational manner, in accordance with this Agreement. Hydrocarbon Reservoirs shall be utilised in a rational manner if the Hydrocarbons are produced and enriched with minimum losses of Hydrocarbons pursuant to international good practice in Petroleum Operations and valid regulations governing nature and environment protection.

20.3 Petroleum shall not be produced from multiple independent Petroleum productive zones simultaneously through one string of tubing, unless if not otherwise defined in the verified Development and Production Plan.

21 NATURAL GAS

21.1 The provisions of this Agreement related to the Exploration for and the exploitation of Crude Oil shall, unless otherwise specified in this Agreement and applicable law, apply mutatis mutandis to Natural Gas.

21.2 Subject to the provisions of this Article, the respective shares of Natural Gas of the Investor and the Government shall be determined in accordance with Article 14.

21.3 Subject to Article 21.4, the Republic of Croatia domestic market shall have the first call on the utilisation of Natural Gas discovered and produced from the Exploitation Field(s) at a price pursuant to Article 19.1.2. of this Agreement. Accordingly, any proposal by the Investor relating to Discovery and Production of Natural Gas from the Exploitation Field(s) shall be made for the utilisation of Natural Gas and shall take into account the objectives of the Government to develop its resources in the most efficient manner and to promote conservation measures. In the event of the Government not exercising the first call on the utilization of Natural Gas pursuant to provisions of Article 19 of this Agreement, the Investor may propose to the Government to sell Natural Gas outside of the Republic of Croatia.

21.4 The Investor shall have the right to use Natural Gas produced from the Exploitation Field(s) for the purpose of Petroleum Operations including reinjection for pressure maintenance or enhanced
recovery in oil fields, gas lifting and power generation required for Petroleum Operations subject to provisions of this Agreement.

21.5 Associated Natural Gas

21.5.1 If a Discovery of Crude Oil contains Associated Natural Gas (ANG), the Investor shall declare in the proposal for the declaration of the said Discovery as a Commercial Discovery as specified in Article 5, whether (and by what amount) the estimated production of Associated Natural Gas is anticipated to exceed the quantities of Associated Natural Gas which shall be used in accordance with Article 21.4 (such excess being hereinafter referred to as the “Excess Associated Natural Gas”). In such an event the Investor shall indicate whether, on the basis of the available data and information, it has reasonable grounds for believing that the Excess Associated Natural Gas could be commercially exploited in accordance with the terms of this Agreement along with the Production of the Crude Oil from the Exploitation Field(s), and whether the Investor intends to so exploit the Excess Associated Natural Gas.

21.5.2 Based on the principle of full utilisation of Associated Natural Gas, a proposed Development and Production Preliminary Plan for a Discovery shall, to the extent practicable, include a plan for utilisation of any Associated Natural Gas including estimated quantities to be flared, re-injected, and to be used for Petroleum Operations; and, if the Investor proposes to commercially exploit the Excess Associated Natural Gas for sale.

21.5.3 If the Investor wants to produce the Excess Associated Natural Gas the Investor shall submit its proposals for such exploitation to the Ministry.

21.5.4 If the Investor does not want to produce the Excess Associated Natural Gas, the Investor should not consider the exploitation of the excess of Natural Gas as justified and if the Government, at any time, would want to utilise it, the Agency shall notify the Investor thereof, in which event:
(a) the Investor shall make available to the Republic of Croatia free of charge at the Crude Oil and Natural Gas separation facilities all of the Excess Associated Natural Gas that the Republic of Croatia intends to lift, to the extent that such usage does not interfere with Investor’s existing usage;
(b) the Republic of Croatia shall be responsible for the gathering, treatment, compression and transportation of that excess from the above-mentioned separation facilities, and shall bear any additional costs related thereto, including costs of constructing the above-mentioned facilities and related costs;
(c) the construction of the facilities necessary for the operations referred to in paragraph (b) above, together with the lifting of that excess by the Republic of Croatia, shall be carried out in accordance with International Good Oilfield Practice and in such a manner as not to hinder the production, lifting and transportation of Crude Oil by the Investor.
(d) all costs related to facilitating the use of the natural gas referred to in paragraph (a) shall, for the avoidance of any doubt, constitute recoverable costs pursuant to this Agreement.

21.6 Non-Associated Natural Gas

21.6.1 In the event of a Non-Associated Natural Gas Discovery, the Investor shall promptly report pursuant to requirements of Article 5 of this Agreement and diligently engage in discussions with the Agency with a view to determining whether the Appraisal and Exploitation of said Discovery have a potentially commercial nature.

21.6.2 If, after the above-mentioned discussions, the Investor considers that the Non-Associated Natural Gas Discovery merits appraisal, it shall undertake an Appraisal Work Programme with respect to such Discovery in accordance with the provisions of Article 5.

21.6.3 For purposes of assessing the commerciality of the Non-Associated Natural Gas Discovery, the Investor shall have the right, if it so requests at least two (2) months prior to the expiry of the Exploration Period set forth in Article 5, to be granted the extension with respect to the Appraisal Area related to said Discovery, as specified in Article 5 of this Agreement, the Act and regulations.
21.6.4 In addition, the Parties shall jointly assess the possible outlets for the Natural Gas from the Discovery in question, both on the local market and for export, together with the necessary means for its marketing, and they shall consider the possibility of a joint marketing of their shares of production in the event the Discovery of Natural Gas would not otherwise be commercially exploitable, to the extent permitted by the applicable Act and regulations.

21.6.5 After completing the Appraisal Works associated with the Discovery, and if it is determined that such Discovery constitutes a Commercial Discovery, the Investor shall submit to the Ministry the Development and Production Preliminary Plan pursuant to the provisions of Article 7 herein.

21.6.6 After issuing the Licence for hydrocarbon recovery pursuant to the provisions of Article 7.3, the Investor shall then proceed with the Development and Production of that Natural Gas and the provisions of this Agreement applicable to Crude Oil shall apply, *mutatis mutandis*, to Natural Gas, unless otherwise specifically provided in this Agreement.

If the Investor does not commence development of such Discovery within five (5) years from the date of Discovery, the Investor shall relinquish its right to develop such Discovery and the area relating to such Discovery shall be excluded from the Agreement Area.

21.6.7 If the Investor considers that the Discovery of Non-Associated Natural Gas does not merit appraisal, the Ministry may, with a twelve (12) months prior notice which may be reduced with the Investor’s consent, require the Investor to relinquish its rights on the area encompassing said Discovery. In the same manner, if the Investor, after completion of appraisal work, considers that the Discovery of Non-Associated Natural Gas is not commercial, the Ministry may, with a three (3) months’ prior notice, require the Investor to relinquish its rights on the Appraisal Area related to said Discovery.

21.6.8 In both cases, the Investor shall forfeit its rights on all Petroleum which could be produced from said Discovery, and the Ministry may then carry out, or cause to be carried out, all the appraisal, development, production, treatment, transportation and marketing work relating to that Discovery, without any compensation to the Investor, provided, however, that said work shall not cause prejudice to the performance of the Petroleum Operations by the Investor.

22 TITLE TO ASSETS

22.1 The Investor shall be the owner of the assets, whether fixed or movable which it has acquired for purposes of Petroleum Operations, subject to provisions of this Article and in compliance with the Act.

22.2 The full title to each fixed and moveable asset shall be transferred from the Investor to the Republic of Croatia automatically at the time of termination of this Agreement, regardless of whether their total cost has been recovered by the Investor in accordance with the provisions of Article 14.

22.3 At the moment of transfer of title pursuant to Article 22.2, the Agency and the Investor shall register the property that is being transferred to the Republic of Croatia as well as the fact that the title has been transferred.

22.4 The Investor shall be responsible for proper maintenance, insurance and safety of all property required for Petroleum Operations and for keeping them in good order and working condition at all times.

22.5 Without prejudice to the provisions of this Article, any fixed and moveable assets for which title has transferred to the Republic of Croatia in accordance with Article 22 shall, unless otherwise agreed, be subject to Decommissioning in accordance with the Decommissioning Plan which is approved pursuant to Article 9.

22.6 If the assets purchased by the Investor under Article 22 are not exclusively needed by the Investor and by others designated by the Ministry, the Investor may make such assets available for use by others so designated by the Ministry as long as it would not hinder or delay Petroleum Operations.
23 CUSTOMS DUTIES
23.1 The Investor and its Subcontractors engaged in carrying out operations under this Agreement with respect to the importation of such machinery and equipment as may be required to be used by Investor or its Subcontractors for Petroleum Operations shall be subject to the provisions of the EU legislation as well as legislation and regulations of the Republic of Croatia effective at the time of the application.

24 TAXATION
24.1 The Investor and its Subcontractors shall comply with the applicable taxation and fiscal legislation and regulations of the Republic of Croatia as well as with any European Union tax rules applicable from time to time in the Republic of Croatia, except where, pursuant to any authority granted under any applicable act in the Republic of Croatia, they are exempted wholly or partly from the application of the provisions of a particular act.
24.2 The Agreements for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to income and capital, which the Republic of Croatia has concluded and agreed, as well as the various international conventions which the Republic of Croatia has adopted and/or to which it has acceded shall also be applicable.
24.3 The costs incurred in respect of Petroleum Operations shall be allowable in accordance with the provisions of the tax legislation.

25 IMPORT AND EXPORT
25.1 The Investor shall have the right to import or export from third countries or into third countries or transfer from a member state of the European Union into the Republic of Croatia, all the goods, materials, machinery, equipment, spare parts and consumable directly necessary for the proper conduct of the Petroleum Operations according to the provisions of the European Union legislation and pursuant to provisions of Article 23 herein.
25.2 It is understood that the Investor and its Subcontractors imports the materials and equipment in observance with requirements of Article 28 herein.
25.3 The foreign personnel and their families assigned to work in the Republic of Croatia for the account of the Investor or its subcontractors shall have the right to import goods and items to the Republic of Croatia from a third country or transfer from another member state of the European Union their personal use according to the provisions of the European Union legislation as well as legislation and regulations of the Republic of Croatia.

26 BOOKS, ACCOUNTS, AUDITS
26.1 Books and Accounts
26.1.1 The Investor shall maintain its records and books in accordance with the provisions of applicable corporate and taxation legislation and the regulations of the Republic of Croatia, and the Accounting Procedure provided hereto in Supplement C.
26.1.2 The accounting and auditing procedures specified in this Agreement are without prejudice to any other requirements imposed by any acts of the Republic of Croatia including any specific requirements of the acts relating to taxation of Companies. The Republic of Croatia may make such rules as may be required to establish accounting and auditing procedure to regulate the matters set out in this Article.
26.1.3 Records and books shall be maintained in the English and Croatian languages and expressed in Croatian Kuna and in Euros. All such records and books shall be supported by detailed documents evidencing the expenditures and receipts of the Investor under this Agreement.
26.1.4 Such records and books shall be used, inter alia, to determine the Investor’s gross income, Petroleum Costs and net profits and to establish the Investor Party’s tax return. They shall include the Investor’s accounts showing the sales of Petroleum under this Agreement.
26.1.5 The original records and business books referred to in this Article 26.1 shall be kept and stored at the Operator’s branch office/office in the Republic of Croatia.

26.1.6 Within ninety (90) days after the expiry of a Calendar Year, the Investor shall submit to the Agency for approval in a written opinion detailed accounts showing the Petroleum Costs which the Investor has incurred during said past Calendar Year. Within one hundred and twenty (120) days after expiry of a Calendar Year, he accounts shall be certified by an independent external auditor acceptable to the Parties, who is authorised to carry out the statutory audit of annual and consolidated accounts in accordance with the legal provisions of the Republic of Croatia.

26.2 Audits

26.2.1 After notifying the Investor in writing, the Agency may cause to be examined and audited the records and books relating to Petroleum Operations and any sale of Petroleum produced in accordance with this Agreement by experts of his election or by agents of the Republic of Croatia. The Agency shall have a period of two (2) years from the end of a given Calendar Year to perform such examinations or audits with respect to said Year and notify his objections to the Investor for any contradictions or errors found during such examinations or audits. The Investor shall provide the Agency with its explanations the soonest possible and in any case not later than sixty (60) days from receipt of the audit findings.

26.2.2 The Investor shall provide any necessary assistance to the persons designated by the Agency for that purpose and facilitate their performance.

26.2.3 Nothing in this Article shall be construed as limiting the right of the Government and or its agents pursuant to any statutory power to audit or cause to be audited the books of accounts of the Investor.

27 DATA, RECORDS, CONFIDENTIALITY, SUPERVISION AND Inspections

27.1 Data and Records

27.1.1 The Investor shall have the right to use and have access to all geological, geophysical, drilling, Well production, Well location maps and other information held by the Ministry and the Agency related to the Agreement Area and areas adjacent to the Agreement Area.

27.1.2 The Investor shall prepare and, at all times while this Agreement is in force, maintain accurate and current records of its operations in the Agreement Area hereunder. The data management procedure shall be submitted by the Investor to the Agency for approval in four (4) months after Effective Date of this Agreement to be approved in a written opinion. Upon approval by the Agency, the Investor may cease submitting any or all of the above items and maintain them for the review by the Agency in its files in the Republic of Croatia.

27.1.3 In accordance with International Good Oilfield Practice, the Investor shall keep the Ministry and the Agency promptly and fully informed of Petroleum Operations being carried out by it and it’s Sub-Investors and the Investor shall promptly provide the Ministry and the Agency, free of cost, with all original data obtained as a result of Petroleum Operations under this Agreement including but not limited to seismic data, geological, geophysical, geochemical, petrophysical, engineering, Well logs, maps, magnetic tapes, cores, cuttings and production data as well as all interpretative and derivative data, including reports, analyses, interpretations and evaluations prepared in respect of Petroleum Operations (hereinafter: Data).

The list of reports shall include, but not be limited to, the following:

(a) raw and processed seismic data and interpretations thereof including digital horizon files, velocity models used for depth conversion;

(b) Well data, including, but not limited to, daily drilling reports, electric logs and other wire line surveys, mud logging reports and logs, samples of cuttings and cores (whereby the Investor has the right to retain a reasonable portion of the samples of cuttings and cores required for own Exploration) and analyses made thereof;
(c) all reports prepared from drilling data, geological or geophysical data, including all maps or illustrations derived;
(d) all original Well completion and Well testing reports;
(e) reports dealing with location surveys and all other reports regarding Wells, treating plants or pipeline locations;
(f) reports dealing with Reservoir investigations and reserve estimates, field outlines and economic evaluations relating to current and future Petroleum Operations;
(g) Quarterly reports on Petroleum Operations as agreed between the Agency and the Investor;
(h) final reports upon completion of each specific plan or operation;
(i) contingency Programmes and reports dealing with health, safety, and the environment;
(j) plan drawings, criteria, specifications and construction records;
(k) reports of technical audits and studies relating to Petroleum Operations;
(l) reports of all other technical data relevant to the performance of Petroleum Operations in the Agreement Area;
(m) all reports which are required by the Accounting Procedure or which may be requested by the Agency and are otherwise required by the terms of this Agreement; and
(n) all audit reports issued in accordance with the Accounting Procedure regarding the Petroleum Operations and its accounting.

The Investor shall keep in the Republic of Croatia accurate geological and geophysical information, data and maps relating to the Agreement Area, and such reports in relation thereto which are necessary to preserve all information which the Investor has about the geology and other characteristics of the Agreement Area.

27.1.4 The Republic of Croatia shall have title, subject to the application of the provisions of Article 27.2, to all original data and information resulting from Petroleum Operations under this Agreement, including but not limited to geological, geophysical, petrophysical and engineering data; Well logs and completion status reports; and any other data that the Investor or anyone acting on its behalf may compile or obtain during the term of this Agreement pursuant to the Act. The Investor is entitled to retain and use a copy of all such data, subject to the provisions of this Article 27.

27.1.5 The Investor shall keep the Ministry and the Agency currently advised of all developments taking place during the course of Petroleum Operations and shall furnish the Ministry and the Agency with full and accurate information and progress reports relating to Petroleum Operations (on a daily, monthly, financial yearly or other periodic basis) as the Ministry and the Agency may reasonably require, provided that this obligation shall not extend to information on proprietary technology owned by the Investor.

27.2 Confidentiality

27.2.1 Each Party agrees that all information and data of a technical, geological or commercial nature, acquired or obtained from and/or related to Petroleum Operations on or after the Effective Date and not (a) in the public domain; (b) already known to each Party or its respective Affiliates as of the Effective Date; (c) acquired independently from a third party who has the right to disseminate such information at the time it is acquired by either Party or an Affiliate of such Party; (d) developed by a Party or its respective Affiliates wholly independently of the information and data received from a disclosing party; or (e) otherwise legally in the possession of such Party without restriction on disclosure, shall be considered and kept confidential, and shall not be disclosed, sold, offered to any third party or published, except as specified in Article 27.

27.2.2 Notwithstanding the provisions set out above, disclosure may be made by Investor to:
(a) subcontractors, Affiliates, assignees, auditors, financial consultants or legal advisers, provided that such disclosures are required for effective performances of the aforementioned recipients’ duties related to Petroleum Operations;
(b) personnel, professional consultants, advisers, data processing centres and laboratories, where required, for the performance of functions in connection with Petroleum Operations for any Party comprising the Investor;

(c) Banks or other financial institutions, in connection with Petroleum Operations;

(d) Bona fide intending assignees or transferees of a Participating Interest of a Party comprising the Investor or in connection with a sale of the stock or shares of a Party comprising the Investor;

(e) The extent required by any applicable law or in connection with any legal proceedings or by the regulations of any stock exchange upon which the shares of a Party comprising the Investor are quoted;

(f) Government departments for, or in connection with, the preparation by or on behalf of the Government of statistical reports with respect to Petroleum Operations, or in connection with the administration of this Agreement; and

(g) By a Party with respect to Data or information which, without disclosure by such Party, is generally known to the public.

Any disclosure by the Investor to any third party pursuant to the Agreement, following the notification of the Agency, shall be made with a written undertaking given to the Investor by the third party stating that it shall treat such data, information or reports as confidential.

27.2.3 The Investor may disclose information as and to the extent required by a regulatory or judicial authority having proper jurisdiction over the Investor, provided that the Agency is first notified of such disclosure and of the information so disclosed.

27.3.2 The confidentiality obligations of the Investor with respect to geological, geophysical and all other data and information acquired or obtained from and related to Petroleum Operations shall remain in force and effect throughout the life of the Agreement and a period of five (5) Calendar Years thereafter.

27.3 Supervision and Inspections

27.3.1 Petroleum Operations shall be subject to inspection pursuant to provisions of the Act and regulations. The authorised officers shall have the right, inter alia, to monitor Petroleum Operations and to inspect the facilities, equipment, materials, records and books relating to Petroleum Operations.

27.3.2 For purposes of permitting the exercise of the above-mentioned rights, the Investor shall provide the authorised officers with reasonable assistance regarding transportation and accommodation.

28 EMPLOYMENT, TRAINING, GOODS, WORKS, SERVICES AND PROCUREMENT

28.1 Employment and Training

28.1.1 From the commencement of the Petroleum Operations and subject to applicable law, the Investor and its Subcontractors shall give preference employment for Croatian and EU personnel, under the same conditions with respect to skills and professional competence, where qualified and trained Croatian and EU nationals are available for employment in the conduct of Petroleum Operations and contribute to the training of those personnel in order to allow them access to any position of skilled employee, foreman, executive and manager. For the avoidance of any doubt, in terms of this provision, personnel also includes personnel of the Investor’s Affiliates.

28.1.2 For that purpose the Investor shall establish at the end of each Calendar Year in Agreement with the Agency a plan for recruiting Croatian and EU personnel and a plan for training and improving such personnel, in order to achieve progressively greater participation of Croatian and EU personnel in the Petroleum Operations and provide annual reports in the form as agreed with the Agency.
28.1.3 Investor and its Subcontractors are hereby authorised and shall be free, throughout the term of this Agreement, to, in accordance with this Article, select and determine the number of personnel to be hired by them in connection with the conduct of Petroleum Operations.

28.1.4 If the Agency determines that the Investor and its subcontractors do not adhere to the provisions of Article 28.1.2, the employment costs shall be considered costs not eligible for cost recovery and shall not be approved pursuant to the provisions of Article 14.

28.2 Goods, Works and Services

28.2.1 The Investor and its Subcontractors undertake, subject to applicable law, to give preference to Croatian and EU enterprises and their goods, works and services under equivalent conditions in terms of price, quantity, quality, conditions of payment and delivery time. For the avoidance of any doubt, this provision on preference to be given to Croatian and EU enterprises and their goods, works and services also refers to the Investor’s Affiliates.

28.2.2 The Investor has the right to use qualified Subcontractors to provide specialized goods, works and services. The Investor and its Subcontractors undertake, subject to applicable law, to give preference to Croatian and EU enterprises and their materials, goods, works and services, under equivalent conditions in terms of price, quantity, quality, conditions of payment and delivery time. In this regard Investor shall maintain records and accounts and provide reports in accordance with the provisions Supplement C.

28.2.3 If the Agency determines that the Investor and its subcontractors do not adhere to the provisions of Articles 28.2.1 and 28.1.2, the costs of the goods, works and services shall be considered costs not eligible for cost recovery and shall not be approved pursuant to the provisions of Article 14.

28.3 Procurement

28.3.1 Within four (4) months from the Effective Date of this Agreement, the Investor shall submit to the Agency for approval a procurement procedure, which shall be developed in compliance with provisions of this Article 28.3, International Good Oilfield Practice and applicable acts and regulations of the Republic of Croatia.

28.3.2 The Investor and its Subcontractors undertake to issue calls for tenders to Croatian and foreign candidates for supply of goods, works and services, construction and other contracts in accordance with such procurement procedure referred to in Article 28.3.1 and the rules on public procurement applicable to the Investor in the Republic of Croatia. It is understood that the Investor shall not unduly break down said contracts.

28.3.3 The Agency shall have a right to be included in all procurement procedures upon its request for the contracts with a value exceeding an equivalent One Hundred Thousand Euro (EUR 100,000.00); provided, however, that such inclusion of the Agency: (i) shall not delay the Investor’s ability to finalize its procurement of goods, works and services as required by this Agreement and (ii) that the stated threshold of One Hundred Thousand Euro (EUR 100,000.00) as of the Effective Date shall be periodically reviewed and escalated as appropriate to represent any increase in procurement costs in the petroleum industry.

28.3.4 The copy of contracts shall be provided at request to the Agency upon execution thereof.

29 STABILISATION PROVISIONS

29.1 The Agreement shall be entered into on the basis of the legislation and regulations of the Republic of Croatia prevailing at the time of entry into force of the Agreement.

29.2 The terms and conditions of the Agreement shall remain valid for the whole term of the Agreement and may only be amended, modified or supplemented by way of written Agreement between each of the parties thereto.
29.3 If during the validity period of the issued Licence for the recovery of Hydrocarbons and the concluded Agreement there are amendments to the acts and regulations of the Republic of Croatia which were in force when the Licence for the recovery of Hydrocarbons and the Agreement came into effect, including amendments to the acts and regulations resulting from the concluded international Agreements to which the Republic of Croatia is a party and which have great impact on the economic or commercial provisions of the Licence for the recovery of Hydrocarbons or the Agreement and/or other important interests of the Parties, the Government and/or the Investor shall enter into negotiations for the purpose of possible amendments to the Licence for the recovery of Hydrocarbons or the Agreement which would ensure a balance of interests and planned economic results of the Parties that existed at the moment the Licence for the recovery of Hydrocarbons was issued or the Agreement was concluded, and which are in accordance with the issued Licence for the recovery of Hydrocarbons or the concluded Agreement.

29.4 For that purpose the Investor shall submit a formal letter to the Government, priority mail with a return receipt, informing on the one hand the Government of the change in the act and its effect on the economic balance that had existed on the date of entry into force of the Agreement, and on the other requesting the Government to take appropriate measures to maintain the economic balance of the Agreement that had existed on the Effective Date of the Agreement. The Government has a deadline of three (3) months at the most from the date of receiving the Investor’s notice to notify the Investor of the measures it is considering in order to restore the economic balance that had existed on the Effective Date of the Agreement. After the expiry of the aforementioned deadline the Parties shall meet within the deadline of fifteen (15) days at the most in order to find a solution that would enable the restoration of the economic balance that had existed at the Effective Date of the Agreement. If the Parties fail to reach an Agreement within ninety (90) days, each Party may refer the subject matter to dispute resolution as provided under Article 35 herein.

29.5 The provisions of Article 29.3 shall not apply in case of any amendment, modification, enactment, re-enactment, repeal or other change or addition to acts and regulations governing labour relations, protection of nature and the environment, the protection of human health, occupational safety and the safety of Petroleum Operations.

30 TERMINATION OF THE AGREEMENT

30.1 This Agreement may be terminated prior to expiration of its term by written consent of the Parties, or following the Investor’s relinquishment of the entire Exploitation Field pursuant to Article 6.3.1.

30.2 This Agreement shall automatically terminate in case of terminating, revoking or annulling the Licence pursuant to the Act and regulations.

30.3 In addition to the above, this Agreement may be terminated by the Government if one of the following circumstances pursuant to this Article 30 occur:

(a) material breach or recurrent breach by the Investor of the provisions of the Act and/or the regulations and/or the provisions of this Agreement;

(b) delay exceeding three (3) months incurred by the Investor with respect to a payment due to the Republic of Croatia (except the payment which is under dispute in respect of this Agreement);

(c) disruption of development work with respect to an Exploitation Field during six (6) consecutive months, except in case of Force Majeure as stated in the Article 34;

(d) after commencement of production from a Exploitation Field, disruption of production for at least six (6) consecutive months or repetitive disruption of Production, decided without the Ministry’s consent, except in case of Force Majeure as stated in the Article 34;

(e) failure of the Investor to comply, within the prescribed period, with an arbitration award rendered in accordance with the provisions of Article 35;

(f) bankruptcy, settlement with creditors or liquidation of Investor’s assets or that of its parent company or any other Investor party, as the case may be, unless the Investor party which is not
subject to bankruptcy, agrees with creditors or liquidates the assets to assume all the rights and obligations of the so affected subject, arising out of this Agreement; 

(g) if the Investor has knowingly submitted false statement given to the Republic of Croatia which were of a material consideration for the execution of this Agreement; or

(h) If the Investor fails to pay the signatory bonus pursuant to Article 13.2.1a) and/or fails to submit the Bank Guarantee pursuant to Article 15.1.

30.4 Except with respect to the occurrence set forth in Articles 30.1(f) and 30.3(h) above, the Government shall pronounce the forfeiture provided for in Article 30.3 only after having served formal notice on the Investor, by registered mail with acknowledgement of receipt, to remedy the breach in question within three (3) months (or within six (6) months with respect to the occurrences set forth in Articles 30.1(c) and 30.1(d) above) from the date of receipt of such notice.

30.5 Should the Investor fail to comply with such prescription within the prescribed time period, the Agreement shall be considered terminated.

30.6 For the duration of the Exploration Period, the Government may, with at least three (3) months’ prior notice, request the Investor to relinquish immediately without any compensation all its rights over the area encompassing a Discovery, including Petroleum which may be produced from the Discovery, if the Investor:

(a) has not submitted an Appraisal Work Programme with respect to said Discovery within nine (9) months following the date on which said Discovery has been notified to the Ministry and the Agency; or

(b) does not declare the Discovery as a Commercial Discovery within nine (9) months after completion of appraisal work with respect to said Discovery.

30.7 The Government may then perform or cause to be performed any appraisal, development, production, treatment, transportation and marketing work with respect to said Discovery, without any compensation to the Investor; provided, however, it shall not cause prejudice to the performance of the Petroleum Operations by the Investor in the remaining part of the Agreement Area.

30.8 Any dispute as to whether any ground exists to justify the termination of this Agreement pronounced by the Ministry due to the forfeiture may be subject to arbitration in accordance with the provisions of Article 35. In that event, the Agreement shall be suspended until the execution of the arbitration award by the Parties, unless the subject matter of the arbitration does not prevent the Petroleum Operations from continuing.

30.9 When the Agreement is terminated the Parties shall observe requirements provided in this Agreement and the acts of the Republic of Croatia.

30.10 Within ninety (90) days after the termination of this Agreement or such longer period as the Ministry may agree, the Investor shall comply with Article 10 and carry out any necessary action pursuant to the acts and regulations of the Republic of Croatia, and in accordance with International Good Oilfield Practice to avoid Environmental Damage or hazards to human life or to the property of others.

31 ASSIGNMENT OF RIGHTS AND OBLIGATIONS AND CHANGE OF CONTROL

31.1 Assignment of rights and obligations

31.1.1 The Investor may assign completely or partially the rights and obligations under this Agreement provided that the Government had provided its written consent to such assignment. The Government shall assess the justifiability of the assignment by not unreasonably withholding its consent.

31.1.2 Article 31 31.1 does not apply to:

(a) assignment of rights and obligations between Affiliates; or
(b) an Agreement for the sale of Crude Oil or Natural Gas under which the price therefore is payable (or such Crude Oil or Natural Gas is exchanged for other Petroleum) after title thereto has passed to the Investor.

In such case, the Investor shall notify the Government of the change in order to modify the Licence in the part concerning the licensee.

31.1.3 If, notwithstanding Article 31.1.1, any assignment of rights and obligations is effective under the acts of the Republic of Croatia, or any other place without any required consent, the Government may terminate the rights of such Investor Party under this Agreement.

31.1.4 The Investor shall notify the Government through the Ministry of its intent to assign its rights and obligations under this Agreement without delay and indicate the commercial conditions of such intended assignment, including the potential assignor, price and other relevant commercial conditions. The Government has the right of pre-emption with regard to the Investor’s share in the Agreement under conditions that are not less favourable than the commercial conditions offered by the potential assignor. The Government shall notify the Investor of its right of pre-emption with regard to the Investor’s share under this Agreement within ninety (90) days from the date of submitting the notice of the Investor’s intention of assignment. The Government shall adopt a decision on giving or refusing consent which shall not be unreasonably withheld and shall also modify the Licence so that it is issued to the new licensee.

31.2 Change of Control

31.2.1 No change of control of the Investor or the Investor Party can be of any force or effect with respect to this Agreement, except with the consent of the Ministry, which shall not be unreasonably withheld.

31.2.2 The Investor shall without delay notify the Ministry of any change of control of the Investor or the Investor Party.

31.2.3 If there is a change in control of the Investor or the Investor Party, except with the consent of the Ministry, the Government may serve notice on the Investor or the Investor Party within thirty (30) days after the Investor or the Investor Party has advised the Ministry in reasonable detail of the change in control, that this Agreement shall be terminated unless such a further change in control of the Investor or the Investor Party as is specified in the notice takes place within the period specified in the notice.

31.2.4 The obligations out of this Article 31.2 shall not apply if the change in control is the direct result of an acquisition of shares or other securities listed on a recognised stock exchange.

31.2.5 For the purposes Article 31.2:

(a) “control” means ownership of more than fifty percent (50%) of the shares authorised to vote at a general meeting of shareholders, or the ability to pass or procure the passing of a decision (whether by casting of votes or otherwise) at a general meeting of shareholders, or at any meeting of the executive or management body, of an Investor Party, as the case may be; and

(b) “change of control” includes direct or indirect change in the control of the Investor Party (whether through merger, sale of share or interest or otherwise) in a one-off transaction or a series of transactions, from one or several assignors to one or several successors, except to an Affiliate by the Investor Party, as the result of which one or several successors, except the Affiliate of the Investor Party, would acquire direct or indirect control of such Investor Party.

32 Currency and Exchange Control, Payments

32.1 Currency and Exchange Control

32.1.1 All operations under this Agreement shall be subject to the exchange control legislation of the Republic of Croatia, and to the rules and regulations thereon in force from time to time.
32.1.2 In all currency exchange transactions, the Investor shall be accorded no less favourable treatment than that accorded from time to time to any other private or state enterprise for commercial transactions in Croatia.

32.1.3 All transactions, payments and valuations made in currencies other than the currency of the Republic of Croatia shall be recorded in Kuna on the basis of standard exchange rates in effect during the period the transaction or valuation is made determined by applying the middle rate published by the Croatian National Bank. For transactions made on dates when no exchange rate is published, the exchange rate shall be established by reference to the middle rate published by the National Bank of Croatia on the immediately preceding the publishing date.

32.1.4 If the Kuna ceases to be the official currency of Croatia, any amounts indicated herein in Kuna (HRK) shall be converted to the new currency by applying the exchange rate based on the middle rate published by the Croatian National Bank on the date of the transaction, unless the exchange rate is stipulated by an act or by the Government and/or in an administrative decision in which case the subject exchange rate shall be applied.

32.1.5 The Investor shall, during the term of this Agreement, have the right to:
(a) return to its country, in Kuna or another freely convertible currency, the net profits from Petroleum sales under this Agreement, after settling its tax liabilities in the Republic of Croatia;
(b) receive, retain and use abroad the proceeds of any export sales of Petroleum under this Agreement;
(c) open, maintain and operate bank accounts with reputable banks, both inside and outside of the Republic of Croatia, for the purpose of this Agreement;
(d) freely import, through normal banking channels, funds necessary for carrying out the Petroleum Operations;
(e) convert into foreign exchange and repatriate sums imported in excess (if any) of its requirements.

32.2 Payment Mechanism
32.2.1 All payments that the Investor shall make to the Republic of Croatia under this Agreement shall be effected in favour of the state Budget pursuant to valid regulations defining the payment details and procedure.

32.2.2 Such payments shall be made within thirty (30) Calendar Days after the end of the month in which the obligation to make the payment is incurred, unless specified otherwise under the terms of this Agreement.

32.3 Late Payment
Any amount not paid in full when due shall bear legal default interest, compounded on a daily basis, at annual rate determined in accordance with the provisions of the applicable legislation of the Republic of Croatia, from the due date until the amount is paid in full.

33 INDEMNITY, INSURANCE AND LIABILITY
33.1 The Investor shall be entirely and solely liable under law to the Republic of Croatia and third parties and shall compensate for any damage or loss to the Republic of Croatia and third parties which the Investor, its personnel or Subcontractors and their personnel may cause to the person, the property or the rights of other persons, caused by or resulting from Petroleum Operations, including any Environmental Damage.

33.1.2 The Investor shall indemnify, defend and hold the Republic of Croatia harmless against all claims, losses and damages of any nature whatsoever by any personnel of the Investor or of any Subcontractor for the loss or damage to personal property or injury or death to Persons caused by or resulting from any Petroleum Operations conducted by or on behalf of the Investor.

33.1.3 The Investor shall contract and keep in force for the duration of this Agreement appropriate liability insurance policies with regard to all risks concerning Petroleum Operations, in particular:
(a) loss or damage to all installations, equipment and other assets for so long as they are used in or in connection with Petroleum Operations; provided, however, that if for any reason the Investor fails to insure any such installation, equipment or assets, it shall compensate any loss thereof or repair any damage caused thereto;

(b) loss, damage or injury caused by pollution in the course of or as a result of immediately identifiable events in Petroleum Operations;

(c) loss of property or damage or bodily injury suffered by any third party in the course of or as a result of Petroleum Operations for which the Investor may be liable;

(d) with respect to Petroleum Operations onshore, the cost of removing wrecks and cleaning up operations following any accident in the course of or as a result of Petroleum Operations;

(e) the Investor’s and/or the Operator’s liability to its personnel engaged in Petroleum Operations as required by applicable acts and regulations of the Republic of Croatia; and

(f) other insurance policies in compliance with the Act and other applicable acts and regulations of the Republic of Croatia.

The Investor shall be responsible for its Subcontractors insurance against the risks referred to in this Article relating mutatis mutandis to such Subcontractors.

33.1.4 The Investor is free to select its insurer provided that the insurer has the appropriate financial capacity. The Investor shall provide the Agency with the certificates proving the subscription and maintenance of the above-mentioned insurances. The Agency shall, in a written opinion, approve the said insurance policies for exclusions and verify the financial capacity of Insurers. All insurance policies taken out pursuant to this Article shall be made available to Agency for opinion prior to operations commencing. The Agency has the right to request amendments to the above mentioned insurance policies when customary or usual in International Good Oilfield Practice during Petroleum Operations in order to ensure compliance with the requirements referred to in this Article.

33.1.5 The Investor shall act as a prudent expert in performing Petroleum Operations:

33.1.6 The Investor is liable for any loss or damage resulting from Negligence, Gross Negligence or Wilful Misconduct of Investor, of Investor’s Subcontractors or their personnel, acting in the scope of their employment in the performance of Petroleum Operations, or any other Persons for whom Investor is responsible with regard to Petroleum Operations. Except for Environmental Damage, the Investor or its Affiliates shall in no event be liable to the Government under this Agreement for indirect damage, including, but not limited to the loss of opportunity, i.e. loss of profit.

33.1.7 The Parent Company shall be liable jointly and severally with the Investor for obligations and liabilities under this Agreement.

33.1.8 The Republic of Croatia shall be liable for any damage or loss due to improper or illegal actions of the government administration authorities pursuant to the provisions of the act regulating the system of government administration, as well as the provisions of the act regulating civil obligations. For the avoidance of any doubt, the Republic of Croatia shall in no event be liable to the Investor under this Agreement for indirect damage, including, but not limited to the loss of opportunity, i.e. loss of profit.

34 FORCE MAJEURE

34.1 Force Majeure Relief

Any obligation or condition arising from this Agreement which either Party is prevented from performing whether in whole or part, except with respect to the payments such Party is liable to, shall not be considered as a breach of this Agreement if said non-performance is caused by a case of Force Majeure, provided, however, that there is a direct cause-and-effect relationship between the non-performance and the case of Force Majeure invoked and that such Party has taken appropriate precautions and exercised due care, to carry out the terms and conditions of this Agreement. For purposes of this Agreement, cases of Force Majeure are considered to include all circumstances which could not be foreseen, avoided or prevented and which are beyond the control of the Party
referring to them, such as, but not limited to, earthquake, typhoon, fire, riot, insurrection, civil disturbances, acts of war or acts attributable to war, invasions, blockades, riots, strikes, drilling rig unavailability due to force majeure, but shall not include the lack of financial assets. Any other Investor’s financial instability, as well as insolvency and/or initiating bankruptcy/liquidation proceedings over the Investor shall not be considered Force Majeure. The intent of the Parties is that the term Force Majeure shall be interpreted in accordance with the Act and act regulating civil obligations.

34.2 Procedure

34.2.1 Where either Party considers it is prevented from performing any of its obligations due to a case of Force Majeure, it shall notify the other Party thereof as soon as reasonably possible, stating the grounds for establishing such case of Force Majeure, and it shall, in Agreement with the other Party, take all necessary and useful action to assure the resumption of the obligations affected by the case of Force Majeure upon termination of that case of Force Majeure.

34.2.2 The obligations other than those affected by the case of Force Majeure shall continue to be performed in accordance with the provisions of this Agreement.

34.2.3 The Parties shall take reasonable measures to minimize the consequences of any event of Force Majeure.

34.2.4 Notwithstanding anything contained above, if an event or circumstance of Force Majeure occurs and is likely to continue for a period in excess of thirty (30) days, the Parties shall meet to discuss the consequences thereof and the course of action to be taken to mitigate the effects thereof or to be adopted in the circumstances.

34.2.5 In case of the Force Majeure the Parties are, at all-times, subject to provisions of the Act and the act regulating civil obligations.

35 DISPUTE SETTLEMENT

35.1 Amicable Settlement

35.1.1 In the event of any dispute between the Republic of Croatia and the Investor arising out of, relating to, or connected with this Agreement or the operation and activities carried out under this Agreement, including any dispute regarding the construction, validity, interpretation, enforceability, breach, termination or implementation of any provisions of this Agreement (hereinafter: Dispute), other than a Dispute to be referred to expert determination in accordance with Article 16, the Parties shall first attempt to resolve the Dispute amicably through negotiations which shall not exceed a period of thirty (30) days after the receipt by one Party of a notice in writing from the other Party of the existence of such a Dispute.

35.1.2 If any Dispute under Article 35.1.1 has not been settled through such negotiations within the established period either Party may (i) by written notice to the other Party, refer it to expert determination if the other Party so agrees in accordance to Article 35.2, or (ii) submit the Dispute to arbitration in accordance with Article 35.3.

35.2 Expert Determination

35.2.1 Without prejudice to Article 16, the Parties may refer a Dispute to expert determination by mutual Agreement. In such case, the Parties shall, within thirty (30) days, by mutual Agreement, appoint an expert to provide his expert decision on the dispute. The expert shall be an independent and impartial person of international standing with relevant qualifications and experience, appointed by a written Agreement between the Parties. The expert shall not, by virtue of nationality, personal connection or commercial interest, have a conflict between his/her own interest and his/her duty as a sole expert.

35.2.2 Failing reaching such an Agreement within the aforementioned period of thirty (30) days, any one of the Parties may refer the Dispute to arbitration pursuant to Article 35.3.
35.2.3 The expert shall render his decision no later than ninety (90) days after his or her appointment. The Parties agree to cooperate fully in the conduct of such expert determination and to provide the expert with all necessary information to make a fully informed decision in an expeditious manner. Should the expert fail to render a decision within ninety (90) days after his or her appointment, and should the Parties fail to extend the deadline for such decision, the Dispute may be referred to arbitration pursuant to Article 35.3 by either Party.

35.2.4 The expert’s decision shall be final and binding upon the Parties unless the Parties refer the dispute to arbitration pursuant to Article 35.3 within sixty (60) days of the date on which the expert’s decision is received.

35.2.5 The expert’s Fees and costs shall be borne in the manner determined by the Parties and if the Parties disagree, in the manner determined by the decision of the expert.

35.3 Arbitration

35.3.1 Each Dispute not resolved amicably and/or not referred to determination by the expert shall be resolved exclusively and finally in arbitration, and any Party may refer such Dispute to arbitration. The arbitration shall be held and determined in accordance with the Rules of Arbitration of the International Chamber of Commerce (ICC) as in effect at the time the proceeding is started.

35.3.3 Unless otherwise expressly agreed in writing by the Parties:

(a) the place of arbitration is Zagreb, Republic of Croatia;
(b) the arbitration proceedings shall be conducted in English language and the arbitrators shall be fluent in English language.
(c) the number of arbitrators shall be three. The arbitrators shall be and remain at all times wholly independent and impartial.
(d) any procedural issues not determined under the arbitral rules selected pursuant to this Article shall be determined by the law of the place of arbitration, other than the legislation which would refer the matter to another jurisdiction.
(e) the costs of the arbitration proceedings (including attorney’s Fees and costs) shall be borne in the manner determined by the Parties and if the Parties disagree, in the manner determined by the arbitrators.
(f) the decision of a majority of the arbitrators shall be final and binding without the right of appeal.
(g) It is the intent of the Parties that the arbitration proceeding shall be conducted expeditiously, without initial recourse to the courts and without interlocutory appeals of the arbitrators’ decisions to the courts.
(h) A Party’s breach of this Agreement shall not affect this Agreement to arbitrate. Moreover, the Parties’ obligations under the arbitration provisions that have not been fulfilled are enforceable even after this Agreement has terminated.

36 APPLICABLE LAW AND LANGUAGE OF THE AGREEMENT

36.1.1 This Agreement shall be governed and interpreted in accordance with the legislation of the Republic of Croatia, excluding the application of collision rules that would refer to the law of another country. The legislation shall also include amendments, revisions, and modifications and re-enactment.

36.1.2 Nothing in this Agreement shall entitle the Investor to exercise the rights, privileges and powers conferred upon it by this Agreement in a manner that shall be contrary to the legislation of the Republic of Croatia.

36.1.3 The conduct of the Petroleum Operations by the Investor shall be subject at any time to the legislation in force in the Republic of Croatia.

36.1.4 In case there is any issued not regulated by the Croatian legislation, the principles of international law shall apply.
36.1.5 This Agreement shall be executed in the Croatian and English languages, and the Croatian version shall prevail, including any arbitration proceedings.

37 AMENDMENTS
37.1.1 This Agreement shall not be amended, modified, varied or supplemented in any respect except by an instrument in writing signed by all the Parties, which shall state the date upon which the amendment shall become effective.
37.1.2 The parties shall use their best efforts to agree on the appropriate amendments to this Agreement within ninety (90) days from aforesaid notice. The amendments to this Agreement shall in any event neither decrease nor increase the rights and obligations of the Investor as these were agreed on the Effective Date.

38 MISCELLANEOUS
38.1.1 No waiver by any Party of any one or more obligations or defaults by any other Party in the performance of this Agreement shall operate or be construed as a waiver of any other obligations or defaults whether of a like or of a different character. For any waiver to be effective hereunder, it shall be made in writing and be valid within the meaning of the provisions of the acts regulating civil obligations.
38.1.2 The Annexes form an integral part of this Agreement. In case of conflict between the provisions, the provisions of any Article in this Agreement shall prevail over the provisions contained in the Annexes thereto.
38.1.3 Reference to any law or regulation having the force of law includes a reference to that law or regulation as from time to time may be amended, extended or re-enacted.
38.1.4 If any part of this Agreement is held to be invalid, the remainder of this Agreement shall remain in effect and the Parties agree that the part so held to be invalid shall be deemed to have been deleted here from and the remainder shall have the same force and effect as if such part had never been included herein.
38.1.5 All rights and obligations hereunder that expressly or by their nature extend beyond the term of this Agreement shall survive and continue to bind the Parties, their legal representatives, legal successors and legal assigns after any termination or expiration of this Agreement until such rights and obligations are satisfied in full or expire.

39 NOTICES AND IMPLEMENTATION OF THE AGREEMENT
39.1.1 The Parties hereby agree to cooperate in any possible manner to achieve the objectives of this Agreement.
39.1.2 All notices, statements, and other communications to be given, submitted or made hereunder by any Party to another shall be sufficiently given if given in writing in Croatian and/or English language and sent by registered post, postage paid, or by telegram, telex, facsimile, radio or cable, to the address or addresses of the other Party or Parties as follows:
(a) if to the Government:
(b) if to the Ministry:
(c) if to the Agency:
(b) if to the Investor:
Notices shall be effective when delivered, if offered at the address of the other Parties set out in this Article 39.1.2 during business hours and, if received outside business hours, on the next following Business Day.
All notices may, as agreed by the Parties, be submitted also by email if the Party receiving the email has confirmed the receipt.
The Government or the Investor may at any time change their authorized representative, or modify the addresses mentioned in this Article, subject to at least ten (10) days’ prior notice.

40 Effective Date
This Agreement shall become effective upon execution of this Agreement by each Party (Effective Date).

In witness whereof, the Parties hereto have concluded this Agreement in four (4) originals in the English and the Croatian language. Each Party shall retain two (2) originals of the Agreement.

Government of the Republic of Croatia

Investor

ANNEX II
Hydrocarbon Exploration and Production COSTS ELIGIBLE FOR COST RECOVERY IN THE EVENT OF DIVISION OF RECOVERED QUANTITIES OF HYDROCARBONS

Article 1
General Provisions
(1) The purpose of this Annex II is to determine the manner of classifying and determining the costs for Hydrocarbons that are eligible for recovery in case of distribution of produced quantities of Hydrocarbons.
(2) The costs for Hydrocarbons incurred to the Investor during the execution of Petroleum Operations that are eligible for recovery may consist of capital and operating costs.
(3) Capital costs shall be those petroleum costs for the purpose of Petroleum Operations incurred in connection with assets that normally have a useful life extending beyond the year in which the asset was acquired.
(4) Capital costs shall especially include the following:
- the costs of all facilities, plants, equipment, tools, machines and installations that are used to execute Petroleum Operations;
- the costs of facilities used during construction and auxiliary facilities, such as workshops, power and water facilities, warehouses, field roads, etc.;
- drilling costs, such as the labour, materials and services used during the drilling of Wells;
- survey costs, such as the labour, materials and services used in aerial, geological, topographical, geophysical and seismic surveys, and core Well drilling;
- other possible Exploration costs, such as, for example, auxiliary or temporary facilities with a useful life of one year or less, which are used for Exploration.
(5) Operating costs shall be all costs connected with Petroleum Operations other than capital costs.

Article 2
Classification of Petroleum Costs
(1) Petroleum costs shall consist of Exploration costs and development and production costs.
(2) Exploration costs shall be those costs, whether of a capital or operating nature, which directly relate to the Exploration of Hydrocarbons and which have been incurred under the Production Sharing Agreement, including the costs of:
   a) surveys, including the labour, materials and services, used in aerial, geophysical, geochemical, geological and seismic surveys and core Well drilling, including desk studies and interpretation of survey data;
   b) the drilling of Wells, including the labour, materials and services, provided that such Wells are not completed as producing Wells;
c) facilities used solely in support of the execution of activities referred to in points a) and b) above.

(3) Development and production costs shall be those costs, whether of a capital or operating nature, which directly relate to the development and Production of Hydrocarbons in the Exploitation Field and which have been incurred under the Production Sharing Agreement, including the costs of:

a) the drilling of Wells, including the labour, materials and services, provided that such Wells are completed as production Wells or injection Wells, including the facilities used in support of the performance of the activities in question;

b) production and Decommissioning equipment, including Petroleum Facilities, Wellhead production tube casings, pumps, flow lines, gathering equipment, delivery lines, storage facilities, export terminals and piers and enhanced production facilities;

c) pipelines and connected facilities for the transportation of Hydrocarbons produced in the Exploitation Field to the point of delivery, including all pipelines, facilities and equipment for connecting the pipelines;

d) engineering and plan studies for the equipment mentioned in points b) and c) above.

(4) If any cost for Hydrocarbons is only partially related to the performance of Petroleum Operations under the Production Sharing Agreement, only the part of the cost relating to the performance of Petroleum Operations under the Production Sharing Agreement may be classified as a cost for Hydrocarbons.

Article 3
Permissible Petroleum Costs Eligible for Cost Recovery

(1) Petroleum costs that are eligible for cost recovery shall be approved by the Agency pursuant to Article 118(10) herein and in accordance with the specification of permissible petroleum costs referred to in paragraph 3 below.

(2) If certain justifiable costs not compliant with the specifications of permissible costs referred to in paragraph 3 below are determined during the performance of Petroleum Operations, they may be authorised only with the consent of the Ministry, whereby the Ministry may request the opinions of other state administration authorities. The Ministry shall issue such consent within 30 days.

(3) Permissible petroleum costs incurred to the Investor during the performance of Petroleum Operations under the Production Sharing Agreement, for the purpose of cost recovery, shall include the following:

1 Surface rights
All direct costs necessary for acquiring and maintaining the rights to use surfaces that have been acquired and maintained for the purpose of Petroleum Operations, excluding all Fees that are paid to the Republic of Croatia for the use of immovable property owned by it or as common good;

2 Labour and associated labour costs
Costs of all locally recruited employees with permanent residence in the Republic of Croatia who are directly engaged in the execution of Petroleum Operations in the Republic of Croatia. These costs shall include wages, Fees and other employees’ costs pursuant to the legislation and regulations of the Republic of Croatia. If such employees are also engaged in activities other than Petroleum Operations, the costs of such employees shall be apportioned on a time sheet basis according to sound and acceptable accounting principles;

The costs of assigned employees, which include wages, Fees and other costs of the Investor’s employees in accordance with generally accepted accounting principles, who have been directly involved in the performance of Petroleum Operations and assigned either temporarily or permanently, regardless of their location. To avoid any doubt, in the case of assigned employees, the costs shall be apportioned on the basis of the time spent at work in connection with the Petroleum Operations and the basis for such proportionate apportionment shall be stated;

3 Transportation and employee relocation costs
Transportation costs of employees, costs of equipment, material and supplies necessary for the execution of Petroleum Operations, along with other related costs, including duties, customs Fees, unloading charges, dock Fees, and inland and ocean freight charges;

4 Charges for services
Actual charges for services that are necessary for the execution of Petroleum Operations which are provided by third parties, except the Investor’s affiliates;

The costs of expert, administrative, scientific or technical services related to the Petroleum Operations provided by the Investor’s affiliates, referring to the services connected with the Petroleum Operations, which the Investor may appoint instead of its own employees. The costs of the services in question shall not include profits, but are a demonstration of the actual costs of service provision and shall not in any case be less favourable than similar Fees for the services in question provided by the Investor and its affiliates;

Costs for the use of equipment and facilities owned and made available by the Investor’s affiliates, at rates commensurate with the cost of ownership and operation; provided, however, that such rates do not exceed those currently prevailing for the supply of similar equipment and facilities on comparable terms in the area where the Petroleum Operations are being performed;

5 Communication
The costs of acquiring and installing equipment, managing, repairing and maintaining communication systems, including radio devices and microwave communication devices;

6 Office and miscellaneous facilities
The costs incurred to the Investor for establishing, maintaining and conducting business of the office and other facilities in the Republic of Croatia that are necessary for the execution of Petroleum Operations under the Production Sharing Agreement;

7 Ecology and the environment
Costs incurred during the execution of Petroleum Operations aimed at conserving cultural and historical heritage;

Costs incurred for the purpose of preparing studies of nature and environment protection, which are required pursuant to the regulations of the Republic of Croatia;

Costs of procuring or disposing of equipment for pollution containment and removal;

Costs of actual control and remediation in case of petroleum spillage and additional liabilities arising from such a situation as prescribed by the applicable regulations, unless they are attributable to ordinary negligence, gross negligence or intent on behalf of the Investor and its subcontractors or the persons they are responsible for on any grounds;

8 Material costs
The costs of materials, supplies, equipment machinery, tools and other similar goods which are used or worn during the performance of Petroleum Operations under the Production Sharing Agreement;

9 Insurance and losses
Insurance premiums and costs incurred for insurance purposes pursuant to the provisions set out herein and the Investor’s procedures, provided that such insurance is customary, provides prudent protection against risk and is at a premium not higher than that charged on a competitive basis by insurance companies which are not affiliates of the Investor;

Except in cases when incurred losses are not covered in full by the insurance policy, actual losses incurred in the form of human casualty and connected costs shall be permissible to the extent not compensated by insurance. These costs may include the costs of repairing and replacing property arising from damage or losses due to fire, flood, storm, theft, accident or other similar event, unless the damage may be attributable to ordinary negligence, gross negligence or intent on behalf of the Investor and its subcontractors or the persons they are responsible for on any grounds. For the
avoidance of doubt, in the event damages and/or losses in connection with this provision are covered in full by and reimbursed under the Investor’s insurance policy, they shall not be subject to cost recovery;

10 Claims
Costs incurred on the basis of settlements or compensations for any losses, claims, reimbursements, court orders or other costs incurred to a third party for Petroleum Operations under the Agreement on the Exploration and Production of Hydrocarbons;

11 General costs (administration and management)
General costs, except direct costs referred to in the previous points, shall be included in the costs for Hydrocarbons pursuant to the Agreement on the Exploration and Production of Hydrocarbons and shall be determined in a statement that is to include a detailed specification of general costs.

Article 4
Costs Not Eligible for Cost Recovery
All other costs not included in permissible costs for Hydrocarbons eligible for cost recovery shall not be considered justifiable costs for Hydrocarbons eligible for cost recovery, especially the following:
– Fees borne by the Investor pursuant to the regulation referred to in Article 51(11) herein;
– all Fees paid to the Republic of Croatia for the use of immovable property owned by it or as a common good;
– any payments made to the Republic of Croatia for failure to fulfil the Minimum Work Obligations or for any fines incurred for infringing the regulations of the Republic of Croatia;
– all costs incurred prior to the Production Sharing Agreement coming into force;
– interest, or any charge or payment in the nature of, in lieu of, or having the commercial effect of, interest related to the financing of Petroleum Operations;
– costs incurred in respect of Petroleum Operations after passing the point of delivery;
– costs incurred due to non-compliance of the Investor with the regulations of the Republic of Croatia and the Production Sharing Agreement that may arise due to negligence, gross negligence or intent on behalf of the Investor and its subcontractors or the persons they are responsible for on any grounds;
– payments or reimbursements for damages arising due to negligence, gross negligence or intent on behalf of the Investor and its subcontractors or the persons they are responsible for on any grounds under the Production Sharing Agreement;
– costs incurred with regard to arbitration or other proceedings under this Agreement on the Exploration and Production of Hydrocarbons;
– costs which have not been adequately supported and documented;
– costs of maintaining the securities that the Investor shall deliver under the Production Sharing Agreement;
– all costs incurred without the Agency’s consent or authorisation.
Croatia

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