

DECREE NO. 626**THE REVOLUTIONARY GOVERNMENT BOARD,****WHEREAS:**

- I. - The Political Constitution of the Republic provides that the Economic Regime must essentially respond to principles of social justice, which tend to ensure all the inhabitants of the country an existence worthy of human beings; therefore, the State has the duty to ensure the best use of natural resources and, among them, hydrocarbons, which have a decisive impact on the country's economy.
- II. - The United Nations has repeatedly declared that the right of peoples and nations to permanent sovereignty over their natural wealth and resources should be exercised in the interest of national development and the welfare of the people of the respective State; and that the exploration, development and disposition of such resources, as well as the investment of foreign capital, should conform to such rules and conditions as those peoples and nations may deem necessary to authorize, limit or prohibit.
- III. - The new international economic order, also proclaimed by the United Nations, must be based on full respect for several principles, among them that of full sovereignty of States over their natural resources and all economic activities; to safeguard such resources, every State has the right to exercise effective control over them and their exploration, through means adjusted to its own situation.
- IV. - The reasons outlined in the preceding Recitals necessitate ensuring that the wealth derived from hydrocarbons is utilized for the benefit of the country's general interests through a modern and effective legal instrument that appropriately regulates its rational exploitation.

THEREFORE

In use of the powers conferred by Decree No. 1 of October 15, nineteen hundred and seventy-nine, published in the Official Gazette No. 191, Volume 265 of the same date, and having heard the opinion of the Supreme Court of Justice.

DECREES, ENACT AND PROMULGATES, the following:

LAW FOR THE EXPLORATION AND EXPLOITATION OF HYDROCARBON DEPOSITS (1)**TITLE I
SINGLE CHAPTER****Object**

Art. 1.- The purpose of this Law is to regulate the promotion, development and control of the exploration and exploitation of hydrocarbon deposits, as well as the transportation and exploitation of oil and gas deposits as well as their transportation in pipelines.

Declaration of Public Utility and of Social Interest

Art. 2.- The exploration, exploitation and transportation of hydrocarbons through pipelines, as well as the acquisition of land, buildings, facilities, other assets and the constitution of easements, necessary for the development of such hydrocarbon activities, are hereby declared to be of public utility and social interest.

Ownership of Hydrocarbons

Art. 3.- Hydrocarbons, whatever the physical state or form in which they are found in the territory of the Republic, are the property of the State.

The use of hydrocarbons must respond to the economic and social policy of the State, so that the income they generate benefits and promotes the integral development of the country.

HYDROCARBON ACTIVITIES

Art. 4.- The exploration and exploitation of hydrocarbon deposits shall be the exclusive responsibility of the *Comisión Ejecutiva Hidroeléctrica del Río Lempa* (CEL).

CEL shall have the authority to carry out all hydrocarbon-related activities, operations, and contracts in any manner it deems necessary, either directly or through operation contracts, service contracts, investment contracts, contracts of analogous nature, or other contractual modalities determined or regulated internally by CEL. The purpose is to promote and achieve the acquisition, processing, and interpretation of geological, geophysical, and geochemical subsurface data for exploratory purposes and the execution of hydrocarbon-related activities described in this Law.

CEL shall establish the corresponding technical regulations for the application of the contracts referred to in the second paragraph.

All contracts mentioned in this Article are excluded from the application of the Public Procurement Law and shall be governed by the exclusion established in Article 22 of the Law of the *Comisión Ejecutiva Hidroeléctrica del Río Lempa*

The transportation of hydrocarbons, as well as the commercialization and industrialization of gas resulting from exploration and exploitation, shall be carried out by CEL directly, through contracts, or by companies dedicated to such activities in which CEL participates. (1)

Asphalt Regime

Art. 5.- The exploration and exploitation of surface deposits of asphalt, bituminous shale and rocks impregnated with hydrocarbons shall be regulated independently of the scope of this Law.

Substances Associated with Hydrocarbons

Art. 6.- The substances associated with the hydrocarbons being exploited belong to the State and their administration and use shall correspond to C.E.L.

Prohibition (1)

Art. 6-A.- No natural or legal person may carry out oil exploration and exploration operations without being the holder of the contracts established in this law, or having been subcontracted by them through the authorization of cel. (1)

Concepts

Art. 7.- For the purposes of this Law, the following definitions shall apply:

1. - **EXPLORATION:** Geological, seismographic, gravimetric, magnetometric, geochemical and other survey methods, and the processing and interpretation of the information obtained.
2. - **EXPLORATION:** The drilling of wells, laying of gathering lines, construction of storage plants and facilities for the separation of fluids, secondary recovery and in general all surface and subsoil activities dedicated to the production, gathering, separation and storage of hydrocarbons in order to achieve their exploitation.
3. - **PETROLEUM:** Hydrocarbons that are in a liquid state, at standard separation conditions.
4. - **ASSOCIATED NATURAL GAS:** Hydrocarbons obtained from a petroleum reservoir, which are in a gaseous state at standard separation conditions.
5. - **FREE NATURAL GAS:** Hydrocarbons found in a gaseous state, under standard temperature and pressure conditions and natural gas obtained from condensate when it has a high gas-oil ratio and, in the Contractor's opinion, it is uneconomical to produce liquid hydrocarbons alone.
6. - **STANDARD SEPARATION CONDITIONS:** The pressure and temperature of separation of the liquid-gas phase under operating conditions, using separators, and in no case, as a result of the application of a process, system, mechanism or installation destined to the treatment of the separated gas.
7. - **CONDENSED:** Hydrocarbons that are obtained in liquid form at standard separation conditions, without using processes such as absorption, compression, refrigeration or a combination of these, although they are characterized by being in a gaseous state under original reservoir conditions.
8. - **BLOCK:** The area of the national territory not greater than one hundred and sixty thousand (160,000) hectares, divided into sixteen (16) lots at the most.
9. - **LOT:** Each of the parts into which a block is divided, which is ten kilometers long per side, oriented North-South and West-East, and divided into sixteen sublots.
10. - **SUBLOT:** Each of the parts into which a lot is divided, which is two and a half kilometers long on each side.

- 11. - **EXPLOITATION UNIT:** It is the area comprising eight sublots joined by any of their sides.
- 12. - **EXPLORATION AREA:** The Block considered as the object of exploration stipulated in the Contract.
- 13. - **EXPLOITATION AREA:** The exploitation Unit or Units that, after completion of exploration, the Contractor selects for development and subsequent exploitation.
- 14. - **MINIMUM EXPLORATORY PROGRAM:** The detail of activities that, as required in the bidding conditions, the contractor is obliged to carry out during the exploration period.
- 15. - **STUDY WELL:** It is the drilling oriented to the stratigraphic or structural geological knowledge of the subsoil.
- 16. - **EXPLORATORY WELL:** The drilling over a structural or stratigraphic trap, with the purpose of determining its hydrocarbon content.
- 17. - **DEVELOPMENT PROGRAM:** It is the detail of the number of wells, of the necessary facilities for the exploitation, transportation and storage of hydrocarbons and determination of other activities and circumstances for the rational and technical exploitation of a field or deposit, establishing the terms of its execution and its costs.
- 18. - **PETROLEUM BARREL:** 158,948 liters at a temperature of 15.56°C (60°F) and at one atmosphere of pressure (14.73 pounds per square inch).
- 19. - **CUBIC FEET OF NATURAL GAS:** 28.32 liters of free natural gas, at a temperature of 15.56° (60°F) and one atmosphere of pressure (15.73 pounds per square inch).
- 20. - **OLEODUCT, GAS PIPELINE OR SECONDARY PIPELINE:** Pipelines that interconnect different fields or production units with the Storage, Control and Metering Terminal, which is built under the Contractor's responsibility and obligation.
- 21. - **STORAGE, CUSTOMS CONTROL AND MEASUREMENT TERMINAL:** The place where oil, gas or petroleum products produced in an area are stored, measured, controlled and delivered.
- 22. - **OLEODUCT, GAS PIPELINE OR MAIN PIPELINE:** The pipelines intended to transport hydrocarbons from the Storage, Inspection and Measurement Terminal, built without the Contractor's responsibility and obligation.
- 23. - **WELL-IN-MOUTH PRICE:** The price of a barrel of oil or a thousand cubic feet of gas, according to type and quality, taken to F.O.B. condition and discounting the tariff and other transportation expenses from the Storage, Fiscalization and Measurement Terminal.
- 24. - **STORAGE AND DISTRIBUTION PLANTS:** These are facilities for the reception, storage and subsequent distribution of fuels derived from petroleum.

- 25. - RAW DATA:** Refers to primary data or raw data obtained by the holders of multi-client investment contracts, including but not limited to geological and seismic data, two-dimensional or three-dimensional (1).
- 26. - DATA LICENSE:** Refers to the contract established between the holder of a multi-client investment contract and the purchasers of the raw data marketed by the latter (1).

TITLE II ADMINISTRATIVE REGIME

CHAPTER I NATIONAL HYDROCARBON POLICY

Competency

Art. 8.- The determination of the national hydrocarbons policy is the powers of the *Dirección General de Energía, Hidrocarburos y Minas*

This policy, with respect to the exploration and exploitation of hydrocarbons, will be prepared by the *Comisión Ejecutiva Hidroeléctrica del Río Lempa* (CEL), which will propose it to the board of directors for approval.

The directorate will be responsible for its own strategic environmental assessments related to the national hydrocarbons policy and the subsector development plans approved by it. (1)

Essential Aspects

Art. 9.- The National hydrocarbons policy shall contain principles that basically refer to the following aspects:

- a) Selection of areas for exploration;
- b) REVOKED (1)
- c) Conservation of hydrocarbon reserves;
- d) National hydrocarbon exploitation in order to achieve optimum utilization of hydrocarbons;
- e) Refining, industrialization and commercialization of hydrocarbons;
- f) Transportation of hydrocarbons through pipelines;
- g) National Security;
- h) Ecological and environmental preservation measures; e,
- i) Monetary, exchange and tax matters related to hydrocarbons.

- j) Competence of the Executive Branch in the area of Economy

Art. 10.- The Executive Branch in the Economy Branch shall be the authority in charge of the application of this Law, for:

- a) Approve operating contracts, prior to signing them;
- b) Authorize C.E.L. to carry out hydrocarbon transportation activities through pipelines;
- c) To fix the prices of oil and gas derivatives for domestic consumption and industrialization; and,
- d) Exercise the other powers conferred by this Law.

CHAPTER II POWERS AND LEGAL REGIME OF THE C.E.L.

Attributions

Art. 11.- CEL, for the compliance of this law, shall have the following powers: (1)

- a) To prepare development plans and programs for the hydrocarbon sub-sector and submit them to management for approval for implementation. (1)
- b) To advise the Executive Branch in the determination of the national hydrocarbons policy;
- c) Enter into, under the conditions and requirements established in this Law, operating contracts for the exploration and exploitation of hydrocarbons and control their execution;
- d) To carry out, under the conditions and requirements established in this Law, the transportation of hydrocarbons through pipelines, as well as the commercialization and industrialization of gas;
- e) To enter into the contracts established in this law for the performance of hydrocarbon activities and to formalize all the instruments that may be necessary or convenient.
- f) Promote the participation of national capital in companies engaged in hydrocarbon activities;
- g) To be the State's agent in the management and commercialization of oil and gas received as payment of the Specific Direct Tax and royalties;
- h) To control the activities of hydrocarbon transportation through pipelines, when these are not directly carried out by C.E.L;
- i) To commercialize, in accordance with this Law, hydrocarbons and their derivatives, coming from operation contracts;
- j) To issue an opinion on the pricing of oil and gas derivatives for domestic consumption;

- k) To propose to the Executive Power in the Economy Branch, the projects of reforms to the legislation on hydrocarbons and related activities.
- l) To submit the studies and technical reports on the various activities related to the hydrocarbon industry that the Executive Branch submits for its consideration; and
- m) Determine and issue the technical regulations of the contractual forms of any unnamed hydrocarbon exploration contract with the purpose of promoting the acquisition, processing and interpretation of geological, geophysical and geochemical data of the subsoil for exploratory purposes, for the execution of hydrocarbon activities described in this law. (1)
- n) Such other duties as may be prescribed by this law and its regulations (1).

Legal Regime

Art. 12.- The C.E.L., for the fulfillment of its attributions and faculties, shall be governed by the present Law, its Constitutive Law, the respective Regulations and other Laws of the Republic.

TITLE III CONTRACTUAL FORMS

CHAPTER I OPERATING CONTRACTS

Concept

Art. 13.- Operation Contract is that which is entered into between C.E.L., which allows the execution on its behalf, of the exploration and exploitation of hydrocarbons, on determined areas, and the contractor who, on its exclusive account, assumes the oil mining risk, receiving as sole retribution, in case of entering the exploitation period, a percentage of the total production obtained.

Mining and Oil Risk

Art. 14.- C.E.L. shall not be obliged to make any investment and shall not assume any risk or responsibility for the investments, operations or results related to the operation contract, and it shall be exclusively the contractor who contributes all the capital, facilities, equipment, materials, personnel, technology and other elements required for the faithful and strict fulfillment of the contract.

The operating contractor may subcontract specific works for the performance of its obligations, retaining full responsibility for such operations.

Hydrocarbons Subject Matter of the Contract

Art. 15.- The operating contractor shall only have rights over the exploitation of petroleum and free natural gas.

Content of the Contract

Art. 16.- The operation contract shall necessarily stipulate, among others, the following aspects:

- a) Contractor's obligations regarding exploratory work and minimum investments;
- b) The contractor's obligations to present a development program and its execution schedule in the event of discovering commercially exploitable hydrocarbons;
- c) The entry premium, surface rights and other obligations;
- d) The extent and form of selection of the areas;
- e) The guarantees to be provided by the contractor to ensure compliance with its obligations;
- f) The percentage of remuneration to be paid to the contractor for the operations covered by the contract;
- g) The term of the contract; and,
- h) The constitution of a Management Committee.

Maximum Surfaces

Art. 17.- The area that the contractor shall be in charge of with the exclusive right to carry out exploration operations shall not be greater than the surface of one block. Each contractor may operate one or more blocks under different contracts.

Once the exploration period has ended and the exploitation period has begun, the contractor may retain up to fifty percent of the surface of each one of the blocks and in exploitation units joined by their vertices, taking into account for this purpose, the field or fields that had previously been put into exploitation in accordance with the provisions of Article 20.

Disaffection of Areas

Art. 18.- The areas which, in compliance with the provisions of the preceding Article, are disaffected, shall be placed at the disposal of the C.E.L.

Deadlines

Art. 19.- The term of the operating contract shall not exceed twenty-five years from the date thereof, and its extensions shall not exceed twelve years.

The contract includes an exploration period that may last up to five years, counted from the date of the contract, which may be conventionally extended for up to two more years, and an exploitation period that may last up to twenty years, counted for each hydrocarbon field, from the date of the contract, which may be conventionally extended for up to two more years, and an exploitation period that may last up to twenty years, counted for each hydrocarbon field, counted from date on

which C.E.L. approves the option taken by the contractor to move to the exploitation period, which can be extended by agreement for up to ten more years.

In accordance with the power conferred in the preceding paragraph, the maximum duration of the exploration period for each of the blocks to be bid will be established by C.E.L. in the respective bidding conditions.

Operating Period Option

Art. 20.- During the exploration period or its extension, the contractor, at its option, may proceed to the exploitation of the hydrocarbon field it has selected, complying with all the obligations corresponding to this stage of the contract, continuing with the development of the minimum exploration program in the remaining area under exploration. At the end of the exploration period, the contractor shall be subject to the provisions of the second paragraph of Article 17 and shall disaffect the remaining area.

Exploration and Exploitation Programs

Art. 21.- For the exploration period, the contract must contain stipulations on the minimum works and investments to be made, committed by the contractor, which shall not be less than those required in the bidding conditions; the minimum exploration program must be uninterrupted and expressed as required in the bidding conditions, in all or some of the following aspects:

- a) Minimum investment per hectare per year;
- b) Magnetometry work;
- c) Gravimetric works;
- d) Refraction seismic testing;
- e) Kilometers of seismic reflection lines;
- f) number of exploration wells or meters to be drilled; and,
- g) Other prospecting methods.

For the extension of the exploration period, the contractor shall submit the respective request, stating the grounds that justify it and for the performance of the work shall attach an additional minimum exploration program. Once approved by C.E.L. it will be considered as incorporated to the original contract.

If for reasons of unproductivity of the area or for other causes justified by the contractor, to the satisfaction of C.E.L., the contractor does not perform the minimum exploratory work in its entirety, it shall pay C.E.L. one hundred percent of the investment not made.

For the exploitation period the contractor will submit to the approval of C.E.L. the development and exploitation program for each of the fields it retains, considering them economically exploitable. This program will contain the works to be carried out and the deadlines for their execution.

Bid Maintenance Guarantee

Art. 22.- The bidder shall render a bid maintenance guarantee to the satisfaction of C.E.L., for an amount not less than two percent of the total cost of the exploratory works it undertakes to carry out. Its term shall be one hundred and twenty days, extendable at C.E.L.'s request; in cash, bonds issued or guaranteed by the State or issued by any institution authorized to carry out this type of operations.

This guarantee shall be canceled or returned to the bidders whose bids have been rejected within fifteen days from the date of notification of such decision.

Performance Bond during the Exploration Period

Art. 23.- Upon signing the contract, the contractor shall render a faithful performance guarantee, in any of the forms mentioned in the preceding Article, to the satisfaction of C.E.L., equivalent to one hundred percent of the value of the minimum exploratory works committed, which may be reduced proportionally to the extent that the contractor complies with said works.

The guarantee will be canceled or returned to the contractor when its option to move to the exploitation period is approved or when the contract is terminated because commercially exploitable hydrocarbon reserves have not been discovered, provided that the contractor has complied with all the obligations contracted.

Performance Bond during the Operating Period

Art. 24.- Within thirty days following the commencement of the exploitation period and approved by C.E.L. the development program, both parties shall agree on the amount of the investments to be made and the contractor shall render a performance bond in any of the forms mentioned in Art 22, to the satisfaction of C.E.L., equivalent to twenty percent of such investments.

This guarantee will be cancelled or returned to the contractor when the committed program has been fulfilled in its entirety, or when the contract is terminated due to lack of commercial production, duly justified by the contractor and accepted by C.E.L.

Disaffection of Areas due to Noncompliance

Art. 25.- The areas corresponding to hydrocarbon traps geologically and geophysically defined by a contractor, included in the area retained for the exploitation period, which have not been proven in their hydrocarbon possibilities through exploratory drilling, within three years from the beginning of such period, shall be released without any payment and at the disposal of the C.E.L.

In the same way, the fields included in areas retained for exploitation, whose hydrocarbon productivity is proven and which have not been developed and put into production within five years from the date of commencement of the exploitation period or from the date of completion of the discovery well, if this occurs within the aforementioned period, will be disaffected.

Document to be delivered by the Contractor

Art. 26.- During the exploration period and each time the contractor disaffects a portion of the contract area, it shall deliver to C.E.L. all the geological, geophysical, drilling and any other information it may have obtained, relative to the portion of the area that is disaffected.

At the end of the exploitation period or its extension, at any time during this period in which the contractor chooses to revert to C.E.L. all or part of the exploitation area, it shall deliver all the primary and elaborated information corresponding to the disaffected areas. The above information shall be the exclusive property of C.E.L., which may dispose of it at its convenience.

Conservation Measures for Deposits and Facilities

Art. 27.- For the purposes of a rational exploitation and conservation of the hydrocarbon deposits, the contractor shall submit to the approval of C.E.L. the production regime per well, the testing program to be carried out in each one of them, the drilling and completion program of each well, as well as any repair program and the conservation regime of these and their installations.

C.E.L., after studying the production regime presented by the contractor, will approve the production rate per well that it considers to be the one that technically and economically allows the rational exploitation of the reservoirs, observing in all cases the policy of conservation of the reserves established by the Executive Power and in accordance with the regulations that may be dictated on the matter.

Delivery of Goods

Art. 28.- Upon termination of an operation contract for any reason whatsoever, the contractor shall return, or cause to be returned to C.E.L., free of charge and in good condition of use and production, the wells that at that time were in activity, as well as the equipment, machinery, fixed installations and all goods, whether movable or immovable, used or to be used in the operations object of the contract.

Carelessness or fraud in the conservation of the goods referred to in the preceding paragraph shall entail civil and criminal liability for the contractor in accordance with the Laws.

Guarantee for the Return of Goods on Termination of the Contract

Art. 29.- Five years before the end of the exploitation period, the contractor shall be obliged to provide a guarantee, in any of the forms mentioned in Article 22, previously accepted by C.E.L., for a value equivalent to not less than ten percent of the original purchase value of the goods subject to return, to ensure compliance with the obligations established in the preceding Article.

Contractor's Obligations with Respect to Personnel

Art. 30.- The operating contractor, with respect to personnel, educational assistance, lodging facilities, transportation, food and technical training, shall be especially obliged to:

- a) Comply in its labor relations with the provisions of the Labor Code, with the following modification: to reach within six months of starting operations, the employment of a minimum of eighty percent Salvadorans in the labor staff, seventy percent in the administrative staff

and seventy percent in the technical staff, unless there is no national personnel available to reach these percentages. Within two years, the Salvadoran personnel shall be at least the following: laborer ninety-five percent, administrative ninety percent and technical ninety percent.

In order to comply with the terms of this paragraph, the contractor shall submit for C.E.L.'s approval a program for the substitution of foreign personnel for Salvadoran personnel;

- b) To comply with its obligations as an employer, in accordance with the Social Security Law, the Social Housing Fund Law and their respective Regulations, as well as to be a Withholding Agent for the purposes of the Income Tax Law and the Highway Law;
- c) Contribute to C.E.L., during the exploration period, the contractually stipulated amount of money, which will be destined to the development of national technical education and to defray the cost of scholarships in the country or abroad, to carry out specialized studies in the hydrocarbons industry;
- d) To pay C.E.L. from the beginning of production, the contractually stipulated amount of money, destined to promote scientific and technological research and development, especially in the energy field;
- e) Build hygienic and comfortable housing for employees and workers, and if necessary, schools, clinics or hospitals in the stable work camps, according to plans and specifications approved by the Ministry of Labor and Social Welfare, C.E.L. and other corresponding agencies;
- f) Provide lodging, food and transportation facilities in work camps for inspectors and other State officials; and,
- g) To receive students or graduates of higher technical education related to the hydrocarbon industry, in the number and for the time contractually agreed upon, so that they may carry out practical studies in the work fields.

The contractor shall pay for transportation, lodging, food and medical care during the internship in the area of operation.

Contractor's Obligations Regarding Operating and Information Plans

Art. 31.- Regarding operation and information plans, the operation contractor shall:

- a) To begin exploration work within six months from the date of signing the respective contract; and to submit the exploration and field development plans to C.E.L. for approval before starting their execution;
- b) Submit to the C.E.L., no later than November 1 of each year, the detailed program of activities to be carried out in the following calendar year and the budget for investments and expenses;
- c) Provide C.E.L., on a quarterly basis or when requested by it, reports on all topographic, geological, geophysical, drilling, production, evaluation and estimation of reserves and other activities, and the corresponding plans and documents;

- d) Provide C.E.L., within twenty-four hours of obtaining information on:
 - 1) Completion of the drilling of each well;
 - 2) Profiling and production test results;
 - 3) Termination or abandonment of well; and,
 - 4) Daily production reports by well and by reservoir,
- e) Provide C.E.L., when required, with technical, economic and statistical data related to any aspect of exploration and exploitation;
- f) Submit the aero photogrammetric plan of the land area subject of the exploration contract, applying the specifications determined by the National Geographic Institute. If the aerial photogrammetric survey has not been done, If the aero-photogrammetric survey has not been done, it shall be carried out under the control of C.E.L. and the negatives shall be its property.
- g) Submit to C.E.L., within the first three months of each year, a detailed report of the operations carried out in the immediately preceding year, including data on exploration, production and reserves, as well as internal sales, exports, personnel and other information pertinent to the work;
- h) Provide C.E.L. with all information on the existence of mineral, hydrological and other wealth obtained as a result of its operations; and,
- i) Not to provide information or documents to third parties, nor disclose trade secrets relating to C.E.L. and its activities, except with the express and specific authorization of the latter.

Contractor's Obligations for Optimal Operation

Art. 32.- The operating contractor shall adopt measures tending to obtain an optimum and safe operation, among them, the following:

- a) Employ modern and efficient machinery and apply the appropriate methods to obtain optimum productivity in the exploitation of the deposits, observing the policy established for the conservation of reserves;
- b) To adhere to the quality standards and specifications set in advance by C.E.L.;
- c) To observe safety measures in the performance of the company's work, complying with accepted international standards; and,
- d) To take the necessary measures for the conservation of flora, fauna and other natural resources, as well as to avoid the contamination of water, atmosphere and soil, subject to the national hydrocarbon policy and internationally accepted standards.

General Obligations for Operating Contractors

Art. 33.- Other obligations of the operating contractors shall be:

- a) Definitive delimitation of the exploitation area, within the first three years of the exploitation period, following geodesic or other methods, according to the respective Regulations;
- b) To build roads, ports and airports deemed necessary for the fulfillment of its purpose, according to plans approved by the *Ministerio de Obras Públicas* and to open them to public use, at the request of the corresponding agency and with the approval of the C.E.L.; and,
- c) To keep accounting records in accordance with the provisions of the Code of Commerce, to which C.E.L. shall have free access and shall submit to it within the first quarter of each year, the balance sheet, income statement and inventories for the previous year's fiscal year.

Prohibition to the Contractor

Art. 34.- The operating contractor may not, without prior authorization from C.E.L., alienate, encumber or withdraw during the term of the contract the assets acquired for the fulfillment of the contract.

Assignment of the Contract

Art. 35.- Operating contractors may not assign all or part of the rights and obligations established in the contract, without prior authorization from C.E.L.

When the session is partial, both the assignor and the assignee shall be jointly and severally liable for the corresponding obligations.

Product Delivery

Art. 36.- Once exploitation has commenced, the contractor shall be obliged to deliver the totality of what is produced to C.E.L. at the respective Storage, Inspection and Measurement Terminal, with the exception of the volumes that are necessary to use for exploitation operations thereof. Such delivery shall be made under the conditions established by this Law, its Regulations and those stipulated in the contract.

Production Distribution

Art. 37.- From the total production delivered by the contractor at the respective Storage, Fiscalization and Measurement Terminal, C.E.L. shall withhold the volumes necessary for the payment of Royalties and the Specific Direct Tax.

Of the remaining volumes, C.E.L. will deliver to the contractor those that correspond to it as remuneration and will retain the remainder for itself for the purposes indicated in this Law.

Export of Contractor's Petroleum

Art. 38.- With the authorization of the C.E.L., the operating contractor may export free of duty the petroleum corresponding to him as remuneration, after withholding the volumes corresponding to the Specific Direct Tax and to domestic consumption, as the case may be.

Domestic Consumption

Art. 39.- If the volume of petroleum allocated to the State and C.E.L. as a result of exploitation is insufficient to meet domestic consumption needs, as determined by the *Ministerio de Economía*, the State, either directly or through C.E.L., may acquire the necessary volumes from the portion assigned as compensation to the operating contractors. The contractors shall be obligated to deliver the required volumes at the Storage, Oversight, and Measurement Terminal at the lowest international price published in the preceding month's edition of Platt's Oilgram Price Service, according to the type and quality or similar standards. To address the mentioned shortfall, each operating contractor shall deliver a proportion of the oil they received, calculated based on their percentage share of the total oil volume received by all contractors.

Drilling Wells within 200 Meters of the Boundary of the Area

Art. 40.- The drilling of wells at distances less than two hundred meters from the limit of the respective exploration or exploitation area requires prior authorization from the C.E.L.

Combined Development and Operation

Art. 41.- When the exploitation areas of two or more contracts cover a hydrocarbon field, the contractors shall enter into an agreement for its joint development and exploitation, with the involvement of C.E.L., to ensure the field is managed under a unified approach that considers both technical and economic aspects. If no agreement is reached, C.E.L. shall establish the regulations for its development and exploitation.

Bidding for Operating Contracts

Art. 42.- C.E.L. shall submit to bidding the awarding of any operation contract, in accordance with the provisions of the Regulations of the Procedure for the Call for Bidding.

Management Committees

Art. 43.- Every operation contract shall stipulate the constitution of an Administration Committee, which shall be composed of two representatives of the C.E.L. and two representatives of the contractor, with the powers set forth in this Law or its Regulations, as well as in the respective contract.

Powers of the Management Committee

Art. 44.- The Management Committee shall have, in general, the function of supervising the execution of the investments and exploration and exploitation programs committed by the operating contractor and, in particular, the following attributions:

- a) Review and issue an opinion on the budgets and work programs that complement or modify the programs referred to in Article 21;
- b) Determine the methods and procedures to be used by the operating contractor for the optimal development of its operations;
- c) Provide recommendations deemed appropriate regarding the technical and administrative management of operations;
- d) Obtain from the operating contractor all reports and documents it deems necessary to know, for the fulfillment of its duties;
- e) Order audits to determine the status of the contractor's operations; and,
- f) Any other duties as provided by this Law, the Regulations, the respective operating agreement and other laws of the Republic.

CHAPTER II SERVICE CONTRACTS

Concept and Purpose

Art. 45.- A service rendering contract is by which a person undertakes to carry out specific oil operations on behalf and at the risk of C.E.L., contributing personnel, technology, capital, equipment and machinery necessary for the contracted work and receiving in payment, money or its equivalent in oil or gas, according to what is established in the contract.

The requirements and conditions for the execution of contracts for the rendering of services shall be those established for operating contracts, insofar as applicable, in the judgment of the C.E.L., in accordance with this Law.

Preferential Right

Art. 46.- In the execution of contracts for the rendering of oil services, C.E.L. shall preferably hire nationals who are owners of companies engaged in the rendering of such services and who, qualified by C.E.L., may perform them under competitive conditions of quality and price with foreigners.

Warranties

Art. 47.- Contractors for the rendering of services shall furnish such guarantees as in the judgment of C.E.L. are necessary for the fulfillment of its obligations.

CHAPTER II-BIS INVESTMENT CONTRACTS (1)

Investment Contract (1)

Art. 47-A. An investment contract is defined as the one by which a natural or legal person undertakes to carry out, at its own cost and risk, operations or scientific activities, research,

reconnaissance and/or prospecting related to exploratory hydrocarbon activities or that allow obtaining information for the formulation of hydrocarbon policies and plans. (1)

SECTION I

MULTI-CLIENT INVESTMENT CONTRACTS (1)

Art. 47-B.- The Multiclient Modality is an investment contract entered into between CEL and a natural or legal person, whether private or public, domestic or foreign. Under this contract, the contractor is granted the exclusive right to market and commercialize the raw data obtained or collected through their prospecting, collection, and processing activities, for the duration specified in the contract. This is done at the contractor's own cost and risk, and includes any relevant information developed by the contractor based on the data obtained, without incurring any expenses for CEL.

Art. 47-C.- The raw data, including any information developed from it, collected or created by the holder of a Multiclient Modality contract, shall be the exclusive property of CEL. This includes the title, ownership, and copyright of the product. The holders shall have the exclusive right to use and commercialize such data and information, both within the national territory and abroad, for a period to be determined in the respective contract.

CEL will receive a percentage of the revenues obtained by the holder of a multi-client contract, which will be established in the respective contract.

For such purposes, the holder of a multi-client mode contract may only commercialize raw data and processed and reprocessed information through the granting of data licenses. Such licenses provide access to raw data and reprocessed information in exchange for monetary consideration. All relevant information on such licenses, including, but not limited to, the total consideration received, the natural or legal persons who have contracted the licenses and the term of such licenses, shall be reported to CEL within the term to be established in the technical regulations issued by CEL for such purposes.

During the term of the multi-client modality contract, the contract holder shall keep the raw data and reprocessed information but shall deliver a copy of such information to CEL through the means and within the deadlines designated by the latter. Such information shall be treated as confidential information.

Additionally, the holder of the multi-client modality contract shall have the obligation to provide technical training to the personnel designated by CEL in the collection, handling and processing of the data and information collected. (1)

Art. 47-D.- The holders of the multi-client modality contracts referred to in this chapter shall receive the benefits of the legal stability contracts established in chapter iv of the law on legal stability for investments. Likewise, the obligations and requirements set forth in said law shall be deemed to have been complied with at no cost. The amounts established in Article 14 of such law, as well as the social investment provided for in Article 13 (e) of the same law, are also exempted from complying with the amounts provided for in Article 13 (e) of such law.

Additionally, the period during which they shall receive the benefits of the legal stability law for investments shall be as set forth in Article 14(c) thereof.

The technical standards issued by CEL will establish the structure and content of multi-client contracts, as well as the mechanisms for granting data licenses, and the parameters to be used to determine the percentage of income that CEL should receive from the income generated by such licenses. (1)

SECTION II

CONTRACTING AND AWARDING PROCESS FOR INVESTMENT CONTRACTS (1)

Data room (1)

Art. 47-E.- CEL may establish a database in physical or electronic form, which shall provide relevant information for potential bidders to make their decision to participate in the process. Such relevant information may include, but is not limited to, financial, geological figures, location maps and petroleum measurements specific to CEL, which shall be for the exclusive use of bid preparation, without implying, under any condition, responsibility to CEL for the accuracy or interpretation made by the bidders of the information (1).

Prequalification of bidders (1)

Art. 47-F.- The procedures for the selection of bidders for the contracts referred to in this chapter may have a previous pre-qualification stage in which national or international bidders will participate, with the purpose of selecting those that have the specific and relevant experience and financial capacity for the contract to be signed. During the prequalification stage, equality and free competition will be guaranteed. (1)

Requirements for pre-qualification. (1)

Art. 47-G.- In the pre-qualification stage, those interested in participating as bidders must comply with the criteria listed below:

- a) Demonstrate experience and results obtained in similar projects, including the background of the subcontractors or their parent companies, when the project involves subcontracting; also, submit performance certifications, if any.
- b) Possess the professional, technical and environmental qualifications and competencies, financial resources, equipment and other physical means, management capacity, reliability, experience and personnel necessary to carry out all phases of the contract.
- c) Have sufficient capacity to manage the financial and environmental aspects of the contract.
- d) Have the necessary legal capacity to enter into the type of contract it intends to execute.
- e) Not be in bankruptcy or insolvency proceedings, or in the process of liquidation, nor have its commercial activity been suspended.
- f) Not have been convicted, as well as its directors, partners, associates or managers, for any crime related to money laundering or financing of terrorism, nor for the formulation of False statements about their qualifications to enter into a public contract in the seven years preceding the commencement of the contract award process, nor have they been

subject to debarment or suspension as a result of any administrative proceeding or conviction in an arbitration award. (1)

Bidding bases (1)

Art. 47-H.- CEL shall draw up the bidding rules, which shall be published on its web site so that any interested party or public authority may, within the term of thirty days, form observations or technical, economic, social, environmental or legal constraints. If there are no observations or objections within the aforementioned term, this stage will be deemed to have been completed and the process will continue.

During the bidding process, bidders may ask questions about the bidding conditions, which will be answered by CEL or by the person delegated by it and will be of a public nature.

Once the bidding conditions have been published, a period of not less than two nor more than three months will be granted for the presentation of bids by the participants.

The bidding conditions referred to in this Article shall include all the information available in the data room, in case one has been created for such public bidding. (1)

Submission of bids (1)

Art. 47-I.- CEL may specify the modalities for the submission of bids. The bidding conditions shall establish the documents that must be submitted by the participants, as well as the manner, date and time of presentation of said documents. (1)

Bid opening (1)

Art. 47-J.- The opening of bids shall be carried out by the officials delegated for this purpose, at the place, day and time specified in the bidding rules and in the presence of the bidders who wish to attend, as well as anyone who is identified with their identity document, and may attend virtually or in person.

Once the opening of bids has been concluded, a record will be made of the bids received, the documents contained in each one and the amount offered; likewise, all relevant aspects will be recorded, including nonconformities of the bidders.

In both the receipt and opening of bids, CEL may implement mechanisms for submitting and opening bids electronically, including the use of a system of distributed recording technology, or similar or analogous technology, in which the records are linked and encrypted to protect the security and privacy of transactions, known in english as "blockchain."(1)

Awarding of contracts (1)

Art. 47-K.- For the award of the contracts referred to in this chapter, CEL must comply with the following requirements:

- a) Rank all proposals that have been declared accepted based on the evaluation criteria; and,

- b) Declare the winning bid the bid that comes in first place, according to the criteria defined in the bidding conditions.

The contracting process referred to in this chapter may also be carried out by invitation. In such cases, only those national or international persons exclusively and directly invited by CEL may become bidders. (1)

Direct contracting (1)

Art. 47-L.- CEL is enabled to contract directly for the contracts referred to in this chapter, without resorting to the procedure provided in the previous provisions, for which the board of directors must issue a reasoned and duly reasoned resolution of the causes for which this contracting procedure has been chosen. (1)

CHAPTER III COMMON PROVISIONS

Requirements of Foreign Corporations to Contract

Art. 48.- In order to enter into "operation" or "rendering of services" contracts, foreign companies shall be subject to the provisions set forth in Chapter XIII of Title II of Book One of the Commercial Code, except for the latter, in those cases in which the *Ministerio de Economía*, at the request of C.E.L., deems it convenient to authorize them due to their occasional or temporary and urgent nature.

Submission to National Laws

Art. 49.- Foreign owners of companies engaged in activities related to the hydrocarbons industry shall be subject to the laws, courts and authorities of the Republic in relation to the acts they enter into in Salvadoran territory or which are to take effect therein, and shall expressly waive any claim, through diplomatic channels. Such subjection and waiver shall be deemed implicit in any contract entered into with C.E.L.

General Obligations of Contractors

Art. 50.- Natural or juridical persons that enter into any type of contract with C.E.L., pursuant to this Law, shall be subject to compliance with the obligations established in Articles 30, 31, 32 and 33 to the extent that they may be applicable; as well as those that may arise from the respective contract, this Law, and other Provisions of a general nature.

TITLE IV NATURAL GAS

SINGLE CHAPTER

Associated Natural Gas Property

Art. 51.- The administration and use of the associated natural gas obtained in the exploitation of oil fields corresponds to the L.E.C. and may only be used by the contractor in the volumes necessary for exploitation and transportation operations, or for re-injection into fields, with prior

authorization from the C.E.L. In condensate fields or fields with a high gas-petroleum ratio, and commercially exploitable in petroleum, C.E.L. may require the reinjection of gas.

Use of Associated Natural Gas

Art. 52.- C.E.L., directly or through third parties, may use the associated natural gas coming from oil fields, for industrial or commercialization purposes, in those volumes that the contractor does not use, and extract the liquefiable hydrocarbons from the gas.

The contractor shall deliver to C.E.L., free of charge, the unused associated gas.

C.E.L. shall only pay for the costs of the contractor's preparation for delivery.

The contractor may not, without C.E.L.'s authorization, release the associated natural gas into the atmosphere or burn it.

To be considered Free natural gas

Art. 53.- Condensate deposits or deposits with a high gas-petroleum ratio are considered free natural gas fields if, in the opinion of the contractor, it is uneconomical to exploit oil; in such case, the oil shall be exploited by C.E.L. and the contractor shall not receive any remuneration for its production.

Free Natural Gas Contractual Regime

Art 54 - The contractual conditions for the exploitation of free natural gas fields shall be the same as for the exploitation of oil fields.

The royalties and Specific Direct Tax on gas and the products contained therein shall be set in accordance with the provisions of Article 65.

Free natural gas surplus regime

Art. 55.- Surpluses of free natural gas not used, or which cannot be reinjected, shall be the object of special agreements or shall be governed by the corresponding regulations.

The contractor may not, without C.E.L.'s authorization, release free natural gas into the atmosphere or burn it.

TITLE V INCOME

CHAPTER I TAX REGIME

Specific Direct Tax

Art. 56.- The remuneration to the contractor for the exploitation of oil and/or gas is taxed with the Specific Direct Tax, which is considered a substitute for the Income Tax.

Payment and Tax Exemption

Art. 57.- The contractor shall pay in kind the Specific Direct Tax referred to in the preceding Art, in accordance with Art. 62 and 65, and shall also be obliged to pay the fees, taxes and other fiscal and municipal contributions applicable to it, being exempt from any other direct tax levied on its income or the capital invested in hydrocarbon activities.

Withholding and Paying Agent

Art. 58.- C.E.L. shall be the withholding and payment agent for Specific Direct Tax and shall issue the respective proof of payment to the contractor.

C.E.L. in the concept indicated above, will pay to the General Treasury Department, in cash and at the actual prior sale price, deducting marketing costs, the equivalent of the oil and/or gas received as Specific Direct Tax and Royalties.

Customs Exemptions

Art. 59.- Operating contractors, during the exploration period, counted from the date on which the respective contract comes into force, and during the first ten years of the exploitation period, counted from the date on which C.E.L. accepts the contractor's option, shall be exempt from customs duties and other related charges, including consular duties, but not charges for specific services, which are levied on the importation of construction materials, equipment, machinery, spare parts, accessories, raw materials, semi-finished or intermediate products, containers, packaging, lubricants and fuels, except gasoline, necessary for the exploration and exploitation of hydrocarbons, provided they are not produced in the country.

Temporary Importation of Goods

Art. 60.- Operating contractors may introduce into the country petroleum machinery and equipment within the period of exploration and exploitation, under the regime of temporary importation of goods, for a term of three years, with the authorization of the General Directorate of Customs Revenue, prior favorable report of C.E.L.

The term referred to in the preceding paragraph may be extended for equal periods, subject to a favorable report from the L.E.C.

Transfer of Goods Imported under Customs Exemption

Art. 61.- With a favorable report from the C.E.L., goods imported with exemption from customs duties may be transferred or disposed of, when they are no longer usable in the work of the contractor, subject to an appraisal and authorization of the *Ministerio de Hacienda*, so that the corresponding taxes may be collected.

If the transfer or alienation is made to another person who enjoys exemption from customs duties, in accordance with this Law, the authorization of the *Ministerio de Hacienda* shall be required, subject to a favorable report from the C.E.L.

The State and C.E.L. will have preference for the purchase of these assets.

The contractor who, in violation of this Article, sells, transfers or assigns to a different service, any good introduced into the country with exemption of customs duties, shall be liable in accordance with the Laws of the Republic.

Tax aspects of multi-client modality contracts (1)

Art. 61. A.- The owners of the multiclient modality contracts regulated by this law shall benefit from the following tax incentives while the respective contracts remain in force:

Total exemption from customs duties and taxes, including the tax on the transfer of personal property and on the rendering of services levied on the definitive importation or purchase of raw materials, supplies, equipment, tools and other goods necessary for the construction of prototypes or the development of the activities referred to in the multi-client modality contract.

Exemption from the obligation to withhold any taxes, if such obligation exists (1).

CHAPTER II DISTRIBUTION OF PRODUCTION AND OTHER INCOME

Royalty Payments and Specific Direct Taxes

Art. 62.- Once the oil production, free of water and other impurities, has been delivered to C.E.L. by the contractor, pursuant to Articles 37 and 38, the latter shall withhold the volumes for the payment to the State of the Royalties and Specific Direct Tax, the Royalties referring to one hundred percent of the production received and the Specific Direct Tax to the total oil corresponding to the contractor, in accordance with the following percentages:

Production Barrels Oil/Day	Royalties	Specific Direct Tax
Up to 50.000.....	12%	45%
Exceeding 50.000 up to 100.00.....	13%	46%
Exceeding 100.000 up to 150.000.....	14%	47%
Exceeding 150.000 up to 200.000.....	15%	48%
Exceeding 200.000 up to 250.000.....	16%	49%
Exceeding 250.000.....	17%	50%

Remuneration to the Contractor

Art. 63.- C.E.L. shall deliver to the contractor exploiting oil fields, as compensation for all concepts, a maximum percentage of one hundred percent of the production, free of water and other

impurities, received at the Storage, Control and Measurement Terminal, according to the following scale:

Production Barrels Oil/Day	compensation to the contractor
Up to 50.000..... up to	81%
Exceeding 50.000 up to 100.000..... up to	79%
Exceeding 100.000 up to 150.000..... up to	77%
Exceeding 150.000 up to 200.000..... up to	75%
Exceeding 200.000 up to 250.000..... up to	73%
Exceeding 250.000..... up to	71%

To the volume of oil that corresponds to the contractor as retribution, in accordance with the preceding paragraph, the percentages established in Article 62 of this Law shall be withheld for the payment of the Specific Direct Tax.

The measurement method, tolerance and percentage of impurities will be established by C.E.L. according to the type of oil.

Participation of C.E.L.

Art. 64.- C.E.L. shall retain in its favor a percentage referred to one hundred percent of the production obtained at the Storage, Inspection and Measurement Terminal, free of water and other impurities, not less than the following scale:

Production Barrels Oil/Day	compensation to the contractor
Up to 50.000.....	7%
Exceeding 50.000 up to 100.000.....	8%
Exceeding 100.000 up to 150.000.....	9%
Exceeding 150.000 up to 200.000.....	10%

Exceeding 200.000	
up to 250.000	11%
Exceeding 250.000	12%

The oil production in barrels/day indicated in this Article and the two preceding Articles, for purposes of payment of the Specific Direct Tax, Royalty, Contractor's Remuneration and C.E.L. Participation, shall be adjusted monthly by dividing the volume of oil delivered during the month, at the Storage, Fiscalization and Measurement Terminal by the effective days of production in that month.

Royalty Payments and Specific Direct Taxes

Art. 65.- From the production of free natural gas delivered to C.E.L. by the contractor, the latter shall withhold the volumes for the payment to the State of the Royalties and Specific Direct Tax, referring the Royalty to one hundred percent of the production received and the Specific Direct Tax to the totality of the gas corresponding to the contractor, in accordance with the following percentages:

	Royalties	Specific Direct Tax
During the first 10 years of the contract	14%	23%
During the remaining years of the Contract	14%	41%
During the Contract extension period	14%	47%

Remuneration to the Contractor

Art. 66.- C.E.L. shall deliver to the contractor that exploits free natural gas fields as retribution, for all concepts, a maximum percentage, referred to one hundred percent of the production received at the Storage, Control and Measurement Terminal, according to the following scale:

During the first 10 years of the contract	78%
During the remaining years of the Contract	68%
During the Contract extension period	66%

The measurement method, tolerance and percentage of impurities will be established by C.E.L., depending on the type of gas.

Participation of C.E.L.

Art. 67.- C.E.L. shall receive as a participation, from the total production of free natural gas received at the Storage, Fiscalization and Measurement Terminal, a percentage not less than:

During the first 10 years of the contract	8%
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During the remaining years of the Contract..... 18%

During the Contract extension period..... 20%

Availability of Free Natural Gas

Art. 68.- The Contractor, with the free natural gas received as remuneration, deducting the volume corresponding to the Specific Direct Tax, shall:

- a) Sell to C.E.L. the volume of free natural gas that corresponds to it as retribution at a price no higher than the international market price, taken to the wellhead value and in accordance with its liquefiable content; and,
- b) To build with C.E.L. a company to industrialize all the gas produced; the company will purchase the gas from the parties participating in the production at a price to be agreed upon, which will not be higher than the international market price, taken to the wellhead value and according to its liquefiable content.

C.E.L. will decide on the purchase of the free natural gas and/or the incorporation of the company and the contractor will be obliged to comply with the decision taken. In the company, C.E.L. will participate in a majority way in the economic, administrative and management aspects.

Modification of Contractor's Percentages

Art. 69.- When the maximum percentages established in favor of the contractor in Articles 63 and 66 are reduced in the bidding conditions or in the bids, the royalties and the participation of C.E.L. shall be increased proportionally to the same extent.

Other Income

Art. 70.- The contractor shall pay for the concept of:

a) SURFACE RIGHTS DURING THE EXPLOITATION PERIOD:

An annual amount of not less than eight colones, payable to C.E.L. per hectare during the month of January of each year, except for the first year or fraction thereof, in which payment shall be made within thirty days of the signing of the Contract and in proportion to the corresponding months;

b) PREMIUM AT THE BEGINNING OF THE OPERATING PERIOD:

An amount not less than sixty colones per hectare retained, payable to C.E.L. within thirty days of the beginning of said period and only once; and,

c) SURFACE RIGHTS DURING THE EXPLOITATION PERIOD:

An amount not less than twenty colones, payable to C.E.L. in advance, per hectare and per year, for the first five years of the exploration period. For the sixth and subsequent years, this fee shall not be less than thirty-five colones per hectare per year.

TITLE VI
TRANSPORTATION OF HYDROCARBONS

SOLE CHAPTER
TRANSPORTATION BY PIPELINES

Transportation

Art. 71.- The transportation of hydrocarbons by oil, gas and main polyducts shall be provided by C.E.L. by itself or by means of contracts with third parties or by participating in companies engaged in these activities.

Construction and Operation of Major Oil and Gas Pipelines

Art. 72.- The contractor who discovers oil or gas in commercially exploitable quantities shall submit to C.E.L., at no cost to the latter, a project for the construction of the main oil or gas pipeline, as the case may be, interconnecting it with the terminal, storage plant and other facilities necessary to place the oil or gas to be transported in F.O.B. conditions.

If C.E.L. decides to build or operate an oil or gas pipeline with third parties, the contractor will have the first option to contract with C.E.L.; if there is more than one contractor, the contract will be carried out with the one offering the best conditions.

Supervision and Oversight of the Constitution

Art. 73.- C.E.L. shall supervise and oversee the construction of oil and gas main pipelines, in order to verify compliance with the programs, projects and budgets.

Secondary Pipelines

Art. 74.- C.E.L. shall supervise the contractor's investments in the construction of secondary oil and gas pipelines.

Operation and Maintenance

Art. 75.- The main oil and gas pipelines shall be operated under permanent conditions of safety and efficiency and by means of modern maintenance techniques.

Rate Setting

Art. 76.- The Executive Power in the Branch of Economy, upon the proposal of the C.E.L., shall fix the rates for the transportation of hydrocarbons by main oil and gas pipelines.

Amortization Installment Calculation

Art. 77.- The amortization quota for the capital invested in the studies, projects, construction and financing expenses shall be taken into account within the tariff.

For amortization purposes, it shall be understood that a main oil or gas pipeline may include, as the case may be, the main line, the subsea line, the pumping equipment and pressure reducers,

the marine terminal, the storage facilities and tanks at the pumping head or departure point at the port of shipment, the communication system, the land acquired for service needs, the roads open for construction and the facilities for operation.

TITLE VII SANCTIONS AND PROCEDURES

CHAPTER I FINES, NULLITY AND TERMINATION OF CONTRACTS

Fines

Art. 78.- Failure to comply with any of the obligations established in this Law and its Regulation, shall be sanctioned by the authority indicated in this Law, with a fine that, depending on the seriousness or recidivism, shall be from two thousand five hundred to two hundred and fifty thousand colons, in addition to the indemnification for the damages or the repair of the damages produced.

Nullity

Art. 79.- The nullity of contracts shall proceed:

- a)** When the scanning area overlaps with other(s), but only in the overlapping part(s);
- b)** When these are entered into in contravention of the applicable legislation;
- c)** When it is established that the contractor, for its qualification, proved by means of inaccurate documentation, its technical-economic capacity, legal existence, legitimacy of representation or any other circumstance of equal magnitude; and,
- d)** Other circumstances that according to the Laws are considered grounds for nullity.

Contracts for the total or partial assignment of rights arising from operating or service provision contracts entered into without the prior authorization of C.E.L. shall also be null and void.

Termination

Art. 80.- Contracts are terminated if the Contractor incurs in:

- a)** Failure to pay any of the obligations established in this Law and in the contract;
- b)** Unjustified non-compliance with the obligation to conserve reserves and productivity agreed upon, as well as with the approved regimes and programs referred to in Article 27;
- c)** Actions or omissions that cause damage to the deposits;
- d)** Deficient maintenance, in the opinion of C.E.L., of the production, transportation, storage and other facilities;

- e) Repeated failure to comply with the obligation to provide technical information and prevent technical and accounting inspections;
- f) Delivery of inaccurate information;
- g) Failure to provide the guarantees stipulated in the contract;
- h) Failure to commence exploration operations as foreseen in the contract or if, once commenced, it suspends them for more than sixty days without justifiable cause;
- i) Suspension of the exploitation operations for more than thirty days, without just cause, previously qualified by C.E.L., except for force majeure or fortuitous event, which must be notified to C.E.L. within a maximum period of ten days;
- j) Not to restart, within a maximum period of thirty days, the exploitation operations, once the causes that motivated the suspension have disappeared;
- k) Not investing the minimum annual amounts, not drilling or not carrying out the tasks for the exploration and exploitation periods, as established in the Contract, except in the case of force majeure or an act of God duly proven;
- l) Assign all or part of the operating or service provision contracts without the prior authorization of C.E.L; and,
- m) Other circumstances that according to the law are considered grounds for termination

Effects

Art. 81.- The declaration of nullity or termination of an operation contract obliges the contractor to immediately return to C.E.L. the respective areas and to transfer to it, without any cost or compensation, all equipment, machinery, fixed installations and movable or immovable property used or to be used in the operations that are the object of the contract, and the guarantees granted by the contractor shall become effective, without any further procedure or diligence.

CHAPTER II PROCEDURES

Acts Prior to the Proceeding for Application of Fines

Art. 82.- When C.E.L. becomes aware of any non-compliance with this Law, the Regulations or the Contract, committed by a contractor, it shall warn the contractor to comply with the required obligation within a period not to exceed thirty days, counted from the day following the date of the respective notification.

If upon expiration of the term granted, the contractor has not complied with the required obligation, C.E.L. will submit the infraction to the *Ministerio de Economía*

Competition

Art. 83.- The *Ministerio de Economía* shall be the competent authority to impose the fines established in this Law.

Administrative Procedure for the Application of Fines

Art. 84.- The *Ministerio de Economía* shall, on becoming aware of the infringements committed, order the contracting parties to be heard within a period of three working days, counted from the day following that of the respective notification. Once said term has elapsed and if requested in the answer, the proceedings shall be opened for proof for a term of ten days. If there is no evidentiary term or if such term has expired, a decision shall be made within a third day as the law may require.

An appeal for reconsideration of the decision may only be filed within three working days following the date of the respective notification.

Special Provisions for the Application of Fines

Art. 85. - In order to determine the amount of the fine, the seriousness of the infringement committed, the repetition or recidivism of the infringer shall be taken into account.

The person who has been sanctioned with a fine shall pay its value at the General Directorate of the Treasury, within eight days following the date of notification that the respective resolution has become final, for which purpose the *Ministerio de Economía* shall issue the corresponding order.

Payment of the fine must be verified with the *Ministerio de Hacienda*

When the person obliged to pay a fine does not pay its value within the term indicated in the second paragraph, the fine shall accrue the contractually fixed interest and the Office of the Attorney General of the Republic, at the request of the *Ministerio de Economía*, shall enforce it. The certification of the resolution issued by the *Ministerio de Economía* shall be enforceable.

Dispute resolution (1)

Art. 85-A.- For the validity, interpretation, enforceability, termination, default or breach and for the compliance of the contracts established in this law, the provisions of the laws of the Republic of El Salvador shall apply.

In the event that controversies or differences arise between the parties, derived from the contracts regulated by this law and CEL, and once the claim processes contained therein have been completed, the parties may access a direct settlement procedure which, once exhausted, will enable the remittance of such controversy:

- a) To the international center for settlement of investment disputes (CIADI) for the purpose of resolving the dispute through conciliation or arbitration in accordance with the convention on the settlement of investment disputes between states and nationals of other states (CIADI convention).

- b) To the international center for settlement of investment disputes (CIADI), for its Spanish name, for the purpose of resolving the dispute through conciliation or arbitration, in accordance with the procedures contained in the complementary mechanism of the CIADI; in cases where the foreign investor party to the dispute is a national of a state that is not a contracting party to the CIADI convention.

Of the contracts entered into by the parties, the Spanish language version shall be the official version, and the language under which the settlement of disputes at all stages, such as claims, direct settlement, arbitration, shall be conducted shall be Spanish (1).

TITLE VIII SETTLEMENT OF CONTRACT DISPUTES SINGLE CHAPTER

Interpretation of Contracts

Art. 86.- The Contract shall be interpreted as a whole and no provision of the same shall have force or meaning by itself, disregarding the meaning and existence of its other provisions.

If any part of a contract is held to be invalid due to contradiction with a legal provision, the validity of the other parts shall not be affected unless the contradiction affects the validity of the contract itself.

Competition

Art. 87.- Controversies or conflicts arising from the interpretation or execution of contracts shall be submitted to the decision of two arbitrators, who shall be Salvadoran lawyers, with no less than ten years of professional practice, appointed by each of the parties, who immediately after being appointed and before any action is taken, shall appoint one who shall resolve cases of disagreement between them.

Public Deed of Commitment

Art. 88.- The appointment of the Arbitral Judges shall be made by means of a public deed of commitment designating the subject matter of the dispute, the persons chosen by the parties, the powers granted to them, the operating expenses of the Tribunal and the fees of the arbitrators, as well as those for advice and the taking of evidence, where necessary.

Arbitration Procedure

Art. 89.- In order to proceed with the arbitration, when no public deed of commitment has been executed, the determination of the subject matter or object of the arbitration and the appointment of the arbitrators shall be made in the following manner:

When there is a disagreement between the contracting parties, the points to be arbitrated shall be determined as follows:

The interested party shall file their claim with one of the Civil Judges of the Judicial District of San Salvador. The claim must include, in addition to a detailed account of the facts and circumstances constituting the dispute, a clear specification of the contentious points to be addressed in the award.

The plaintiff shall attach a copy of his claim, which shall be delivered to the defendant in order for him to answer within three days.

With the defendant's answer, or in his default, the trial will be opened to evidence for eight days with all charges, if necessary, at the end of which time the corresponding sentence will be issued within the following three days.

Within fifteen days from the date on which the award becomes final, the parties shall appoint their respective arbitrators. If, after the expiration of the foregoing term, either party has not appointed its arbitrator, such appointment shall be made by the Judge.

In order to proceed with the arbitration, the appointed arbitrators shall hold a preliminary hearing, at which they shall appoint a third party to resolve any disagreement between them and shall fix, at their discretion, the place where the arbitration is to be held; if they cannot agree on the appointment of the arbitrator, either party may appeal to the competent Judge for his appointment.

At the same hearing, the arbitrators shall fix by mutual agreement the estimated amount for the operating expenses of the tribunal and the arbitrators' fees, as well as, when necessary, the fees for counsel and for the taking of evidence.

The court's decision at the preliminary hearing shall be made known to the parties, who, within five days following the respective notification, may object only to the amount that has been fixed for the items determined in the preceding paragraph, indicating the account they consider fair or convenient.

If the arbitrators and the parties do not agree, within the respective term, as to the fixing of the amount for the items indicated in the preceding paragraph, the former shall go to the Civil Judge of the Judicial District of San Salvador who has sworn them in, so that he may, within the following eight days, determine the amount he deems fair without further proceedings; within the aforementioned term, the Judge, if he deems it convenient, may order expert opinions or any other diligence that he deems convenient, may order expert opinions or any other diligence that may provide him with elements of judgment to better provide.

Consignment

Art. 90.- Once the amount of expenses and fees has been definitively fixed, the parties shall deposit the corresponding amount with the respective judge, who shall act as authorizing officer.

Use of Funds

Art. 91.- The operating expenses account may be drawn jointly by the two arbitrators and, in the event of disagreement, by either of them and the third arbitrator, or by the third arbitrator alone if necessary.

On the fee account, the arbitrators may draw on the half that corresponds to each of them and may dispose of the remainder once the award has been rendered, the accounts have been rendered and approved.

TITLE IX
TEMPORARY OCCUPANCY AND ACQUISITION OF REAL ESTATE AND RIGHTS

SINGLE CHAPTER

General

Art. 92.- For the fulfillment of its purpose, the C.E.L. may temporarily occupy such real estate as may be necessary, as well as acquire them or subject them to easements.

Temporary Occupancy

Art. 93.- If the commission requires the temporary occupation of real property owned by private individuals, with whom no agreement could be reached, it may, either on its own initiative or at the request of the contractor, file a claim in civil court following the procedure outlined below:

The claim shall be filed with one of the Civil Judges of San Salvador, detailing the reasons for the necessity of the temporary occupation of the property.

The defendant shall be served with the claim and given a period of three days to respond, in the manner prescribed in the second paragraph of Article 100. Based on the response or, in the case of default, the case shall proceed to evidence for a period of four days, inclusive of all associated processes. Upon conclusion, a judgment shall be issued within the next three days in accordance with the law, without further procedures or actions. Only the liability appeal may be lodged against said judgment.

During the evidentiary period, the Judge shall, on their own initiative, order an appraisal of the property by experts to determine the amount of compensation for its use and any damages caused.

If, after three days from the notification of the judgment, C.E.L. has not been able to take possession of the property due to resistance from the owners, possessors, or occupants, the Judge handling the case, or a Justice of the Peace appointed by them, shall grant material possession of the property to the representative of the institution upon its request.

Acquisition of Real Estate or Constitution of Easements

Art. 94.- Once the conventional procedures for the constitution of easements or acquisition of real estate have been exhausted, C.E.L. may acquire them by means of the procedure established hereinafter.

Procedure to Establish an Easement or Acquire Real Property

Art. 95.- The C.E.L. shall publish a notice, once only in the Official Gazette and twice alternately in two newspapers of major circulation in the Republic, clearly and precisely stating the surface and nature of the real estate and rights to be acquired for such purpose, the names of the respective owners or possessors, as well as their registrations in the Real Property and Mortgage Registry, if any, or other data identifying them.

The owners or possessors of the aforementioned properties that in whole or in part are included within the indicated place, have the obligation to appear before C.E.L. within the following fifteen days, counted from the date of the last publication of the notice, to state in writing if they are willing to sell, or to voluntarily constitute the rights, according to the conditions and for the price agreed upon with the aforementioned Institution. In such case, the corresponding deed will be formalized without any further procedure or diligence.

Power to sue for expropriation and Easements

Art. 96.- The C.E.L. may follow the special procedure for the constitution of easements or compulsory acquisition against the owners or possessors with whom the purchase-sale or the constitution of easement rights is not voluntarily agreed upon, or against those who allow the term established in the preceding Article to elapse without making the declaration indicated in said Article

Competition

Art. 97.- In the trials referred to in the preceding Article, any of the Civil Judges of the Judicial District of San Salvador shall have jurisdiction.

Claim Requirements

Art. 98.- The legal representative of C.E.L. or his attorney shall submit the claim to the Judge, listing the real property or properties to be acquired or subject to easement, as well as the name or names of the owners or possessors and of any persons who have registered in their favor real rights that must be respected, with an expression of their respective domiciles, accompanied by a copy of the corresponding plans.

If among the aforementioned persons there are absent or incapable persons, the names and addresses of their representatives, if known, must be stated.

Several actions may be brought in the same lawsuit.

Preventive Annotation

Art. 99.- The judge, upon receipt of the claim and prior to any proceeding, shall order ex officio its preventive annotation in the respective Real Property and Mortgage Registry.

Location

Art. 100.- The Judge shall summon the owners or possessors and other persons referred to in this Law, or their legitimate representatives, for three days.

The summons will be made by means of an edict that will be published only once in two of the newspapers with the largest circulation in the Republic, and the three days will be counted from the last of the dates on which the publication is made. There shall be no term of distance.

The Procurator General for the Poor shall represent absent or incapable persons who must be heard and who lack a representative or whose representative is unknown or absent. The summons will be made personally to the Procurator, who may intervene in person or by means of his Auxiliary Agents.

If the defendant is an undeclared absentee or whose whereabouts are unknown, the summons shall be made without further formality or diligence to the Procurator General for the Poor, who shall represent him in the trial by himself or through his Auxiliary Agents.

Opening for Testing

Art. 101.- Once the three days of the summons have expired, and whether or not the defendant appears, the trial shall be opened for evidence for eight working days, which cannot be extended, within which time the evidence provided by the parties shall be received.

The Judge, ex officio, shall appoint two appraisers to give an opinion on the amount of compensation with respect to each property or encumbrance.

Appraisal

Art. 102.- The appraisal of the real estate to be acquired shall be made on the basis of the following rules, which shall be applied in the following preferential order:

- a) The cadastral value established or to be established in accordance with the Cadastre Law;
- b) The acquisition prices of similar properties in the same region or zone, during the last five years prior to the date of the appraisal;
- c) The acquisition price of the property in the last transfers of ownership made in the five years preceding the time of the appraisal; and,
- d) The value declared by the owner or possessor for tax purposes, or the official estimate made by virtue of laws regulating fiscal aspects.

In any case, existing buildings, installations, fixtures, tools and improvements must be taken into account.

The value of the compensation for the constitution of easements shall take into account the use of the land, the damages caused, including the limitations to which the servient estate is subject.

Third parties

Art. 103.- If during the course of the proceeding, someone appears claiming rights in the real property or properties to be acquired or encumbered, the proceeding shall not be interrupted, and the opposition shall be processed in a separate piece, but the Judge, in the judgment, shall order that the amount of the corresponding indemnity be deposited in a banking institution, until such time as a final judgment is rendered in the opposition, ruling on the rights of the third party.

The third party shall in any case retain his right to exercise the right of action provided for in Article 900 of the Civil Code.

Sentence

Art. 102.- Once the evidentiary term has expired and the expert opinion has been received, the final judgment shall be issued within the following three days, decreeing or not the expropriation or compulsory constitution of the easement, determining, as the case may be, the fair value of the indemnity with respect to each property, and the form and conditions of payment.

If the property to be expropriated or encumbered has been previously or subsequently judicially seized, the value of the compensation shall be deposited in any banking institution in the country, to the order of the Judge hearing the case, so that he may, if appropriate, pay the creditors in accordance with their preferential rights.

If there is no seizure on the property to be expropriated, but there are mortgage liens on the same, production credits or other registered rights to be respected, the value of the compensation shall also be deposited in a banking institution, so that the creditors in the respective lawsuit may enforce their rights.

Scope of the Judgment

Art. 105.- The sentence may include one or several properties belonging to a single owner or to different owners or possessors and shall not admit any appeal other than that of liability.

Effects of the Judgment

Art. 106.- Upon notification of the final judgment decreeing the constitution of the easement or expropriation, and once C.E.L. has complied with the obligation to pay the indemnification, the ownership of the property shall be transferred, free of encumbrances, in favor of C.E.L., or the easement shall be constituted in its favor, and the execution of said judgment shall be registered as the title of ownership and possession.

The rights registered in favor of third parties that fall on all or part of the real estate acquired or encumbered by C.E.L. by means of this procedure, shall lapse as of right, as of the date of acquisition, and the registrations that protect them shall be totally or partially canceled in the corresponding registries, leaving their rights on the value of the compensation in accordance with the provisions of this Law.

Material Delivery

Art. 107.- Within three days following the notification of the sentence, the owners, possessors, mere tenants or occupants, by whatever title they may be, shall make material delivery of the real property to C.E.L. or vacate it, as the case may be; once said term has elapsed without the sentence having been voluntarily complied with, the Judge in the case or a Justice of the Peace commissioned by him for the purpose, shall give material possession of the land to the representative of C.E.L., with only the request of the same, even if the corresponding registrations have not been made, with only the request of the same, even if the corresponding inscriptions have not been made.

Registration of Assets

Art. 108.- The real estate acquired by the C.E.L. by virtue of this Law, whether voluntarily or compulsorily, shall be registered in its favor in the corresponding Real Property and Mortgage

Registries, notwithstanding the fact that the owners or possessors lack registered titles or have defective ones. The provisions of Article 696 of the Civil Code shall be dispensed with in making the registrations.

Fiscal or municipal solvencies shall not be necessary for the registration in the respective Registry of real estate acquired by C.E.L. by virtue of this Law. The alienation of real estate referred to in this section, in favor of C.E.L. shall not be subject to a Real Estate Transfer Tax.

Description of Real Estate for Registration Purposes

Art. 109.- In both voluntary acquisition deeds and judgments of temporary occupation, expropriation, and the forced establishment of easements issued in favor of C.E.L., the descriptions and areas of the properties must be recorded in accordance with the information in the respective preceding documents, if available, the declarations made by the contracting parties regarding them, or the evidence presented during the proceedings concerning the area and extent of the property, or based on verified measurements. These descriptions must also be recorded, where applicable, in the registrations made in the Property Registry, even if they do not match those expressed in the preceding documents.

If the property is located in a declared cadastral zone, the description must be in accordance with the description contained in the corresponding card.

Special Rules for the Constitution of Easements

Art. 110.- The constitution of voluntary or compulsory easements shall state the nature, value, extent, conditions, burdens and other details thereof.

The owners or possessors of servient lands may not carry out plantations, constructions or other works, nor may they carry out work that disturbs or obstructs the exercise of the easements established in accordance with this Law.

C.E.L., by itself or through its contractors, may construct the indispensable works to exercise the easements constituted in its favor; in this sense, the owners or possessors of the servient lands are obliged to allow, under their responsibility, the entry to their lands of their personnel and that of the indispensable material and transport elements necessary to carry out the construction, maintenance, repair and surveillance of the works or installations.

TITLE X FINAL PROVISIONS

CHAPTER I GENERAL PROVISIONS

Supervision and Technical Supervision

Art. 111.- C.E.L. shall supervise the oil operations and their results and shall exercise the technical supervision thereof.

Inspection of Facilities and Documents

Art. 112.- Contractors and other persons engaged in hydrocarbon activities are obliged to allow access and inspection of facilities and documents of any kind, to officials of the *Ministerio de Economía* and of the C.E.L.

Information Retention

Art. 113.- The contractor and other persons engaged in hydrocarbon activities must keep all technical and economic data and studies in their main office in the city of San Salvador.

Inspections of Accounting Records

Art. 114.- At any time the Executive Branch, through its agencies, shall be entitled to carry out inspections of the accounting records of contractors and other persons engaged in hydrocarbon activities; for this purpose they shall make available to such agencies all books, records and other relevant documents.

Confidential Information

Art. 115.- The technical information regarding wells and reservoirs, as well as that related to geological and geophysical interpretations pertaining to the area retained by the contractor, shall be confidential for a period of two years as from the reception thereof.

If it is necessary to disclose certain information to third parties before the aforementioned two-year period, this shall be done by mutual agreement between the contractor and C.E.L. Likewise, if justified, they may agree to extend the original confidentiality period.

Hydrocarbon Registry

Art. 116.- C.E.L., in order to have knowledge and control over the persons and companies involved in the exploration, exploitation and transportation of hydrocarbons through pipelines and their derivatives, shall keep a hydrocarbon registry, the organization and operation of which shall be regulated by regulation.

Sale of Foreign Currency to Contractors

Art. 117.- In the cases of Articles 39 and 68 paragraphs a) and b) of this Law, the Central Reserve Bank, directly or through commercial banks, shall sell the foreign currency requested by the contractor, at the official exchange rate.

**CHAPTER II
DEROGATORY PROVISION****Derogation**

Art. 118.- Articles 12 second paragraph, 27 seventh paragraph, 38, 54 second paragraph, 84, 87, 100 and Chapter XXVI of the Mining Code published in the Official Gazette No. 183, Volume 93, of August 17, 1922; Article 6 of the Complementary Mining Law, published in the Official Gazette

No. 19, Volume 158, of January 29, 1953, as well as all those laws and other legal precepts contained in other regulations that in any way contradict or oppose the provisions of this Law, are hereby repealed.

Prevalence (1)

Art. 118-A.- The present law shall prevail by criterion of specialty over any other law or legal provision which opposes or contradicts it in total or partial manner. (1)

Electronic signature (1)

Art. 118-B.- CEL will accept the electronic signature, if it complies with the requirements established in the electronic signature law, in all its administrative procedures and procedures, including the presentation of documents, requests for information, and the subscription of contracts established in this law. Such electronic signatures shall have the same validity and the same legal and evidentiary effects as a handwritten one. (1)

Validity of the law

Art. 119.- This Decree shall enter into force eight days after its publication in the Official Gazette

GIVEN IN THE PRESIDENTIAL HOUSE: San Salvador, on the seventeenth day of March, nineteen eighty-one.

ING. JOSÉ NAPOLEÓN DUARTE.

CNEL. AND ING. JAIME ABDUL

DR. JOSÉ ANTONIO MORALES EHRLICH.

DR. JOSÉ RAMÓN AVALOS NAVARRETE.

DR. MARIO ANTONIO SOLANO,
MINISTER OF JUSTICE.

Lic. Oscar Raymundo Melgar,
Undersecretary of Internal Economy,
in charge of the Office.

D. O. N° 52
Volume No. 270
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MRA/ert.

GLOSARY

- 1) **Comisión Ejecutiva Hidroeléctrica del Río Lempa:** Executive Hydroelectric Commission of the Lempa River.
- 2) **Dirección General de Energía, Hidrocarburos y Minas:** General Directorate of Energy Hydrocarbons, and Mines.
- 3) **Ministerio de Economía:** Ministry of Economy.
- 4) **Ministerio de Hacienda:** Ministry of Finance.
- 5) **Ministerio de Obras Públicas:** Ministry of Public Works.